Paper 5 - Financial Accounting

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Answer Question No. 1 which is compulsory and any five from the rest.

Working Notes should form part of the answer. Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

1. (a) **[5 x 2 =10]**

(i) Asus sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹24,000 down payment and eight monthly instalments of ₹ 12,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

Answer :

Total HP price per computer = Down payment + Instalments = 24,000 + (8 × 12,000)
= ₹ 1,20,000

HP Price = 120% of cost. So, cost per computer = $\frac{1,20,000}{120\%}$ = ₹ 1,00,000

Value of repossessed computers = 50% of cost = 50% of 1,00,000 = ₹ 50,000 each

(ii) X, Y and Z are partners sharing profits and losses in the ratio 3:2:1. Y retired from the firm. X and Z decided to take his share in 3:1 ratio. What is the New Ratio of the partners X and Z.

Answer:
Computation of New Profit and Loss Sharing Ratio (PSR) of partners X and Z

Particulars	X	Y	Z	Total
1. Old Ratio	3/6	2/6	1/6	3:2:1
2. Share of Y apportioned between X and Z in 3:1 ratio	1/3 x 3/4 = 3/12	-2/6	1/3 x 1/4 = 1/12	3:1
3. New PSR after B's retirement (1+2)	9/12=18/24		3/12 = 6/24	18:6 =3:1

(b) Choose the Appropriate Answer: **[5×1=5]**

(i) Which of the following item of cost is not a part of inventory

A. Storage expenses
B. Normal wastages
C. Inward freight
D. Customs duties

(ii) Which of the following statement is true

A. The shares are bought back to increase the holding of the promoters
B. The shares are bought back to improve the financial health of the company
C. The shares are bought back to increase the Earning per share
D. All of above.

(iii) Both total assets and owners capital are increased by….

A. Credit Purchase
B. Retained Earning
C. Bank Loan
D. Drawings

(iv) The Accounting Standard on 'the Effect of Changes in foreign exchange rates' is

A. AS -11
B. AS -15
C. AS -18
D. None of these

(v) Arrangement of balance sheet in a proper way is known as

A. Marshalling of Balance Sheet
B. Formatting of Balance Sheet
C. Finalization of Balance Sheet
D. Grouping of Balance Sheet

Answer:

(i) — A.
(ii) — D.
(iii) — B.
(iv) — A.
(v) — A.

(c) Fill in the blanks in the following sentences by using the more appropriate word(s) from the alternatives shown in bracket : [1×5=5]

(i) When there is no agreement among the partners, the profit or loss of the firm will be shared in their _______________ (capital ratio/equally).
(ii) In Hire Purchase transaction the right to sell or transfer of the goods remains the _______________ (Seller/ Hirer).
(iii) As per the going concern concept, the enterprise should continue to exist _______________ (in the foreseeable future/for limited period of time).
(iv) Inauguration expenses on opening of a new Branch of an existing business will be _________________ (capital/revenue) expenditure.
(v) Trail balance would not disclose _______________ (error of omission/omission of posting).

Answer:

(i) Equally;
(ii) Seller;
(iii) in the foreseeable future;
(iv) Capital;
(v) Error of omission.

(d) Match the following : **[1×5=5]**

(i) AS-3	**(A) Accounting for Government grants**
(ii) AS-20	**(B) Segmental Reporting**
(iii) AS-18	**(C) Cash Flow Statement**
(iv) AS-17	**(D) Related Party Transaction**
(v) AS-12	**(E) Earning per Share**
	(F) No matching statements found

Answer:

(i) AS-3	(C) Cash Flow statement
(ii) AS-20	(E) Earning per share
(iii) AS-18	(D) Related Party Transaction
(iv) AS-17	(B) Segmental Reporting
(v) AS-12	(A) Accounting for Government grants

2. (a) M Ltd. purchased a plant for US $20,000 on 31st December, 2012 payable after 4 months. The company entered into a forward contract for 4 months @ ₹ 48.85 per dollar. On 31st December, 2012, the exchange rate was ₹47.50 per dollar.
How will you recognize the profit or loss on forward contract in the books of M Limited for the year ended 31st March, 2013. **[5]**

Answer:
Calculation of Profit or Loss to be recognized in the books of M Limited

Particulars	**₹**
Forward contract rate	48.85
Less: Spot rate	47.50
Loss	1.35
Forward Contract Amount	$20,000
Total loss on entering into forward contract = ($20,000 x ₹1.35)	₹27,000
Contract period	4 months
Loss for the period 1st January, 2013 to 31st March, 2013 i.e. 3 months falling in the year 2012-2013 will be (₹ 27,000 x 3/4)	20,250

Balance loss of ₹6,750 (i.e. ₹ 27,000 - ₹ 20,250) for the month of April, 2013 will be recognized in the financial year 2013-2014.

(b)Discuss Prior Period item as per AS – 5. **[4]**

Answer:
Prior Period item
Prior Period items are income or expenses, which arise, in current period as a result of error or omission in the preparation of financial statement of one or more prior periods.

Disclosure of prior period items: The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

Examples of prior period items
- Error in calculation in providing expenditure or income
- Omission to account for income or expenditure.

(C) Best Ltd. gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.01.2012	65,000	Discount allowed by suppliers	8,000
Creditors as on 01.04.2012	80,000	Discount allowed to customers	10,000
Bills receivable received during the year	45,000	Endorsed bills receivable dishonoured	5,000
Bills receivable issued during the year	52,000	Sales return	9,000
Cash received from customer	1,55,000	Bills receivable discounted	8,000
Cash paid to suppliers	1,70,000	Discounted bills receivable dishonoured	3,000
Bad debts recovered	16,000	Cash sales	1,68,000
Bills receivables endorsed to creditors	28,000	Cash purchase	1,95,000
Bills receivables dishonoured by customers	6,000	Debtors as on 31.03.2013	83,000
		Creditors as on 31.03.2013	95,000

[6]

Answer:

Dr. **Total Debtors Account** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To balance b/d (given)	65,000	By Cash/ Bank A/c (Cash received)	1,55,000
To Bills Receivable A/c (Dishonoured)	6,000	By Discount Allowed A/c	10,000
To Creditors A/c (Dishonour of endorsed B/R)	5,000	By Bills Receivable A/c (B/R Received)	45,000
To Bank A/c (Discounted B/R dishonoured)	3,000	By Sales Returns A/c	9,000
To Sales A/c. (Bal Fig = Credit Sales)	2,23,000	By balance c/d (given)	83,000
	3,02,000		**3,02,000**

Dr. **Total Creditors Account** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Cash/ Bank A/c (Payment)	1,70,000	By balance b/d (given)	80,000
To Discount received A/c	8,000	By Debtors A/c (dishonour of endorsed B/R)	5,000
To Bills payable A/c (issued)	52,000	By Purchase A/c (Bal Fig = Credit Purchase)	2,68,000
To Bills receivable (endorsement)	28,000		
To balance c/d (given)	95,000		
	3,53,000		**3,53,000**

Total Sales = Credit Sales + Cash Sales = ₹ (2,23,000 + 1,68,000) = ₹ 3,91,000
Total Purchase = Credit Purchase + Cash Purchase = ₹ (2,68,000 + 1,95,000) = ₹ 4,63,000

3. (a) The Promoters of proposed Air Ltd. purchased a running business on 01.01.2014 from Pollution Ltd. Air Ltd. was incorporated on 1st May 2014. The combined Profit and Loss Account of the company prior to and after the date of incorporation is as under:

Profit and Loss account for the year ended 31st December, 2014

Particulars	Amount ₹	Particulars	Amount ₹
To Rent, Rates & Salaries etc.	9,000	By Gross Profit	1,50,000
To Directors' sitting Fees	4,900	By Discount received from Creditors	6,000
To Preliminary Expenses	3,600		
To Carriage Outwards	6,500		
To Interest Paid to Vendors	12,000		
To Net Profit	1,20,000		
	1,56,000		1,56,000

Following further information is available:

(i) Sales up to 31.04.2014 were ₹3,00,000 out of total sales of rs.15,00,000 for the year.

(ii) Purchase up to 31.04.2014 were ₹3,00,000 out of total purchase of ₹9,00,000 for the year.

(iii) Interest paid to vendors on 1st November, 2014 @ 12% p.a. ₹1,00,000 being purchase consideration.

Prepare a profit & Loss Account for the year ended 31st December, 2014 showing the profits earned prior to and after incorporation showing the transfer of the same to appropriate accounts. [5]

Answer:

Working Notes:

(i) Sales Ratio between Pre - Incorporation and Post – Incorporation periods = 3,00,000 : 12,00,000 = 1 : 4.

(ii) Purchase Ratio = 3,00,000 : 6,00,000 = 1: 2.

(iii) Time Ratio = 4 months: 8 months = 1 : 2.

(iv) Time ratio regarding interest on purchase consideration = 4 months : 6 months (1.5.2014 to 31.10.2014) = 2 : 3.

In the books of Air Ltd.

Profit & Loss Account for the year ended 31.12.2014

Dr. **Cr.**

Particulars	Pre-Incorporation 01.01.14 to 31.04.14 ₹	Post-Incorporation 01.05.14 to 31.12.14 ₹	Particulars	Pre-Incorporation 01.01.14 to 31.04.14 ₹	Post-Incorporation 01.05.14 to 31.12.14 ₹
To, Rent, Rate & Salaries [9,000 in time Ratio 1 : 2]	3,000	6,000	By gross Profit [1,50,000 as 1 : 4]	30,000	1,20,000
To, Directors' Sitting Fees	-	4,900	By Discount Received from Creditors [6,000 as 1 : 2] (Purchase Ratio)	2,000	4,000
To, Preliminary Expenses	*3,600	-			
To, Carriage Outward [6,500 in sales Ratio 1 : 4]	1,300	5,200			
To, Interest on Purchase consideration [2 : 3]	4,800	7,200			
To, Capital Reserve	19,300				
To Balance c/f		1,07,900			
	32,000	1,24,000		32,000	1,24,000

* In this problem Pre- Incorporation Profits have been used to write off preliminary expenses before any balance is transferred to capital reserve. Students can charge such expenses against Post- Acquisition Profits also. In that case transfer to capital reserve should be ₹22,900.

(b) What is meant by Foreign Branches and Independent Branches? [2]

Answer:
Foreign Branches: Branches which are located in a foreign country (i.e. in a country other than in which the company is incorporated and registered) are known as Foreign Branches.

Independent Branches: Branches which maintain independent accounting records are known as Independent Branches.

(c) Journalize the following transactions. Narration is not required:
Issue of 15% 1,00,000 debentures of ₹100 each
(i) At par and redeemable at par.
(ii) At 10% discount and redeemable at par.
(iii) At 10% premium and redeemable at par.
(iv) At 10% premium and redeemable at a premium of 5%.
(v) At par and redeemable at a premium of 5%.
(vi) At 10% discount and redeemable at a premium of 5%. [8]

Answer:

Journalize Entries

			Dr.	Cr.
	Particulars		**₹'000**	**₹'000**
i.	Bank Account	Dr.	10,000	
	To 15% Debentures Account			10,000
ii.	Bank Account	Dr.	9,000	
	Discount on Issue of Debentures Account	Dr.	1,000	
	To 15% Debentures Account			10,000
iii.	Bank Account	Dr.	11,000	
	To 15% Debentures Account			10,000
	To Securities Premium Account			1,000
iv.	Bank Account	Dr	11,000	
	Loss on issue of debenture	Dr	500	
	To 15% Debentures Account			10,000
	To Securities Premium Account			1,000
	To Prem. on redemption of debentures			500
v.	Bank Account	Dr.	10,000	

	Loss on issue of Debentures Account	Dr.	500	
	To 15% Debentures Account			10,000
	To Prem. on redemption of Debentures			500
vi.	Bank Account	Dr.	9,000	
	Loss on Issue of Debentures Account **	Dr.	1,500	
	To 15% Debentures Account			10,000
	To Prem. on redemption of Debentures			500

** This amount includes ₹1,000 discount on issue of debentures and ₹500 premium on redemption.

4. M, J and P were partners sharing Profit and Losses in the ratio of M – 40%, J – 35% and P – 25%. The Balance Sheet of the Partnership as on 31st December was as follows:

Capital and Liabilities	₹	₹	Properties & Assets	₹
Current Accounts:			**Non-Current Assets:**	
M	**12,000**		**Premises (at cost)**	**75,000**
J	**8,000**		**Plant & Machinery (Cost) 80,000**	
P	**6,000**	**26,000**	**Less: Depreciation (28,000)**	**52,000**
Capital Accounts:			**Current Assets:**	
M	**90,000**		**Sundry Debtors 34,000**	
J	**50,000**		**Less: Provision for Doubtful Debts (6,000)**	**28,000**
P	**30,000**	**1,70,000**	**Stock**	**42,000**
Non-Current Liabilities: Loan from J		**30,000**	**Cash on Hand and at Bank**	**67,000**
Current Liabilities: Sundry Creditors		**30,000**		
Bills Payable		**8,000**		
		2,64,000		**2,64,000**

J retired from the Firm on 31st December. M and P continued in partnership, sharing Profits and Losses in the ratio of M – 60% and P – 40%. 50% of J Loan was repaid on 1st January (Immediately on retirement) and it was agreed that, of the amount then remaining due to her, a sum of ₹ 80,000 should remain as Loan to Partnership, and the balance to be carried forward as ordinary trading liability.

The following adjustments were agreed to be made to the above – mentioned Balance Sheet.

- **(i) ₹ 10,000 should be written off from the Premises.**
- **(ii) Plant and Machinery was revalued at ₹ 58,000.**
- **(iii) Provision for Doubtful Debts to be increased by ₹ 1,200.**
- **(iv) ₹ 5,000 due to Creditors for Expenses had been omitted from the Books of Account.**
- **(v) ₹ 4,000 to be written off on Stocks.**
- **(vi) Provide ₹ 1,200 for Professional Charges in Connection with revaluation.**

As per the Deed of Partnership, in the event of the retirement of a Partner, Goodwill is to be valued at an amount equal to one year's purchase of the Average Profits of the preceding three years on the date of retirement. Before determining the said Average Profits, a National Amount of ₹ 80,000 should

be charged for Remuneration to partners. The necessary Profits before charging such Remuneration were: ₹ 1,44,000, ₹ 1,68,000, and ₹ 1,88,200 for the past three years (as per Draft Accounts).

It was agreed that, for the purpose of valuing Goodwill, the amount of profit for the last year be re-computed after charging the loss on revaluation in respect of Premises and Stock, the Unprovided Expenses (expect Professional Expenses) and increase in the Provision for Doubtful Debts. The continuing partners decided to eliminate Goodwill Account from their books.

Prepare: (i) Revaluation Account, (ii) Capital Account (merging Current Accounts therein), (iii) J Account showing Balance due to her, and (iv) Balance Sheet of M and P as at 1st January.

Answer:
Workings:

Computation of Adjusted Profit for the year ending 31st December

Particulars	₹	₹
Profit as per Draft Accounts		1,88,200
Loss: Premises – amount written off	10,000	
Provision for Doubtful debts	1,200	
Outstanding Expenses provided	5,000	
Stock – reduction in value	4,000	(20,200)
Adjusted Profit for the year		1,68,000

Note: Professional Charges, being retirement – related one – time expenses, is not considered above.

Valuation of Goodwill

Particulars	₹
Total Profits for last three years (1,44,000 + 1,68,000 + 1,68,000) after adjustment	4,80,000
Average Profits before Partners' Remuneration (Total Profits ₹ 4,80,000 ÷ 3 Years)	1,60,000
Less: Partners' Salaries (Notional)	(80,000)
Super Profit and Goodwill (One years' purchase)	80,000

(i) Dr. Revaluation Account Cr.

Particulars	₹	Particulars		₹
To Premises – amount written off	10,000	By Plant and Machinery		6,000
To Provision for Doubtful Debts	1,200	By Capital Accounts – Loss Transferred (Old PSR)		
To Outstanding Expenses	5,000	M (40% × ₹ 15,400)	6,160	
To Stocks- reduction in value	4,000	J (35% × ₹ 15,400)	5,390	
To Provision for Professional changes	1,200	P (25% × ₹ 15,400)	3,850	15,400
	21,400			21,400

(ii) Dr. Partners' Capital Account Cr.

Particulars	M	J	P	Particulars	M	J	P
To Realization Loss	6,160	5,390	3,850	By Balance b/d	90,000	50,000	30,000
To G/W (New PSR 60:40)	48,000	---	32,000	By Current A/c	12,000	8,000	6,000
To J A/c- Trfd.	---	80,610	---	By G/W (40:35:25)	32,000	28,000	20,000
To balance c/d	79,840	---	20,150				
	1,34,000	86,000	56,000		1,34,000	86,000	56,000

(iii) J's Account (Personal)

Particulars	₹	Particulars	₹
To Bank (50% of Old Loan)–Settlement	15,000	By Capital A/c – transfer of amount due	80,610
To Loan A/c (Transferred)–New Loan	80,000	By Loan A/c (Old Loan) transfer	30,000
To Balance c/d – Trading Liability	15,610		
	1,10,610		1,10,610

(iv) Balance Sheet of M and P
as at 31st January (after J's retirement)

Capital and Liabilities	₹	₹	Properties and Assets	₹	₹
Capital Accounts:			Non-Current Assets:		
M	79,840		Plant and Machinery	86,000	
P	20,150	99,990	Less: Depreciation	(28,000)	58,000
Non-Current Liabilities: Mamba Loan A/c		80,000	Premises	75,000	
Current Liabilities:			Less: Written off	(10,000)	65,000
Creditors (30,000 + 5,000)	35,000		Current Assets:		
J (Creditors) A/c	15,610		Stock in Trade		38,000
Bills Payable	8,000		Sundry Debtors	34,000	
Professional Charges P'ble	1,200	59,810	Less: provision for Doubtful Debts	(7,200)	26,800
			Cash & Bank (67,000 – 15,000)		52,000
		2,39,800			**2,39,800**

4. **(a) From the following information, make out a statement of Proprietors' Fund with as many details as possible:**

(i)	**Current Ratio**	**2.5**
(ii)	**Liquid Ratio**	**1.5**
(iii)	**Proprietary Ratio (Fixed Assets: Proprietors' Fund)**	**0.75 or $\frac{3}{4}$**
(iv)	**Working Capital**	**₹ 6,000**
(v)	**Reserves & Surplus**	**₹ 4,000**
(vi)	**Bank Overdraft.**	**₹ 1,000**

There are neither long-term loans nor any investments in fictitious assets. [12]

Answer:
Workings:
(i) Current Assets and Current Liabilities:
Current Ratio = 2.5

or, Current Assets/ Current Liabilities = 2.5

or, Current Assets = 2.5 x Current liabilities

Now,
Working Capital= Current Assets – Current Liabilities
₹ 6,000 = 2.5 Current Liabilities – Current Liabilities
∴ ₹ 6,000 = 1.5 Current Liabilities

$\therefore$ Current Liabilities = $\frac{6{,}000}{1.5}$ = ₹ 4,000

∴ Current Liabilities = ₹ 4,000
and Current Assets : Working Capital + Current Liabilities
= ₹ 6,000 + ₹ 4,000
= ₹ 10,000
Creditors = Current Liabilities – Bank Overdraft
= 4,000 – 1,000
= 3,000

(ii) Stock:

Liquid Ratio: $\frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}$

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities - Bank overdraft}}$$

or, 1.5 = $= \frac{\text{Liquid Assets}}{3{,}000(4{,}000\text{-}1{,}000)}$

or, Liquid Assets = ₹ 3,000 x 1.5 = ₹ 4,500.

Stock = Current Assets – Liquid Assets

= ₹ 10,000 – ₹ 4,500

= ₹ 5,500.

(iii) Proprietors' Fund:

Proprietary Ratio i.e., Fixed Assets to Proprietors' Fund is 0.75 : 1.
So, if Proprietors' Fund is 1. Fixed Assets are 0.75.
Again, Proprietors' Fund – Fixed Assets = Current Assets - Current Liabilities

or, 1 - $\frac{3}{4}$ = ₹ 10,000 – ₹ 4,000

or, $\frac{1}{4}$ = ₹ 6,000.

∴ = ₹ 6,000 x $\frac{4}{1}$ = ₹ 24,000.

Therefore, Proprietors' Fund = ₹ 24,000.

Here, Proprietor's Fund = Share Capital and Reserves & Surplus

∴ Share Capital = Proprietors' Fund – Reserves & Surplus
= ₹ 24,000 – ₹ 4,000
= ₹ 20,000.

(iv) Fixed Assets:

Fixed Assets 0.75 of Proprietors' Fund i.e., ₹ 18,000 (₹ 24,000 x 0.75)

Statement of Proprietor's Fund

Proprietors' Fund	₹	Investment in	₹	₹	₹
Equity Share Capital	20,000	Fixed Assets			18,000
Reserve and Surplus	4,000	**Working Capital**			
		Current Assets:			
		Stock	5,500		
		Liquid Assets	4,500	10,000	
		Less: Current Liabilities:			
		Bank Overdraft	1,000		
		Creditors	3,000	4,000	6,000
	24,000				24,000

(b) Sales include ₹400 lakhs representing royalty receivable for supply of knowhow to a Company in South-East Asia. As per agreement the amount is to be received in US Dollars. However, exchange permission was denied to the Company in South-East Asia for remitting the same. [3]

Answer:

As per Para 9.2 of AS-9 on Revenue Recognition, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it reasonably certain that the ultimate collection will be made.

Thus, 'Sale and other income, should be reduced by ₹400 lakhs with equivalent credit to Royalty receivable account.

Alternatively, Para 9.3 of AS-9 may be applied after making reasonable assumption as to the timing of uncertainty. According to Para 9.3, of AS-9 when the uncertainty relating to collectability arises subsequent to the time of sale or the rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty than to adjust the amount of revenue originally recorded.

5. (a) Best Bank Ltd. provides you the following information:

	₹ (in lakhs)
Bills for Collection (as on 1.4.2013)	**14.00**
During the year 2013-14	
Bills received for Collection	**129.00**
Bills Collected	**94.00**
Bills dishonoured and returned	**11.01**

Required:

Prepare Bills for Collection (Assets) Account and Bills for Collection (Liabilities) Account. [6]

Answer:

Bills for Collection (assets) Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.13	To Balance b/d	14.00	2013-14	By Bills for Collection (Liabilities) A/c	94.00
	To Bills for Collection (Liabilities) A/c	129.00		By Bills for Collection (Liabilities) A/c By	11.01
			31.03.14	Balance c/d	37.99
		143.00			143.00

Bills for Collection (liabilities) Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
20.13-14	To Bills for Collection (Assets) A/c	94.00	01.04.13	By Balance b/d	14.00
31.03.14	To Bills for Collection (Assets) A/c	11.01		By Bills for Collection (Assets) A/c	129.00
	To Balance c/d	37.99			
		143.00			143.00

(b) From the following figures appearing in the books of Fire Insurance division of Swasti General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars	Direct Business ₹	Re-Insurance ₹
Claim paid during the year	**70,05,000**	**10,50,000**
Claim Payable — 1st April, 2013	**11,44,500**	**1,30,500**
31st March, 2014	**12,18,000**	**79,500**
Claims received	**-**	**3,54,000**
Claims Receivable — 1st April, 2013	**-**	**98,000**
31st March, 2014	**-**	**1,69,500**
Expenses of Management: (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	**3,45,000**	**-**

[2+6=9]

Answer:

Swasti General Insurance Company (Abstract showing the amount of claims)

Particulars	₹'000	₹'000
Claims less Re-insurance :		
Paid during the year	7,821.00	
Add: Outstanding claims at the end of the year	1,128.00	
	8,949.00	
Less: Outstanding claims at the beginning of the year	1,177.00	7,772.00

Working Notes:

	Particulars	₹'000	₹'000
1.	Claims paid during the year		
	Direct business	7,005.00	
	Reinsurance	1,050.00	8,055.00
	Add: Surveyor's fee	52.50	
	Legal expenses	67.50	120.00
			8,175.00
	Less : Claims received from re-insurers		354.00
			7,821.00
2.	Claims outstanding on 31st March, 2014		
	Direct business	1,218.00	
	Reinsurance	79.50	1,297.50
	Less : Claims receivable from re-insurers		169.50
			1,128.00

3.	Claims outstanding on 1st April, 2013		
	Direct business	1,144.50	
	Reinsurance	130.50	1,275.00
	Less : Claims receivable from re-insurers		98.00
			1,177.00

6. Utkal Ltd. makes an issue of 15,000 Equity Shares of ₹100 each at a premium of ₹12.50 per share payable as follows:
(i) ₹12.50 on Application
(ii) ₹25.00 on Allotment (including Premium)
(iii) ₹50.00 on First Call
(iv) ₹15.00 on Second Call
(v) ₹10.00 on Final Call
The application and allotment money is duly received and, in addition, holders of 7,500 shares paid in full on allotment. Holders of 300 shares fail to pay the first call and, after due notice, their shares are forfeited. The amounts payable on second call (made after the forfeiture) are paid in full except that a holder of 150 shares fails to pay. 225 of the 300 shares forfeited are reissued, credited with ₹ 90 paid for ₹65 per share. The new holder pays for these shares in full. The balance of ₹ 10 per shares are being treated as call-in-advance. The final call is met in full including the arrear of the second call.
Show the necessary journal entries including cash in the books of Utkal Ltd. [15]

Answer:

In the books of Utkal Ltd.

Date	Particulars	L.F	Debit	Credit
	Bank A/c Dr.		₹	₹
?	To, Equity Share Application A/c		1,87,500	
	(Application money of 15,000 shares @ ₹12.50 received)			1,87,500
	Equity Share Application A/c Dr.		1,87,500	
	To, Equity Share Capital A/c			1,87,500
	(Application money of 15,000 Shares @ ₹12.50 transferred to Share Capital A/c as per Board's Resolution dated ……)			
	Equity Share Allotment A/c Dr.		3,75,000	
	To, Equity Share Capital A/c			1,87,500
	To, Securities Premium A/c			1,87,500
	(Allotment money of 15,000 shares @ ₹ 12.50 transferred to Share Capital A/c and the premium money transferred to Securities Premium A/c as per Board's Resolution dated ……)			
	Bank A/c Dr.		9,37,500	
	To, Equity Share Allotment A/c			3,75,000
	To, Calls-in-Advance A/c			5,62,500
	(Allotment money together with premium of 15,000 shares @ ₹25.00 and advance payment of call money on 7500 shares @₹75 received)			

	Equity Share First Call A/c Dr. To, Equity Share Capital A/c (Share First Call money of 15,000 shares @ ₹50 shares transferred to Share Capital A/c as per Board's Resolution dated ……)		7,50,000	 7,50,000
	Bank A/c Dr. Calls-in-Advance A/c Dr. Calls-in-Arrear A/c Dr. To, Equity Share First Call A/c (Share First Call money received , except on 300 shares)		3,60,000 3,75,000 15,000	 7,50,000
	Equity Share Capital A/c (300 X 75) Dr. To, Calls-in-Arrear A/c To, Share Forfeiture A/c (300 shares were forfeited for non-payment of share first call money of ₹50 per share as per Board's Resolution dated…..)		22,500	 15,000 7,500
	Equity Share Second Call A/c (14,700 X ₹15) Dr. To, Equity Share Capital A/c (Share second call money of 14,700 shares @ ₹ 15 per share transferred to Share Capital A/c as per Board's Resolution dated…..)		2,20,500	 2,20,500
	Bank A/c Dr. Calls-in-Advance A/c (7,500 X ₹15) Dr. Calls-in-Arrear A/c (150 X ₹15) Dr. To, Equity Share Second Call A/c (Share Second Call money received except on 150 equity shares)		1,05750 1,12,500 2,250	 2,20,500
	Bank A/c (225 X ₹65) Dr. Share Forfeiture A/c Dr. To, Equity Share Capital A/c (225 X ₹90) (225 (out of 300 forfeited shares) shares were reissued at ₹65 each, credited to ₹90 per share as per Board's Resolution dated…..)		14,625 5,625	 20,250
	Bank A/c (225 X ₹10) Dr. To, Calls-in-Advance A/c (New holders paid in full, i.e. ₹10 per share in advance)		2,250	 2,250
	Equity Share Final Call A/c Dr. To, Equity Share Capital A/c (Share final call money of 14,925 shares @ ₹ 10 transferred to Share Capital A/c as per Board's Resolution dated…..)		1,49,250	 1,49,250
	Bank A/c Dr. Calls-in-Advance A/c Dr. To, Equity Share Final Call A/c To, Calls-in Arrear A/c (Share final call money received on 14,700 shares @ ₹10 together with the arrears of share second call money)		74,250 77,250	 1,49,250 2,250

8. Write Short Notes on any three: [3x5=15]

(a) Redeemable Dead Rent;

(b) Treatment of donation received for specific purpose in the case of charitable society;

(c) "Valuation Balance Sheet" in relation to Insurance Companies;

(d) Restrictions in capitalization of Borrowing Cost cease as per AS 16.

Answer:

(a) Redeemable Dead Rent:

Redeemable Dead Rent /Short Workings is the amount by which the minimum rent exceeds the actual royalty. It is the difference between actual Rent and Minimum rent.

Suppose royalty per ton of production is Rs.10 and the minimum (annual) rent is ₹2,00,000. Now the actual production is 17,500 tons, then actual royalty would become ₹1,75,000. In this case the Redeemable Dead Rent/ Short Workings is ₹25,000 (₹2,00,000 - 1,75,000).

Where there is Redeemable Dead Rent /Short Workings in a period the lease is liable to pay the minimum rent and, in effect, Redeemable Dead Rent /Short Workings become the part of the minimum rent and not represented by the use of rights.

The question of Redeemable Dead Rent /Short Workings will arise only when there is a stipulation for minimum rent in the agreement.

(b) Treatment of donation received for specific purpose in the case of charitable society:

Donations may have been raised either for meeting some revenue or capital expenditure; those intended for meeting revenue expenditures are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account.

If any investments are purchased out of a special fund or an asset is acquired there from, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

(c) "Valuation Balance Sheet" in relation to Insurance Companies:

The balance in the life assurance fund cannot be taken as the profit made by the life insurance business. For the purpose of ascertaining the profit, the insurance company should calculate its net liability on all outstanding policies. This calculation is done by experts called actuaries and is a highly complicated mathematical process. Prior to nationalization, insurance companies were having this computation once in three years. Since nationalization, L.I.C. is having such valuation once in every two years. For calculating net liability, the actuaries calculate the present value of future liability on all the policies in force as well as present value of future premium to be received on policies in force. The excess of the present value of future liability over the present value of future premium is called the net liability.

It is by comparing the life insurance fund and net liability in respect of policies , that profit in respect of life insurance business can be ascertained. If the life insurance fund is more than the net liability, the difference represents the profit. On the other hand, the excess of net liability over the life assurance fund represents the loss for the inter-valuation period.

According to Section 28 of the Life Insurance Corporation Act, 1956, 95% of the profit of life business must be distributed to the policyholders by way of "Bonus" on with-profit policies and the remaining

5% has to be utilized for such purposes as the Government may determine. The profit or loss of life insurance business is ascertained by preparing a statement called 'Valuation Balance Sheet' which is reproduced below:

Valuation Balance Sheet as on..............................

To Net liability as per actuary's valuation	By Life Assurance Fund as per Balance Sheet
To Surplus (Net Profit)	By Deficiency (Net loss)

(d) Restrictions in capitalization of Borrowing Cost cease as per AS 16:

As per paras 19, 20 and 21 of AS 16, Capitalization of Borrowing Costs should cease when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that, substantially, all the activities are complete.

When the construction of a qualifying asset is completed in parts and completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.