

**SECTION A [50 MARKS]**  
**ANSWER ALL QUESTIONS**

**Question 1**

**[20]**

a) For each question there are **FOUR** responses: **A, B, C** and **D**. Choose the corresponding letter of your response and **CIRCLE** it neatly. **NO** score will be awarded if you circle more than **ONE** letter.

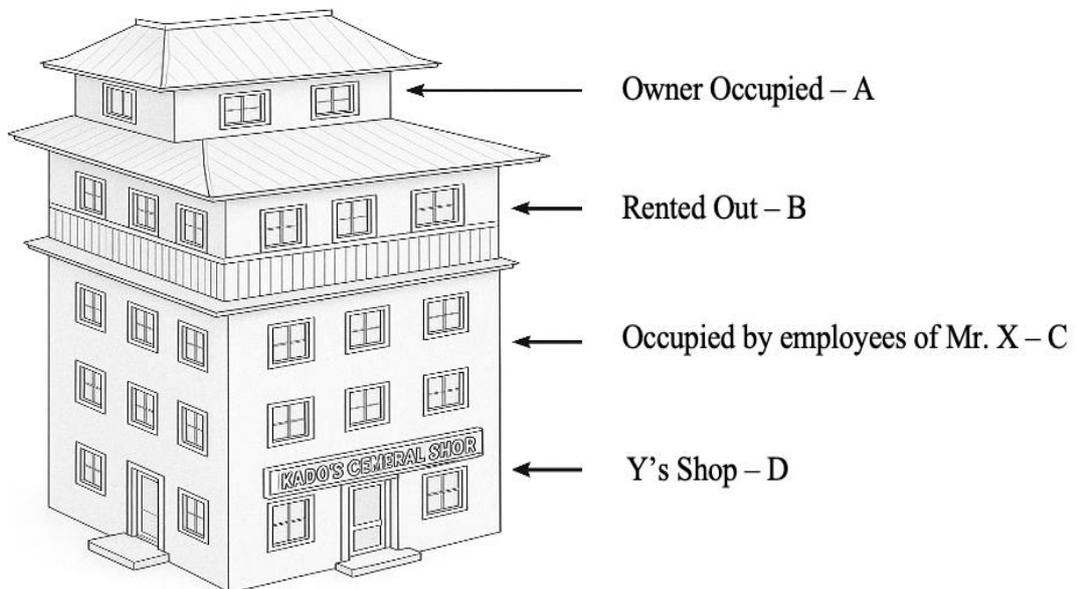
i. Which **ONE** of the following is incorrect in the absence of a partnership deed?

- A Profit/losses are shared equally
- B Partners are not entitled to salary
- C No interest on drawing is charged
- D 6% p.a. interest is allowed on capital

ii. A company purchased garments for Nu. 100,000 and sells it for Nu. 200,000 (exclusive of tax). Assuming that sales tax is 10%, the output VAT for the company is

- A Nu. 10,000.
- B Nu. 20,000.
- C Nu. 30,000.
- D Nu. 40,000.

iii. The picture below shows a five storied building owned by Mr. X, with each floor designated for the following apartment uses:



Study the diagram above and identify which of the apartments would be classified as an investment property?

- A B and D
- B A and D
- C B and C
- D C and D

- iv. An accountant of a Construction Company has incurred the following expenses:  
Wages Nu. 20,000  
Electricity Charges Nu. 10,000  
Depreciation Nu. 50,000  
Salaries Nu. 80,000.  
The total employee cost incurred by the company is
- A Nu. 20,000.
  - B Nu. 80,000.
  - C Nu. 100,000.
  - D Nu. 160,000.
- v. Opening and closing desired balance of inventories of finished goods are adjusted in
- A sales budget.
  - B production budget.
  - C direct labour budget.
  - D direct material budget.
- vi. An entity acquired in 2023: Laptop – Nu. 100,000, Anti-virus – Nu. 50,000, Windows 2023 – Nu. 40,000. What is the correct entry for intangible assets?
- A debit intangible asset Nu. 90,000; credit cash Nu. 90,000.
  - B debit intangible asset Nu. 50,000; credit cash Nu. 50,000.
  - C debit intangible asset Nu. 150,000; credit account payable Nu. 150,000.
  - D debit intangible asset Nu. 190,000; credit account payable Nu. 190,000.
- vii. The company has set a provision of Nu. 1,000,000 to cover potential losses if it fails to complete the work within the scheduled time.  
Which **ONE** of the following is the best option for the company?
- A Company cannot create a provision since it is a possible obligation
  - B Company cannot create a provision since cost cannot be determined
  - C Company cannot create a provision since there is no legal obligation
  - D Company cannot create a provision since there is no present obligation
- viii. AB company retains profits for expansion instead of paying dividends. To reward shareholders, it can issue
- A right shares.
  - B bonus shares.
  - C equity shares.
  - D preference shares.
- ix. On 1<sup>st</sup> January, 2023, a grocery shop had an opening inventory of 1,000 kg of rice valued at Nu. 110 per kg. During the month, it purchased an additional 3,500 kg of rice at Nu. 150 per kg. If the business sold 2,700 kg of rice at Nu. 300 per kg. The cost of goods sold using the FIFO method is
- A Nu. 365,000.
  - B Nu. 270,000.
  - C Nu. 297,000.
  - D Nu. 405,000.

- x. BD Enterprise generated sales revenue of Nu. 2 million in the year 2022. The business incurred Nu. 0.3 million as direct expenses and received Nu. 0.2 million in advance for the services to be delivered in the year 2023. What is the amount of taxable income as per the tax authority?
- A Nu. 1.5 million
  - B Nu. 1.7 million
  - C Nu. 1.9 million
  - D Nu. 2.5 million
- xi. If a firm's current ratio improves from 2:1 to 3:1 over a year, which **ONE** of the following could explain this change?
- A Decrease in current assets
  - B Payment of long-term loans
  - C Increase in current liabilities
  - D Increase in inventory and cash
- xii. A company owns a hotel and an apartment complex. The hotel provides ancillary services like dining, front desk, security, and housekeeping services to guests, while the apartments are leased out for one year under an operating lease with no ancillary services. How should the **TWO** properties be classified?
- A Hotel as Investment Property, apartments as PPE
  - B Hotel as PPE, apartments as Investment Property
  - C Both as Investment Property, as both generate income
  - D Both as PPE, since both are used to operate a business
- xiii. A company spends Nu. 1,000,000 on advertisement in a year. The cost of advertisement should not be capitalised because
- A cost is not identifiable.
  - B cost cannot generate economic benefits.
  - C Nu. 1,000,000 is too less to be capitalized.
  - D cost can be capitalized only if it is for more than 1 year.
- xiv. A company issued bonds at a discount. Over the life of the bonds, how will the interest expense be recorded as compared to the interest paid?
- A Interest expense will be equal to interest paid
  - B Interest expense will be lower than interest paid
  - C Interest expense will be higher than interest paid
  - D Interest expense will initially be lower and then higher than interest paid
- xv. A company faces a legal dispute over contaminated goods with a 60% chance of paying Nu. 200,000. While preparing financial statement
- A Nu. 120,000 will be recognized as a provision.
  - B Nu. 200,000 will be recognized as a provision.
  - C Nu. 120,000 will be disclosed as a contingent liability.
  - D Nu. 200,000 will be disclosed as a contingent liability.

- xvi. At the end of the accounting period, the business reports the following items:  
Cash: Nu. 400,000  
Intangible asset: Nu. 200,000  
Loan: Nu. 500,000  
Deferred expense: Nu. 20,000  
Accrued income: Nu. 20,000  
Which of the above items qualify as current assets?
- A Cash – Intangible asset – Loan
  - B Cash – Loan – Deferred expense
  - C Cash – Accrued income – Intangible asset
  - D Cash – Deferred expense – Accrued income
- xvii. The company has set a minimum basic salary of Nu. 40,000 for an employee. The monthly deductions include:  
PF (Employee's Contribution): 10% of Basic Pay  
PF (Employer's Contribution): 10% of Basic Pay  
Welfare scheme: 2% of Basic Pay  
What is the employee's net pay?
- A Nu. 30,800
  - B Nu. 35,200
  - C Nu. 36,000
  - D Nu. 38,200
- xviii. A company is sued for damaging a farm road, but liability is not probable. The company can account it as
- A liability.
  - B provision.
  - C contingent asset.
  - D contingent liability.
- xix. X and Y are running stationery shops at Thimphu. X maintains inventory record on daily basis while Y prepares inventory valuation at the end of the period. The inventory valuation method adopted by Y is
- A FIFO.
  - B periodic.
  - C perpetual.
  - D weighted average.
- xx. All of the following are correct about the issue of right shares, **EXCEPT**
- A right shares are issued for price consideration
  - B right issue increases cash asset of the company
  - C right shares are issued to existing shareholders only
  - D right issue doesn't change cash asset of the company

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

**[5]**

i.	Bonus and commission paid to employees are _____ remuneration.
ii.	_____ is a method of accounting for tax on accrual basis.
iii.	A high _____ ratio may indicate that a company has to pay its suppliers.
iv.	The production budget is derived by adding desired ending inventory and subtracting beginning inventory from the _____ forecast.
v.	When inventory levels increase during the year, this is treated as a _____ in cash flow from operating activities.

**c) Match each item in column A with the most appropriate item in column B. Write the correct letter in the space provided in the 'Answer' column.**

**[5]**

Column A	Column B	Answer
i. The probability of compensating a significant amount, such as Nu. 100,000, based on the likelihood of an event occurring in a business or financial context.	a. Trend analysis	i.
ii. A calculation involving the allocation of funds to business partners based on their share in the business.	b. Ratio analysis	ii.
iii. A comprehensive plan that outlines the expected revenue and expenses for a given period, involving both operational and financial components.	c. Do nothing.	iii.
iv. A financial analysis that studies how a company's performance changes over time, examining data from multiple periods to identify patterns.	d. Appropriation of profit	iv.
v. A payment made by a business to its creditors, often representing a cost associated with external financing or debt.	e. Most likely outcome	v.
	f. Finance Cost	
	g. Master Budget	

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

Statement	Answer	
i. Impairment testing is not required for intangible assets with indefinite useful lives.		
ii. If the fair value of investment property cannot be reliably determined, the entity must use the cost model.		
iii. Assets on the statement of financial position are always recorded at their current market value.		
iv. The accrual basis of accounting recognises revenues when they are earned and expenses when they are incurred.		
v. A government grant related to an asset should always be recognised immediately as income when received.		

e) Answer the following questions briefly.

i. The Business Income Tax rate in Bhutan is currently set at 30%. As a policy maker, what percentage would you recommend? Give TWO reasons. [2]


ii. Do you agree that the investment property (building) should be depreciated every year. Why? [2]


- iii. Can the development cost be recognised as an intangible asset on the financial statements? Justify and state how will this have an impact on the financial statement. **[2]**


- iv. Identify any **TWO** situations in which a business will create provisions. **[2]**


- v. As a financial manager of a growing company, you need to raise additional capital. Based only on the current interest rates and overall economic conditions, would you prefer debt financing or equity financing. Justify your choice with **TWO** valid reasons. **[2]**


- vi. Identify which of the following transactions fall under financing activities in the cash flow statement. **[1]**
- a. Depreciation on machinery.
  - b. Cash payment to acquire property plant and equipment.
  - c. Cash payment to suppliers for goods and services.
  - d. Cash repayment of amount borrowed.


- vii. Should all items be presented separately in the financial statements? Justify with **TWO** points. **[2]**


- viii. An entity reported a gross profit margin of 35.6% in 2022 and 42% in 2023.
- a. What does gross profit margin of 35.6% indicate? **[1]**


- b. Identify **ONE** reason for the increase in gross profit margin from 35.6% to 42%. **[1]**


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

**Question 2**

a) Identify **ONE** condition for a company to issue bonus share.

**[1]**


b) A company issued 10,000 ordinary shares at a face value of Nu. 10 each, with an issue price of Nu. 12 per share. The public subscribed to 12,000 shares. Any excess application money received is refunded. Pass the journal entry for transfer and refund **ONLY**.

**[2]**


c) ABC Ltd. purchased building (Investment Property) for credit on 1<sup>st</sup> January, 2020.  
 The following costs were incurred:  
 Purchase price Nu. 2 million  
 Legal fees for purchase Nu. 50,000  
 Annual Insurance Nu. 25,000  
 Repair cost to make the property usable Nu. 40,000  
 Advertisement expense for finding tenants Nu. 60,000

i. Calculate the cost of the building. **[1]**


ii. Pass entry to record the purchase of the building. **[1]**


iii. If the property is depreciated at 12% p.a. using Straight Line Method. What is the carrying amount of investment property as on 31<sup>st</sup> December, 2022? **[1]**


iv. On 31<sup>st</sup> December, 2022, the property was disposed for Nu. 1.5 million. Calculate gain/loss on disposal of property. **[1]**


- d) Business Income Tax is a significant source of revenue for the government. Recommend **TWO** areas where the government should invest tax revenue to achieve maximum benefits. [2]


- e) A company reports an accounting profit of Nu. 120,000, which includes Nu. 20,000 accrued interest income. Tax authorities do not recognize accrued interest for the current year. Explain the specific reason for the difference between accounting income and taxable income in this situation. [1]


**Question 3**

- a) The following information are extracted from a manufacturing entity for the period ended 2022.

**[5]**

<b>Particulars</b>	<b>Amount (Nu.)</b>
Sales revenue	500,000
Investment property(building)	1,000,000
Rent income	10,000
PPE-furniture	150,000
Bank loan	400,000
Commission received	5,000
Bonus to employee	7,000
Depreciation expense on furniture	3,000
Purchase of raw materials	50,000
Office salary	15,000
Depreciation on office building	6,000
Bond interest expenses	3,000
Amortisation expenses	4,000
Interest on loan	5,500
Sales Return (Return Inward)	20,000
Opening Inventory of Raw materials	20,000
Opening Inventory of Finished goods	30,000
Closing Inventory of Raw materials	35,000
Closing Inventory of Finished goods	30,000
Equity	1,000,000

Complete the income statement as shown below:

**Statement of Income**

<b>Particulars</b>	<b>Amount in Nu.</b>	
Sales revenue		
Raw material consumed		
Employee cost		
Depreciation and amortization		
Finance cost		



- c) What specific strategies and practices would you implement to shorten the number of days inventory remains in stock (inventory days)? Mention **TWO** strategies. **[2]**


**Question 4**

- a) Mr. X is sued by Mr. B for copyright infringement and is seeking compensation of Nu. 2,000,000. The lawyer of Mr. X advised that there is 70% chance of being liable.

- i. Identify the obligating event from the above case. **[1]**


- ii. Pass the required journal entry. **[1]**


- iii. How does the likelihood (probability) of an event occurring help in deciding whether a company should create a provision or disclose a contingent liability? **[2]**


b) The following is the Profit and Loss Appropriation Account of a partnership firm:

**Profit and loss appropriation account**

Particulars	Amount	Particulars	Amount
To interest on capital (A)	10,000	By net profit	400,000
To commission (B)	30,000	<u>By interest on drawing</u>	
To salary (A)	60,000	A	10,000
<u>To net divisible profit</u>		B	10,000
	A		192,000
	B		128,000
	<b>420,000</b>		<b>420,000</b>

i. What is the profit-sharing ratio between A and B? [1]


ii. What will happen to the net divisible profit, if the commission paid to B increases by 100%? [1]


iii. Calculate the net divisible profit of B in the absence of the partnership agreement. [1]


c) Explain with proper reasons whether the following are accounted as intangible assets:

i. Purchase of a software for resale purpose.

[1]


ii. A newspaper publisher’s list of subscribers developed over several years.

[1]


iii. Legal fees paid to successfully register a patent.

[1]


**Question 5**

a) The following is the projected sales revenue of the company for the 3<sup>rd</sup> quarter:

[3]

	July	August	September	Quarter End
Sales	300,000	500,000	800,000	1,600,000
Revenue				

On 30<sup>th</sup> June, the balance of cash receivable was Nu. 100,000 which will be collected in full in the month of July. The company had following cash collection pattern:

- 80% collected in the next month
- 20% collected in the second month after sale

Prepare cash collection budget for the 3<sup>rd</sup> quarter.



b) Study the following information and answer questions i. and ii.

Revenue: Nu. 2,000,000  
Add: Accrued interest: Nu. 50,000  
Net profit: Nu. 2,050,000

i. Calculate deferred tax expense assuming 30% tax rate. [1]


ii. Pass the entry for current tax expense and deferred tax expense. [2]


- c) Following information is related to Company A and Company B for the year ended 31<sup>st</sup> December, 2022.

Particulars	Company A	Company B
<b><u>Current asset</u></b>		
Cash and cash equivalent	50,000	80,000
Trade receivable	60,000	50,000
<b><u>Liabilities and Equity</u></b>		
Equity - Share capital	1,500,000	500,000
<b><u>Non-current liabilities</u></b>		
7% bond payable	250,000	1,000,000
<b><u>Current liabilities</u></b>		
Trade payable	10,000	30,000
Short-term loan	50,000	100,000

- i. Calculate the current ratios of Company A and Company B

[2]


- ii. Study the capital structure of Company A and Company B and identify the differences in their capital structures.

[2]


**Question 6**

a) A taxi service company acquired 1,000 number of taxi licenses. 400 license are used for employing taxi drivers and remaining 600 will be sold to private taxi drivers. How will this be accounted in the financial statement of a taxi service company? **[2]**


b) It is better to issue bonus shares than rights shares. Do you agree with the statement? Justify with **TWO** reasons. **[2]**


c) Do you agree with the following statement? Justify with **ONE** reason.  
 i. It is always good for the company to maintain a higher reserve. **[1]**


ii. Financial statements should always be prepared following consistency principle. **[1]**


iii. Bank overdrafts are always treated as part of financing activity. **[1]**


iv. Intangible assets are always amortised annually **[1]**


d) A company purchased investment property for Nu. 3,000,000 on 30<sup>th</sup> June, 2023. On 1<sup>st</sup> January, 2025, the company revalued the property to a fair value of Nu. 2,800,000. Provide the journal entries for the year 2023 and 2025. **[2]**


**Question 7**

a) A company issued 5% bond of Nu. 50,000,000 at 95% of the face value. The bonds are repayable after 10 years.

i. How is loan different from bond as a source of finance for the company? **[1]**


ii. Pass accounting entries to record above issue of bonds including the bond interest. **[2]**


b) A company started the year with 120 employees. During the year, 20 new employees were recruited, and 10 employees resigned.

i. Calculate the employee turnover ratio of the company. **[1]**


ii. What are the potential effects on employee turnover if the minimum salary is set too low? Mention **TWO** points. **[2]**


- c) An entity received government grant of Nu. 600,000 on 1<sup>st</sup> July, 2022 to cover up expenses on environmental cleaning that will happen for the year 2022 – 2025. The total cost of the project was estimated at Nu. 1,000,000. The entity spent Nu. 100,000 in the year 2022. **[2]**

Pass the journal entry to record the above grant.


- d) In what ways does the concept of prudence apply to the treatment of contingent assets? **[1]**


- e) A company made a provision for legal claim last year. This year, new evidence suggests that the claim is less likely to succeed. How will this impact the company's statement of financial position for this year? **[1]**


## WORKING NOTES