

**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. Following are the details of Dorji's remuneration earned for the month of October.

Salary	Nu. 45,150
Bonus	Nu. 3,250
Dividend received from investment	Nu. 7,300
Commission	Nu. 11,400

What is the total performance-based remuneration earned by Dorji?

A Nu. 14,650  
B Nu. 21,950  
C Nu. 48,400  
D Nu. 59,800

ii. Which one of the following is correct about accounting income and taxable income?

A Accounting income includes accrued expenses whereas taxable income excludes it.  
B Taxable income includes accrued revenues whereas accounting income excludes it.  
C Taxable income includes portion of deferred revenues whereas accounting income excludes it.  
D Accounting income includes portion of deferred expenses used whereas taxable income includes the full amount.

iii. Kumar Electronic Gadgets is facing warranty claims for the sale of a washing machine. According to the entity's lawyer, there is a 60% probability it will cost Nu. 2,000. What is the amount of provision to be recognized?

A Nu. 400  
B Nu. 800  
C Nu. 1,200  
D Nu. 2,000

iv. The Government of Japan will provide a grant of 300 million Japanese Yen to procure medical equipment to strengthen public health and medical system of the country.

*(Kuensel, June 25, 2020)*

Which type of Government Grant is covered in the aforementioned excerpt?

- A government assistance
- B government grant related to assets
- C government grant related to past cost
- D government grant related to current and future cost

v. Contingent liability should be disclosed in the financial statement if the out flow of economic benefits are

- A remote.
- B probable.
- C not probable.
- D virtually certain.

vi. Druk PNB Limited issued bonus shares of one for every five shares to its shareholders. The total amount of share capital is Nu. 25 million with the face value of Nu. 10 each. What is the total number of bonus share issued?

- A 500,000 shares
- B 5,000,000 shares
- C 12,500,000 shares
- D 50,000,000 shares

vii. Company X earns Nu. 45,000 per month from the building rented out to its employees. How do you classify the rented building in the financial statement of the company?

- A inventory
- B intangible assets
- C investment property
- D property, plant and equipment

viii. Jigme Mining insured all its employees due to risks involved in their work. The entity paid insurance premium of Nu. 735,000 in advance. After a few months, insurance premium of Nu. 500,000 had expired. The correct adjusting entry under asset method for the entity would be

- A debit insurance expense and credit deferred insurance expense of Nu. 500,000.
- B debit deferred insurance expense and credit insurance expense of Nu. 500,000.
- C debit insurance expense and credit deferred insurance expense of Nu. 235,000.
- D debit deferred insurance expense and credit insurance expense of Nu. 235,000.

ix. Which one of the following gives the correct difference/s between periodic and perpetual inventory system?

[1]

Basis of distinction	Periodic Inventory System	Perpetual Inventory System
I Valuation of inventory	Value of inventory is determined by physically counting at a given period of time	Inventory valuation is done on a continuous basis
II Suitability	Suitable for small businesses	Suitable for larger businesses
III Transaction investigations	Errors can be traced easily	Difficult to trace errors

- A I only
- B II only
- C I & II
- D I & III

x. Study the following information pertaining to company XYZ.

Particulars	In millions (Nu.)
Equity share capital	400
Reserve	200
Retained earnings	100
BoB loan (long term)	300
BNB loan (short term)	300
Accounts payable	10
Bonds	100

The debt equity ratio is

- A 44.2%.
- B 57.1%.
- C 66.6%.
- D 100%.

xi. Which one of the following is **NOT** correct about Profit and Loss Appropriation Account?

- A It is nominal in nature.
- B It is personal in nature.
- C It excludes items that are charged against profit of the firm.
- D It is prepared to allocate salary, interest and profit or loss to partners.

xii. Imagine you produce stationery items and incurred the following cost while bringing inventory in the present condition and location.

- I Irrecoverable taxes
- II Abnormal costs in production
- III Transportation costs to move inventory

What will be included in the cost of inventory?

- A I & II
- B I & III
- C II & III
- D I, II & III

xiii. Reyang Construction Ltd. provides the following information which is required to prepare cash budget for the month of April.

Cash balance on 1st April	Nu. 55,000
Total cash collection	Nu. 25,000
Dividend paid	Nu. 5,000
Selling expenses	Nu. 3,000
Depreciation	Nu. 2,000

The ending cash balance for the company will be

- A Nu. 70,000.
- B Nu. 72,000.
- C Nu. 75,000.
- D Nu. 80,000.

xiv. Rigzang enterprise acquired machinery from Druk Plant to produce apple juice and incurred the following expenses during the year 2018.

Invoice price	Nu. 2,000,000
Transportation cost	Nu. 10,000
Installation cost	Nu. 2,000

The vendor also provided 10% cash discount on invoice price. What is the cost of the machine that must be recognized in the financial statement of the business?

- A Nu. 1,788,000
- B Nu. 1,800,000
- C Nu. 1,812,000
- D Nu. 2,012,000

xv. ABC Ltd. has a policy of deducting 6% from their employees and 9% from company as provident fund. At the end of the year, the total basic pay of the employees were Nu. 14,350,000 each. What amount of provident fund is expensed in the company's Statement of Income?

A Nu. 430,500  
 B Nu. 861,000  
 C Nu. 1,291,500  
 D Nu. 2,152,500

xvi. Tashi Stores deals in buying and selling of computers. During the year 2019, they collected tax of Nu. 50,000 from its customers and also paid tax of Nu. 30,000 on purchases. The above amount of Nu. 50,000 and Nu. 30,000 would be treated as

A asset and liability respectively.  
 B liability and asset respectively.  
 C liability and income respectively.  
 D expense and income respectively.

xvii. In the beginning of 2011, Tashi Bank Ltd. had issued 8% redeemable preference shares of Nu. 2 million for a period of 7 years. At the end of 2016, these shares will be recognized under

A Share Capital.  
 B Current Liabilities.  
 C Non-Current Assets.  
 D Non-Current Liabilities.

xviii. Following is the extracted Statement of financial position as at 31<sup>st</sup> December, 2017.

Particulars	2016	2017
Current assets		
Marketable Securities	Nu. 1,500,000	Nu. 1,200,000
Cash	Nu. 500,000	NIL
Current Liabilities		
Overdraft (Repayable on demand)	NIL	Nu. 250,000

What is the movement of cash and cash equivalents?

A Nu. 800,00  
 B (Nu. 80,000)  
 C Nu. 1,050,000  
 D (Nu. 1,050,000)

xix. Tharchen, one of the partners in a firm withdrew Nu. 45,000 on 1<sup>st</sup> August, 2020 from the business for personal use and was charged interest @ 10% p.a. Which is the correct entry for interest charged on drawings?

A debit drawings, credit interest on drawings with Nu. 4,500  
B debit interest on drawings, credit drawings with Nu. 4,500  
C debit drawings, credit interest on drawings with Nu. 1,875  
D debit interest on drawings, credit drawings with Nu. 1,875

xx. Bhutan Indigenous Hospital started a project to create a new medicine on 1<sup>st</sup> April, 2017. The development phase commenced on 1<sup>st</sup> July, 2018 and the medicine was ready for its intended use on 1<sup>st</sup> July, 2019. Costs incurred in research was Nu. 243,350 and development was Nu. 426,250. The useful life of the intangible asset is five years.  
What is the amount of amortization for the year ended 2019?

A Nu. 24,335  
B Nu. 42,625  
C Nu. 66,960  
D Nu. 85,250

**b) Fill in the blanks with appropriate word(s).**

**[5]**

<p>i. The cash flow statement is based on _____ basis of accounting.</p> <p>ii. The return on capital invested by the owners of the company can be calculated through _____.</p> <p>iii. The estimated tax on current year's profit is treated in the statement of financial position as _____.</p> <p>iv. Repair and maintenance of Property, Plant and Equipment is classified as _____ expenditure.</p> <p>v. Goodwill does not fulfill the definition of intangible asset because it is not _____ from other assets.</p>	
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c) Match each item under column A with the most appropriate item in column B. [5]  
 Write the correct alphabet in the space provided under the 'answer' column.

Answer	Column A	Column B
	i. Presentation of dividend paid by the company	a. payables
	ii. Gain or loss on disposal of investment property	b. factory overhead budget
	iii. Measures the capability of entity to make a profit.	c. direct labour or material budget
	iv. Balance of money due to firm for goods and services delivered	d. income statement
	v. Includes all production costs other than direct materials and direct labour	e. operating margin
		f. gross margin
		g. statement of changes in equity

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

i. The most likely outcome method under measurement of provision is used when obligation involves a large number of outcomes.	
ii. Intangible asset acquired in the business combination is measured at cost.	
iii. Notes include information about the basis of preparation of financial statements and specific accounting policies used.	
iv. Sales budget is the basis for preparing a master budget.	
v. The profit or loss for the partners in the absence of a partnership deed is distributed based on capital contribution.	

e) **Answer the following questions.**

i. Accounting ratios are useful in making better financial decisions. Do you agree? [2]  
Justify with **TWO** points.


ii. Company XYZ Ltd. had earnings of 100 million during the year 2020. The board has [2]  
decided to issue bonus shares to its shareholders. Assuming you are one of the  
shareholders of the company, do you support the resolution passed by the board?  
Give **TWO** valid reasons.


iii. A company needs to perform maintenance on a car it owns every three years for senior executives to use. The entity had not serviced the vehicle as of the third financial year's end. Should a provision be recognized in the entity's books?

[2]

iv. Entity 'A' has leased out a plot of land to Entity 'B'. Can Entity 'A' treat this as an investment property?

[2]

v. Entity 'X' has evaded tax worth millions in the 2015 financial year. There were inconsistencies and manipulations in the financial statements. Recommend **TWO** ways to prevent such practices. [2]

vi. "Interest paid can be classified as operating activity but not a financing activity." Do you agree? Give **ONE** reason to support the statement . [2]

vii. Is a trademark considered an intangible asset? Justify and explain how it is recorded in the financial statement. [2]

viii. The presentation and classification of items in financial statements must be consistent from one period to another. Validate with **ONE** point. [1]

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

## Question 2

a) Following is the extracted pay sheet of Uma Resort.

Name	Basic Pay (BP)	Contract Allowance	Service Allowance	Provident Fund	Tax deducted at source	Bank Loan
X	Nu. 40,000	Nu. 12,000	Nu. 3,200	Nu. 2,800	Nu. 2,350	Nu. 8,100
Y	Nu. 25,000	Nu. 7,500	Nu. 1,800	Nu. 1,750	Nu. 1,950	Nu. 9,200

i. Calculate the net pay of X and Y.

[2]

ii. Pass the journal entry for disbursement of salary to X and Y.

[1]


b) X Ltd. received a grant of Nu. 1.1 million for a project. The estimated expense for the year 2019-2023 is Nu. 2.2 million. It spent Nu. 278,000 in 2019.

[1]

i. Identify the type of grant from the case.


ii. How much should be recognized as income from the grant in 2019?

[1]


iii. Suppose the grant of Nu. 1.1 million was received for the expenses incurred in the year 2017, how will the grant received appear in the financial statement? [1]


c) Study the table given below and answer the following questions.

	<b>Return of Capital Employed (ROCE)</b>
ENTITY A	12%
ENTITY B	15%

i. If the rate of interest on the loan is 13%, which entity do you think would borrow the loan? Justify with **ONE** point. [1]


ii. Borrowed fund is better for a business. Do you agree? Justify with **TWO** points. [2]



d) How does a decrease in prepaid insurance affect the movement of cash under [1] operating activities?


### Question 3

a) According to the Income Tax Act of the Kingdom of Bhutan, 2001, Business Income Tax (BIT) is a non-corporate business tax and it is levied at 30% on net profit.

i. State **THREE** importance of tax to the government. [3]


ii. Chuney enterprise has expensed fee of Nu.25,000 for processing their employees' identity card. Is this an allowable deduction for the firm? Why? [1]


b) Lhaki Company signs a lease agreement with the real estate company for land for 5 years at Nu. 5 million. According to the lease agreement, if the lease is cancelled before its term has expired, the entity is required to pay the full lease sum, as though the contract had been completed.

i. What type of contract is best described in the above case? Why? [2]


ii. What is the amount of provision to be recognized by Lhaki Company? [1]


iii. What is the obligating event in the case?

[1]


c) Nima and Karma commenced a partnership business. During the year ending 31<sup>st</sup> December 2020, they earned a net profit of Nu.42,000 which is to be distributed in their opening capital contribution. On 1<sup>st</sup> October, 2020, Nima and Karma withdrew Nu. 12,500 and Nu. 10,350 respectively. The partnership deed provides that:

- interest on opening capital to be allowed at 10% p.a.
- interest on drawings to be charged at 8% p.a.

From the above information, fill up the statement of partners' capital given below.

[2]

<b>Statement of partners' capital</b>		
	<b>Nima (Nu.)</b>	<b>Karma (Nu.)</b>
Balance on 1/1/20	30,000	60,000
Net divisible profit or loss	.....	.....
Salary	8,000	10,000
Commission	Nil	5,000
Additional capital	12,000	Nil
Interest on capital	.....	.....
Drawings	(12,500)	(10,350)
Interest on drawings	.....	.....
Balance on 31/12/20	.....	.....

#### Question 4

a) Nado and Kado are the two owners of a building. Tenants live in the half that belongs to Nado, and Kado uses the other portion as a warehouse. How are the two building parts accounted for? [2]


b) Answer the following questions in the context to intangible assets.

i. Scan Café Pvt. Ltd. obtained a patent with a 5-years useful life and amortized it accordingly. The finance manager decided to change the amortization period after three years. What is your opinion on the finance manager's decision? [1]


ii. In the subsequent years, an entity can choose either cost or revaluation methods for measuring intangible assets. Which method do you think is better? Give **TWO** reasons.

[2]

iii. Entity A has received Nu. 3 million for the construction of a daycare centre in the community. Can Entity A recognize this as a government grant? Justify with **ONE** point.

[1]

c) The following is the trial balance of an entity for the year ending 2019.

Particulars	Debit (Nu.)	Credit (Nu.)
Cash	450,000	
Accounts receivable		275,000
Prepaid insurance	50,000	
Land and Building	900,000	
Service revenue		2,292,000
Salaries expenses	85,000	
Advertising expenses	100,000	
Utility expenses	80,000	
Purchases	435,000	
Inventories (1 <sup>st</sup> January, 2019)	232,000	
Delivery expenses	8,000	
Depreciation of office building	20,000	
Commission to salesperson	35,000	
Freight inward expense	52,000	
Inventories (31 <sup>st</sup> December, 2019)	120,000	
	<b>2,567,000</b>	<b>2,567,000</b>

i. Considering 30% Business Income Tax, prepare a statement of income using function of expense method as per BAS 1.

[3]

ii. What will be the impact on gross profit, if the service revenue and cost of sales increases by 5% and 3% respectively? [1]


**Question 5**

a) Dodo Company has the following balances for the year ended 31<sup>st</sup> December, 2018.

	<b>Nu. in million</b>
Retained earnings, 1 <sup>st</sup> Jan, 2017	24
Net income	15
Cash dividend declared	10

i. Prepare a retained earnings statement for the year ended 31<sup>st</sup> December, 2018. [1]


ii. Mention **TWO** uses of retained earnings.

[2]


b) Passang Pvt. Ltd. purchased a building on 30<sup>th</sup> September, 2016 at Nu. 1,380,000. The useful life of the building was 8 years. It was rented out under an operating lease but provided security and maintenance services. On 1<sup>st</sup> January, 2019, the management decided to remeasure the building at its fair value of Nu. 950,000. The entity adopted Straight-Line method of depreciation.

i. Calculate the revaluation gain or loss by preparing a depreciation schedule.

[2]


ii. Pass the required journal entries for 2019.

[2]


c) Tasty & Tasty Ezay company has planned to appropriate budget Nu.500,000 to produce 20,000 units of ezay to meet the expected sales during the month of December. The company has decided to procure necessary supplies from the supplier Tashi-wholesale after considering the pricing factor. After a month, the company's procurement manager started procuring materials from his relative without the company's knowledge.

i. Identify any **ONE** ethical issue in the above case.

[1]


ii. If you are the manager of the company, what corrective actions would you take? [2]  
Specify any **TWO**.



## Question 6

a) The following information was taken from the financial statement of Sonam Company for the year ended 31<sup>st</sup> December, 2018.

1. Net income was Nu. 189,500 for the period.
2. Issued 100,000 shares of common stock at Nu. 15 per share.
3. Sold equipment with a carrying value of Nu. 32,500 at a gain of Nu. 6,000.
4. Purchased land and building worth Nu. 450,000.
5. Sold long-term investments of Nu. 50,000 at a loss of 10%.
6. Nu. 18,400 cash dividends were declared and paid during the period.
7. Paid bank loan of Nu. 200,000.
8. Consider dividend paid under financing activities

i. From the above transactions, prepare cash flow from investing and financing activities. [3]


ii. Interpret the effect of financing activities on the capital structure of the firm. [1]


b) A 3-year bond of Nu. 3,000 million with an annual coupon rate of 6.5% in the name of Royal Government of Bhutan are offered for public subscription through Royal Monetary Authority of Bhutan.

*(RMA, September 4, 2020)*

i. As an investor, write any **TWO** benefits for subscribing to the bonds. [2]


ii. What is the associated risk involved in bonds for the investors? State any **ONE**. [1]


c) Following are the two different store ledgers maintained by two similar entities.

Pema Enterprise									
	Receipts			Issues			Balance		
Date	Qty	Rate (Nu.)	(Nu.)	Qty	Rate (Nu.)	(Nu.)	Qty	Rate (Nu.)	(Nu.)
March 1	7	30,000	210,000				7	30,000	210,000
March 4	4	32,000	128,000				7	30,000	210,000
							4	32,000	128,000

Singay Enterprise									
	Receipts			Issues			Balance		
Date	Qty	Rate (Nu.)	(Nu.)	Qty	Rate (Nu.)	(Nu.)	Qty	Rate (Nu.)	(Nu.)
March 1	9	35,000	315,000				9	35,000	315,000
March 4	6	20,000	120,000				15	29,000	435,000

i. Identify the type of methods adopted by Pema and Singay Enterprise respectively. [1]


ii. On 6<sup>th</sup> March, Singay Enterprise purchased another 8 units @ Nu. 23,000 of inventories. Calculate the cost per unit of closing inventory assuming it uses perpetual system. [1]


iii. Pema Enterprise issued 9 units of inventories on 9<sup>th</sup> March. Calculate the cost of inventories to be presented in financial statements assuming that it uses periodic system. [1]

## Question 7

a) Sam Ltd. had the following information during 2016.

Cash and cash equivalent	Nu. 32,050
Inventories	Nu. 8,500
Trade receivable	Nu. 12,230
Trade payable	Nu. 22,000
Outstanding salary	Nu. 4,180
Cost of sales	Nu. 51,200
Revenue	Nu. 95,450

- i. Compute current ratio.

[1]

ii. How many days will the firm take to fulfill the claim of its creditors?

[1]

iii. Find out gross profit margin.

[1]

b) Redraft the statement of financial position which was prepared by an inexperienced accountant of entity XYZ. [2]

Particulars	Nu. in million
<b>Non-current assets</b>	
PPE	200
Accounts receivable	50
<b>Current assets</b>	
Inventories	12
<b>Total</b>	<b>262</b>
<b>Equity and Liabilities</b>	
<b>Shareholders fund</b>	
Share capital	70
<b>Non-current liabilities</b>	
Bonds	40
Retained earnings	50
Accounts payable	12
<b>Current liabilities</b>	
Bank loan (Long term)	90
<b>Total</b>	<b>262</b>

c) Dragon Green Ltd. reported the borrowed fund of Nu. 150,000 from Bhutan National Bank as current liability in the statement of financial position. Validate the statement. [2]

d) Passang enterprise earned a net profit of Nu.500,000 before declaring tax during the year ended 2017 and declared a total bonus of Nu.61,500 to its employees Tashi and Lhaki with basic pay of Nu.9,000 each.

Under Income Tax Act Rule, the bonus payable is limited to 10% of the assessed net profit or 3 months basic per employee, whichever is lower.

i. Calculate the actual admissible bonus for the firm.

[2]

ii. Assuming 30% as the tax rate, determine the tax amount.

[1]