

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. A 3-star hotel has collected Nu. 850,000 from its customers, out of which 15% is yet to be collected. Considering the rate of sales tax as 20%, how much sales tax should be recognised?

- A Nu. 127,500
- B Nu. 144,500
- C Nu. 170,000
- D Nu. 195,500

ii. Which of the following is **NOT** an example of an intangible asset?

- A patent
- B copyright
- C goodwill
- D trade mark

iii. Dorji Pvt. Ltd. purchases an investment property on 01/01/2021 for Nu 4,000,000. On 31/12/2021, the Company determines the fair value of the investment property to be Nu. 5,900,000. On 31/12/2022, the fair value of the investment property had fallen to Nu. 3,900,000. The Company carries all the investment properties at fair value.

Which of the following amount is recorded as a book value of investment property by Dorji Pvt. Ltd on 31/12/2021?

- A Nu 1,900,000
- B Nu 3,900,000
- C Nu 4,000,000
- D Nu 5,900,000

iv. Under which of the following conditions would the residual value of the patent be assumed zero?

- A When the residual value of the patent could not be determined.
- B When there is an active market for the patent at the end of the patent's useful life.
- C When the third party has committed to purchase it at the end of the patent's useful life.
- D When the price of the patent could be determined in relation to the active market.

- v. Red Chilli Ezzay, a manufacturer of homemade dried chili and dried fish pickles is preparing annual financial statements as at December 31, 2021. Because of the recently proven health hazards on the consumption of its pickle, the government has instructed the manufacturer to collect back all packets of pickle sold in the last six months. The management estimates that the collection of earlier sold pickles would cost the company Nu.150,000. What accounting treatment should be considered for this situation?
- A disclose it as notes
 B recognize the provision of Nu.150,000
 C appropriate Nu.150,000 out of retained earnings
 D recognize operating expenses of Nu.150,000 and liability of Nu.150,000
- vi. Which of the following distinction is **NOT** correct between public issue and rights issue?

	Public issue		Right issue
A	Offered to the general public	→	Offered to the existing shareholders
B	No over-subscription.	→	No under-subscription or over-subscription
C	Issued at face value	→	Issued at less than the market price
D	Communication between the company and the public	→	Communication between the company and the existing shareholders

- vii. When an undertaking decides to dispose off an investment property without developing it, it
- A continues to be treated as an investment property.
 B is reclassified as assets held for sale.
 C is reclassified as owner-occupied.
 D is transferred to inventory.
- viii. Under Bhutanese Accounting Standard, an entity after the acquisition of an intangible asset may adopt the measurement of revaluation model subsequently if
- A the intangible asset is a monetary asset.
 B an active market exists for the intangible asset.
 C the cost of the intangible asset can be measured reliably.
 D the useful life of the intangible asset can be reliably determined.

- ix. Study the following statement of partner's capital account and find out the additional capital contributed by Pema.

PD Partnership		
Statement of Partner's capital account		
	Pema (In million)	Dema (In million)
Opening balance	Nu. 3.5	Nu. 5
Salary	Nu. 0.9	Nu. 1.1
Additional capital introduced	?	Nu.0.3
Drawings	(Nu. 0.7)	(Nu. 0.5)
Net Divisible loss	(Nu. 0.4)	(Nu. 0.4)
Closing Balance	Nu. 4.3	Nu. 5.5

- A Nu. 1 million
 B Nu. 3.2 million
 C Nu. 2.6 million
 D Nu. 4.4 million
- x. In reality, potential investors and stakeholders prefer to analyze cash flow statement rather than income statement of an entity for making best economic decisions.
 Which of the following best supports the given statement?
- A Income statement could be manipulated.
 B Income statement includes revenue and expenses only.
 C Income statement does not include cash inflows and outflows.
 D Income statement is reported without cash and bank transactions.
- xi. Study the following business activities:
- I Cash payments to suppliers for the purchase of goods
 II Cash received from sale of investment property
 III Cash received from rendering services
- Which of the following combinations best represents operating activities?
- A I only
 B I and II
 C I and III
 D I, II and III

xii. Meto Pvt. Ltd. has an account payable balance of Nu. 120,000 in the month of March, 2021. The budgeted cost of raw materials for the month of April, 2021 is Nu. 170,000. According to company's policy, 65% of the cost of raw materials is paid in the month of purchase and the remaining amount is paid in the following month. How much will the business pay in April 2021?

- A Nu. 110,500
- B Nu. 120,000
- C Nu. 170,000
- D Nu. 230,500

xiii. Which one of the following is **NOT** correct about activity ratios?

- A higher asset turnover ratio → sustainability issues of the business
- B longer receivable days → higher probability of bad debts
- C shorter inventory days → obsolete inventory
- D longer payable days → poor relationship with suppliers

xiv. Karma garment house earned a revenue of Nu.1 million in the reporting year 2021. The business incurred an expenditure worth Nu. 750,000 which includes personal expenses of the owner amounting to Nu.35, 000.

Assuming tax rate of 30%, the amount of BIT recognized in the year 2021 will be

- A Nu. 64,500.
- B Nu. 75,000.
- C Nu. 85,500.
- D Nu. 289,500.

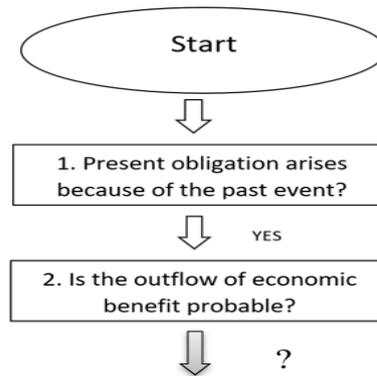
xv. Following is the payroll of Nima.

Particulars	Amount
Basic pay	Nu.15,000
HRA	10% basic pay
Pension	Nu.200
Health contribution	Nu.300
House rent	20% of basic pay
Loan	Nu.5,000
Tax deducted at source	10% of gross salary

Calculate his net salary.

- A Nu. 1,650
- B Nu. 3,560
- C Nu. 5,000
- D Nu. 6,350

xvi. Study the following flow chart.



What will you do next if the answer for question '2' in the above flow chart is 'YES'?

- A do nothing
 - B recognize it as a provision
 - C disclose it as contingent liability
 - D measure the value of the obligation
- xvii. Which of the following is the correct journal entry for the issue of bonus shares?
- A Debit equity share capital account and credit share premium account
 - B Debit retained earnings account and credit equity share capital account
 - C Debit bonus to shareholders account and credit retained earnings account
 - D Debit bonus to shareholders account and credit equity share capital account
- xviii. In a partnership firm, paying salaries and allocating interests is crucial in protecting the partners' shared interests.
Which of the following would best support the given statement?
- A Partners have unlimited liability
 - B Partnership firm is a temporary business
 - C Each partner is liable to the other partners
 - D Equity must be maintained among all the partners
- xix. A current asset that can be transferred into cash within 90 days is known as
- A cash equivalent.
 - B intangible asset.
 - C operating asset.
 - D cash asset.
- xx. Which of the following is **TRUE** about perpetual inventory system?
- A It excludes loss of goods.
 - B It is elaborate and expensive.
 - C It requires closing down of normal business.
 - D It doesn't facilitate the continuous stock checking.

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

[5]

i. _____ is a comprehensive budget for a specific period consisting of many interrelated operating and financial budgets.	
ii. The expenses and revenue summary is also known as the _____.	
iii. An onerous contract is a contract in which the _____ of meeting the obligations under the contract exceeds the economic benefits expected to be received under it.	
iv. _____ based remunerations are tied up with targets to be achieved by the individual employees or the entity as a whole.	
v. Opening stock + Purchases – Issues = _____.	

c) Match each item under column A with the most appropriate item in column B. Write the correct alphabet in the space provided under the ‘answer’ column.

[5]

Answer	Column A	Column B
	i. 5 units of building held for sale	a. current liability
	ii. ABC Ltd. has bond worth Nu. 10 million redeemable within one year	b. production budget
	iii. 10% depreciation charged on the furniture house at the end of the year	c. non-current liability
	iv. Production in units, ending inventory and beginning inventory	d. administrative expenses
	v. One of the important components of return on capital employed (ROCE)	e. current asset
		f. cost of sales
		g. direct material budget

d) Write TRUE or FALSE for the following statements in the space provided. [5]

i.	Payment of dividend to shareholders before tax is allowable under the Income Tax Act, 2001.		
ii.	Intangible assets acquired through government grants is initially measured at cost.		
iii.	Liquidity ratio measures the ability of a business to meet short term obligations.		
iv.	Commission provided to the manager is an item of appropriation.		
v.	The 'Going concern' characteristic is one of the most fundamental assumptions made while preparing financial statements of a reporting entity.		

e) Answer the following questions briefly.

i. The current ratio of ABC company is 2.5:1 during the year 2021. If total current assets of the company is Nu.750,000, ascertain the amount of total current liabilities of the company. [2]

ii. Will opening balance and closing balance of equity remain same in the statement of changes in equity? Provide **TWO** reasons to support your stand. [2]

iii. Explain any **TWO** similarities between amortization and depreciation. [2]

iv. In Bhutan, Business Income Tax is levied @ 30% on net profit earned by non-corporate business. The owners of businesses are not willing to pay the correct amount of taxes. Would you recommend to the government to reduce the rate of BIT? Justify with **TWO** relevant reasons. [2]

- v. ABC Limited has two plots of land in Thimphu which were kept idle for several years. The company has constructed a building but has not decided whether to rent the flats to employees or to other tenants. In light of the above statement, can the property be recognized as investment property under BAS 40? Justify with appropriate reasons. [2]

- vi. In accounting, creation of excessive reserve is treated as manipulation of books of accounts. However, creating an actual amount of reserve is important for the growth and expansion of the entity. [2]

In relation to the statement, what would be your understanding on the significance of reserve to the entity? Mention **TWO** points.

vii. Do you think contingent assets can become assets in the future? Justify.

[2]

viii. Is it required for an organization to maintain the consistency of the presentation and classification of items in the financial statements from one period to the next? State **ONE** reason to support your stand.

[1]

- ii. Most managers employ unethical practices to use the balance money by engaging in undesirable activities as they fear that if all the budget is not utilized, their future budgets would be reduced. Write **TWO** solutions to the problem. [1]

Question 3

- a) It was observed that the Furniture House’s accountant and the chief carpenter had manipulated the muster roll payment of Nu. 72,567 by forging the signatures of daily wage workers who were never hired. [1]
- i. Identify the unethical issues.

- ii. Which one would you suggest ‘SALARY’ or ‘COMMISSION’ as remuneration to the carpenter? Justify with any **TWO** reasons. [2]

b) Justify with **ONE** reason, whether the following actions of the different entities are allowed as per BAS 37 (Provision and Contingencies).

i. The management of Dechen Electronics Ltd. decided to use the provision originally created to cover the warranty expenses of refrigerators for paying off its account payables. [1]

ii. The finance manager of a company forecasted the loss of Nu. 2 million in 2021 financial year. They decided to create the provision to cover up the losses. [1]

iii. The XYZ Company recognised the provision of Nu. 1.5 million in excess than the actual provision required. [1]

- c) Prepare cash flow from operating activities of Dungsum Ltd. from the extracted income statement and statement of financial position of 2021. [4]

Extracted Income Statement 2021	
Revenue	2,750,000
Less: Finance Cost	(450,000)
Profit Before Tax	2,300,000
Less: Income Tax	(690,000)
Profit After Tax	1,610,000

Extracted Statement of Financial Position 2021		
Non-Current Asset	2020	2021
Property, Plant and Equipment	4,300,000	5,100,000
Retained Earnings	3,120,000	3,900,000
Current Assets		
Accounts Receivables	430,000	670,000
Inventory	780,000	620,000
Current Liabilities		
Accounts Payables	560,000	340,000
Outstanding Salary	670,000	670,000

Additional information

1. The depreciation for the year is Nu. 520,000.
2. The Property, Plant and Equipment with carrying value of Nu. 230,000 is disposed off at Nu. 175,000.
3. Treat dividend paid as operating activity and finance cost as financing activity.

Question 4

- a) Ningkhar works as an accountant in Welcome Resort which provides short stay accommodation to guests. However, due to COVID-19 pandemic, apartments were rented for long-term rentals to Desuups and health workers and some rooms were used as the resort office by the manager. What would you suggest to Ningkhar on how to classify the resort with all the three purposes, if the management intends to prepare a credible financial statement? **[2]**

- b) “Interest received can be classified as operating activity but not investing activity”. Do you agree? Give reasons to support the statement. [2]

- c) Explain any **TWO** differences between research phase and development phase of internally generated intangible assets. [2]

Research phase	Development phase	

ii. Present all the information in the statement of financial position.

[2]

b) The following are the information of an apartment acquired and rented out by a firm on 30th September, 2019.

Purchase cost	Transfer Fees	Rate of depreciation	Method of depreciation
Nu. 2,700,000	Nu. 500,000	15% p.a.	Straight Line Method

i. Pass all the relevant entries for the year 2019 considering that the firm maintains accumulated depreciation account.

[2]

- ii. At the end of 2021, the management decided to use fair value method for measuring the cost of apartment and the fair value was Nu. 2,140,000.
Pass all the relevant entries for the year 2021.

[2]

- c) The following is a summary of receipts and issues of accountancy textbooks in a private school for the month of February 2022.
- a. There was an opening balance of 145 textbooks in the beginning of February, which was purchased at Nu. 210 per book.
 - b. On 3rd February, the school purchased 33 more textbooks at the rate of Nu. 215 per book.
 - c. 167 students joined the school on 14th February. The storekeeper issued textbooks to all the students.
 - d. The school expected some more students to join the school in the coming days, therefore, purchased 10 more textbooks on 17th February.

Assuming that the school uses perpetual inventory system, prepare store ledger by using weighted average price method.

[3]

- ii. Present it in the financial statements for the year ended December 31, 2022. [1]

- b) In 2015, Sonam's company had issued 4 million shares at nominal value of Nu. 10 each. The company issued right shares of 3 for 5 shares in December 2017 at Nu.15 to its existing shareholders. 80% of right shares were subscribed by the existing shareholders. The shares are currently traded at Nu. 20.

- i. Calculate the number of right shares subscribed. [1]

- ii. Pass the accounting entries and present it in the financial statements. [2]

