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 (₹)***
19th January. 2016	*80,000*
29th January, 2017	*50,000*
15th 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'

As at 31st March, 2017 = ₹ 80,000 x .02 + ₹ 50,000 x .03

= ₹ 1,600 + ₹ 1,500 = ₹ 3,100

As at 31st March, 2018 = ₹ 50,000 x .02 + ₹ 1,80,000 x .03

= ₹ 1,000 + ₹ 5,400 = ₹ 6,400

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	(3,100)
Amount debited to profit and loss account	3,300

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% × ₹ 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 x 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)	60
			1,200

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 :

(i) Land and Building was purchased at 25% more than the book value.

(ii) Furniture and stock were purchased at book values less 20%.

(iii) The goodwill of the firm was valued at ₹ 2,00,000.

(iv) 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.

(v) 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.

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

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	13,080	9,120	By Realisation A/c - Profit	78,600	78,600
	8,28,600	5,78,600		8,28,600	5,78,600

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)	2,200	By Sachin's Capital A/c- Final Payment	9,120
	22,200		22,200

Working Notes:

1 Calculation of Purchase consideration

	₹
Land & Building	6,25,000
Furniture	1,60,000
Stock	4,00,000
Goodwill	2,00,000
	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.

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

Sunil gets $\frac{69,250 \times 8,28,600}{14,07,200} = 40,776$ 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
Less:	Commission for realization from debtors (7.5% on ₹ 3,30,000)	24,750
		3,05,250
Less:	Amount paid to creditors	2,90,000
		15,250
Less:	Commission for cash paid to creditors (4.5% on ₹ 2,90,000)	13,050
Net amount received		2,200

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

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)	(12,75,000)	(13,50,000)	(10,50,000)
	2,25,000	1,50,000	4,50,000
Less: Unmarked Applications (equally)	(72,000)	(72,000)	(72,000)
	1,53,000	78,000	3,78,000
Less: Firm Underwriting	(1,40,000)	(1,40,000)	(1,40,000)
	13,000	(62,000)	2,38,000
Surplus of E distributed between D & F equally	(31,000)	62,000	(31,000)
	(18,000)	-	2,07,000
Surplus of D allocated to F totally	18,000	—	(18,000)
Net Liability, excluding Firm Underwriting	-	-	1,89,000
Add: Firm underwriting	1,40,000	1,40,000	1,40,000
Total liability of underwriters	1,40,000	1,40,000	3,29,000

(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*	(3,50,000)	(3,50,000)	(3,50,000)
Balance payable	2,80,000	2,80,000	11,30,500
Underwriting Commission Receivable	7,50,000	7,50,000	7,50,000
Amount Paid	4,70,000	4,70,000	—
Amount received by the Co.	—	—	3,80,500

* *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)	2,66,600
		26,75,000			26,75,000

**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	25,000	Feb. 28	By Profit & Loss A/c	25,000

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 (By Bal. fig)	1,86,600
	To	Premiumon Redemption of Debentures A/c	25,000				
	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	*3,27,000*	*1,67,750*
	9,62,000	*5,32,750*
Less: Current Liabilities	*(5,97,000)*	*(1,80,250)*
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	*2,99,500*	*1,57,750*

(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 : 32,500		
	60,000		
	(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	2,99,500	1,57,750
	10,09,500	5,47,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
	4,12,500	3,67,500

(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)]	98,350		
	(d)	Goodwill [(b) - (a)]		34,350	
	(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 31st March, 2017	*10,00,000*
Additional Reserve for unexpired risks on 31st March, 2017	*2,00,000*
Premiums	*22,40,000*
Claims paid	*12,80,000*
Estimated liability in respect of outstanding claims:	
On 31st March, 2017	*1,30,000*
On 31st 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	728.00
	Total		6651.18

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

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

		Year ended 31.3. 2018 ₹' in 000
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	5923.18
		5923.18
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304.00
II.	Profit on sale of investments	320.00
III.	Rent received	104.00
		728.00
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	3259.92
		3259.92
	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	40.00
		768.46

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	(25.00)
	5923.18

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	900
	2,070

(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 31st March, 2018	1,80,000
	15,20,000
Less: Claims outstanding as on 31st 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 31st March, 2018	11,20,000	

Additional Reserve as on 31st March, 2018	1,50,000	12,70,000
Less: Reserve for Unexpired Risk as on 31st March, 2017	10,00,000	
Additional Reserve as on 31st March, 2017	2,00,000	(12,00,000)
Transfer to reserve for unexpired risk on 31st 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*
Purchased Goods Transferred:		
By Department Y to X	*2,25,000*	
By Department X to Y		*1,26,000*
Finished Goods Transferred:		
By Department Y to X	*6,75,000*	
By Department X to Y		*6,12,500*
Return of Finished Goods:		
By Department Y to X	*1,57,500*	
By Department X to Y		*1,44,000*
Closing Stock:		
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 1st January, 2017	*4,50,000*
Sales during the year - Cash	*15,00,000*
- Credit	*27,00,000*
Sundry Debtors at Bangalore as on 1st 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 31st 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	4,41,000	8,72,500			
	30,24,000	32,40,000		30,24,000	32,40,000

General Profit and Loss A/c

for the year ended 31st March, 2018

Particulars	₹	*Particulars*	₹
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		
	13,13,500		13,13,500

Working Notes:

1. Calculation of rates of gross profit margin on sales

	Department X	*Department Y*
	₹	₹
Sales	20,02,000	20,70,000
Add: Transfer of finished goods	6,12,500	6,75,000
	26,14,500	27,45,000
Less: Return of finished goods	(1,57,500)	(1,44,000)
	24,57,000	26,01,000
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) x 100 =17.95%	(8,72,500/26,01,000) x 100= 33.54%

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)*	1,80,000	By Balance c/d	9,00,000
	51,90,000		51,90,000

**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

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

Branch Profit & Loss Account

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

Branch Expenses Account

Particulars	Amount (₹)	Particulars	Amount (₹)
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)	45,000		
	6,30,000		6,30,000

Branch Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
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.)	7,05,000
	32,40,000		32,40,000

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	35,28,000			
		45,00,000			45,00,000

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 31st 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)

Particulars	***Financial Capital Maintenance at Historical Cost (₹)***
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

		Amount in ₹
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)		78,510
Total Remuneration payable to Liquidator		1,83,010

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)	(3,50,000)
	8,50,000
Less: ECGC coverage	(4,25,000)
Unsecured portion	4,25,000
Provision:	
for unsecured portion @100% on ₹ 4,25,000	4,25,000
for secured portion @ 100% on ₹3,50,000	3,50,000
Provision to be made in the books of the bank	7,75,000

(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.