

PART I
(30 Marks)
Answer ALL questions.

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. **[10 Marks]**
- i) Income tax expense for the current year includes
- A current tax expense.
 - B deferred tax expense.
 - C current tax liabilities.
 - D current tax expense and deferred tax expense.
- ii) An example of performance based remuneration is
- A pension.
 - B basic Salary.
 - C share options.
 - D house rent allowance.
- iii) Which **ONE** of the following best fits in the definition of Property, Plant & Equipment?
- A Building used for office purpose
 - B Machinery purchased for selling purpose
 - C Investment in the shares of other companies
 - D Purchase of cow to be used in dairy business
- iv) Which **ONE** of the following is an intangible asset under BAS 38?
- A Market share
 - B Patent rights
 - C Customer loyalty
 - D Employee training
- v) Contingent liabilities are disclosed in the financial statements as a
- A equity.
 - B current liabilities.
 - C non-current liabilities.
 - D note to the financial statements.

- vi) A company has a retained earning balance of Nu. 100,000 on 1st January 2015. During the year, the company earned a net profit of Nu. 20,000 and a dividend of Nu. 10,000 was declared. Further, a reserve amount of Nu. 8,000 was created for business expansion purpose. The company also issued 1,000 equity share of Nu. 10 each. The ending balance of retained earnings will be
- A Nu. 112,000.
 - B Nu. 122,000.
 - C Nu. 102,000.
 - D Nu. 110,000.
- vii) Pema and Sonam are partners sharing profits and losses in the ratio of 3:2. The net profit during the year was Nu. 12,000. Interest on capital was allotted as Nu. 400 to Pema and Nu. 250 to Sonam. Sonam received a salary of Nu. 5,000. How much was Pema's share of profit?
- A Nu. 2,540
 - B Nu. 3,810
 - C Nu. 4,950
 - D Nu. 3,060
- viii) The income statement shows the
- A financial position of the business.
 - B financial performance of the business.
 - C amount of cash generated and used in the business.
 - D change in the equity of the business over a period of time.
- ix) Which **ONE** of the following is an example of liquidity ratio?
- A Quick ratio
 - B Return on sales
 - C Return on equity
 - D Gross profit margin
- x) All of the following are allowable deductions under the Income Tax Act, **EXCEPT**
- A donations.
 - B entertainment expenses.
 - C legal and professional fees.
 - D fess paid to employees for processing identity cards.

B) State TRUE or FALSE for the statements given below. Rewrite the false statements giving reasons. [5 Marks]

- i) Intangible assets with an indefinite useful life should not be amortised.
- ii) Sales tax are levied on cash sales only.
- iii) All accrued remunerations are recognized as current liabilities.
- iv) Fixed cost does not change with the volume of output in the short run.
- v) Cash budget is the part of operating budget.

C) Fill in the blanks with appropriate words. [5 marks]

- i) The type of liability where possible obligation will arise from past events, which will be confirmed by events in the future is _____.
- ii) Retained earning used for the intended or specific purpose is called _____.
- iii) Profit and loss appropriation account is _____ account in nature.
- iv) While presenting financial statements, an entity should present separately each material class of items and items of dissimilar nature or function unless they are _____.
- v) Inventory comprises of inventory of raw materials, inventory of _____ and inventory of finished goods.

D) Answer the following questions. [10 Marks]

- a) Why are gains on disposal of Property, Plant and Equipment transferred to income statement but the gain on revaluation of Property, Plant and Equipment are transferred to equity? Give **TWO** reasons. [2]
- b) Identify any **FOUR** elements of financial statements. [2]
- c) Assume that you work in Department of Revenue and Customs and you noticed that the tax rate for Business Income Tax and Corporate Income Tax is 30%. What would you recommend to promote more companies in the country? Suggest any **TWO**. [2]
- d) The management of PCAL is confused whether to obtain long term loans from Bank of Bhutan. The rate of interest charged by the bank is 12% and the Return on Capital Employed of PCAL is 10%. Do you think the management of PCAL should obtain the loan? Why? [2]
- e) Do you think using up all budget amount is unethical? Why? Justify with **TWO** reasons. [2]

Part II (50 Marks)

Answer any FIVE questions

Question 2

- a) The statement of profit or loss and other comprehensive income of ABC Ltd for the financial year ending 30th Dec 2010 was as follows:

Revenue	Nu. 250, 000
Add: Accrued Income	<u>Nu. 10,000</u>
Profit Before Tax	Nu. 260,000

- i) Calculate and pass the journal entry to record current year tax expense and deferred tax expense assuming the tax rate is 30%. [2]
- ii) Redraft the statement of income and other comprehensive income of ABC Ltd. for tax purpose after computing tax at 30%. [2]
- b) Bhutan Telecom Limited (BTL) decided to issue Nu. 1 million of 10% bonds on 1st January 2015 repayable three years after the date of issue. Further, BTL announced the right issue of 2 for every 5 shares held at Nu. 6 per share. BTL has 2 million shares of Nu. 10 each.
- i) Pass the journal entry to record the issue of bonds on 1st January 2015 and interest payable on the bonds on 31st December 2015. [2]
- ii) Pass the journal entry to record right issue of shares. [2]
- iii) Should the management of BTL opt for debt financing or equity financing? Why? [2]

Question 3

ABC Company has a building with a carrying amount of Nu. 100,000 which is revalued at the end of the year for Nu. 120,000. ABC Co. has published an environmental policy to replant trees in order to counter-balance the environmental damage resulting from its operations. It has a consistent history of honoring this policy though there is no legal obligation. During 2018, it opened a new factory, leading to some environmental damage estimated at Nu.400,000 for restoration works.

- i) Pass the journal entry to record the revalue of building. How will this impact the financial statements of ABC Company? [3]
- ii) ABC Company further purchased machinery on 1st Jan 2018 for Nu. 200,000 with estimated scrape value of Nu. 10,000 and useful life of 10 years. What amount of depreciation will be charged for 31st Dec 2018? Pass the journal entry to record the depreciation charged. [3]
- iii) Differentiate between Liability and Provisions. [2]
- iv) Should Provision of Nu. 400,000 be recognized in the year 2018? Why? [2]

Question 4

The following is the draft income statement of XYZ Co. for the year ending 2018.

Particulars	Amount(Nu.)
Dividend Income	500,000
Interest and other borrowed cost	320,000
Buildings	670,000
Depreciation – office building	150,000
Marketing Van	560,000
Depreciation – Marketing Van	200,000
Sales Revenue	2,100,000
Salary	520,000
Sales Commission	400,000
Bonus (Sales Person)	350,000
Income from Government Grants	300,000
Cost of Sales	650,000
Employee Training and Development	420,000

- i) Present the statement of income from the above account balances using Function of Expense Method assuming 30% Corporate Tax. [5]
- ii) Mr. Dorji works as a manager in sales department. In order to increase the sales commission from Nu. 400,000 to Nu. 600,000, he decided to manipulate the sales revenue from Nu. 2,100,000 to Nu. 2,900,000. What ethical issues do you see in the case of Mr. Dorji? How will this affect the income statement? [2]
- iii) Suppose XYZ Co. receives Nu. 200,000 as government grants on 1st Jan 2019 for the project with useful life of 10 years, how will this grant be treated for the year ending 31st December 2019? (Use Deferred Income approach). [3]

Question 5

The following is the Statement of Financial Position of ABC Ltd Co.

Non-Current Assets	2016	2017
Property, Plant & Equipment	720,000	820,000
Less: Accumulated Depreciation	<u>(242,000)</u>	<u>(258,000)</u>
	478,000	562,000
Investments	180,000	240,000
Current Assets		
Inventory	590,000	407,000
Accounts Receivables	332,000	392,000
Cash and Cash Equivalent	11,000	4,000
	<u>1,591,000</u>	<u>1,605,000</u>
Equity and Liabilities		
Equity Shares	350,000	500,000
Retained Earnings	212,000	369,000

Non-Current Liabilities

Bonds	400,000	150,000
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Current Liabilities

Accounts Payable	478,000	418,000
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Accrued Expense	151,000	168,000
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1,591,000	1,605,000
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During the year, machinery costing Nu. 150,000 with accumulated depreciation of Nu. 20,000 was sold for Nu. 125,000.

Required:

- i) Prepare Cash from Investing and Financing Activities. [4]
- ii) Interpret your findings on cash generated or used in investing activities. [1]
- iii) Assume that a dividend of Nu. 20,000 is declared in the year 2017. Pass the journal entry to record the transaction. [1]
- iv) Compute the current ratio of ABC Ltd Co. for the year 2016 and 2017. Is ABC Co. Ltd doing better in terms of current ratio in the year 2016 or 2017? Why? [4]

Question 6

- a) Sonam recently graduated from Gedu college of business and is undergoing internship programme at production department of Penden Cement Authority Limited (PCAL). During the year 2017, the company has a direct material standard of 2 kg per bag of cement at Nu. 4.5 per Kg to produce one bag of cement. The company purchased 1,700 kg of material to make 1,000 bags of cement. The total cost of material is Nu. 6,630.
 - i) Compute material price variance and material usage variance. State whether the balances are favourable or unfavourable. [4]
 - ii) Supposing you are Sonam and you are asked to develop the direct material standard to produce one bag of cement for the year 2018, what ethical issues do you see if you are paid higher bonus for favourable balance? [2]
- b)
 - i) A company purchased building worth Nu. 2 million with estimated life of 20 years depreciated using straight line method. The company has used the building for 5 years. The recoverable amount of building is estimated at the cost of Nu. 1.2 million. Pass the journal entry to record the impairment loss on building. [2]
 - ii) Assume that you are working in one of the firm whereby huge amount is spent in the form of advertisement. During the board meeting, the sales department manager proposed the idea of recognizing advertisement as intangible assets since it creates future economic benefits. Should the firm recognize advertisement as intangible assets? Why? [2]

Question 7

a) X and Y business earned a net profit of Nu. 790,000 in the year 2016 after deducting Interest on loan Nu. 30,000, Entertainment Expenses Nu. 80,000 and Donation of Nu. 100,000. The following are the additional information relating to X and Y business.

- The donation was given for earthquake victims.
- The loan amount was availed in the name of X's wife from Bank of Bhutan

- i) Compute Business Income Tax for the year 2016 assuming tax rate of 30%. [3]
ii) Do you think evasion of tax is recommended? Why? [2]

b) Smart Company Pvt. Ltd. has been producing Pure Butter. You are provided with the details of cost incurred at different stages in the production of 10,000 kilograms of butter in 2019.

	Amount in Nu.
Material consumed	1,000,000
Direct labour and Expenses	100,000
Factory Lighting	50,000
Office Overhead	80,000
Selling and Distribution overheads	30,000

From the above data:

- i) calculate Cost of Production. [3]
ii) give **TWO** suggestions to maximize profit keeping in mind that there is another competitor in the market producing similar products. [2]

Question 8

a) You are provided with the statement of financial position of Namgay and Sujata's partnership firm on 31st December 2018.

Assets	Amount(Nu.)
Accounts Receivable	200,000
PP& E	1,000,000
Cash	50,000
	1,250,000
Capital and liabilities	Nu.
Namgay's Capital	400,000
Sujata's Capital	600,000
Bank loan	150,000
Accounts Payable	100,000
	1,250,000

On 1st January 2019, the partnership was dissolved. All the assets except accounts receivable realised Nu.1,300,000. All the liabilities were paid off and dissolution expenses amounted to Nu.50,000. Sujata took all the accounts receivable at half the book value.

You as a Cost Accountant, prepare;

- i) an account to inform the partners whether they dissolved the firm at a profit or loss. [3]
 - ii) a statement to find out the amount that they can claim from the firm. [2]
- b) XY Company has an average employees of 1,000 during the year 2017. 100 employees had resigned from the company due to dissatisfaction related to job. The company has been performing poorly for the last three years with significant decline in the profit margin of the company. Most of the funds of the company were misused by the payroll accountant by creating ghost employees.

Required:

- i) Calculate staff turnover ratio. [1]
- ii) Suggest **TWO** measures to the management of XY company to curb down the problem of employees resigning from the firm. [2]
- iii) How would the action of accountant impact financial statements of XY Company? [2]