

SECTION A (50 MARKS)
ANSWER ALL QUESTIONS

Marks

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

Reason: $850,000 \times 20\% = 170,000$

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

- A Patent
- B Copyright
- C **Goodwill**
- D Trade mark

Reason: Goodwill arises when a company acquires another company for more than the fair value of its identifiable net assets. It does not represent a separately identifiable asset that can be sold or licensed. Further Goodwill is covered separately under IFRS 3.

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 **ONE** of the following amounts 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**

Reason: According to IAS 40, investment properties are carried at fair value and the book value of the investment property is adjusted to its fair value at each reporting date. In this case the reporting date is 31/12/2021 (Nu. 5.9 million)

iv. Under which **ONE** of the following conditions would the residual value of 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.

Reason: The residual value of an asset is the amount expected to be received from the asset at the end of its useful life, after deducting any costs associated with disposal. Option A is correct since residual value cannot be determined due to non-existence of active market or any commitments from the third party.

v. Red Chilli Ezzay, a manufacturer of homemade dried chilli and dried fish pickle is preparing annual financial statements as at December 31, 2021. Because of recently proven health hazard on 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 Nu.150,000. What accounting treatment should be considered for this situation?

- A Disclose it as notes
- B Recognize 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**

Reason: Expense of 150,000 will be recognized along with provision (Liability) of Nu. 150,000

vi. Which of the following distinction is **NOT** correct between public issue and rights issue?

	<u>Public issue</u>		<u>Right issue</u>
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.

Reason: Option B is correct since in both cases, the investors has right to accept or reject the offer. Therefore, there will be chance of over subscription or under subscription in both the cases.

- vii. When an undertaking decides to dispose-off an investment property without development, 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.

Reason: When an entity decides to sell an investment property without development, the property is not reclassified as inventory but is dealt with as investment property until it is derecognized. [IAS 40.58]

- viii. Under Bhutanese Accounting Standard, an entity after 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.

Reason: Intangible assets may be carried at a revalued amount (based on fair value) less any subsequent amortisation and impairment losses only if fair value can be determined by reference to an active market. [IAS 38.75]

- 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

Reason: Closing balance = opening balance + salary + additional capital – drawings – net loss

$$4.3 = 3.5 + 0.9 + X - 0.7 - 0.4$$

$$3.3X = 4.3$$

$$X = 4.3 - 3.3 = \text{Nu. 1 million}$$

- 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

Reason: The cash flow statement provides a clear view of the actual cash generated and used by an entity during a period. It is less susceptible to manipulation because it focuses on cash inflows and outflows, making it a reliable indicator of a company's financial health. Thus, option A is the best option.

- 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 & II
- C **I & III**
- D I, II & III

Reason: Operating activities include the primary revenue-generating activities of an entity. These are the activities that are directly related to the provision of goods and services. Thus, the combination that best represents operating activities is **I & III**, making **C** the correct choice.

- 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**

Reason: $120,000 + (65\% \text{ of } 170,000) = 230,500$

- xiii. Which one of the following is **NOT** correct about activity ratios?
- A Higher asset turnover ratio → sustainability issues of the business.
 B Longer receivables days → higher probability of bad debts.
 C **Shorter inventory days → obsolete inventory.**
 D Longer payable days → poor relationship with suppliers.

Reason: Shorter inventory days actually indicate that inventory is being sold quickly, which is a sign of efficiency and not obsolescence. Therefore, Option C statement is **NOT correct**.

- xiv. Karma garment house earned a revenue of Nu.1 million in the reporting year 2021. The business incurred 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.

Reason: Option C is correct since when calculating tax payable, personal expenses are not deductible. Therefore, taxable income will increase by 35,000.
 Tax payable = 30% of $[1,000,000 - (750,000 - 35,000)]$

- 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.

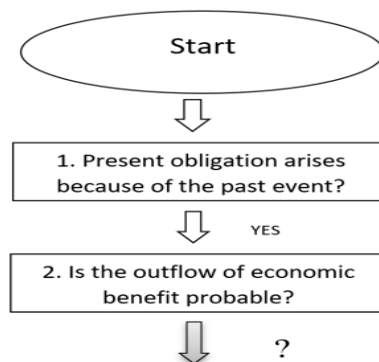
- A Nu. 1,650
- B Nu. 3,560
- C Nu. 5,000
- D **Nu. 6,350**

Reason : Gross salary = 15,000 + (10% of 15,000) = **16,500**

Total deductions = 200 + 300 + (20% of 15,000) + 5,000 + (10% of 16,500)
= **10,150**

Net Pay = Gross pay – total deductions = 16,500 – 10,150 = **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 provision
- C disclose it as contingent liability
- D **measure the value of the obligation**

Reason: Elements of financial statements are recognized when it meets its definition and recognition criteria. Recognition criteria includes probability test and measurement test. From the above flow chart, 1 indicates it meets the definition while 2 indicates probability test. Therefore, the next should be the measurement test. Therefore option D is correct.

xvii. Which of the following is a 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

Reason: When a company issues bonus shares, it is capitalizing its reserves (such as retained earnings or share premium) by converting them into share capital. Therefore the correct answer is Option B.

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**

Reason: In a partnership firm, maintaining equity among all partners is essential to ensure fairness and protect each partner's interests. Paying salaries and allocating interests according to agreed-upon terms help maintain this equity, ensuring that all partners feel fairly compensated for their contributions to the partnership. Therefore, Option D is correct.

xix. A current asset that can be transferred into cash within 90 days is known as [1]

- A **cash equivalent.**
- B intangible asset.
- C operating asset.
- D cash asset.

Reason: Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value [IAS 7.7].

xx. Which of the following is **TRUE** about perpetual inventory system? [1]

- 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.

Reason: The perpetual inventory system requires detailed and continuous tracking of inventory movements, often involving sophisticated software and systems, which can be both elaborate and costly to implement and maintain.

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

- i. **Master budget** is a comprehensive budget for a specific period consisting of many interrelated operating and financial budgets.
- ii. The expenses and revenue summary are also known as the **income statement**.
- iii. An onerous contract is a contract in which the **unavoidable** costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
- iv. **Performance** based remunerations are tied up with targets to be achieved by the individual employees or the entity as a whole.
- v. $\text{Opening stock} + \text{Purchases} - \text{Issues} = \text{Closing inventory}$

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
e) Current asset	i. 5 units of building held for sale	a) Current liability
a) Current Liability	ii. ABC Ltd. has bond worth Nu. 10 million redeemable within one year	b) Production budget
f) Cost of Sales	iii. 10% depreciation charged on the Furniture House at the end of the year	c) Non-Current liability
g) Direct Material Budget	iv. Production in units, ending inventory and beginning inventory	d) Administrative expenses
c) Non-Current liability	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. **FALSE**

Reason: Dividends are paid out of a company's profits after taxes have been deducted. This means that companies must first calculate and pay their income taxes on profits, and only the remaining profits after tax can be distributed to shareholders as dividends. Dividends are not an allowable deduction before tax, as they are considered a distribution of profits rather than a business expense.

- ii. Intangible assets acquired through government grants is initially measured at cost. **FALSE**

Reason: The intangible asset acquired as a government grant may be initially measured at fair value or at a nominal amount. If measured at a nominal amount, the entity must add any directly attributable cost incurred to prepare the item of intangible asset ready for its intended use.

- iii. Liquidity ratio measures the ability of a business to meet short term obligations. **TRUE**

- iv. Commission provided to the manager is an item of appropriation. **FALSE**

Reason: It is charge against the profit and should be taken to income statement.

- v. 'Going concern' is one of the most fundamental assumptions made while preparing financial statements of reporting entity. **TRUE**

e) Answer the following questions.

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

0.5 mark for formula
1 mark for correct process
0.5 mark for correct answer

Solution:

Current ratio = Current assets/Current liabilities [0.5]

$2.5/1 = 750,000/\text{Current liabilities}$

$2.5 \times \text{Current liabilities} = 750,000$ [1]

$\text{Current liabilities} = 750,000/2.5$

$\text{Current liabilities} = \text{Nu.}300,000$ [0.5]

- 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]

Yes 2 marks for any TWO correct reasons.
No 2 marks for any TWO correct reasons
No marks should be awarded for only stating 'YES' or 'NO'
No marks should be awarded if both 'YES' and 'NO' answers are provided together.

Answer:

Yes, opening and closing balances will remain same when equity related transactions are absent such as

- ✓ Net profit or loss during the accounting period attributable to shareholders
- ✓ Increase or decrease in share capital reserves
- ✓ Dividend payments to shareholders
- ✓ Gains and losses recognized directly in equity
- ✓ Effect of changes in accounting policies
- ✓ Effect of correction of prior period error

OR

No, opening and closing balances will change when equity related transactions are present such as:

- ✓ Net profit or loss during the accounting period attributable to shareholders
- ✓ Increase or decrease in share capital reserves
- ✓ Dividend payments to shareholders
- ✓ Gains and losses recognized directly in equity
- ✓ Effect of changes in accounting policies
- ✓ Effect of correction of prior period error

iii. Explain any **TWO** similarities between amortization and depreciation.

[2]

2 marks for any TWO correct points

Answer:

Similarities are:

Both reduce the value of non-current assets.

Both are included in statement of Income as non-cash expenses

Both are related with non-current assets.

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

[2]

2 marks for any TWO correct answers

No marks should be awarded for only stating 'YES' or 'NO'

No marks should be awarded if both 'YES' and 'NO' answers are provided together.

Yes,

- ✓ Entities will be willing to pay right amount of taxes,
- ✓ Revenue to government will increase.
- ✓ Less possibility of tax evasion and manipulation of net profit.
- ✓ Can attract foreign investment

OR

No,

- ✓ Revenue to government will decrease.
- ✓ There will be less economic development.
- ✓ Tax evasion will take place

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

[2]

NO

1 mark for mentioning PPE and 1 mark for mentioning occupied by the employees or recognition criteria.

YES

1 mark for mentioning Investment property and 1 mark for mentioning occupied by tenants or recognition criteria

Answer:

No, it is PP&E, if it is occupied by the employees of ABC Limited and it meets the recognition criteria of PP&E.

OR

Yes, Its IP if given to other tenants to earn rental income and it meets the recognition criteria of IP.

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

2 marks for any TWO correct points

Answer:

- ✓ Strengthening the financial position of the entity.
- ✓ It is a source of internal financing.
- ✓ It enhances the reputation of the enterprise.
- ✓ Keeps working capital intact.
- ✓ Facilitates huge amount when needed.
- ✓ Modification and diversification of the business

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

[2]

Yes 1 mark for mentioning virtually certain 1 mark for mentioning measured reliably
No 1 mark for mentioning still probable/not probable/likely 1 mark for mentioning cannot be measured reliably
No marks should be awarded for writing only YES and NO or BOTH the answer together.

Yes, it would become asset in future if the **inflow** of economic benefits become **virtually certain** and the cost could be **measured reliably**.

No, if the **inflow** of economic benefits is **still probable/not probable/likely** and cost **cannot** be **measured reliably**.

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]

Yes 1 mark for any ONE point
No 1 marks for ONE point

Answer:

Yes,

1. Consistency and uniformity in financial reporting ensures that information from different entities can be compared or similar types of entities can be compared for particular reporting period.
2. The consistent application of accounting policies makes it easier for managers, investors, creditors and other stakeholders to make best decisions.
3. The consistency principle ensures that any changes in policies are disclosed to the users of financial statements and explain why such policy should be followed from now on.

OR

No,

If there is a change in the nature of the entity's business operations or a review of financial statements and such a change would be more appropriate and relevant.

If an accounting standard requires a change in presentation of financial statements.

SECTION B (50 MARKS)
ANSWER ANY FIVE QUESTIONS

Question 2

- a) Paro Construction Company reported a net profit of Nu. 1,500,000 for the year 2015. The company paid all its employees a bonus of Nu. 100,000, which was equal to one month's basic wage. After subtracting the bonus, the aforementioned profit is obtained. [3]

Paro construction company's monthly pay plan for employees is as follows:

Sl no.	Name	Designation	Salary (Nu.)
1	Pema	Manager	20,000
2	Dorji Gyeltshen	Finance officer	15,000
3	Pem	Accountant	14,000

Compute the bonus allowed, taxable net profit and tax amount.

Ans: Self assessed Net profit during the year-	1,500,000	(0.5)
Add: Bonus paid -	100,000	(0.5)
Assessed Net profit	<u>1,600,000</u>	
Less: Bonus allowed, Basic salary	1,47,000	(1)
Taxable Net profit	<u>1,453,000</u>	(0.5)
BIT @ 30% (30% of 1,453,000)	<u>435,900</u>	(0.5)

Calculation of 3 month's basic pay:

$$20,000 \times 3 + 15,000 \times 3 + 14,000 \times 3 = \mathbf{147,000}$$

- b) Prepare common size financial position and give **ONE** comment on the liquidity position of Nima Ltd. and Dawa Ltd. [4]

The financial position as at 31.12.2020 are:

Particulars	Nima Ltd.	Dawa Ltd.
Assets		
Non-current Assets		
Property, Plant and Equipment (PP&E)	900,000	1,000,000
Investment property	100,000	600,000
Current Assets		
Accounts Receivables	500,000	200,000
Total	1,500,000	1,800,000
Equity and Liabilities		
Shareholder's funds		
Share capital	900,000	1,200,000
Reserve and Surplus	400,000	350,000
Current Liabilities		
Accounts Payable	200,000	250,000
Total	1,500,000	1,800,000

Common size financial position as of December 31, 2020

Particulars	Absolute amount (Nu.)		Percentage total		Marks
	Nima	Dawa	Nima	Dawa	
Assets					
Non-current Assets					
Property, Plant and Equipment (PP&E)	900,000	1,000,000	60	55.56	0.5
Investment Property	100,000	600,000	6.67	33.33	0.5
Current Assets					
Accounts Receivables	5,00,000	200,000	33.33	11.11	0.5
Total	1,500,000	1,800,000	100	100	
Equity and Liabilities					
Shareholder's funds					
Share capital	900,000	1,200,000	60	66.67	0.5
Reserve and Surplus	400,000	350,000	26.67	19.44	0.5
Current Liabilities					
Accounts Payable	200,000	250,000	13.33	13.89	0.5
Total	1,500,000	1,800,000	100	100	

Comments:	
The liquidity position of Nima Ltd. is better as compared to Dawa's Ltd. as the current liabilities of Nima Ltd. is 13.33% of total funds invested whereas proportion of current assets in these funds is 33.33%. On the other hand, the current liabilities of Nima Ltd. is 13.89% of total funds and current assets in these funds is 11.11% of these funds. Thus, the creditors are more secured in Nima Ltd.	
	1

- c) Kardung Co. forecasted cash collection of Nu. 100,000 and Nu. 200,000 in the first and second quarters of 2021 respectively. In the first quarter, it has a cash balance of Nu.150,000. The Company has a plan to pay the dividend of Nu. 20,000 in the first quarter and purchase property, plant and equipment worth Nu.150,000 in the second quarter. [2]
- i. Prepare the cash budget.

Cash Budget				
	October	November	Total	Marks
A) Cash Collection	100,000	200,000	300,000	0.5
Less: Cash payments				
Dividend paid	(20,000)			0.25
PP&E purchased		(150,000)	(150,000)	0.25
B) Total cash payments	(20,000)	(150,000)	(170,000)	
Cash Balance(A-B)	80,000	50,000	130,000	
Beginning cash balance	150,000	230,000	150,000	0.25*2=0.5
Ending cash balance	230,000	280,000	280,000	0.25*2=0.5

- 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]

Criteria- 1 mark each for correct answer.
--

1. Efficient internal control system must be instituted.
2. By being sincere and honest.
3. By using all the budget judiciously and efficiently for required purpose.
4. Implement zero based budgeting
5. Regular audits and monitoring

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 the daily wage workers who were never hired.

i. Identify the unethical issues.

[1]

1 mark for 2 correct ethical issues

Ethical issues are: (but not limited to)

1. Lack of integrity/honesty.
2. Lack of accountability.

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

[2]

2 marks for 2 correct reasons
Award no marks if both the answers are given.

Salary because

1. It is fixed irrespective of the outputs.
2. It provides maximum security against adversity.

Commission because

1. It increases with the level of outputs.
2. It motivates them to performance better.

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]

1 mark for 1 correct reason

It is not allowed because meeting expenditure against a provision that was originally recognised for another purpose would **mislead** the financial statements.

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]

1 mark for 1 correct reason

Since future operating losses do not meet the definition and recognition criteria of liability/provision, provision should not be provided.

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

1 mark for 1 correct reason

It is not allowed because it will understate the reported profit and overstate the liability.

- 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.

Cash Flow Statement

	Amounts	Marks
Cash Flow from Operating Activities	(Nu.)	
Profit Before Tax	2,300,000	
Add: Finance Cost	450,000	
Profit from operation	2,750,000	0.5
Add: Non-Cash Expenses/Losses		
Depreciation	520,000	0.5
Loss on sale of PPE	55000	0.5
Cash Flow before working capital changes	3,325,000	
Add: Decrease in CA and Increase in CL		
Inventory	160,000	0.5
Less: Increase in CA and Decrease in CL		
Accounts Receivables	-240,000	0.5
Accounts Payables	-220,000	0.5
Cash Flow from Operation	3,025,000	
Less: Income Tax paid	-690000	0.5
Less: Dividend Paid	-830,000	0.5
Cash flow from operating activities	1,505,000	

Question 4

- a) Ningkhar works as an accountant in Welcome Resort which provides short stay accommodation to their 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 three purposes, if the management intends to prepare a credible financial statement?

[2]

1 mark for first point [Key words are highlighted]

1 mark for second point [Key words are highlighted]

Answer:

1. The resort provides short stay accommodation to their guests and apartments were given for **long-term rental to Desuups** and health workers, it should be accounted under **investment property**.
2. Apart from the above, some rooms were used as **resort offices** by the managers then it should be accounted **under PP & E**.

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

Yes 1 mark for mentioning operating activities 1 mark for mentioning principal revenue generating activities of financial institutions
No 1 mark for mentioning investing activities 1 mark for mentioning Non-Financial institutions.
No marks should be awarded for writing only YES and NO or BOTH the answer together.

Yes,

- ✓ Interest received by banking institutions can be classified as **operating activities**.
- ✓ It is because advancing loans and accepting deposits are **principal revenue earning activities of banking institutions**.

OR

No,

- ✓ Interest received by banking institutions can be classified as **investing activities**.
- ✓ It is because investing in fixed deposits, bonds, other investments are **investing activities of non-banking institutions**.

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

2 marks for TWO differences
No marks if the basis of differences is not arranged or not matching.

Answer not limited to:

Research phase	Development phase
The expenditure incurred in the project to develop intangible assets are treated as expense. Expenditure is expensed in statement of Income	The expenditure incurred in the project to develop intangible assets are capitalized after meeting the recognition criteria. Expenditure is capitalized and recognized as IA in statement of financial position.

d) Study the following information of M/s PQR Ltd. as on 31st December, 2021.

[2]

Sl. No	Accounts	Amount (Nu.)
1	Building used for administrative purposes	8,000,000
2	Building for rental income	6,500,000
3	Patent	2,100,000
4	Interest Income	750,000

On 31st December, 2021, adjustments were:

1. Depreciate the building used for administrative purpose @10%p.a.
 2. Depreciation amount for building used for rental purpose is Nu. 104,500.
 3. Patent was purchased on 30th June, 2021 with the useful life of 10 years.
 4. Accrued income from interest is Nu. 130,000.
 5. Depreciation and amortization must be charged against the Non-Current Asset.
- i. Pass entries for the above adjustments.

0.5 for each correct entry

No marks should be awarded if the account or amount is wrong

Adjusting entries

1. Depreciation A/C Dr. Nu. 800,000
 To Accumulated Depreciation A/c Nu. 800,000
 (Depreciation for PPE)
2. Depreciation A/c Dr. Nu. 104,500
 To Accumulated Depreciation A/c Nu. 104,500
 (Depreciation for Investment property)
3. Amortisation A/c Nu. 105,000
 To Accumulated Amortisation A/c Nu. 105,000
 (Patent amortised)
4. Accrued Interest Income A/c Dr. Nu. 130,000
 To Interest Income A/c Nu. 130,000
 (Interest Income adjusted)

- ii. Present all the assets in the statement of financial position of M/s PQR Ltd. as on 31st December, 2021. [2]

No marks should be awarded if students write building and patent instead of PPE and Investment property.

Answer:

**Extracted Statement of Financial Position of M/s PQR Ltd.
As on 31st December, 2021**

Particulars	Note	Amount (Nu.)	Marks
I. ASSETS			
PP& E – Building		7,200,000	0.5
Investment property - Building		6,395,500	0.5
Intangible assets – Patent		1,995,000	0.5
Accrued Interest Income		130,000	0.5

Question 5

- a) Bhutan National Bank Ltd. (BNBL) offered additional 1.5 million equity shares to the public at Nu. 33 per share. BNBL has issued the shares initially at the nominal value of Nu. 10 each. As of 2020, the statement of financial position of BNBL showed Nu. 56 million of share capital.

- i. Pass the entry for additional shares issued by the Bank.

[1]

1 mark for correct entry

No mark should be awarded if entry or amount is wrong.

Bank Account Dr. Nu. 49,500,000
 To share premium Account Nu. 34,500,000
 To Share Capital Account Nu. 15,000,000
 (Being Share issued at market value/premium)

- 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. [2]

Pass all the relevant entries for the year 2021.

1 mark for correct first entry
1 mark for correct second entry
No mark should be awarded if entry or amount is wrong.

31st December 2021

Accumulated Depreciation A/c Dr. Nu. 1,080,000 (120,000+480,000+480,000)

To Investment Property A/c Nu. 1,080,000

(Being depreciation written back)

Income Statement/Revaluation loss A/c Dr. Nu. 40,000

To Investment Property A/c Nu. 40,000 (3,200,000-1,080,000=2,120,000-2,080,000)

(Being revaluation loss incurred)

- c) The following is a summary of receipts and issues of accountancy textbooks in a private school for the month of February 2022. [3]

1. There was an opening balance of 145 textbooks in the beginning of February, which was purchased at Nu. 210 per book.
2. On 3rd February, the school purchased 33 more textbooks at the rate of Nu. 215 per book.
3. 167 students joined the school on 14th February. The storekeeper issued textbooks to all the students.
4. 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.

Solution:

Date	Receipts			Issues			Balance		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
01							145	210	30,450 [0.25]
03	32	215	6,880 [0.25]				177	211	37,330 [0.25]
14				167	211	32,237 [0.25]	10	211	2110 [0.25]
17	10	250	2500 [0.25]				20	230.5	4610 [0.5]

Question 6

- a) A government grant of Nu. 1.5 million was given to Dawa Academy to buy projectors and smart televisions. The projectors and smart televisions have a combined cost of Nu.200,000 with a 10-years useful life. On May 1st, 2022, the Academy purchased the electronic devices.
- i. Pass the journal entries using the deferred income approach considering straight-line depreciation method. [2]

Criteria – 1 mark each for correct journal entry and no marks if the amount or entry is incorrect.

Date	Particulars	L/f	Debit	Credit
1.1.2022	Cash/bank A/c		1,500,000	
	To deferred income			1,500,000
31.12.2022	Deferred income A/c**		100,000	
	To Grant Income			100,000

**Deferred income recognized as income (depreciation charges) = $(1,500,000/10 \times 8/12 \text{ months}) = 100,000$.

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

0.5 mark each for reporting in Statement of financial position as non-current liabilities and statement of income as other income.

Statement of financial position as at 31st December 2022	
Particulars	Amount
Equity and liabilities	
Non-current liabilities	
Deferred Govt. grants	1,400,000

Statement of income for the year ended 31st December 2022	
Particulars	Amount
Other income	
Government grants	100,000

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

Criteria –no marks if the amount or entry is incorrect

No, marks for direct answer.

$$\begin{aligned} \text{Total number of shares issue} &= 4 \text{ million} \\ \text{No. of right issue shares subscribed} &= 4 \text{ million} \times \frac{3}{5} = 2,400,000 \times 80\% \\ &= \mathbf{1,920,000} \end{aligned}$$

P/L appropriation a/c for the year ended 31st December 2019

Particulars	Amount	Particulars	Amount
To interest on capital:		By net profit a/c:	350,000
Kelzang:	40,000		(0.5 marks)
$600,000 \times 10/100 \times 8/12$	(0.5 marks)	By interest on	3,000
Wangmo:	33,333	drawings:	(0.5 marks)
$500,000 \times 10/100 \times 8/12$	(0.5 marks)	Kelzang:	1,800
To salary:	48,000	$50,000 \times 6/100$	(0.5 marks)
Kelzang: 4000×12	(0.25 marks)	Wangmo:	$30,000 \times 6/100$
Wangmo: 5000×12	60,000		
	(0.25 marks)		
To profit:	173,467		
Kelzang:	(1 mark)		
$173,467 \times 2/3 = 115,645$			
Wangmo: $173,467 \times 1/3 =$			
57,822			
	354,800		354,800

Question 7

- a) In the context of intangible assets, you are required to give a reason to support the statements provided below:
- i. Based on the useful life, all intangible assets are amortized. Do you agree? [1]

Answer:

Yes 1 mark for mentioning finite and the reason.
No 1 mark for mentioning indefinite and the reason.

Yes, intangible assets with a **finite** useful life are amortized over its useful life because entity can expect to derive the economic benefits.

OR

No, intangible assets with **indefinite** useful are not amortized but tested for impairment by comparing its Recoverable Amount with its Carrying Amount annually because there is no foreseeable limit to the period over which it expects to derive the economic benefits.

- ii. As per the Statement of Financial position as on 31st December, 2018, Bhutan Telecom Limited has a higher amount of intangible assets than Bhutan Power Corporation limited. Give **ONE** reason. [1]

1 mark for any ONE reason

Yes, Bhutan Telecom limited has higher amount of intangible assets in the statement of financial position because it has huge investment in computer software application and license.

- b) Present the statement of Income of M/s KS trading for the year ended 31st December, 2021 with the information given below: [2]

<i>Sl. No</i>	<i>Particulars</i>	<i>Amount (Nu.)</i>
1	Revenue	2 million
2	Inventory (31.12.2020)	150,000
3	Gross purchase	900,000
4	Wages	40,000
5	Returned earlier purchased goods	30,000
6	Inventory (31.12.2021)	120,000
7	Salaries to employees	600,000
8	Salaries to salesman	80,000
9	Tax 30%	

Answer:

Statement of Income for the year ended 31st December, 2021

<i>Particulars</i>	<i>Note</i>	<i>Amount (Nu.)</i>	<i>Marks</i>
Revenue from operation		2,000,000	0.25
Cost of sales	1	(940,000)	0.50
Gross Profit		1,060,000	0.25
Office & Administrative expenses/cost		(600,000)	0.25
Selling & Distribution expenses/cost		(80,000)	0.25
PBT		380,000	0.25
Tax (30%)		(114000)	0.25
PAT		266,000	

- c) Home Essential Store has sold 500 washing machines with an average selling price of Nu.10,500 each in 2021 and gives one year warranty on all the products sold. Past records show that only 5% of the products sold was found to be defective. The sales manager estimated an average cost of repairs for the products to be Nu.1,860 per unit.

i. Calculate the amount of provision for warranty and pass the journal entry.

[2]

Answer:

i. Amount of Provision

No. of units sold:	500	
Rate of defective units:	5%	
Total defective units:	500 x 5% = 25	0.5 marks
Avg. cost of repairs:	1,860	
Estimated provision for warranty:	25 x 1,860 = 46,500	0.5 marks

Journal entry is

2021	Warranty expenses account Dr	46,500	
	To Provision for warranty	46,500	1 mark

No mark should be awarded if the entry or the amount is wrong

ii. Identify the type of obligation with **ONE** reason.

[1]

0.5 for mentioning legal obligation
--

0.5 for providing reason

It is a legal obligation as Home Essential store offers a warranty because it is required to do by law.

d) During 2020, Tashi Transport Company submitted the following statement for filing BIT:

Statement of Income
For the year ended 31st December, 2020

Particulars	Amount (Nu.)
Revenue	2,000,000
Other income	300,000
Total Income	2,300,000
Operating expense	(1,400,000)
Other expenses	(200,000)
Total expenses	(1,600,000)
PBT	700,000
Tax (30%)	(210,000)
PAT	490,000

However, the officials of Department of Revenue and Customs Office noticed that Nu.150,000 included in operating expenses was non-allowable bonus as per Income Tax Act.

[3]

Required:

Redraft the income statement after considering above discrepancies. Calculate over-provision or under-provision of tax and pass the journal entry.

Answer:

Redrafted Statement of Income

Particulars	Amount (Nu.)	Marks
Revenue	2,000,000	
Other income	300,000	
Total Income	2,300,000	
Operating expense (1,400,000 - 150,000)	(1,250,000)	0.5
Other expenses	(200,000)	
Total expenses	(1,450,000)	
PBT	850,000	
Tax (30%)	(255,000)	0.5
PAT	595,000	

Amount of under-provision of tax is Nu.45,000 (255,000 – 210,000). [1]

Journal entry

2020	Tax expense account Dr	45,000	
	To Tax liability account	45,000	1 mark

No mark should be awarded if the entry or the amount is wrong