

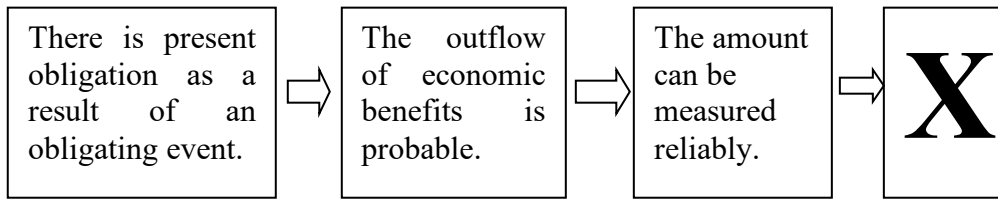
SECTION A (50 MARKS)
ANSWER ALL QUESTIONS

Marks

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. [25]
- i. Rigpa Pvt. Ltd. declared a profit 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. 330,000
B Nu. 1,470,000
C Nu. 1,800,000
Ⓓ 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.
Ⓓ 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 1st January 2018, Property, Plant and Equipment (PP&E) had a revaluation surplus of Nu. 15,000. On 31st 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.
Ⓓ 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.
Ⓒ 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.
Ⓓ confirmatory or predictive value.

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



- A Disclose provision
 Ⓐ **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
- Ⓐ **increase.**
 B decrease.
 C remain same.
 D fluctuate unpredictable.
- viii. If the net realizable value of an inventory is lower than its cost, then the inventory is valued at
- A cost price.
 Ⓐ **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.
 Ⓐ **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
 Ⓐ **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 recognised 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 for the period 2021-2023 with total estimated expense 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 statement 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 and 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 10th 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 Nu.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**
 - B It will decrease by 2 million
 - C It will increase by 12 million
 - D It will decrease by 12 million
- 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 **Inventory days/Inventory turnover** 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 trading companies, it should be categorized under **investing** activities.
- iii. The technical advice provided by government to private entrepreneurs are considered as Government **assistance**.
- iv. Deferred tax is the result of **temporary** differences in the carrying amount and tax base of the asset and liability.
- v. If the items are **material**, then an entity should present it separately in its financial statements.

c) Match the items of column A with the most appropriate items in column B. Write the correct letter in the space provided under the answer column. [5]

Answer	Column A	Column B
i. c	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. f	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. d	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. b	iv. The company prepares a forecast of all anticipated costs related to the production process.	d) Statement of changes in equity
v. a	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

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

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

e) Answer the following questions.

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

1. By reducing costs and increasing sales (Increase in profit margin).
2. Reduce high interest debt
3. Sell non-performing assets
4. Utilize assets properly
5. By investing in the project which has higher return than the cost of capital.
6. Any other relevant answers.

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]

Yes,

1. If there is change in the nature of the entity's business operations.
2. If there is a review of the financial statements and such a change would be more appropriate to provide more accurate information.
3. If an accounting standard requires a change in presentation.

No,

1. Since it will violate consistency principle
2. If an accounting standard does not require a change in presentation.

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

Criteria:

- **1 mark for fair value or nominal value**
- **1 mark for nominal value plus directly attributable cost**

The intangible assets acquired as a government grant may be initially measured at fair value or nominal value plus any directly attributable cost.

- 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]

Criteria – 2 marks for 2 points

Yes,

1. Steady income
2. Tax is the one of the major sources of revenue.
3. It reduces borrowings (debt)

No,

1. It is economic burden on people
2. Not appropriate when economy is down
3. There are tax evasions, leakages and avoidance by the business which if not addressed might lead to less revenue.

- 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]

Yes:

If it's leased out under operating lease to earn long term rentals or for capital appreciation. **(1 mark for operating lease and 1 mark for purpose)**

No:

If it's leased out under financial lease. **(2 mark for financial lease)**

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

Criteria: 1 mark each for mentioning TWO points.

Yes because:

1. Equity financing dilutes ownership, which can lead to loss of control over business decisions.
2. New shareholders may have different strategic goals, leading to conflicts.
3. Retaining full control allows for quicker decision-making without the need to consult external shareholders.

No because:

1. Equity financing brings in new investors who can offer valuable expertise and resources that can enhance decision making.

2. Bringing in new shareholders distributes risk, potentially leading to more balanced and less risky decision-making processes.
 3. External shareholders can provide fresh perspectives, potentially leading to better decision-making.
 4. Equity financing provides necessary capital for growth without the burden of debt, which could ultimately lead to better decision-making due to increased resources.
- 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]

Criteria:

- **2 mark for correct answer**

Best Estimate: (Any one)

→ Estimate the costs associated with the legal proceedings using the best available information. This should include legal fees, court costs, and any other anticipated expenses.

OR

→ Measure the provision at the best estimate of the expenditure required to settle the present obligation. If a range of outcomes is possible, use the expected value or the most likely outcome, depending on which provides a more reliable estimate.

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

Expense A/c Dr. 400,000
To Accrued Expense/outstanding Expense/Due A/c 400,000

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]

Answer:

In the early years, accounting profit will be higher because of uniform deduction **OR** depreciation expenses are consistent each year and accounting profit reflects a steady reduction in profit over time. **(1 mark)**

In the early years, tax profit will be less due to higher deductions **OR** depreciation expense are higher initially and creates a lower tax profit **(1 mark)**

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

Reasons: (Any 2 reason for ½ mark each)

Provision for Bad debts
Inventory obsolescence
Revenue recognition
Accrued Expenses
Capital Expenditures
Fines and penalties
Fully depreciated assets
Research and development expenses.

- 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.

- i. What will you do if you were Sonam.

Criteria: 1 mark for correct answer

[1]

If I were Sonam, I will provide correct estimates of sales revenue, costs and profit for the benefits of the company. (Any other relevant answers.)

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

As a CEO,

1. I will provide bonus not only in achieving the estimated profit but also for providing the accurate estimates.
 2. I will make Sonam the owner of the company by providing share options whereby he will work for the interest of the company.
 3. Any other relevant points.
- 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]

	2016	2015	Amount	%	Marks
Revenue	1,498,000	1,200,000	298,000	24.83	1/4
Other Incomes	850,000	610,000	240,000	39.34	1/4
Raw material	191,000	147,000	44,000	29.93	1/4
Power consumption	350,000	320,000	30,000	9.38	1/4
Depreciation	70,000	67,000	3,000	4.48	1/4
Employee benefits expense	104,000	97,400	6,600	6.78	1/4
Repair and Maintenance	65,000	43,000	22,000	51.16	1/4
Finance cost	88,000	95,000	-7,000	-7.37	1/4
Other Expenses	23,000	17,000	6,000	35.29	1/4
Profit before tax	1,480,000	1,040,600	439,400	42.23	1/4
Less: Tax	444000	312180	131,820	42.23	1/4
Profit after tax	1,036,000	728,420	307,580	42.23	1/4

- d) Write down **ONE** similarity between current asset and current liability. [1]

Criteria: 1 mark for any ONE correct similarity
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1. Both are short term in nature
2. Both are listed in the order of liquidity or maturity
3. Both have direct impact on a company's liquidity position.

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]

Criteria:

- No mark for direct answers.

Calculation of Gross Pay

Total Salary:	Nu. 876,000
Add: Provident Fund:	Nu. 61,320
Salary Tax:	Nu. 45,600
GROSS PAY:	Nu. 982,920. (1 mark)

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

[1]

Criteria:

- No mark for direct answers.

Employer's contribution = 10% of 982,920 = Nu. 98,292

Total amount to be expensed = Gross pay + employer's contribution

= Nu. 982,920 + Nu. 98,292

= **Nu. 1,081,212. (1 mark)**

iii. Suggest any **TWO** ways to restructure the salary package to enhance employee performance.

[1]

Criteria: 1 mark for any TWO correct answers.

1. Provide commission for any extra production.
2. Provide share options to efficient employees.
3. Provide bonus for producing extra production
4. Any other relevant answers.

- 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). [1]

Answer questions i, ii and iii with reference to the above text.

- i. Calculate the amount of provision required and pass journal entry.

Criteria:

- 0.5 mark for calculation of provision
- 0.5 mark for correct entry

Calculation of Provision

$$70\% \times 10,000 \times 200 = 1,400,000. \text{ (0.5 marks)}$$

Entry

Legal Expenses A/c Dr. 1,400,000

To Provision for Legal expenses A/c 1,400,000. (0.5 marks)

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

Criteria: 0.5 mark each point (No marks if the student mentions liabilities only)

Legal expenses will be recognized in income statement. (0.5 marks)

Provision will be recognized as current liabilities in statement of financial position. (0.5 marks)

- 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]

Bhutan Hyundai must disclose to a note as **contingent asset**.

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

Provision is created when there is uncertain timing and amount. (0.5 marks)

Liability is recognised when the timing and amount is certain. (0.5 marks)

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

Particulars	Amount in Million (Nu.)	[3]
Raw materials consumed	15	
Repair and Maintenance of warehouse	2.50	
Office Salary Expense	8	
Direct Wages Expenses	9	
Sales Revenue from operation	189	
Interest Expenses	4	
Property, Plant and Equipment (Factory)	598	
Intangible assets	3.54	
Accrued office expense	0.17	
Inventory (1st January, 2019)	22	
Inventory (31 st Dec, 2019)	18	
Warehouse Rent Expenses	2.50	

	Amount in Millions	Marks
Sales Revenue	189.00	
CoGs	(28.00)	0.5 marks
Gross Profit	161	0.5 marks
Office and Adm Expense	(8.00)	0.5 marks
Selling and Dist. Expense	(5.00)	0.5 marks
Finance Cost	(4.00)	0.5 marks
Net Profit	144	0.5 marks

Working Notes:

- Cost of goods sold** = Opening Inventory + Raw materials consumed + Direct wages – Closing Inventory
= 22 + 15 + 9 – 18 = 28 million
- Office and Adm. Expense** = Office salary = 8 million
- Selling and Distribution Expense** = Repairs and maintenance of warehouse + warehouse rent expense = 2.5 + 2.5 = 5 million
- Finance cost** = Interest expense = 4 million

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]

Criteria: ½ mark for one-point each.

1. When investment property is permanently withdrawn from use.
 2. When no future economic benefits are expected from investment property.
 3. When it is disposed off.
- ii. Provide journal entry for the gain on disposal of investment property. [1]

Bank/Cash A/c Dr.
 To Gain on disposal / IS A/c
 To Investment Property A/c

- b) Can the following intangible assets be capitalized in the financial statement of a Company? Justify. [1]
- i. Trademark

Criteria:
- **1 mark each for mentioning reasons.**
- **No marks for YES and NO.**

Yes, if it is purchased separately because cost can be measured reliably.

No, if it is internally generated because cost cannot be measured reliably.

- ii. Software development [1]

Criteria:
- **1 mark each for mentioning reasons.**
- **No marks for YES and NO.**

Yes, if fulfills the development criteria

No, if it does not fulfill the development criteria.

- c) Bhutan Indigenous Hospital spent Nu. 3 million on a new pharmaceutical project up to 1st January 2018. On 1st March 2018, after promising results, the board approved full funding, leading to an additional Nu. 2 million spent by 1st April 2018. From 1st September to 30th 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 1st September 2018. [1]

- i. What amount should Bhutan Indigenous Hospital expense and capitalize in its financial statements?

Criteria: 0.5 mark for correct expense and capitalization amount

Amount to be expensed = Nu. 5 million (3m+2m). (0.5 marks)

Amount to be capitalized = Nu. 2.5 million. (0.5 marks)

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

Criteria: 0.5 mark each for amortization amount and presentation

Amortisation = Nu. 2.5 million/10 years * 1/12 = Nu. 20,833.33 (0.5 marks)

Income statement (2018)

Amortisation 20,833.33. (0.5 marks)

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

ENTITY A's Financial Position ENTITY B's Financial Position

	2020	2019
Assets		
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
Total Assets	155,000,000	148,000,000

	2020	2019
Assets		
I. Non-Current Assets		
Investment Property	42,000,000	39,000,000
Intangible Assets	48,000,000	46,000,000
Deferred Tax	200,000	180,000
Total Non-Current Assets	90,200,000	85,180,000
II. Current Assets		
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
Total Current Assets	14,000,000	12,050,000
Total Assets	104,200,000	97,230,000

- i. Identify the order of presentation of items for entity A and B. [1]

Criteria: 0.5 mark each correct answer

Entity A = In the order of Liquidity. (0.5 marks)

Entity B = In the order of Permanence or long term/ assets method. (0.5 marks)

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

Criteria: 1 mark to ONE correct answer

To compare the information and make informed/necessary decision.

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

Criteria: 2 marks for any TWO correct reasons

1. To present the true information of the assets, liabilities and equity.
2. To reveal the financial position of the company.
3. To enable investors to make informed decision
4. To assess liquidity and solvency of the company.
5. To comply with regulation.

Question 5

- a) DGPC issued 10 years bond worth Nu. 700 million at the coupon rate of 8% per annum on 1st July 2020. It was issued at 100% of face value Nu. 1,000. The coupon payment is paid annually. The financial year end is 31st December. [1]
- i. Pass journal entry to record the issue and payment of interest for the year 2020.

Criteria:
- 1 mark for any of two correct entries

1st July, 2020

Bank A/c Dr. 700m
 To 8% bonds Payable A/c 700m

OR

31st December, 2020

Bond Interest Payable A/c Dr. 28m
 To Bank A/c 28m

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

Criteria: 0.5 mark each for correct income statement and statement of financial position.

Statement of Income (2020)

Finance cost Nu. 28m. (0.5 marks)

Statement of financial position (2020)

Non-current Liabilities

8% Bonds Nu. 700m. (0.5 marks)

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

Criteria: 1 mark for any ONE correct point.

1. Both are presented under non-current liabilities.
 2. Both have fixed term of maturity.
 3. The returns for both are known as finance cost.
 4. Any other relevant answers.
- b) National Pension and Provident Fund (NPPF) has building with undetermined future use. It was initially purchased at Nu. 3 million on 1st January 2017 and incurred legal fees and maintenance costs 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 31st December.
- i. What is the carrying amount of the building at the end of 2019? [1]

Year	Cost	Depreciation Rate	Depreciation	Carrying Amount
2017	3,200,000	8%	256,000	2,944,000
2018	2,944,000	8%	235,520	2,708,480
2019	2,708,480	8%	216,678	2,491,802 [1]

Criteria:

- Answer without schedule can be accepted but with proper steps.
- No marks for writing only final answers.

(OR)

$$A = P (1 - i)^n = 3,200,000 \times (1 - 0.08)^3 = 2,491,802 \text{ (round off figure)}$$

- 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]

Criteria:
 - 1 mark for each correct entry

Investment Property A/c Dr. 8,198
 To Income Statement 8,198
 (Being revaluation surplus recognized)

- 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]

Criteria:
 - 1 mark for correct revaluation loss entry.
 - 1 mark for correct disposal entry
 - No mark will be awarded if either accounts or amount is wrong.

31/12/2020

Income Statement Dr. 0.52 million
 To Investment Property A/c 0.52 million

Bank a/c Dr. 2 million
 To Investment Property A/c 1.98 million
 To Gain on Disposal A/c. 0.02 million

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

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

[2]

- 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.

Cost of goods sold = Opening Inventory + Purchases – Closing Inventory
(1 mark)

$$\begin{aligned}
 &= 220,000 + (27,000 \times 15) + (20,000 \times 16) - 350,000 \\
 &= 220,000 + 405,000 + 320,000 - 350,000 \\
 &= \text{Nu. } 595,000. \text{ (1 mark)}
 \end{aligned}$$

Marks will be awarded only if student uses periodic method formula.

- ii. Calculate the Gross Profit.

[1]

$$\begin{aligned}
 \text{Sales Revenue} &= (30,000 \times 20) + (15,000 \times 25) = 975,000 \\
 \text{Gross Profit} &= \text{SR} - \text{CoGS} \\
 &= 975,000 - 595,000 = \text{Nu. } 380,000. \text{ (1 mark)}
 \end{aligned}$$

Question 6

- a) Dawa Co. deals with 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]

Criteria

- No marks will be awarded if either account names or amounts are wrong.

Entry for Purchases (November) [1 mark]

Purchase A/c	Dr.	2 million	
Sales Tax A/c	Dr.	0.4 million	
To Cash/Bank A/c			2.4 million

Entry for sales (December) [1 mark]

Cash/Bank A/c	Dr.	4.08 million	
To Sales Tax A/c		0.68 million	
To Sales Revenue A/c		3.4 million	

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

Criteria

- **0.5 marks for 1.68 million**
- **0.5 marks for mentioning payable**
- **No marks will be awarded for direct answer.**

$$\begin{aligned}\text{Payable} &= \text{Output VAT} - \text{Input VAT} \\ &= 4.08 \text{ million} - 2.4 \text{ million} \\ &= \text{Nu. } 1.68 \text{ million (Payable)}\end{aligned}$$

- b) Company 'A' has 100 million shares of the face value Nu. 10. The management of the company makes an offer of 1 for 10 right issues to the existing shareholders at Nu. 15. 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]

Total no. of right issue: $1/10 \times 100$ million shares = 10 million shares
60% right issue subscribed = 60% of 10 million = **6 million.**

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

Criteria: 1 mark for correct entry.

Bank A/c Dr. Nu. 90 million
 To Share Capital A/c 60 million
 To Share Premium A/c 30 million

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

EQUITY

Share Capital (106 million shares x Nu. 10)
Nu. 1.06 billion OR 1,060 million. **(0.5 mark)**
Share Premium Nu. 30 million. **(0.5 mark)**

c) Sonam, Penjor, and Ugyen are partners in a registered firm. Balances of their capital account as of 31st December 2018 are Nu. 250,000, Nu.150,000 and Nu.50,000 respectively. The partnership agreement provides. **[3]**

1. Ugyen shall withdraw a salary of Nu. 10,000 per month.
2. Interest on capital is allowed @ 10% p.a. and interest on drawings is charged @ 15% p.a.
3. Sonam and Penjor withdrew Nu. 100,000 and Nu. 80,000 respectively on 1st July 2019.
4. Penjor is entitled to a commission of 8% on the total sales of Nu. 500,000.
5. 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 31st December, 2019 is Nu. 405,000.

Prepare profit and loss appropriation account.

Criteria: ¼ for each correct amount (1/2 *6 = 3)
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Profit and Loss Appropriation account						
Particulars	Amount	Amount	Particulars	Amount	Amount	Marks
To salary (Ugyen)		120,000	By Net Profit		405,000	0.5 + 0.5
To interest on Capital			By Interest on Drawings			
Sonam	25,000		Sonam	7,500		
Penjor	15,000		Penjor	6,000	13,500	0.5
Ugyen	5,000	45,000				0.5
To commission (Penjor)		40,000				0.5
To Net Divisible Profit						
Sonam	106,750					
Penjor	53,375					
Ugyen	53,375	213,500				0.5
		418,500			418,500	

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

**Criteria: 1 mark for any ONE difference.
Difference on both side should be homogeneous in nature and should be correct.**

Profitability Ratio	Liquidity Ratio
It measures the entity's ability to earn profits.	It measures the ability of the entity to meet its short-term financial obligations
Examples ROCE, ROE, ROS, Gross profit ratio	Examples Current ratio and acid test ratio
Important in long run	Important in short run
Mostly uses IS items	Mostly uses SOFP items

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 31st December 2020. [2]

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

What is ABC Ltd.'s profit after tax and earnings per share for the year ended 31st December 2020?

Criteria:
 - 1 mark for correct profit after tax
 - 1 mark for correct EPS

Calculation of profit after tax (1 mark)

Profit before interest and tax	528,934
Less: Interest	-6578
Less: Tax	-125,860
Profit After Tax	396,496

Calculation of EPS

$$\text{EPS} = \frac{\text{Profit after tax} - \text{Preference dividend}}{\text{Weighted average no. of equity shares}}$$

$$\text{EPS} = \frac{396,496 - 18,000}{120,000} = \text{Nu. 3.15. (1 mark)}$$

- b) On 1st 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 an entity decided to use the straight-line method for depreciation. [1]
- i. Using deferred revenue approach, how much of deferred income must be recognized as income for the year ending 31st December 2020? Pass the journal entry.

Criteria:

- **0.5 mark for calculation of deferred income as income**
- **0.5 mark for passing correct entry.**
- **No marks will be awarded if either account names or amounts are wrong.**

Deferred Income recognized as income = $405,000/10 \times 8/12 = 27,000$ **(0.5 marks)**

Entry

Deferred Income A/c	Dr.	
		27,000
	To Income from Government Grant A/c	27,000

(0.5 marks)

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

Criteria: 0.5 mark each for correct presentation in IS and SFP.

Income Statement (2020)

Other income

Government grant income	27,000 (0.5 marks)
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Statement of financial position

Equity and Liabilities

Non-Current Liabilities

Deferred Government Income	378,000 (0.5 marks)
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- iii. What is the impact on financial statement of an entity if it adopts deduction from assets approach instead of deferred revenue approach? [1]

There is no difference/impact.

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

Income Statement

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

Statement of Financial Position

Assets	2020	2019
<u>Non-Current Assets</u>		
Tangible Asset (Cost)	600,000	100,000
Accumulated Depreciation	(10,000)	(5,000)
Intangible Asset	100,000	607,000
<u>Current Assets</u>		
Accounts Receivables	15,000	30,000
Inventory	20,000	10,000
Cash in Hand	50,000	33,000
Total Assets	775,000	775,000
Equity and Liabilities		
<u>Equity</u>		
Share Capital	563,000	515,000
Retained Earnings	150,000	50,000
<u>Non-Current Liabilities</u>		
Bank Loan	20,000	150,000
<u>Current Liabilities</u>		
Accounts Payable	32,000	48,000
Income Tax Payable	10,000	12,000
Total Equity and Liabilities	775,000	775,000

Treat dividend / interest received and paid as an operating activity.

Cash Flow from operating activities

Cash received from customers	515,000	0.5 marks
Cash paid to suppliers	(176,000)	0.5 marks
Cash paid for operating expenses	(110,000)	0.5 marks
Dividend paid	(64,500)	0.5 marks
Tax paid	(72,500)	0.5 marks
Net Cash Flow From Operating Activities	92,000	0.5 marks

Working Notes:

Cash Received from customers = Sales Revenue + Decrease in Accounts Receivable = 500,000 + 15,000 = 515,000

Cash Paid to Suppliers = Cost of Goods Sold + Increase in Inventory + Decrease in Accounts Payable = 150,000 + 10,000 + 16,000 = 176,000

Cash paid for Operating Expense = 110,000

Dividend Paid = Op. Retained Earning + Profit after Tax – Cl. Retained Earning
= 50,000 + 164,500 – 150,000 = 64,500

Tax Paid = Income Tax Expense + Decrease in Income Tax Payable
= 70,500 + 2,000 = 72,500

- 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]

Criteria:

- 1 mark for mentioning onerous contracts
- 1 mark for giving right treatment.

The entity has entered into an onerous contract (1 mark)

The entity should recognize provision. (1 mark)

OR

The provision should be recognised for the lower of the cost to fulfil the contract and any compensation or penalties arising from the failure to fulfil it.