

**SECTION A (50 MARKS)**  
**ANSWER ALL QUESTIONS**

**Question 1**

**a) For each question, there are four alternatives: A, B, C and D. Choose the correct alternative and circle it. Do not circle more than ONE alternative. If there is more than one choice circled, NO score will be awarded. [20]**

i. An entity charges depreciation of Nu. 1,000,000 on the assets in the year 2018 while the depreciation allowed by tax authority is Nu. 1,500,000. Assuming tax rate of 30%, the amount of deferred tax expense recognized in the year 2018 will be

- A Nu. 150,000.
- B Nu. 300,000.
- C Nu. 450,000.
- D Nu. 750,000.

ii. Sonam Co. operates a taxi service as well as acts as an intermediary for private taxi drivers to get their own licence. Recently, the company acquired 500 numbers of taxi licences from the government. It decides to sell 200 of them while the remaining will be used by its employees. The company will record intangible assets for

- A 200 licences.
- B 300 licences.
- C 500 licences.
- D 800 licences.

iii. Penden Cement Authority Limited (PCAL) acquired three lands in the year 2018. PCAL decided to use the land as follows:

land A	Production purpose
land B	Selling purpose
land C	Capital appreciation

Which one of the following is the correct option for PCAL?

- A land A – Investment Property, Land B – Inventory and Land C – PPE
- B land A – Inventory, Land B – PPE and Land C – Investment Property
- C land A – PPE, Land B – Investment Property and Land C – Inventory
- D land A – PPE, Land B – Inventory and Land C – Investment Property

iv. Which one of the following is an advantage for partnership firms?

- A limited liability
- B huge resources
- C diffusion of risk
- D separate legal entity

- v. Bank of Bhutan Limited (BOBL) made the following purchases during the year 2020:
- Computers for Nu. 1 million
  - Windows 10 licence for Nu. 0.5 million
  - Microsoft office licence for Nu. 0.8 million

For the year 2020, BOBL will record intangible assets of

- A Nu. 0.5 million.
  - B Nu. 0.8 million.
  - C Nu. 1.3 million.
  - D Nu. 1.5 million.
- vi. Pema Automobile provides warranties at the time of sale to its customers. The warranty includes repair for any damages for two years from the date of sale.
- When should Pema Automobile recognize the provision?
- A at the time of sale
  - B at the end of warranty period
  - C in the mid of warranty period
  - D at the time of claim from the customers
- vii. Which order best describes the issue of shares?
- A authorized shares, called-up shares, paid-up shares, issued shares
  - B authorized shares, paid-up shares, called-up shares, issued shares
  - C authorized shares, called-up shares, issued shares, paid-up shares
  - D authorized shares, issued shares, called-up shares, paid-up shares
- viii. A partnership firm reports a net income of Nu. 80,000 on 1<sup>st</sup> January 2018. W, X, Y and Z are partners in the firm with an opening capital balance of Nu. 10,000, Nu. 20,000, Nu. 30,000 and Nu. 40,000 respectively. Assuming there is no partnership agreement, the ending capital balance of W on 31<sup>st</sup> January 2018 will be
- A Nu. 10,000.
  - B Nu. 20,000.
  - C Nu. 30,000.
  - D Nu. 40,000.
- ix. Which of the following identifies the assumption(s) in preparation of financial statements in accordance with the conceptual framework?
- I Going concern
  - II Relevance
  - III Accrual basis of accounting
- A I only
  - B I, II and III
  - C I and III only
  - D II and III only

- x. Sherig Company deals in manufacturing of cement. It incurred the following expenses for the production of cement:

- direct wages Nu. 2 million
- office salary Nu. 6 million
- factory rent Nu. 3 million
- distribution expenses Nu. 4 million

The amount which should be included in the cost of inventory is

- A Nu. 2 million.
- B Nu. 5 million.
- C Nu. 11 million.
- D Nu. 15 million.

- xi. Druk furniture produces chair and its production budget for the next three months are as follows:

July	5,000 units
August	10,000 units
September	20,000 units

The monthly factory overhead is budgeted to be Nu. 10,000 plus Nu. 5 per unit produced.

What is the budgeted factory overhead for the month of August?

- A Nu. 10,000
- B Nu. 35,000
- C Nu. 60,000
- D Nu. 120,000

- xii. An entity received a grant of Nu. 20,000 in the year 2010 to cover up the expenses for the year 2010-2014. It assumes to spend Nu. 6,000 in the year 2010-2014 (Nu. 30,000 in total).

The grant income recognized in the income statement of the entity for the year 2010 is

- A Nu. 4,000.
- B Nu. 6,000.
- C Nu. 20,000.
- D Nu. 30,000.

- xiii. Which one of the following terms is defined by this statement: “The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction”?

- A cost
- B fair value
- C present value
- D cash equivalent

- xiv. During the year, Deepa sales purchased clothes from its supplier for a total cost of Nu. 20,000 (excluding sales tax). The clothes purchased were then sold for Nu. 55,000 in total (inclusive of sales tax). Assuming sales tax of 10%, the balance on the sales tax account will be
- A Nu. 3,000 debit.  
 B Nu. 3,500 debit.  
 C Nu. 3,000 credit.  
 D Nu. 3,500 credit.
- xv. BNBL reports the following amounts in its statement of financial position:

	2019 (Nu. in millions)	2018 (Nu. in millions)
Inventory	100	200
Accounts Receivable	?	120
Cash	100	100
Current Liabilities	150	100

Assuming that the Quick Ratio of BNBL in the year 2019 is equal to that of 2018. What was the Accounts Receivable figure for the year 2019?

- A Nu. 130 million  
 B Nu. 230 million  
 C Nu. 330 million  
 D Nu. 430 million
- xvi. Dechen Enterprise produces the following salary schedule for the month of March:

Employee	Status of Pay
A	Nu. 10,000 (paid on March 31)
B	Nu. 20,000 (to be paid in the month of May)

The correct accounting treatment in the books of Dechen Enterprise for the month of March is

- A Nu. 10,000 as an expense and Nu. 20,000 as current liability.  
 B Nu. 10,000 as current liability and Nu. 20,000 as an expense.  
 C Nu. 10,000 as an expense and Nu. 20,000 as non-current liability.  
 D Nu. 10,000 as non-current liability and Nu. 20,000 as an expense.
- xvii. The correct journal entry to record payment of bond interest (assuming bonds are issued at face value) is
- A Debit Cash Account and Credit Finance Cost Account.  
 B Debit Bond Interest Payable Account and Credit Bank Account.  
 C Debit Finance Cost Account and Credit Bond Interest Payable Account.  
 D Debit Bond Interest Payable Account and Credit Finance Cost Account.

- xviii. Company A sued Company B in relation to patent infringement. The outcome of the case is uncertain; however, it is probable that the court will order Company B to pay damages to Company A.

Which one of the following is the correct accounting treatment for Company A and Company B?

- A Company A should recognize it as contingent asset and Company B should disclose it as provision.
- B Company A should disclose it as contingent asset and Company B should recognize it as provision.
- C Company A should recognize it as provision and Company B should disclose it as contingent asset.
- D Company A should disclose it as provision and Company B should recognize it as contingent asset.

- xix. Refer the table below:

	<b>Investing Activity</b>	<b>Financing Activity</b>	<b>Operating Activity</b>
Option P	Dividend Received	Dividend Paid	Interest Paid
Option Q	Dividend Paid	Interest Paid	Dividend Received
Option R	Dividend Received	Interest Paid	Dividend Paid

Which option(s) would you consider when preparing Cash Flow Statement?

- A P only
- B R only
- C P and Q
- D P and R

- xx. Sonam is a newly appointed accountant in one of the companies. The following are the errors made by Sonam when preparing stores ledger:

- Cost of goods sold is recorded as Nu. 10,000 instead of Nu. 12,000
- Closing Inventory is recorded as Nu. 12,000 instead of Nu. 9,000

How will the above errors affect the financial statement of the company?

- A Income Statement will be under stated by Nu. 2,000 and Statement of Financial Position will be over stated by Nu. 3,000
- B Income Statement will be over stated by Nu. 2,000 and Statement of Financial Position will be under stated by Nu. 3,000
- C Income Statement will be over stated by Nu. 3,000 and Statement of Financial Position will be under stated by Nu. 2,000
- D Income Statement will be under stated by Nu. 3,000 and Statement of Financial Position will be over stated by Nu. 2,000

- b) Match the items of column A with the most appropriate items in column B. Rewrite the correct pairs by writing the alphabets against the numbers in the space provided.

[5]

Column A	Column B
i. Legal fees, brokerage fees and property transfer tax	a. historical cost
ii. Bank loans, other borrowings and bonds	b. fair value
iii. Company A purchased a building costing Nu. 23 million in the year 2018. Its fair value in the year 2020 is Nu. 25 million but it is still recorded at Nu. 23 million.	c. return on capital employed
iv. Sales in units, opening inventory and ending inventory	d. debt
v. Operating profit, equity shares, bonds, long term bank loans and retained earnings	e. production budget
	f. direct attributable cost
	g. equity

Column A	Column B	
i.		
ii.		
iii.		
iv.		
v.		

**c) Fill in the blanks with appropriate word(s).** **[5]**

i.	The business uses _____ to compare performance that are significantly different in size.	
ii.	An entity presents a liability as _____ when it holds the liability primarily for the purpose of trading.	
iii.	In relation to BAS 20, technical and marketing supports whose value cannot be measured reliably is an example of _____.	
iv.	If the tax amount estimated by an accountant exceeds the tax amount calculated by a tax authority, then it results into _____ provision of tax.	
v.	Demand deposits and treasury bills are examples of cash and _____.	

**d) State TRUE or FALSE against the statements in the space given below.** **[5]**

i.	Bonus paid to an employee is an example of fixed remuneration.		
ii.	In case of future operating losses, a provision should be made.		
iii.	In preparation of cash budget, depreciation should be excluded.		
iv.	Additional capital introduced by the partner is an income for the business.		
v.	Depreciation charged on the asset is an example of going concern.		

**e) Answer the following questions.**

i. From the following information, calculate return on sales. **[2]**

Net profit before tax	Nu. 100,000
Goods sold	10,000 units
Selling price per unit	Nu. 20
Dividend Income	Nu. 10,000


- ii. Bank overdrafts are reported under financing activities when preparing cash flow statement. Do you agree? Justify with **ONE** reason. [2]


- iii. List down **TWO** types of government grants. [2]


- iv. The difference between accounting profit and taxable profit is due to depreciation charged by the business. Is it true? Give **TWO** reasons to support your answer. [2]




- v. A company provides ancillary services to the occupants of a building it holds. The management of the company decides to treat the building as an investment property. In relation to ancillary services provided, should the company treat the building it holds as an investment property? Give **ONE** reason. [2]


- vi. The management of ABC is confused whether to treat dividend as an expense in the income statement. Do you think the company should classify dividend as an expense in the income statement? Why? [2]


- vii. What would happen if contingent assets are recognized in financial statements? Highlight any **TWO** impacts. [2]


- viii. Identify any **TWO** situations under which cash from financing activity will decrease. **[1]**


**SECTION B (50 MARKS)**  
**ANSWER ANY FIVE QUESTIONS**

**Question 2**

- a) “With the introduction of the GST Bill, the government proposed to introduce a flat seven per cent Goods and Services Tax on all goods and services imported into the country except for the exempted list and zero-rated commodities”.

*(Source: BBS, Feb 6, 2020)*

- i. In the above case, who will bear the burden of tax? **[1]**


- ii. List down any **TWO** advantages in terms of tax collection if GST is implemented in Bhutan. **[2]**


- b) The following is the comparative income statement of Dungsam Cement:

	Amount in Nu.				
	2021	2020	2019	2018	2017
Sales Revenue	4,658,500	4,235,000	3,850,000	3,500,000	3,400,000

- i. Show Dungsam Cement's trend percentage (variance) for sales revenue.

[2]


- ii. The following information is related to Yangden Company:

	(In millions)
Preference Dividend	Nu. 100
Net Income (After Tax)	Nu. 2,000
Weighted Average Number of Equity Shares	1,000

Calculate earnings per share (EPS).

[1]


- c) List down any **SIX** measures to manage your income and expenses using the concept of budgeting. **[3]**


- d) Find the value of **X** from the following information: **[1]**
- Opening balance of Retained Earnings: Nu. 30 million
  - Closing balance of Retained Earnings: Nu. 20 million
  - Profit for the year: Nu. 12 million
  - Dividend declared during the year: X


### Question 3

a) Study the following information.

[2]

- i. Tashi is paid weekly and works 40 hours in a week. His yearly salary is Nu. 260,000. The overtime paid is Nu. 150 per hour. During the payroll period, he had worked 45 hours. Complete the following table assuming there are 52 weeks in a year.

Regular Salary (Weekly)	
Overtime hours	
Total Overtime Pay	
Gross Pay	

- ii. Provide the journal entry for disbursement of weekly salary (assuming no deductions). How will this appear in the financial statement?

[1]


- b) Company A deals with manufacturing of cars and sells it to retailers. Retailers sell them to customers. Retailers are responsible for any damages while the cars are in their possession. The company gives warranties directly to the customers for any defects within two years from the date of sale. The customers are informed that the warranty contract is with the manufacturer when purchasing the cars. During the year, cars worth Nu. 200,000 are damaged in the warehouse of retailers.

- i. A retailer recognizes the provision in the financial statement at the time of sale of cars to customers. Do you think the retailer is right? Why?

[1]



- ii. How will damage of cars worth Nu. 200,000 appear in the financial statement of the retailer? **[1]**


- iii. Suppose Company A has a warranty provision balance of Nu. 3 million on 1<sup>st</sup> January 2018. During the year, it maintained further warranty provision of Nu. 500,000. On 1<sup>st</sup> October 2018, it paid Nu. 1.5 million on account of warranty claim. Calculate the balance of warranty provision for the year ending 31<sup>st</sup> December 2018. **[1]**


- c) Write **ONE** similarity between contingent liabilities and contingent assets.

[1]


- d) Fill up the Adjusted and Total Columns **ONLY**.

[3]

**Amount in Nu.**

Particulars	Unadjusted		Adjusted		Total	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	100,000					
Prepaid Insurance	40,000					
Unearned Interest Revenue		20,000				
Office Rent	50,000					
Accumulated Depreciation - Office Building		300,000				
Office Building	1,000,000					
Inventory	450,000					
Share Capital		1,320,000				
Insurance Expense						
Interest Revenue						
Depreciation Expense						
<b>TOTAL</b>	<b>1,640,000</b>	<b>1,640,000</b>				

**Additional information:**

- Out of the prepaid insurance of Nu. 40,000, Nu. 10,000 has been used.
- Out of the unearned interest revenue of Nu. 20,000, Nu.5,000 has been earned.
- Charge 10% Depreciation on office building for the year.

#### Question 4

- a) The following table should be used to differentiate between Revaluation Model (PPE) and Fair Value Model (Investment Property): [1]

- i. Complete the table:

Revaluation Model (PPE)	Fair Value Model (Investment Property)
	Increase in the fair value of Investment Property is recorded in income statement
Depreciation = $\frac{\text{Revalued Amount}}{\text{Remaining useful life}}$	

- ii. Identify **TWO** methods of depreciation. [1]


- b) The management of Kuensel Corporation has decided to capitalize the publishing title as an intangible asset but not amortized it. Advise the management of the corporation on its decision. [2]




- c) Identify whether the underlined items meet the definition of intangible assets and state a reason.
- i. A license granted by government to Company A. However, the company cannot sell the license to others. [1]


- ii. Company A has acquired goodwill by way of business combination. [1]


- d) Indicate which financial statement would be most appropriate to seek the information for each of the following:

- i. total capital of the firm. [1]


- ii. amount of cash generated and spent by the company during the year. [1]


- iii. amount of dividend was declared during the year. [1]


- e) Identify the type of business (A and B) from the following statements of equity. [1]

<b>A</b>	<b>Amount in Nu.</b>	
<b>Capital, Jan 1</b>	<b>X</b>	<b>Y</b>
Investment	100,000	200,000
Net Income	20,000	10,000
Withdrawals	(10,000)	(5,000)
Net increase in owner's equity	<b>110,000</b>	<b>205,000</b>

<b>B</b>	<b>Amount in Nu.</b>	
	<b>Equity Share</b>	<b>Retained Earnings</b>
Opening Balance	200,000	50,000
Net Income		100,000


### Question 5

- a) The following is the account balances of Phunsum Corporation on 1<sup>st</sup> January 2010:  
 Equity share @Nu. 10 par.....Nu. 10,000,000  
 Retained Earnings.....Nu. 20,000,000

During the year, Phunsum Corporation makes a bonus issue of two for five. Further Nu. 1,000,000 from Retained Earnings is transferred to General Reserve.

- i. Pass the journal entry for the issue of bonus shares. [1]



- ii. What will be the impact on total equity of Phunsum Corporation after the issue of bonus shares? **[0.5]**


- iii. Show the account balances as on 31<sup>st</sup> December 2010. **[1.5]**


- [3]**

[illegible]

- ii. Tshokey Company further purchased investment property of Nu. 2 million on 1<sup>st</sup> October 2019. The company charges depreciation of 10% using written down value method. The investment property was later sold for Nu. 1.8 million on 1<sup>st</sup> July 2021. Calculate the carrying amount of investment property on 1<sup>st</sup> July 2021. [1]


- c) The following information shows the calculation of cost of goods sold using periodic method:

	Quantity	Per unit Cost
Beginning Inventory	200	Nu. 5
Purchases	<u>250</u>	Nu. 7
Goods available for Sale	<b>450</b>	
Ending Inventory	<u>(100)</u>	
Cost of Goods Sold	<b>350</b>	

- i. Calculate the value of ending inventory and cost of goods sold using **FIFO** method. [2]


- ii. Tashi is a chief accountant and frequently changes method of inventory in order to manipulate net income.

Identify the accounting principle violated and **ONE** ethical issue from the above case.

[1]


### Question 6

- a) The following information is related to KK Enterprise:

Date	Transaction (excluding sales tax)	Amount in Nu.
1 <sup>st</sup> January	Purchased goods on credit	2,000
10 <sup>th</sup> January	Goods returned to suppliers	1,000
20 <sup>th</sup> January	Sold goods on cash	3,000

Pass the required journal entries assuming 10% sales tax.

[3]



- b) On 1<sup>st</sup> January 2018, Dungsam cement issued Nu. 100 million of 10%, 10 year bonds at 90%. Interest is paid annually and the straight line method is used for amortization.

- i. How much is the bond interest expense for the first interest period? [1]


- ii. What is the discount amortization for the first interest period? [1]


- c) The management of the company issued the share at price lower than the market value to its existing shareholders. The shareholder has the option to accept or reject the share offered. [1]

Identify the type of share issued by the management.


- Prepare Profit and Loss Appropriation Account **ONLY** for the year 31<sup>st</sup> December 2010.

[illegible]



- e) Suppose the inventory decreases, cash remains same and accounts receivable increases. Give **ONE** reason for such a situation. [1]


### Question 7

- a) The following information pertains to Sonam Company:

Total Sales	Nu. 500,000
Cash Sales	Nu. 300,000
Gross Profit Ratio	20%
Gross Profit	?
Trades Receivable	Nu. 100,000

- i. Calculate Gross Profit. [1]


- ii. How many days will Sonam Company take to collect its debts? [1]


- b) Refer the following table and fill up the Income Statement given:

[3]

Particulars	Amount (Nu. in millions)
Share Capital	300
Sales Revenue	100
Retained Earnings	250
Property, Plant and Equipment	200
Opening Inventory	10
Office Salary	3
Income from Government Grant	4.5
Income from Dividend	1.3
Direct Wages	2
Depreciation on Office Building	0.4
Depreciation on Delivery Van	0.5
Closing Inventory	5
Bonds Interest Expense	1.5
Bonds	150
Bank Interest Expense	3.4
Advertisement Expense	2.5
Purchases	3.8

#### Income Statement

Particulars	Amount
Sales Revenue	
Cost of Goods Sold	
<b>Gross Profit</b>	
Other Income	
Office and Administration Expense	
Selling and Distribution Expense	
Finance Cost	
<b>Net Profit Before Tax</b>	

- c) Contingent liability is not recognized in a financial statement because it is not a present obligation. Do you agree? Explain with **ONE** justification. [2]


- d) Company X conducted market research and incurred the expenses of Nu. 3 million. The company was developing vaccine to treat people suffering from Covid-19. During 1<sup>st</sup> April 2019, it met the development criteria and on 1<sup>st</sup> January 2020, depreciation expense of Nu. 1 million was incurred on the equipment used for the production of vaccine. Further, Nu. 4 million was paid to employees who were directly working in developing the vaccine. The vaccine was launched on 1<sup>st</sup> July 2020 with the expectation that the market will continue for 10 years.

- i. What is the total expense that can be capitalized? What amount should be treated as an expense? [1]


- ii. Pass the journal entry for amortization of intangible asset for the year ending 31<sup>st</sup> December 2020 assuming that Company X maintains accumulated amortization account. [1]


- iii. Company X received government grant of Nu. 1 million to acquire a machinery. The total cost of the machine was Nu. 2.5 million with a useful life of 10 years. The machine was acquired on 1<sup>st</sup> April 2021. [1]  
Calculate the amount of depreciation for the year ended 31<sup>st</sup> December 2021 if the company follows deduction from asset approach.








