

PAPER – 5 : ADVANCED ACCOUNTING

Question No.1 is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

Answer the following Question:

- (a) A Ltd. manufactures engineering goods, provides after sales warranty for 2 years to its customers. Based on past experience, the company has been following the policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice Date	Amount (₹)
19 th January, 2016	80,000
29 th January, 2017	50,000
15 th October, 2017	1,80,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2017 and 31st March, 2018. Also compute amount to be debited to profit and loss Account for the year ended 31st March, 2018.

- (b) Rutu Builders Limited has borrowed a sum of US\$ 20,00,000 at the beginning of Financial year 2017-18 for its residential project at LIBOR +3%. The interest is payable at the end of the financial year.

At the time of availment exchange rate was 61 per US \$ and the rate as on 31st March, 2018 was 65 per US \$. If Rutu Builders Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been @ 10.50%.

Compute Borrowing cost and exchange difference for the year ending 31st March, 2018 as per Accounting Standards 16. (Applicable LIBOR is 1%).

- (c) Ram Ltd. sold a machine having WDV of ₹ 125 lakhs to Shyam Ltd. for ₹ 150 lakhs and the same machine was leased back by Shyam Ltd. to Ram Ltd. under Operating lease system :

Comment according to relevant Accounting Standard if:

- (i) Sale price of ₹ 150 lakhs. is equal to fair value.
 (ii) Fair value is ₹ 125 lakhs and Sale price is ₹ 112.50 lakhs.
 (iii) Fair value is ₹ 137.50 lakhs and Sale price is ₹ 155 lakhs.
 (iv) Fair value is ₹ 112.50 lakhs and Sale price is ₹ 120 lakhs.
- (d) A company acquired patent right for ₹ 1200 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	1	2	3	4	5
Estimated future cash flows (₹ in lakhs)	600	600	600	300	300

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 150 lakhs. Determine the amortization under Accounting Standard 26.

(4 Parts x 5 Marks = 20 Marks)

Answer

- (a) **Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'**

$$\begin{aligned} \text{As at 31st March, 2017} &= ₹ 80,000 \times .02 + ₹ 50,000 \times .03 \\ &= ₹ 1,600 + ₹ 1,500 = ₹ 3,100 \end{aligned}$$

$$\begin{aligned} \text{As at 31st March, 2018} &= ₹ 50,000 \times .02 + ₹ 1,80,000 \times .03 \\ &= ₹ 1,000 + ₹ 5,400 = ₹ 6,400 \end{aligned}$$

Amount debited to Profit and Loss Account for year ended 31st March, 2018

	₹
Balance of provision required as on 31.03.2018	6,400
Less: Opening Balance as on 1.4.2017	<u>(3,100)</u>
Amount debited to profit and loss account	<u>3,300</u>

Note: No provision will be made on 31st March, 2018 in respect of sales amounting ₹ 80,000 made on 19th January, 2016 as the warranty period of 2 years has already expired.

- (b) (i) Interest for the period 2017-18
 = US \$ 20 lakhs x 4% x ₹ 65 per US \$ = ₹ 52 lakhs

- (ii) Increase in the liability towards the principal amount
= US \$ 20 lakhs × ₹ (65 - 61) = ₹ 80 lakhs.
- (iii) Interest that would have resulted if the loan was taken in Indian currency
= US \$ 20 lakhs × ₹ 61 × 10.5% = ₹ 128.1 lakhs
- (iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 128.1 lakhs - ₹ 52 lakhs = ₹ 76.1 lakhs.

Therefore, out of ₹ 80 lakhs increase in the liability towards principal amount, only ₹ 76.1 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹128.1 lakhs being the aggregate of interest of ₹ 52 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 76.1 lakhs.

Hence, ₹ 128.1 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 “Borrowing Costs” and the remaining ₹ 3.9 lakhs (₹ 80 lakhs– ₹ 76.1 lakhs) would be considered as the exchange difference to be accounted for as per AS 11 “The Effects of Changes in Foreign Exchange Rates”.

(c) According to AS 19, following will be the treatment in the given situations:

- (i) When sales price of ₹ 150 lakhs is equal to fair value, Ram Ltd. should immediately recognize the profit of ₹25 lakhs (i.e. 150 – 125) lakhs in its books.
- (ii) When fair value of leased machine is ₹ 125 lakhs & sales price is ₹ 112.50 lakhs, then loss of ₹ 12.5 lakhs (125 – 112.50) lakhs to be immediately recognized by Ram Ltd. in its books provided loss is not compensated by future lease payments.
- (iii) When fair value is ₹ 137.5 lakhs & sales price is ₹ 155 lakhs, profit of ₹ 12.5 lakhs (137.5- 125) lakhs to be immediately recognized by Ram Ltd. in its books and balance profit of ₹ 17.5 lakhs (155-137.50) lakhs is to be amortised/deferred over lease period.
- (iv) When fair value is ₹ 112.5 lakhs & sales price is ₹ 120 lakhs, then the loss of ₹ 12.5 lakhs (125-112.5) lakhs to be immediately recognized by Ram Ltd. in its books and profit of ₹ 7.5 lakhs (120-112.5) lakhs should be amortised/deferred over lease period.

(d) Amortization of cost of patent as per AS 26

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	600	.25	300
2	600	.25	300

3	600	.25	300
4	300	.40 (Revised)	120
5	300	.40 (Revised)	120
6	150	.20 (Revised)	<u>60</u>
			<u>1,200</u>

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (600: 600: 600: 300: 300).

The unamortized amount of the patent after third year will be ₹ 300 lakh (1,200-900) which will be amortized in the ratio of revised estimated future cash flows (300:300:150) in the fourth, fifth and sixth year.

Question 2

Sunil and Sachin carrying on business in partnership sharing profit and losses equally, wished to dissolve the firm and sell the business to Sargam Ltd. on 31-3-2018, when the firm's position was as follows:

Liabilities	₹	Assets	₹
Sunil's Capital	7,50,000	Land and Building	5,00,000
Sachin's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with Sargam Ltd. was as follows :

- Land and Building was purchased at 25% more than the book value.
- Furniture and stock were purchased at book values less 20%.
- The goodwill of the firm was valued at ₹ 2,00,000.
- The firm's debtors, cash and creditors were not to be taken over, but Sargam Ltd. agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 7.5% on all collections from the firm's debtors and 4.5% on cash paid to firm's creditors.
- The purchase price was to be discharged by the company in fully paid equity shares of ₹ 15 each at a premium of ₹ 5 per share.
- The partners distributed the company's shares between themselves in their final claim ratio.

The company collected all the amounts from debtors. The creditors were paid off less by ₹ 10,000, allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital Accounts of the partners and the cash account in the books of partnership firm. **(16 Marks)**

Answer

Books of Partnership Firm

Realisation Account

	₹			₹
To Land & Building	5,00,000	By Sundry Creditors		3,00,000
To Furniture	2,00,000	By Sargam Ltd. -		
To Stock	5,00,000	Purchase consideration-(W.N.1)		13,85,000
To Debtors	3,30,000	By Sargam Ltd. -		
To Sargam Ltd. - Sundry Creditors	2,90,000	Sundry Debtors	3,30,000	
To Sargam Ltd.-Commission 4.5% on 2,90,000	13,050	Less: Commission 7.5% on 3,30,000	<u>24,750</u>	3,05,250
To Profits transferred to Sunil's Capital A/c 78,600				
Sachin's Capital A/c <u>78,600</u>	<u>1,57,200</u>			
	<u>19,90,250</u>			<u>19,90,250</u>

Capital Accounts of Partners

	Sunil	Sachin		Sunil	Sachin
	₹	₹		₹	₹
To Shares in Sargam Ltd. - (W.N.2)	8,15,520	5,69,480	By Balance b/d	7,50,000	5,00,000
To Cash - Final Payment	<u>13,080</u>	<u>9,120</u>	By Realisation A/c - Profit	<u>78,600</u>	<u>78,600</u>
	<u>8,28,600</u>	<u>5,78,600</u>		<u>8,28,600</u>	<u>5,78,600</u>

Cash Account

	₹		₹
To Balance b/d	20,000	By Sunil's Capital A/c- Final payment	13,080

To Sargam Ltd. (Amount realized from Debtors less amount paid to creditors) – (W.N.3)	<u>2,200</u>	By Sachin's Capital A/c- Final Payment	<u>9,120</u>
	<u>22,200</u>		<u>22,200</u>

Working Notes:**1 Calculation of Purchase consideration**

	₹
Land & Building	6,25,000
Furniture	1,60,000
Stock	4,00,000
Goodwill	<u>2,00,000</u>
	13,85,000

2 Shares received from Sargam Ltd

The shares received from Sargam Ltd have been distributed between the two partners Sunil & Sachin in the ratio of their final claims i.e., 8,28,600: 5,78,600.

$$\text{No. of shares received from the company} = \frac{13,85,000}{20} = 69,250$$

$$\text{Sunil gets } \frac{69,250 \times 8,28,600}{14,07,200} = 40,776 \text{ shares valued at ₹ } 20 = ₹ 8,15,520.$$

Sachin gets the remaining 28,474 shares, valued at ₹ 5,69,480 (28,474 × ₹ 20)

3 Calculation of net amount received from Sargam Ltd

	₹
Amount realized from Debtors	3,30,000
<i>Less:</i> Commission for realization from debtors (7.5% on ₹ 3,30,000)	<u>24,750</u>
	3,05,250
<i>Less:</i> Amount paid to creditors	<u>2,90,000</u>
	15,250
<i>Less:</i> Commission for cash paid to creditors (4.5% on ₹ 2,90,000)	<u>13,050</u>
Net amount received	<u>2,200</u>

Question 3

- (a) Z Limited came up with an issue of 60,00,000 equity shares of ₹ 10 each at par. 15,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters D, E and F - equally with firm underwriting of 1,40,000 shares each, Subscriptions totalled 38,91,000 shares including the marked forms which were:

D 12,75,000 shares

E 13,50,000 shares

F 10,50,000 shares

The underwriters had applied for the number of shares covered by firm underwriting. The amounts payable on application and allotment were ₹ 2.50 and ₹ 2.00 respectively. The agreed commission was 5%.

Pass Summary journal entries for -

- (a) The allotment of shares to the underwriters
 (b) The commission due to each of them and
 (c) The net cash paid and or received.

Note: Unmarked applications are to be credited to underwriters equally. Benefit of firm underwriting is given to individual underwriter. **(8 Marks)**

- (b) The following balances appeared in the books of a company as on December 31st, 2017, 6% Mortgage 25,000 Debentures of ₹ 100 each. Debenture Redemption Reserve (for redemption of debentures) ₹ 26,05,000.

The following were the investments:

- (i) ₹ 13,20,000, 4% Government Loan purchased at par (face value of ₹ 100 each)
 (ii) ₹ 14,00,000, $3\frac{1}{2}$ % Government paper purchased for ₹ 13,55,000 (face value of ₹ 100 each)

The interest on debentures had been paid up to December 31st, 2017.

On February 28th, 2018, the investments were sold at ₹ 87 and ₹ 90 respectively and the debentures were paid off at ₹ 101 together with accrued interest.

Write up the ledger accounts concerned. The Debenture Redemption Reserve is non-cumulative. **(8 Marks)**

Answer

(a)

Z Ltd.

Journal Entries

	Dr. ₹	Cr. ₹
Bank A/c To Share Application A/c (Application money received on firm applications for 140,000 shares each @ ₹ 2.50 per share from D, E & F)	Dr. 10,50,000	10,50,000
D E F Share Application A/c To Share Capital A/c (Allotment of shares to underwriters - 1,40,000 to D; 1,40,000 to E and 3,29,000 to F; application and allotment money credited to share capital)	Dr. 2,80,000 Dr. 2,80,000 Dr. 11,30,500 Dr. 10,50,000	27,40,500
Underwriting Commission A/c To D To E To F (Amount of underwriting commission payable to D, E and F @ 5% on the amount of shares underwritten.)	Dr. 22,50,000	7,50,000 7,50,000 7,50,000
Bank A/c To F (Amount received from F on shares allotted less underwriting commission)	Dr. 3,80,500	3,80,500
D E To Bank A/c (Amount paid to D & E in final settlement of underwriting commission due less amount payable on shares allotted payable by them.)	Dr. 4,70,000 Dr. 4,70,000	9,40,000

Working Notes:**(1) Calculation of Liability of Underwriters**

	D	E	F
Gross Liability (No. of shares)	15,00,000	15,00,000	15,00,000
Less: Marked Applications (excluding firm underwriting)	<u>(12,75,000)</u>	<u>(13,50,000)</u>	<u>(10,50,000)</u>
	2,25,000	1,50,000	4,50,000
Less: Unmarked Applications (equally)	<u>(72,000)</u>	<u>(72,000)</u>	<u>(72,000)</u>
	1,53,000	78,000	3,78,000
Less: Firm Underwriting	<u>(1,40,000)</u>	<u>(1,40,000)</u>	<u>(1,40,000)</u>
	13,000	(62,000)	2,38,000
Surplus of E distributed between D & F equally	<u>(31,000)</u>	<u>62,000</u>	<u>(31,000)</u>
	(18,000)	-	2,07,000
Surplus of D allocated to F totally	<u>18,000</u>	<u>—</u>	<u>(18,000)</u>
Net Liability, excluding Firm Underwriting	-	-	1,89,000
Add: Firm underwriting	<u>1,40,000</u>	<u>1,40,000</u>	<u>1,40,000</u>
Total liability of underwriters	<u>1,40,000</u>	<u>1,40,000</u>	<u>3,29,000</u>

(2) Calculation of Amounts Payable by Underwriters

	D	E	F
Liability (No. of shares)	1,40,000	1,40,000	3,29,000
Amount payable @ ₹ 4.50 per share	6,30,000	6,30,000	14,80,500
Less: Amount paid on Firm Applications of 1,40,000 each @ ₹ 2.50*	<u>(3,50,000)</u>	<u>(3,50,000)</u>	<u>(3,50,000)</u>
Balance payable	2,80,000	2,80,000	11,30,500
Underwriting Commission Receivable	<u>7,50,000</u>	<u>7,50,000</u>	<u>7,50,000</u>
Amount Paid	4,70,000	4,70,000	—
Amount received by the Co.	<u>—</u>	<u>—</u>	<u>3,80,500</u>

* Underwriters had already paid the application money on these shares.

(b) 6% Mortgage Debentures Account

2018		₹	2018		₹
Feb. 28	To Debenture-holders A/c	25,00,000	Jan. 1	By Balance b/d	25,00,000

Premium on Redemption of Debentures Account

2018		₹	2018		₹
Feb. 28	To Debenture-holders A/c	25,000	Feb. 28	By Debenture Redemption Reserve A/c	25,000

Debentures Redemption Reserve Investment Account

2018		₹	2018		₹
Jan. 1	To Balance b/d (₹ 13,20,000 + ₹13,55,000)	26,75,000	Feb. 28	By Bank – 13,200 4% Govt. Loan (face value of ₹100) sold @ ₹ 87*	11,48,400
				By Bank - 14,000 3.5% Govt. Paper (face value of ₹100) sold @ ₹ 90*	12,60,000
				By Debenture Redemption Reserve A/c (Loss)	<u>2,66,600</u>
		<u>26,75,000</u>			<u>26,75,000</u>

*Interest on investments on ₹ 13,20,000 (4% Govt. Loan) and ₹ 14,00,000 (3.5% Govt. Paper) not considered.

Debenture Interest Account

2018		₹	2018		₹
Feb. 28	To Cash	<u>25,000</u>	Feb. 28	By Profit & Loss A/c	<u>25,000</u>

Debenture Redemption Reserve Account

2018		₹	2018		₹
Feb. 28	To Debenture Redemption Reserve Investment Account		Jan. 1	By Balance b/d	26,05,000

	(Loss)	2,66,600	Feb. 28	By	Profit & Loss A/c	1,86,600
To	Premium on Redemption of Debentures A/c	25,000			(By Bal. fig)	
To	General reserve (Nominal value of debentures redeemed)	25,00,000				
		27,91,600				27,91,600

Question 4

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4.00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 2018 the respective Summarised Balance Sheets of Sun and Neptune were as follow:

	Sun (₹)	Neptune (₹)
Fixed Assets	6,35,000	3,65,000
Current Assets	<u>3,27,000</u>	<u>1,67,750</u>
	9,62,000	5,32,750
Less: Current Liabilities	<u>(5,97,000)</u>	<u>(1,80,250)</u>
Representing Capital	3,65,000	3,52,500

Additional Information:

(a) Revalued figures of Fixed and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	<u>2,99,500</u>	<u>1,57,750</u>

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
2016 Profit	4,49,576	2,73,900

2017 (Loss)/Profit	(2,500)	3,42,100
2018 Profit	3,77,924	3,59,000

- (ii) 15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 2018 after revaluation of assets.

You are required to :

- (1) Compute the amount of debentures and shares to be issued to Sun and Neptune.
- (2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation. **(16 Marks)**

Answer

- (1) **Computation of Amount of Debentures and Shares to be issued:**

	Sun	Neptune
	₹	₹
(i) Average Net Profit		
(4,49,576-2,500+3,77,924)/3	= 2,75,000	
(2,73,900+,3,42,100+3,59,000)/3		= 3,25,000
(ii) Equity Shares Issued		
(a) Ratio of distribution		
Sun : Neptune		
275 : 325		
(b) Number		
Sun : 27,500		
Neptune : <u>32,500</u>		
		<u>60,000</u>
(c) Amount		
27,500 shares of ₹ 5 each	= 1,37,500	
32,500 shares of ₹ 5 each		= 1,62,500

(iii) **Capital Employed (after revaluation of assets)**

Fixed Assets	7,10,000	3,90,000
Current Assets	<u>2,99,500</u>	<u>1,57,750</u>
	10,09,500	5,47,750
Less: Current Liabilities	<u>(5,97,000)</u>	<u>(1,80,250)</u>
	<u>4,12,500</u>	<u>3,67,500</u>

(iv) **Debentures Issued**

8% Return on capital employed	33,000	29,400
15% Debentures to be issued to provide equivalent income:		
Sun: $33,000 \times \frac{100}{15}$	=	2,20,000
Neptune: $29,400 \times \frac{100}{15}$	=	1,96,000

(2)

Balance Sheet of Jupiter Ltd.**As at 31st March 2018 (after amalgamation)**

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	64,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	4,16,000
(3) Current Liabilities		
(a) Other current liabilities		7,33,900
Total		15,13,900
II. Assets		
(1) Non-current assets		
(a) Fixed assets		11,00,000
(2) Current assets		
(a) Other current assets		4,13,900
Total		15,13,900

Notes to Accounts

	₹
1 Share Capital	
Authorized	
80,000 Equity Shares of ₹ 5 each	4,00,000
Issued and Subscribed	
60,000 Equity Shares of ₹ 5 each	3,00,000
(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	
2 Reserve and Surplus	
Capital Reserve	64,000
3 Long-term borrowings	
Secured Loans	
15% Debentures	4,16,000

Working Notes:

	Sun ₹	Neptune ₹	Total ₹
(1) Purchase Consideration			
Equity Shares Issued	1,37,500	1,62,500	3,00,000
15% Debentures Issued	2,20,000	1,96,000	4,16,000
	3,57,500	3,58,500	7,16,000
(2) Capital Reserve			
(a) Net Assets taken over			
Fixed Assets	7,10,000	3,90,000	11,00,000
Current Assets	2,99,500	1,14,400*	4,13,900
	10,09,500	5,04,400	15,13,900
Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
	4,55,850	3,24,150	7,80,000
(b) Purchase Consideration	3,57,500	3,58,500	7,16,000
(c) Capital Reserve [(a) - (b)]	<u>98,350</u>		
(d) Goodwill [(b) - (a)]		<u>34,350</u>	
(e) Capital Reserve [Final Figure(c) - (d)]			64,000

* 1,57,750-43,350= 1,14,400

** 5,97,000-43,350= 5,53,650

Question 5

- (a) The following are the figures extracted from the books of National Bank Limited as on 31-3-2018.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, Exchange and Brokerage	3,04,000
Rent received	1,04,000
Profit on sales of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- (i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- (ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.
- (iii) Rebate on bills discounted on 31-3-2017 was ₹ 19,000 and on 31-3-2018 was ₹ 25,000.
- (iv) Preliminary expenses are to be fully written off during the year.
- (v) Provide ₹ 9,00,000 for Income-tax.
- (vi) Profit and loss account opening balance was Nil as on 31-3-2017.
- (vii) The directors desire to declare 10% dividend after transfer of 25% of the year's profit to statutory reserve.

You are required to prepare profit & loss Account of the National Bank Ltd. with all the necessary schedules for the year ended 31st March 2018. Ignore figures for the Previous year and corporate dividend tax. **(8 Marks)**

- (b) On 31st March, 2018 the books of Priya Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount (₹)
Reserve for unexpired risks on 31 st March, 2017	10,00,000
Additional Reserve for unexpired risks on 31 st March, 2017	2,00,000
Premiums	22,40,000
Claims paid	12,80,000
Estimated liability in respect of outstanding claims:	
On 31 st March, 2017	1,30,000
On 31 st March, 2018	1,80,000
Expenses of Management (including ₹ 60,000 legal expenses paid in connection with the claims)	5,60,000
Interest and Dividend (Gross)	1,28,500
Income tax on the above	13,040
Profit on sale of investments	22,000
Commission paid	3,04,000

On 31st March 2018 provide ₹ 11,20,000 as unexpired risk reserve and ₹ 1,50,000 as additional reserve.

You are required to prepare the fire Insurance Revenue account as per the regulations of IRDA, for the year ended 31st March 2018. **(8 Marks)**

Answer

(a)

National Bank Limited

Profit and Loss Account for the year ended 31st March, 2018

		Schedule	Year ended 31.03.2018
			(₹ in 000's)
I.	Income:		
	Interest earned	13	5923.18
	Other income	14	<u>728.00</u>
	Total		<u>6651.18</u>

II.	Expenditure		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies		<u>2070.00</u>
	Total		<u>6098.38</u>
III.	Profits/Losses		
	Net profit for the year		552.80
	Profit brought forward		<u>Nil</u>
			<u>552.80</u>
IV.	Appropriations		
	Transfer to statutory reserve (25%)		138.20
	Dividend		160.00
	Balance carried over to balance sheet*		<u>254.60</u>
			<u>552.80</u>

*The Profit & Loss Account balance of ₹ 254.60 thousand will appear in the Balance Sheet under Schedule 2 'Reserves and Surplus'.

		<i>Year ended 31.3. 2018 ₹' in 000</i>
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	<u>5923.18</u>
		<u>5923.18</u>
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304.00
II.	Profit on sale of investments	320.00
III.	Rent received	<u>104.00</u>
		<u>728.00</u>
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	<u>3259.92</u>
		<u>3259.92</u>
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees(Salaries)	320.00
II.	Rent, taxes and lighting	144.00

III.	Depreciation on bank's properties	48.00
IV.	Director's fee, allowances and expenses	48.00
V.	Auditors' fee	28.00
VI.	Law (statutory) charges	44.00
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	<u>40.00</u>
		<u>768.46</u>

Working Notes:

1.

	(₹ in '000s)
Interest/discount (net of rebate on bills discounted)	5929.18
Add: Rebate on bills discounted on 31.3. 2017	19.00
Less: Rebate on bills discounted on 31.3. 2018	<u>(25.00)</u>
	<u>5923.18</u>

2. **Provisions and Contingencies**

	(₹ in '000s)
Provision for doubtful debts:	
Doubtful debts due to insolvency of customer (60% of ₹ 16 lakhs)	960
Provision for debts	210
Provision for Income Tax	<u>900</u>
	<u>2,070</u>

(b)

FORM B- RA**Name of the Insurer: Priya Insurance Company Limited****Registration No. and Date of registration with IRDA:****Revenue Account for the year ended 31st March, 2018**

Particulars	Schedule	Amount (₹)
Premium earned (net)	1	21,70,000
Profit or loss on sale/redemption of investments		22,000
Others		-
Interest and dividend (gross)		1,28,500

Total (A)		23,20,500
Claims incurred (Net)	2	13,90,000
Commission	3	3,04,000
Operating expenses related to insurance	4	5,00,000
Total (B)		21,94,000
Operating profit/loss from insurance business (B) – (A)		1,26,500

Schedule –1 Premium earned (net)

	₹
Premium received	22,40,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(70,000)
Total premium earned	21,70,000

Schedule -2 Claims incurred (net)

	₹
Claims paid	12,80,000
Add: Legal expenses regarding claims	60,000
	13,40,000
Add: Claims outstanding as on 31 st March, 2018	1,80,000
	15,20,000
Less: Claims outstanding as on 31 st March, 2017	(1,30,000)
	13,90,000

Schedule -3 Commission

	₹
Commission paid	3,04,000

Schedule-4 Operating expenses related to Insurance Business

	₹
Expenses of management (₹ 5,60,000 – ₹ 60,000)	5,00,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		₹
Reserve for Unexpired Risk as on 31 st March, 2018	11,20,000	

Additional Reserve as on 31 st March, 2018	1,50,000	12,70,000
Less: Reserve for Unexpired Risk as on 31 st March, 2017	10,00,000	
Additional Reserve as on 31 st March, 2017	2,00,000	(12,00,000)
Transfer to reserve for unexpired risk on 31 st March 2018		70,000

Note: Interest and dividends are shown at gross value in Revenue account. Income tax on it will not be included in the Revenue account as it is the part of Profit and Loss account of an insurance company.

Question 6

- (a) M/s P have 2 Departments - X and Y. From the following information, prepare departmental Trading A/c and General Profit & Loss Account for the year ended on 31st March 2018.

	Amount (₹)	
	Department X	Department Y
Opening stock as on 1-04-2017 (at cost)	2,45,000	2,43,000
Purchases	13,72,000	13,41,000
Carriage Inward	21,000	40,500
Wages	1,89,000	1,62,000
Sales	20,02,000	20,70,000
<u>Purchased Goods Transferred:</u>		
By Department Y to X	2,25,000	
By Department X to Y		1,26,000
<u>Finished Goods Transferred:</u>		
By Department Y to X	6,75,000	
By Department X to Y		6,12,500
<u>Return of Finished Goods:</u>		
By Department Y to X	1,57,500	
By Department X to Y		1,44,000
<u>Closing Stock:</u>		
Purchased Goods	84,000	1,35,000
Finished Goods	3,57,000	2,79,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and 30% of the closing finished stock with each department represents finished goods received from the other department.

(8 Marks)

- (b) *M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.*

From the following details, relating to calendar year 2017, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit.

Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	₹
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1 st January, 2017	4,50,000
Sales during the year - Cash	15,00,000
- Credit	27,00,000
Sundry Debtors at Bangalore as on 1 st January, 2017	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31 st December, 2017 at invoice price	9,00,000

(8 Marks)

Answer

- (a) **Departmental Trading Account in the books of M/s P
for the year ended 31st March 2018**

Particulars	Department X	Department Y	Particulars	Department X	Department Y
	₹	₹		₹	₹
To Opening stock	2,45,000	2,43,000	By Sales	20,02,000	20,70,000
To Purchases	13,72,000	13,41,000	By Transfers:		
To Carriage inward	21,000	40,500	Purchased goods	1,26,000	2,25,000

To Wages	1,89,000	1,62,000	Finished goods (net of returns)	4,55,000*	5,31,000*
To Transfers:			By Closing stock:		
Purchased goods	2,25,000	1,26,000	Purchased goods	84,000	1,35,000
Finished goods (net of returns)	5,31,000	4,55,000	Finished goods	3,57,000	2,79,000
To Gross profit c/d	<u>4,41,000</u>	<u>8,72,500</u>			
	<u>30,24,000</u>	<u>32,40,000</u>		<u>30,24,000</u>	<u>32,40,000</u>

General Profit and Loss A/c

for the year ended 31st March, 2018

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Provision for unrealized profit included in closing stock		By Gross profit b/d	
Department X (W.N. 3)	35,921	Department X	4,41,000
Department Y (W.N. 3)	15,024	Department Y	8,72,500
To Net profit	12,62,555		
	<u>13,13,500</u>		<u>13,13,500</u>

Working Notes:

1. Calculation of rates of gross profit margin on sales

	<i>Department X</i>	<i>Department Y</i>
	₹	₹
Sales	20,02,000	20,70,000
Add: Transfer of finished goods	<u>6,12,500</u>	<u>6,75,000</u>
	26,14,500	27,45,000
Less: Return of finished goods	<u>(1,57,500)</u>	<u>(1,44,000)</u>
	<u>24,57,000</u>	<u>26,01,000</u>
Gross Profit	4,41,000	8,72,500

* Net transfers of finished goods by

Department X to Y = ₹6,12,500 – ₹1,57,500 = ₹4,55,000

Department Y to X = ₹6,75,000 – ₹1,44,000 = ₹5,31,000

Gross profit margin =	$(4,41,000/24,57,000) \times 100 = 17.95\%$	$(8,72,500/26,01,000) \times 100 = 33.54\%$
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2. Finished goods from other department included in the closing stock

	Department X	Department Y
	₹	₹
Stock of finished goods	3,57,000	2,79,000
Stock related to other department (30% of finished goods)	1,07,100	83,700

3. Unrealized profit included in the closing stock

Department X = 33.54% of ₹1,07,100 = ₹ 35,921

Department Y = 17.95% of ₹83,700 = ₹ 15,024

(b)

Bangalore Branch Stock Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,50,000	By Goods sent to branch A/c (Returns)	90,000
To Goods sent to branch A/c	45,00,000	By Bank A/c (Cash sales)	15,00,000
To Branch debtors A/c (Returns)	60,000	By Branch debtors A/c (credit sales)	27,00,000
To Branch adjustment A/c (Surplus over invoice price)*	<u>1,80,000</u>	By Balance c/d	9,00,000
	<u>51,90,000</u>		<u>51,90,000</u>

*Alternatively, this may directly be transferred to Branch P&L A/c without routing it through Branch Adjustment Account.

Bangalore Branch Adjustment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock reserve - 20% of ₹9,00,000 (closing stock)	1,80,000	By Stock reserve - 20% of ₹4,50,000 (Opening stock)	90,000
To Branch profit & loss A/c (Gross profit)	9,72,000	By Goods sent to branch A/c - 20% of ₹44,10,000 (45,00,000 - 90,000)	8,82,000

	<u>11,52,000</u>	By Branch stock A/c	1,80,000
			<u>11,52,000</u>

Branch Profit & Loss Account

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Branch expenses A/c	6,30,000	By Branch adjustment A/c	9,72,000
To Branch debtors A/c (Discount)	45,000	(Gross Profit)	
To Branch debtors A/c (Bad Debts)	30,000		
To Net profit (transferred to Profit & Loss A/c)	<u>2,67,000</u>		<u> </u>
	<u>9,72,000</u>		9,72,000

Branch Expenses Account

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Bank A/c (Rent, rates & taxes)	1,35,000	By Branch profit and loss A/c (Transfer)	6,30,000
To Bank A/c (Salaries, wages & bonus)	4,50,000		
To Bank A/c (Office expenses)	<u>45,000</u>		<u> </u>
	<u>6,30,000</u>		<u>6,30,000</u>

Branch Debtors Account

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Balance b/d	5,40,000	By Bank A/c	24,00,000
To Branch stock A/c	27,00,000	By Branch profit and loss A/c (Bad debts and discount)	75,000
		By Branch stock A/c (Sales returns)	60,000
		By Balance c/d (bal. fig.)	<u>7,05,000</u>
	<u>32,40,000</u>		<u>32,40,000</u>

Goods sent to Branch Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch stock A/c	90,000	By Branch stock A/c	45,00,000
To Branch adjustment A/c	8,82,000		
To Purchases A/c	<u>35,28,000</u>		
	<u>45,00,000</u>		<u>45,00,000</u>

Note: The solution has been given on 'Stock and Debtors Method'. As the question is silent on the method to be adopted, an alternate solution is also possible.

Question 7

Answer any **four** of the following:

(a) Shankar started a business on 1st April, 2017 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shankar in the year 2017-18 if Financial Capital is maintained at Historical cost.

(b) A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential creditors and 3% on the payment made to unsecured creditors. The assets were realized for ₹ 50,00,000 against which payment was made as follows:

Liquidation	₹ 50,000
Secured Creditors	₹ 20,00,000
Preferential Creditors	₹ 1,50,000
The amount due to Unsecured creditors was	₹ 30,00,000

You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(c) Write short notes on the types of re-insurance contracts.

(d)

Outstanding Balance	₹ 12 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on 31 st March, 2018)
Value of security held (realisable value only 70%)	₹ 5.00 lakhs

You are required to calculate provisions as per applicable rules.

(e) Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following:

- (1) Applicable Law
- (2) Number of Partners
- (3) Ownership of Assets
- (4) Liability of Partners/Members

(4 x 4 = 16 Marks)

Answer

(a)

<i>Particulars</i>	<i>Financial Capital Maintenance at Historical Cost (₹)</i>
Closing equity (₹30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x ₹20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Therefore, ₹ 6,00,000 is the maximum amount which can be withdrawn by Shankar in the year 2017-18 if the Financial Capital Maintenance is maintained at Historical Cost.

(b) **Calculation of Total Remuneration payable to Liquidator**

	<i>Amount in ₹</i>
2% on Assets realised (50,00,000 x 2%)	1,00,000
3% on payment made to Preferential creditors (1,50,000 x 3%)	4,500
3% on payment made to Unsecured creditors (Refer W.N)	<u>78,510</u>
Total Remuneration payable to Liquidator	<u>1,83,010</u>

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 50,00,000 – ₹ 50,000 – ₹ 20,00,000 – ₹ 1,50,000 – ₹ 1,00,000 – ₹ 4,500

= ₹ 26,95,500

Since cash balance is available for unsecured creditors, Liquidator's remuneration on payment to unsecured creditors = ₹ 26,95,500 X 3 /103= ₹ 78,510 (rounded off)

(c) There are two types of reinsurance contracts:

1. **Facultative Reinsurance:** It is that type of reinsurance whereby the contract relates to one particular risk and is expressed in a reinsurance policy. Each transaction under Facultative Reinsurance has to be negotiated individually and each party to the transaction has a free choice, i.e. for the ceding company to offer and the reinsurer to accept. The main drawback of this type of insurance is the volume of work involved and time taken to cover the risk.
2. **Treaty Insurance:** Under this type of reinsurance a Treaty agreement is entered into between ceding company and the re-insurer(s) whereby the reinsurances are within the limits of the Treaty. These limits can be monetary, geographical, section of business, etc. Under this contract it is obligatory for the re-insurer to accept all risks within the scope of this Treaty and it is obligatory for the ceding company to cede risks in accordance with the terms of the Treaty.

(d) Provision required to be made as on 31.3.2018

	₹
Doubtful Assets (more than 3 year)	12,00,000
Less: Realizable value of security (70% of 5 Lakh)	<u>(3,50,000)</u>
	8,50,000
Less: ECGC coverage	<u>(4,25,000)</u>
Unsecured portion	<u>4,25,000</u>
Provision:	
for unsecured portion @100% on ₹ 4,25,000	4,25,000
for secured portion @ 100% on ₹3,50,000	<u>3,50,000</u>
Provision to be made in the books of the bank	<u>7,75,000</u>

(e) Distinction between an ordinary partnership firm and an LLP

Key Elements	Partnerships	LLPs
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm.	The LLP as an independent entity can own assets
Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.