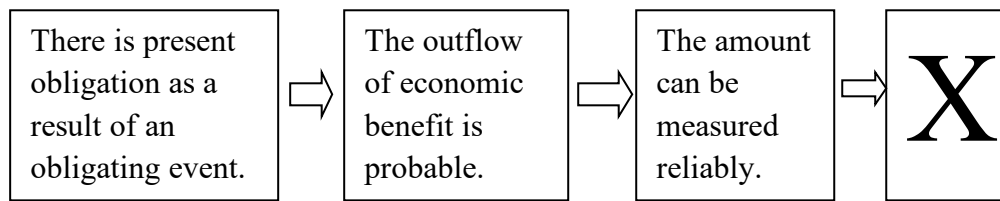


**SECTION A (50 MARKS)**  
**ANSWER ALL QUESTIONS**

**Question 1**

- 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. [20]
- i. Rigpa Pvt. Ltd. declared a profit after tax of Nu. 6 million. The Tax Authority determined non-deductible expense of Nu. 1.1 million. Calculate the amount of tax payable as per the Tax Authority.
- A Nu. 330,0000
  - B Nu. 1,470,000
  - C Nu. 1,800,000
  - D Nu. 2,130,000
- ii. A business acquired a trademark for Nu. 200,000. The trademark is expected to have an indefinite life. What is the correct treatment of trademark as per BAS 38?
- A Amortize the trademark over 20 years.
  - B Capitalize the trademark and test it annually for impairment.
  - C Expense the trademark immediately in the year of acquisition.
  - D Capitalize the trademark and amortize it over its estimated useful life.
- iii. On 1<sup>st</sup> January 2018, Property, Plant and Equipment (PP&E) had a revaluation surplus of Nu. 15,000. On 31<sup>st</sup> December 2019, this PP&E experienced a revaluation loss of Nu. 11,000 at the time of its transfer from PP&E to Investment Property. This revaluation loss is recognized as per BAS 16 in
- A income statement.
  - B statement of changes in equity.
  - C statement of financial position.
  - D notes to the financial statements.
- iv. Intangible assets acquired in business combination are initially measured at
- A cost.
  - B cost less accumulated amortization.
  - C fair value at the date of acquisition.
  - D fair value or nominal value plus direct attributable expenditure.
- v. To be relevant, financial information must have
- A neutrality.
  - B comparability.
  - C freedom from error.
  - D confirmatory or predictive value.

vi. Examine the flow chart given below and choose the correct option for letter 'X'.



- A Disclose provision.
  - B Recognize provision.
  - C Disclose as contingent liability.
  - D Recognize as contingent liability.
- vii. When a company issues bonds at a price lower than the face value, the interest expense for the company will
- A increase.
  - B decrease.
  - C remain same.
  - D fluctuate unpredictably.
- viii. If the net realizable value of an inventory is lower than its cost, then the inventory is valued at
- A cost price.
  - B net realizable value.
  - C cost price less net realizable value.
  - D cost price plus net realizable value.
- ix. Sangay, one of the partners provided the following information about himself:

Particulars	Amount in Millions
Closing Capital	Nu. 2.3
Interest on Capital	Nu. 0.23
Salary Received	Nu. 0.24
Interest on Drawings	Nu. 0.06

- From the above information, the opening capital balance of Sangay is
- A Nu. 1,770,000.
  - B Nu. 1,890,000.
  - C Nu. 2,710,000.
  - D Nu. 2,830,000.
- x. Which data of financial statement is used to calculate the capital gearing ratio?
- A Income statement
  - B Cash flow statement
  - C Statement of changes in equity
  - D Statement of financial position

- xi. The company received an advance of Nu. 500,000 for the delivery of cosmetics items from its customers at the beginning of the year. The company treated this advance as revenue. At the end of the year, the actual revenue of the company was only Nu. 200,000. Identify the correct adjusting entry from the following:
- A Debit Sales Revenue Account Nu. 300,000 and Credit Deferred Revenue Account Nu. 300,000
  - B Debit Deferred Revenue Account Nu. 200,000 and Credit Sales Revenue Account Nu. 200,000
  - C Debit Deferred Revenue Account Nu. 300,000 and Credit Sales Revenue Account Nu. 300,000
  - D Debit Sales Revenue Account Nu. 200,000 and Credit Deferred Revenue Account Nu. 200,000
- xii. A brick manufacturing entity wants to plan its production budget. They want to sell 25,000 and 40,000 bricks in the month of October and November respectively. The opening inventory of bricks for the month of October is 6,000. How many bricks should be produced in the month of October assuming ending inventory of bricks in the month of October to be 10% of November's sales?
- A 21,500 bricks
  - B 23,000 bricks
  - C 59,000 bricks
  - D 71,000 bricks
- xiii. Suppose your business computed tax of Nu. 2 million and actual assessed tax is Nu. 1.8 million. Assuming the difference is temporary in nature, how would you treat this in the books of account?
- A Recognize income tax expense of Nu. 2 million.
  - B Recognize deferred tax expense of Nu. 2 million.
  - C Recognize income tax expense of Nu. 1.8 million.
  - D Recognize deferred tax expense of Nu. 1.8 million.
- xiv. DHI has rented out Building 'A' to its subsidiary, Bhutan Power Corporation. In the consolidated financial statements, Building 'A' will be recognized as
- A financial lease.
  - B operating lease.
  - C investment property.
  - D owner-occupied property.
- xv. Which of the following item is **NOT** included in compensation paid to employees?
- A Wages and salaries.
  - B Vehicle and fuel allowance.
  - C Medical and health insurance allowance.
  - D Employee's contribution to pension scheme.

- xvi. An entity received a government grant of Nu. 300,000 intended for the period 2021-2023, with total estimated expenses of Nu. 800,000 for the same period. In 2021, the actual expense incurred was Nu. 150,000. How should the entity recognize this grant in the financial statements for the year ending 2021?
- A Recognize Nu. 56,250 as revenue.
  - B Recognize Nu. 300,000 as revenue.
  - C Recognize Nu. 56,250 as deferred revenue.
  - D Recognize Nu. 300,000 as deferred revenue.
- xvii. ABC Ltd. created provision of Nu. 200,000 instead of Nu. 150,000. How will this impact the financial statement of ABC Ltd?
- A Both Equity and Liability will be overstated by Nu. 50,000.
  - B Both Equity and Liability will be understated by Nu. 50,000.
  - C Equity will be overstated by Nu. 50,000 and Liability will be understated by Nu. 50,000.
  - D Equity will be understated by Nu. 50,000 and Liability will be overstated by Nu. 50,000.
- xviii. Jigme and Sonam started a partnership firm contributing capital of Nu. 2 million and Nu. 1 million respectively. What will be the best option to calculate interest on capital in the absence of partnership agreement?
- A Interest on capital should be disallowed.
  - B Interest on capital should be calculated at the ratio of 2:1.
  - C Interest on capital should be calculated at the ratio of 1:1.
  - D Interest on capital should be calculated at the discretion of partners.
- xix. During the 10<sup>th</sup> Annual General Meeting of Druk PNB Bank Ltd. (DPNB), the shareholders decided to issue bonus share of One for every Five shares held. The total share capital of DPNB is 10 million. How will the total share capital of DPNB be affected after the issue of bonus shares?
- A It will increase by 2 million shares.
  - B It will decrease by 2 million shares.
  - C It will increase by 12 million shares.
  - D It will decrease by 12 million shares.
- xx. Sherza Venture operates several outlets in Thimphu, using software that automatically updates prices and tracks inventory levels in real-time. What type of inventory management system is Sherza Venture using?
- A FIFO method of inventory
  - B Weighted average method of inventory
  - C Periodic inventory management system
  - D Perpetual inventory management system

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

i.	The _____ ratio measures how fast a company can sell its inventory.	
ii.	A trading company issued loans worth Nu. 2 million to one of the entities. In the cash flow statement of the trading company, it should be categorized under _____ activities.	
iii.	The technical advice provided by government to private entrepreneurs are considered as Government _____.	
iv.	Deferred tax is the result of _____ differences in the carrying amount and tax base of the asset and liability.	
v.	If the items are _____ in nature, then an entity should present it separately in its financial statements.	

**c) Match each item under column A with the most appropriate item in column B. Write the correct letter in the space provided under the 'Answer' column. [5]**

Answer	Column A	Column B	
i.	i. The company has an investment property that has been revalued upwards, creating a revaluation surplus. This surplus must be reported in the financial statements to reflect the updated fair value.	a) Activity ratio	
ii.	ii. The cost associated with borrowed funds must be categorized and reported in a specific section of the financial statements.	b) Factory overhead budget	
iii.	iii. The company declares a dividend to its shareholders and must be reported in a specific section of the financial statements.	c) Income statement	
iv.	iv. The company prepares a forecast of all anticipated costs related to the production process.	d) Statement of changes in equity	
v.	v. The company evaluates how effectively it is utilizing its assets to generate sales.	e) Direct labour budget	
		f) Finance cost	
		g) Capital gearing ratio	

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

i.	All accrued short term employee remunerations are recognized as current liabilities in the statement of financial position. ( )	
ii.	Provision can be created for future operating losses. ( )	
iii.	Cash budget is the starting point of all other budgets. ( )	
iv.	Interest on capital increases the equity of partners. ( )	
v.	All non-current assets must be depreciated. ( )	

b) Answer the following questions briefly.

i. The Return on Capital Employed (ROCE) of an entity 'A' is 50% lower than the industry average. Suggest TWO ways to improve ROCE of the entity. [2]


ii. ABC Company is planning to change the presentation and classification of items in the financial statements from the next succeeding financial year. Is it allowed? Justify with TWO points. [2]


- iii. Assume that you have acquired license by the way of government grant, how will you measure the cost of such intangible asset? [2]


- iv. Tax is one of the internal sources of revenue for the government. Do you think government should depend on tax as a source of revenue? Justify with **TWO** points. [2]


- v. A company has rented out one of its buildings to another entity. Should this building be classified as Investment Property? Justify your answer. [2]


vi. Should a company avoid equity financing to maintain control over decision-making? Justify with **TWO** points. [2]


vii. A company anticipates future legal costs related to a potential lawsuit but has not yet incurred any costs. Create a policy for measuring this potential legal cost under IAS 37. [2]


viii. Pass necessary adjusting entry to record Accrued Expense of Nu. 400,000 [1]


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

**Question 2**

a) ABC Company uses straight-line depreciation for its financial statements but uses the diminishing balance method for tax purposes.

i. How does using different depreciation methods affect the accounting profit and tax profit? **[2]**


ii. Besides depreciation, list **TWO** other reasons that can cause differences between accounting profit and tax profit. **[1]**


b) Himalayan Sports Ltd. sells sporting equipment throughout Bhutan. Sonam is the Manager of Himalayan Sports. The company has asked Sonam to submit the estimates of sales revenue, costs, and budgeted profit for the coming year. The company has the practice of evaluating Managers by comparing budgeted profit with actual profit. The Manager who exceeds budgeted profit is given a bonus equal to 10% of actual profit in excess of budgeted profit.

iii. What will you do if you were Sonam? **[1]**


- iv. If you are the CEO of Himalayan Sports, how would you motivate Sonam to provide accurate estimates? State any **TWO** ways. [2]


- c) Study the statement of income given below and perform a trend analysis. You are required to fill up the difference and % change column. [3]

Particulars	2016	2015	Difference	% change
Revenue	1,498,000	1,200,000		
Other Incomes	850,000	610,000		
Raw material	191,000	147,000		
Power consumption	350,000	320,000		
Depreciation	70,000	67,000		
Employee expense	104,000	97,400		
Repairs	65,000	43,000		
Finance cost	88,000	95,000		
Other Expenses	23,000	17,000		
<b>Profit before tax</b>	<b>1,480,000</b>	<b>1,040,600</b>		
Less: Tax	444,000	312,180		
<b>Profit after tax</b>	<b>1,036,000</b>	<b>728,420</b>		

- d) Write down **ONE** similarity between Current Asset and Current Liability. [1]


**Question 3**

- a) At the end of 2020, Norphel Furniture House paid Mr. Karma a net salary of Nu. 876,000. Deductions included Nu. 61,320 for the provident fund and Nu. 45,600 for salary tax. The firm contributes 10% of the gross pay to the provident fund.

- i. Calculate the gross pay of Mr. Karma. [1]


- ii. What amount should be recognized as expense in its statement of income for the year 2020? [1]


- iii. Suggest any **TWO** ways to restructure the salary package to enhance employee performance. [1]


b) Bhutan Hyundai faces 200 legal claims filed by its customers. Each with a 30% likelihood of success with no cost and 70% likelihood of failure with a cost of Nu. 10,000 per claim. (The duration of outcome of the legal claim is one year).  
 Answer questions i, ii and iii with reference to the above text.

i. Calculate the amount of provision required and pass journal entry. [1]


ii. How will you present it in the financial statements? [1]


iii. Bhutan Hyundai expects an 80% chance of a refund from its supplier. What should Bhutan Hyundai do about the potential refund in its financial statement? [1]


c) A provision is recognized as a liability, yet they are different. Justify with **ONE** point. [1]


- d) Study the following information of Bhutan Cement Ltd. for the year 2019 and fill up Income Statement using Function of Expense Method. [3]

<b>Particulars</b>	<b>Amount in Millions (Nu.)</b>
Raw Materials Consumed	15
Repair and Maintenance of Warehouse	2.50
Office Salary Expense	8
Direct Wages Expense	9
Sales Revenue from Operation	189
Interest Expense	4
Property, Plant and Equipment (Factory)	598
Intangible Assets	3.54
Accrued Office Expense	0.17
Inventory (1st January, 2019)	22
Inventory (31 <sup>st</sup> Dec, 2019)	18
Warehouse Rent Expense	2.50

<b>Income Statement (Function of Expense Method)</b>	
	<b>Amount in Millions</b>
Sales Revenue	
CoGs	
<b>Gross Profit</b>	
Office and Administration Expense	
Selling and Distribution Expense	
Finance Cost	
<b>Net Profit</b>	

**Question 4**

a) Derecognition refers to the removal of assets or liability from an entity’s financial statements. In line with this statement, answer the questions i and ii:

i. When do you derecognize investment property? State any **TWO** instances. [1]


ii. Provide journal entry for the gain on disposal of investment property. [1]


b) Can the following intangible assets be capitalized in the financial statement of a company? Justify.

i. Trademark [1]


ii. Software development [1]


c) Bhutan Indigenous Hospital spent Nu. 3 million on a new pharmaceutical project up to 1<sup>st</sup> January 2018. On 1<sup>st</sup> March 2018, after promising results the board approved full funding leading to an additional Nu. 2 million spent by 1<sup>st</sup> April 2018. From 1<sup>st</sup> September to 30<sup>th</sup> November 2018, they spent another Nu. 2.5 million to complete the product, which was ready for use with an estimated useful life of ten years. The development criteria were met on 1<sup>st</sup> September 2018.

i. What amount should Bhutan Indigenous Hospital expense and capitalize in its financial statements? **[1]**


ii. Considering 31<sup>st</sup> December, 2018 as the end of financial year, calculate the amount of amortization and present it in the financial statements. **[1]**


d) Study the statement of financial position of entity A and B given below:

<b>Entity A's Financial Position</b>		
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Cash and Cash Equivalents	22,000,000	20,000,000
Accounts Receivable	14,000,000	10,000,000
Loans and Advances	32,000,000	35,000,000
Investment Property	40,000,000	38,000,000
Intangible Assets	47,000,000	45,000,000
<b>Total Assets</b>	<b>155,000,000</b>	<b>148,000,000</b>

<b>Entity B's Financial Position</b>		
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
<b>I. Non-Current Assets</b>		
Investment Property	42,000,000	39,000,000
Intangible Assets	48,000,000	46,000,000
Deferred Tax	200,000	180,000
<b>Total Non-Current Assets</b>	<b>90,200,000</b>	<b>85,180,000</b>
<b>II. Current Assets</b>		
Inventories	2,000,000	1,750,000
Accounts Receivable	3,000,000	2,800,000
Cash and Cash Equivalent	4,000,000	3,500,000
Pre-Payments	5,000,000	4,000,000
<b>Total Current Assets</b>	<b>14,000,000</b>	<b>12,050,000</b>
<b>Total Assets</b>	<b>104,200,000</b>	<b>97,230,000</b>

i. Identify the order of presentation of items for entity A and B.

[1]


- ii. Mention **ONE** reason why both the entities have presented two years' information in their statement of financial position? **[1]**


- iii. Why is statement of financial position prepared? State **TWO** reasons. **[2]**


**Question 5**

- a) DGPC issued 10 years bond worth Nu. 700 million at the coupon rate of 8% per annum on 1<sup>st</sup> July 2020. It was issued at 100% of face value Nu. 1,000. The coupon payment is paid annually. The financial year end is 31<sup>st</sup> December.

- i. Pass journal entry to record the issue and payment of interest for the year 2020. **[1]**


ii. Present it in the financial statements. [1]


iii. Bring out **ONE** similarity between bonds and redeemable preference shares (Liability). [1]


b) National Pension and Provident Fund (NPPF) has a building with undetermined future use. It was initially purchased at Nu. 3 million on 1<sup>st</sup> January 2017 and incurred legal fees and maintenance cost of Nu. 30,000 and Nu. 170,000 respectively. NPPF decided to depreciate the building @ 8% on the carrying amount. The financial year end is 31<sup>st</sup> December.

i. What is the carrying amount of the building at the end of 2019? [1]


- ii. On 1st January 2020, the management decided to change its measurement method from cost to fair value. The independent evaluator measured the fair value of the building at Nu. 2.5 million. Pass the required journal entry. (No journal is required for depreciation and accumulated depreciation) [1]


- iii. Later at the end of 2020, the fair value of the same building was determined at Nu. 1.98 million. The building was sold to RICBL for Nu. 2 million. Pass the required journal entry. [2]


- c) The following information is extracted from the books of Kichu Resort on 31<sup>st</sup> December 2018.

December, 2018	Particulars	Units (Kg)	Rate (Nu.)
1	Opening inventory	20,000	11
9	Purchase	27,000	15
18	Sale	30,000	20
24	Purchase	20,000	16
27	Sale	15,000	25

- i. Using FIFO method, calculate the value of cost of goods sold under a periodic system, given that the ending inventory based on physical count is Nu. 350,000. [2]


- ii. Calculate the gross profit. [1]


**Question 6**

a) Dawa Co. deals in buying and selling electrical appliances. In the month of November, they purchased heating appliances worth Nu. 2 million and by December, the accountant reported sales revenue of Nu. 3.4 million. Sales tax are excluded and all transactions are carried on cash.

i. Pass the required journal entry assuming sales tax of 20%. **[2]**


ii. Compute sales tax payable or receivable. **[1]**


b) Company 'A' has 100 million shares with the face value of Nu. 10 each. The management of the company makes an offer of 1 for 10 right issues to the existing shareholders at Nu. 15 each. Only 60% of the rights offered to the existing shareholders were subscribed. The remaining shares were offered to the public.

i. Calculate the number of right issues subscribed by the existing shareholders. **[1]**


- ii. Pass journal entry to record right issue. [1]


- iii. Present the equity section in the financial statement of Company 'A'. [1]


- c) Sonam, Penjor, and Ugyen are partners in a registered firm. Balances of their capital account as of 31<sup>st</sup> December 2018 are Nu. 250,000, Nu.150,000 and Nu.50,000 respectively. The partnership agreement provides: [3]
- i. Ugyen shall withdraw a salary of Nu. 10,000 per month.
  - ii. Interest on capital is allowed @ 10% p.a. and interest on drawings is charged @ 15% p.a.
  - iii. Sonam and Penjor withdrew Nu. 100,000 and Nu. 80,000 respectively on 1<sup>st</sup> July 2019.
  - iv. Penjor is entitled to a commission of 8% on the total sales of Nu. 500,000.
  - v. Sonam gets 50% of the net divisible profit and the remaining is shared equally between Penjor and Ugyen.

The net profit for the year ended 31<sup>st</sup> December, 2019 is Nu. 405,000.

Prepare profit and loss appropriation account.



- d) How is the profitability ratio different from the liquidity ratio? Mention any **ONE** difference. [1]

Profitability Ratio	Liquidity Ratio	

**Question 7**

- a) ABC Ltd. has the weighted average shares of 120,000. The following information is extracted from the financial statements of ABC Ltd. for the year 31<sup>st</sup> December 2020.

Profit before interest and tax	Nu. 528,934
Interest paid	Nu.6,578
Preference dividend	Nu.18,000
Income tax expense	Nu.125,860

- What is ABC Ltd.'s profit after tax and earnings per share for the year ended 31<sup>st</sup> December 2020? [2]


b) On 1<sup>st</sup> May 2020, an entity incurred Nu. 540,000 to purchase and install technology to control the pollution emitted by it. The government agreed to assist with 75% of the cost of the technology. The estimated useful life was 10 years and the entity decided to use the straight-line method for depreciation.

i. Using deferred revenue approach, how much of deferred income must be recognized as income for the year ending 31<sup>st</sup> December 2020? Pass the journal entry. **[1]**


ii. Show how this will be presented in the statement of income and financial position for the year ending 2020. **[1]**


iii. What is the impact on financial statement of an entity if it adopts deduction from assets approach instead of deferred revenue approach? **[1]**


- c) From the following information, prepare Cash from Operating Activity **ONLY** [3]  
using direct method.

**Income Statement**

Sales Revenue	500,000
Cost of Sales	(150,000)
<b>Gross Profit</b>	<b>350,000</b>
Distribution Costs	(110,000)
Depreciation Expense	(5,000)
<b>Profit before Tax</b>	<b>235,000</b>
Income Tax Expense	(70,500)
<b>Profit after Tax</b>	<b>164,500</b>

**Statement of Financial Position**

Assets	2020	2019
<b><u>Non-Current Assets</u></b>		
Tangible Asset (Cost)	600,000	100,000
Accumulated Depreciation	<u>(10,000)</u>	<u>(5,000)</u>
Intangible Asset	100,000	607,000
<b><u>Current Assets</u></b>		
Accounts Receivables	15,000	30,000
Inventory	20,000	10,000
Cash in Hand	50,000	33,000
<b>Total Assets</b>	<b>775,000</b>	<b>775,000</b>

**Equity and Liabilities**

**Equity**

Share Capital	563,000	515,000
Retained Earnings	150,000	50,000

**Non-Current Liabilities**

Bank Loan	20,000	150,000
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**Current Liabilities**

Accounts Payable	32,000	48,000
Income Tax Payable	10,000	12,000

<b>Total Equity and Liabilities</b>	<b>775,000</b>	<b>775,000</b>
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Treat dividend / interest received and paid as an operating activity.



d) An entity has entered into a non-cancellable contract in 2019 for six years. After two years, the unavoidable costs of meeting the obligations exceeded the economic benefits expected. What do you think the entity should do? Justify. [2]
