

SECTION A
Answer **all** questions

Question I

For each question, there are **FOUR** responses: **A, B, C** and **D**. Choose the corresponding letter of your response and **CIRCLE** it. If you change your answer, cross out the previous response clearly and circle your new answer. **NO** score will be awarded if you circle more than **ONE** letter.

[10]

1. Which procedure ensures the integrity of data in a computerised accounting system?

- A changing the desktop wallpaper monthly
- B installing a faster computer processor
- C performing regular off-site data backups
- D printing ledger accounts at the end of each day

2. Which statements correctly describe the features of bonus issues and rights issues?

- 1 Both bonus and rights issues increase the company's cash balance.
- 2 A bonus issue involves the capitalisation of reserves, such as share premium.
- 3 A rights issue is usually offered to existing shareholders at a price below the market value.
- 4 Both issues increase the total number of shares in issue.

- A 1 and 2
- B 1, 2 and 3
- C 2 and 4
- D 2, 3 and 4

3. Which statements describe characteristics of debentures?

- 1 They represent a long-term liability for the company.
- 2 Interest must be paid even if the company makes a loss.
- 3 Debenture holders have voting rights at the Annual General Meeting.
- 4 In the event of liquidation, debenture holders are repaid before ordinary shareholders.

- A 1, 2 and 3
- B 1, 2 and 4
- C 1, 3 and 4
- D 2, 3 and 4

4. In the statement of profit or loss, carriage inwards of Nu 4,000 was treated as carriage outwards. Additionally, closing inventory was undervalued by Nu 1,500.

What is the effect of these errors on the profit?

- A gross profit overstated by Nu 2,500 and profit understated by Nu 1,500
- B gross profit understated by Nu 5,500 and profit understated by Nu 1,500
- C gross profit overstated by Nu 2,500 and profit overstated by Nu 5,500
- D gross profit understated by Nu 5,500 and profit understated by Nu 5,500

5. A company reports a draft profit for the year of Nu 125,000. Two errors are later discovered.

- 1 Revenue was undervalued by Nu 6,000.
- 2 A repair to a delivery van costing Nu 2,500 was capitalised.

What is the corrected profit for the year?

- A Nu 116,500
- B Nu 121,500
- C Nu 128,500
- D Nu 133,500

6. X and Y are partners sharing profits 3: 2. X provided a loan of Nu 50,000 to the firm on 1 July. The partnership agreement is silent on loan interest.

For the financial year ended 31 December, the following data is available:

- 1 profit for the year before loan interest Nu 85,000
- 2 salary for Y Nu 10,000
- 3 interest on drawings: X Nu 2,000 and Y Nu 1,000

What is X's total credit to his current account for the year?

- A Nu 43,350
- B Nu 44,250
- C Nu 45,450
- D Nu 46,050

7. A company has 1,000,000 shares (Nu 0.50 par) and a share premium account of Nu 200,000. It makes a rights issue of 1 for 5 at Nu 0.80. It then makes a bonus issue of 1 for 10 on the total shares after the rights issue.

What is the final balance of the share premium account?

- A Nu 200,000
- B Nu 235,000
- C Nu 260,000
- D Nu 300,000

8. A machine was purchased for Nu 30,000 on 1 January 2024. It is depreciated at 20% per annum using the reducing balance method. No depreciation is charged in the year of disposal. The machine was sold on 1 July 2025 for Nu 21,000.

What was the profit or loss on the disposal of the machine?

- A Nu 3,000 loss
- B Nu 3,000 profit
- C Nu 3,400 loss
- D Nu 3,400 profit

9. A business identifies two errors:
- 1 The purchase of a new machine costing Nu 5,000 was debited to the repairs account.
 - 2 Closing inventory was overstated by Nu 1,000.

What is the combined effect of these errors on the profit for the year?

- A overstated by Nu 4,000
B overstated by Nu 6,000
C understated by Nu 4,000
D understated by Nu 6,000
10. A business's suspense account appears as follows:

Particulars	Nu	Particulars	Nu
Rent Received	400	Balance b/d	500
Purchases	250	Insurance	150
	650		650

Which statements are correct?

- 1 The rent received account had been undercast by Nu 400.
 - 2 The purchases account had been overcast by Nu 250.
 - 3 Total debits were Nu 500 more than total credits in the trial balance.
- A 1 and 2
B 1, 2 and 3
C 2 and 3
D 3 only

SECTION B

Answer **all** questions

Question II

1. Pema and Sangay are partners and do not have a partnership agreement. Pema contributes 70% of the initial capital, while Sangay manages the daily operations.
- a. State **three** advantages that Pema and Sangay gain by functioning as a partnership instead of sole traders. [3]

- b. Explain **one** way in which the absence of a partnership agreement might lead to conflict between Pema and Sangay. [3]

2. The following balances were extracted from the books of Pema and Sangay on 31 December 2025:

Particulars	Debit (Nu)	Credit (Nu)
Sales revenue		210,500
Return inwards	1,450	
Inventory (1/1/2026)	12,300	
Purchases	135,000	
Office equipment (carrying value 1/1/2026)	35,000	
Trades receivables	8,400	
Provision for irrecoverable debts		200
General expenses	9,600	
Electricity & water	2,100	
Store rent	18,000	
Salaries	16,000	

Additional information:

- 1 Closing inventory is valued at Nu 14,200.
- 2 Equipment adjustments:
 - a. New equipment costing Nu 6,000 was bought during mid-year.
 - b. Old equipment with a carrying value of Nu 1,200 was sold for Nu 900.
 - c. The total carrying value of equipment on 31 December 2025 is determined to be Nu 36,500.
- 3 Accruals & Prepayments:
 - a. General expenses: Nu 600 was accrued at the beginning of the year; Nu 450 was prepaid at the end of the year.
 - b. Electricity: Nu 200 was prepaid at the start of the year (1/1/2026).
 - c. Salaries of Nu 500 was accrued at the beginning of the year.
- 4 Provide provision for irrecoverable debts at 4% of trade receivables.

Prepare the income statement (profit or loss) for the year ended 31 December 2025 for Pema Traders.

[14]

[illegible]

Workings:	
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Additional information:

Peam and Sangay are preparing their bank reconciliation for the month ended 30 April 2026. Their cash book shows a bank balance of Nu 18,500.

- 1 Upon investigation, Pema and Sangay discover the following:
- 2 Bank interest received of Nu 450 was credited to the account but not yet recorded in the cash book.
- 3 A standing order for factory insurance of Nu 1 200 was paid by the bank but omitted from the cash book.
- 4 A customer's cheque for Nu 800 was returned by the bank marked "Refer to drawer" (dishonoured). Partners has not yet adjusted their records for this.
3. Identify **three** causes of differences between a cash book balance and a bank statement balance, **other than those mentioned in the information above.**

[3]

4. Calculate the updated bank balance for Thimphu Crafts at 30 April 2026.

[3]

Additional Information:

Pema and Sangay's accountant suggest that because the business is small, there is no need to spend time preparing a formal bank reconciliation statement at the end of each month.

5. Explain **two** benefits to Pema and Sangay of preparing a monthly bank reconciliation statement.

[4]

Question III

Thimphu Manufacturing Solutions (TMS) is a textile company that purchased a weaving machine on 1 January 2022. The machine cost Nu 8,000,000. In addition, Nu 500,000 was paid for shipping and insurance, and Nu 300,000 for installation and calibration. The machine is expected to last 8 years with a scrap value of Nu 1,000,000.

1. Identify **two** items of TMS that should be classified as revenue expenditure of the weaving machine.

[2]

2. Calculate the difference in the carrying amount (net book value) of the machine on 31 December 2023 if TMS uses the straight-line method compared to the reducing balance method at 25%.

[4]

Additional Information:

At the end of the current financial year, TMS is facing falling profits. The Production Manager has formally suggested switching to the reducing balance method of depreciation. However, the CFO is concerned about meeting bank loan conditions (covenants) which require the company to maintain a certain level of reported operating profit. To ensure these conditions are met, the CFO is considering not charging any depreciation for the current year.

3. Explain **two** effects on TMS of the CFO's suggestion not to charge depreciation for the current year.

[4]

4. Evaluate whether TMS should switch from the straight-line method to the reducing balance method of depreciation for existing non-current assets.

[5]

Question IV

The directors of Bumthang Brewery Ltd (BBL) are planning to expand into the export market and are considering different ways to finance this expansion.

1. State **two** differences between rights issues and bonus issues.

[2]

Additional Information:

The following information is available for BBL at 31 December 2025:

- 1 Ordinary share capital (Nu 10 each): Nu 2,000,000
- 2 Retained earnings: Nu 850,000
- 3 6% debentures (2030): Nu 400,000

The company needs to raise Nu 1,000,000 for the expansion. Two options are being considered:

Option 1: A rights issue of ordinary shares at Nu 12 per share.

Option 2: An issue of 10% debentures worth Nu 1,000,000.

2. Calculate the percentage change in gearing ratio for BBL if the directors choose to fund the expansion through the debenture Issue.

[4]

3. Explain **two** advantages of using retained earnings to finance the expansion. [4]

4. Evaluate whether BBL should choose the rights issue or the debenture issue to fund its expansion. [5]
