

MOCK TEST PAPER – 2
INTERMEDIATE (IPC) : GROUP – II
PAPER – 5: ADVANCED ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing deferred income balance, as appropriate, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		₹ (in lakhs)
1st April, 2009	Acquisition cost of machinery (₹ 1,500 – ₹ 300)	1,200.00
31st March, 2010	Less: Depreciation @ 20%	<u>(240.00)</u>
	Book value	960.00
31st March, 2011	Less: Depreciation @ 20%	<u>(192.00)</u>
	Book value	768.00
31st March, 2012	Less: Depreciation @ 20%	<u>(153.60)</u>
1st April, 2012	Book value	614.40
May, 2012	Add: Refund of grant	<u>300.00</u>
	Revised book value	<u>914.40</u>

Depreciation @ 20% on the revised book value amounting ₹ 914.40 lakhs is to be provided prospectively over the residual useful life of the asset i.e. years ended 31st March, 2013 and 31st March, 2014.

- (b) **Adjusted net profit for the current year**

	₹
Net profit for the current year (assumed to be after tax)	85,50,000
Add: Interest expense for the current year	6,00,000
Less: Tax relating to interest expense (30% of ₹ 6,00,000)	<u>(1,80,000)</u>
Adjusted net profit for the current year	<u>89,70,000</u>

Weighted average number of equity shares

Number of equity shares resulting from conversion of debentures

$$= \frac{1,00,000 \times 100}{10} = 10,00,000 \text{ Equity shares}$$

Weighted average number of equity shares used to compute diluted earnings per share

$$= [(20,00,000 \times 12) + (10,00,000 \times 9^{**})]/12 = 27,50,000 \text{ shares}$$

$$\text{Diluted earnings per share} = \frac{89,70,000}{27,50,000 \text{ shares}} = ₹ 3.26 \text{ per share}$$

(c) Calculation of present value of minimum lease payments:

Year	Minimum Lease Payment ₹	Internal rate of return (Discount rate @5%)	Present value ₹
1	3,12,500	0.8696	2,71,750
2	3,12,500	0.7561	2,36,281.25
3	3,12,500	0.6575	2,05,468.75
4	3,12,500	0.5718	1,78,687.5
4	62,500	0.5718	35,737.5
Total	13,12,500		9,27,925

As per AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

In the given case, present value of minimum lease payments ₹ 9,27,925 is less than fair value at the inception of lease i.e. ₹ 10,00,000, therefore, the lease liability should be recognized at ₹ 9,27,925 .

(d) Total Borrowing Cost = 3,50,000 × 0.15 = ₹ 52,500

Particulars	Amount
Expenditure incurred including previously capitalized borrowing cost	3,65,000
Cash payment during 2012-13 out of amount transferred	50,000
Remaining amount transferred during 2012-13	<u>50,000</u>
	4,65,000
Less: Progress payment received and recognized	<u>(2,50,000)</u>
Uncertified construction cost (not yet recognised)	<u>2,15,000</u>

** Interest on debentures for full year amounts to ₹ 8,00,000 (i.e. 8% of ₹ 1,00,00,000). However, interest expense amounting ₹ 6,00,000 has been given in the question. It may be concluded that debentures have been issued during the year and interest has been provided for 9 months.

Money borrowed including previously capitalized interest cost = ₹ 3,65,000

Borrowing cost to be capitalized $2,15,000 / 3,65,000 \times 52,500 = ₹ 30,925$

2. (a) Departmental Trading & profit and Loss Account for the year ending on 31.12.2012

Particulars	A	B	Particulars	A	B
	₹	₹		₹	₹
To Opening Stock	40,000	-	By Sales	2,00,000	71,000
To Purchases	2,00,000	20,000	By Transfer of goods (A to B)	50,000	-
To Wages	10,000	1,000	By Closing stock	30,000	10,000
To Transfer of Goods (A to B)	-	50,000			
To Gross Profit c/d	30,000	10,000			
	2,80,000	81,000		2,80,000	81,000
To Adm. & Selling Exp. (4:1)	12,000	3,000	By Gross Profit b/d	30,000	10,000
To Profit	18,000	7,000			
	30,000	10,000		30,000	10,000

General Profit and Loss Account

Particulars	₹	Particulars	₹
To Stock Reserve (Loading on unsold Stock at Dept. B] $10,000 \times 1/5$)	2,000	By Profit A 18,000	
To Net Profit	23,000	B <u>7,000</u>	25,000
	25,000		25,000

(b) Delhi Branch Account (prepared on cost basis)

2012		₹	₹	2012		₹	₹
Jan. 1	To Balance b/d			Dec. 31	By Bank		
	Stock	32,000			Cash Sales	1,55,000	
	Debtors	12,000			Cash from Sundry Debtors (W.N.1)	<u>1,79,000</u>	3,34,000
	Petty cash	<u>1,500</u>	45,500				
Dec. 31	To Goods sent to Branch A/c		3,36,000		By Goods sent to Branch A/c – Returns		
	To Bank:						

	Sundry Expenses	10,000	to H.O.	12,000
	To Petty Expenses (W.N. 2)	5,000	By Balance c/d	
	To Balance being Profit carried to (H.O.) P & L A/c	<u>3,000</u>	Stock	40,000
		<u>3,99,500</u>	Debtors	11,000
			Petty Cash	<u>2,500</u>
				53,500
Jan. 1, 2013	To Balance b/d	53,500		<u>3,99,500</u>

Working Notes:

1. Cash Collected from debtors

	₹
Debtors as on 1.1.12	12,000
Add: Credit sales	<u>1,80,000</u>
	1,92,000
Less:	
Bad debts and sales returns (1,000 + 1,000)	(2,000)
Closing balance of debtors	<u>(11,000)</u>
Cash collected	<u>1,79,000</u>

2. Petty expenses

Petty cash as on 1.1.12	1,500
Add: Cash received from H.O	<u>6000</u>
	7,500
Less: Petty cash as on 31.12.12	<u>(2,500)</u>
Expenses	<u>5,000</u>

3 (i) Calculation of Purchase Consideration

		AX Ltd. ₹ '000		BX Ltd. ₹ '000
<i>Assets taken over:</i>				
Sundry fixed assets		85,00		75,00
Investments		10,50		5,50
Stock		12,50		27,50
Trade receivables		18,00		40,00

Cash & Bank		<u>4,50</u>		<u>4,00</u>
Gross Assets		130,50		152,00
Less : <i>Sundry Liabilities</i>				
12% Debentures	30,00		40,00	
Trade payables	<u>10,00</u>	<u>(40,00)</u>	<u>15,00</u>	<u>(55,00)</u>
Purchase Consideration		90,50		97,00

Discharge of Purchase consideration:

	AX Ltd. ₹ '000	BX Ltd. ₹ '000
9,05,000 Equity Shares of ₹ 10 each	90,50	
9,70,000 Equity Shares of ₹ 10 each		97,00

(ii) Journal entries in books of ABX Ltd.

		₹'000	₹'000
Business Purchase A/c	Dr.	18,750	
To Liquidator of AX Ltd.			90,50
To Liquidator of BX Ltd.			97,00
Sundry fixed assets	Dr.	85,00	
Investment A/c	Dr.	10,50	
Stock	Dr.	12,50	
Trade receivables	Dr.	18,00	
Cash and Bank	Dr.	4,50	
To 12% Debentures			30,00
To Trade payables			10,00
To Business Purchase A/c			90,50
(Being the purchase consideration of AX Ltd. accounted for)			
Sundry fixed assets	Dr.	75,00	
Investment A/c	Dr.	5,50	
Stock	Dr.	27,50	
Trade receivables	Dr.	40,00	
Cash and Bank	Dr.	4,00	
To 12% Debentures			40,00

To Trade payables		15,00
To Business Purchase A/c		97,00
(Being the purchase consideration of BX Ltd. accounted for)		
Liquidator of AX Ltd. Dr.	90,50	
To Equity share capital A/c		90,50
(Being shares issued to Liquidator of AX Ltd.)		
Liquidator of BX Ltd. A/c Dr.	97,00	
To Equity share capital A/c		97,00
(Being shares issued to Liquidator of BX Ltd.)		

(iii) **Balance Sheet of ABX Ltd. as on 1.1.2013**

Particulars	Note No.	(₹ 000)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	187,50
(b) Reserves and Surplus	2	7,50
(2) Non-Current Liabilities		
Long-term borrowings	3	70,00
(3) Current Liabilities		
(a) Trade payables (10,00 + 15,00)		25,00
Total		290,00
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets (85,00 + 75,00)		160,00
(b) Non-current Investments (10,50 + 5,50)		16,00
(c) Other non-current asset	4	7,50
(2) Current assets		
(a) Inventories (12,50 + 27,50)		40,00
(b) Trade Receivables (18,00 + 40,00)		58,00
(c) Cash & Cash equivalents (4,50 + 4,00)		8,50
Total		290,00

Notes to Accounts

		(₹ 000)	(₹ 000)
1.	Share Capital 18,75,000 Equity Shares of ₹ 10 each		187,500
2.	Reserves and surplus Investment Allowance Reserve Export Profit Reserve	6,00 <u>1,50</u>	7,50
3.	Long Term Borrowings 12% Debentures (Assumed that new debentures were issued in exchange of the old series)		70,00
4.	Other non current assets Amalgamation Adjustment Account		7,50

Notes :

- (1) Shares are issued by ABX Ltd. on the basis of net assets acquired of AX Ltd. and BX Ltd. Hence, there is no goodwill.
 - (2) The statutory reserves of AX Ltd. and BX Ltd. are shown in the balance sheet of ABX Ltd. with a corresponding debit in Amalgamation Adjustment Account.
4. (a) The amount of ₹ 12,000 outstanding on 1st May, 2011 will have to be contributed by four persons in the ratio of number of shares held by them. Thus Kamal will have to contribute ₹ 4,000; B ₹ 6,000; C ₹ 1,200 and D ₹ 800. Similarly, the further incurred between 1st May, 2011 and 1st July, 2011 viz., ₹ 3,000 (for which Kamal is not liable) contributed by Lokesh, Som, and Om in the ratio of 15:3:2. Lokesh will have to contribute ₹ 2,250, Som will contribute ₹ 450 and Om will have to contribute ₹ 300. The further increase between 1st July, 2011 and 1st November and will be shared by Som and Om who will be for ₹ 600 and ₹ 400 respectively. The increase between 1st November and 1st February is the responsibility of Om.

Statement of Liability of B List Contributories

	Creditors outstanding on date ceasing to be member	Kamal 2,000 share	Lokesh 3,000 shares	Som 600 shares	Om 400 shares	Amount to be paid to creditors
		₹	₹	₹	₹	₹
(1)	12,000	4,000	6,000	1,200	800	12,000
(2)	3,000	-	2,250	450	300	3,000
(3)	1,000	-	-	600	400	1,000

(4)	3,000	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>100*</u>
(a)	Total	<u>4,000</u>	<u>8,250</u>	<u>2,250</u>	<u>4,500</u>	
(b)	Maximum Liability on shares held	8,000	12,000	2,400	1,600	
(c)	Amount paid (a) or (b) whichever is lower	4,000	8,250	2,250	1,600	

Against D's Liability of ₹ 4,500, he can be called upon to pay only ₹ 1,600 the loss of 2,900 will have to be suffered by these creditors.

(b) Statement Showing Liability of underwriters on the basis that 'The Benefit of Firm Underwriting is given to Individual Underwriters'.

	No. of shares			
	Big	Small	Fat	Total
Gross Liability	1,20,000	60,000	20,000	2,00,000
Less: Marked Applications	<u>(40,000)</u>	<u>(28,000)</u>	<u>(12,000)</u>	<u>(80,000)</u>
	80,000	32,000	8,000	1,20,000
Less: Unmarked applications (total application less firm underwriting less marked applications) in Gross Liability Ratio(i.e. 1,60,000 – 40,000 – 80,000) (i.e. 6:3:1)	<u>(24,000)</u>	<u>(12,000)</u>	<u>(4,000)</u>	<u>(40,000)</u>
	56,000	20,000	4,000	80,000
Less: Firm underwriting	<u>(16,000)</u>	<u>(20,000)</u>	<u>(4,000)</u>	<u>(40,000)</u>
Net Liability	40,000	-	-	40,000
Add: Firm underwriting	<u>16,000</u>	<u>20,000</u>	<u>4,000</u>	<u>40,000</u>
Total liability of underwriters	<u>56,000</u>	<u>20,000</u>	<u>4,000</u>	<u>80,000</u>

5.

Centura Bank Limited

Profit and Loss account for the year ended 31st March, 2012

		Schedule No.	Year ended 31.3.2012
			₹
I.	<u>Income</u>		
	Interest earned	13	74,03,000
	Other income	14	<u>9,10,000</u>
			<u>83,13,000</u>

II.	<u>Expenditure</u>		
	Interest expended	15	40,74,000
	Operating expenses	16	9,10,000
	Provisions and contingencies (W.N.2)		<u>26,00,000</u>
			<u>75,84,000</u>
III.	<u>Profit</u>		
	Net profit for the year		7,29,000
	Profit brought forward		<u>-</u>
			<u>7,29,000</u>
IV.	<u>Appropriations</u>		
	Transfer to Statutory Reserve		1,82,250
	Proposed dividend		2,00,000
	Balance carried over to balance sheet		<u>3,46,750</u>
			<u>7,29,000</u>

Schedule 13 – Interest earned

	₹
Interest and discount earned (W.N.1)	<u>74,03,000</u>
	<u>74,03,000</u>

Schedule 14 - Other Income

	₹
Commission, exchange and brokerage	3,80,000
Profit on sale of investment	4,00,000
Rent	<u>1,30,000</u>
	<u>9,10,000</u>

Schedule 15-Interest Expended

	₹
Interest paid on deposits	<u>40,74,000</u>
	<u>40,74,000</u>

Schedule 16-Operating Expenses

	₹
Payment and provisions for employees	4,00,000

Rent and taxes paid	1,80,000
Depreciation on bank's property	60,000
Directors' fees and allowances	60,000
Auditors' fees	10,000
Law charges	80,000
Postage and Telegrams	<u>1,20,000</u>
	<u>9,10,000</u>

Working Notes:

		₹
1.	Calculation of interest earned	
	Interest and discount received	74,11,000
	Add: Rebate on bills discounted as on 31 st March, 2011	<u>24,000</u>
		74,35,000
	Less: Rebate on bills discounted as on 31 st March, 2012	<u>(32,000)</u>
		<u>74,03,000</u>
2.	Provisions and Contingencies	
	Provision for doubtful debts:	
	Doubtful debts due to insolvency of a customer (50% of ₹ 20 lakhs) 10,00,000	
	Provision for other debts <u>3,00,000</u>	13,00,000
	Provision for income tax	<u>13,00,000</u>
		<u>26,00,000</u>

6. Journal Entries

In the books of OMG & Co.

Particulars		Dr. (₹)	Cr. (₹)
Goodwill A/c	Dr.	1,00,000	
Building A/c	Dr.	2,00,000	
Machinery A/c	Dr.	4,50,000	
Furniture A/c	Dr.	40,000	
Stock A/c	Dr.	2,40,000	
Debtors A/c	Dr.	3,20,000	
Cash at Bank A/c	Dr.	60,000	
Cash in hand A/c	Dr.	40,000	
Due from M & Co. A/c	Dr.	2,00,000	
To Creditors A/c			2,40,000

To Bank Loan A/c			1,60,000
To O's Capital A/c			8,17,500
To M's Capital A/c			4,32,500
(Being the Assets and Liabilities of O & Co. taken over)			
Goodwill A/c	Dr.	82,000	
Machinery A/c	Dr.	4,00,000	
Furniture A/c	Dr.	12,000	
Stock A/c	Dr.	2,80,000	
Debtors A/c	Dr.	4,00,000	
Cash at Bank A/c	Dr.	1,80,000	
Cash in hand A/c	Dr.	20,000	
Advances A/c	Dr.	1,20,000	
To Creditors A/c			2,32,000
To Due to O & Co. A/c			2,00,000
To M's Capital A/c			7,08,000
To G's Capital A/c			3,54,000
(Being the Assets and Liabilities of M & Co. taken over)			
O's Capital A/c	Dr.	91,000	
M's Capital A/c	Dr.	60,667	
G's Capital A/c	Dr.	30,333	
To Goodwill A/c	Dr.		1,82,000
(Being Goodwill written off)			
Bank A/c	Dr.	3,69,833	
To O's Capital A/c			3,38,500
To G's Capital A/c			31,333
(Being the Cash brought in by O and G to make capitals proportionate)			
M's Capital A/c	Dr.	3,69,833	
To Bank A/c			3,69,833
(Being the excess capital withdraw by M)			
Due to O & Co. A/c	Dr.	2,00,000	
To Due from M & Co. A/c			2,00,000
(Being the elimination of mutual indebtedness of the merged firms O & co., and M & co.)			

Balance Sheet of M/s OMG& Co. as at 31st March, 2012

<i>Liabilities</i>	₹		₹
Capitals:		Building	2,00,000
O	10,65,000	Machinery	8,50,000
M	7,10,000	Furniture	52,000
G	3,55,000	Stock	5,20,000
Creditors	4,72,000	Debtors	7,20,000
Bank Loan	1,60,000	Advances	1,20,000
		Cash at Bank	2,40,000
		Cash in hand	60,000
	27,62,000		27,62,000

Working Notes:

1. Statement showing the Computation of Purchase Consideration

<i>Particulars</i>	<i>O & Co.</i>	<i>M & Co.</i>
	₹	₹
A. Assets		
Goodwill	1,00,000	82,000
Building	2,00,000	-
Machinery	4,50,000	4,00,000
Furniture	40,000	12,000
Stock	2,40,000	2,80,000
Debtors	3,20,000	4,00,000
Cash at Bank	60,000	1,80,000
Cash in hand	40,000	20,000
Due from M & Co.	2,00,000	-
Advances	-	1,20,000
	16,50,000	14,94,000
B. Liabilities		
Creditors	2,40,000	2,32,000
Due to O & Co.	-	2,00,000
Bank Loan	1,60,000	-
	4,00,000	4,32,000
C. Purchase consideration (A-B)	12,50,000	10,62,000

2. Statement showing the Computation of Proportionate Capitals

Particulars	₹
A. M/s OMG & Co. (₹ 12,50,000+₹ 10,62,000)	23,12,000
B. Less: Goodwill Adjustment	(1,82,000)
C. Total Capital of new Firm	21,30,000
D. O's proportionate Capital (₹ 21,30,000 x 3/6)	10,65,000
E. M's proportionate Capital (₹ 21,30,000 x 2/6)	7,10,000
F. G's Proportionate Capital (₹ 21,30,000 x 1/6)	3,55,000
	21,30,000

3. Statement showing the Computation of Capital Adjustments

Particulars	O	M	G	Total
	₹	₹	₹	₹
Balance transferred from O and co. (W.N. 4)	8,17,500	4,32,500	-	12,50,000
Balance transferred from M and Co. (W.N.5)	-	7,08,000	3,54,000	10,62,000
	8,17,500	11,40,500	3,54,000	23,12,000
Less: Goodwill written off in the ratio of (3:2:1)	(91,000)	(60,667)	(30,333)	(1,82,000)
(a) Existing Capital	7,26,500	10,79,833	3,23,667	21,30,000
(b) Proportionate Capital	10,65,000	7,10,000	3,55,000	21,30,000
(c) Amount to be brought in (paid off) (a-b)	3,38,500	(3,69,833)	31,333	-

4. Capital Accounts (in the Books of O & Co.)

Particulars	O	M	Particulars	O	M
	₹	₹		₹	₹
To Capital A/c – M/s OMG & Co. (Transfer)	8,17,500	4,32,500	By Balance b/d	4,80,000	3,20,000
			By Reserve (3:1)	75,000	25,000
			By Goodwill (3:1)	75,000	25,000
			By Realisation A/c* -Profit (3:1)	1,87,500	62,500
	<u>8,17,500</u>	<u>4,32,500</u>		<u>8,17,500</u>	<u>4,32,500</u>

*For Building ₹ 1,00,000 and Machinery ₹ 1,50,000.

5. Capital Accounts (in the Books of M & Co.)

Particulars	M	G	Particulars	M	G
	₹	₹		₹	₹
OMG & Co. (Transfer)	7,08,000	3,54,000	By Balance b/d	4,00,000	2,00,000
			By Reserve (2:1)	2,00,000	1,00,000
			By Goodwill (2:1)	54,667	27,333

			By Realisation A/c*		
			-Profit (2:1)	53,333	26,667
	7,08,000	3,54,000		7,08,000	3,54,000

*For Machinery ₹ 80,000.

7. (a) Journal Entries

			₹	₹
1.1.12	Bank A/c	Dr.	12,00,000	
to	Employees compensation expense A/c	Dr.	21,60,000	
28.2.12				
	To Equity Share Capital A/c			2,40,000
	To Securities Premium A/c			31,20,000
	(Allotment of 24,000 equity shares of ₹ 10 each at a premium of ₹ 130 per share to the employees)			
31.3.12	Profit and Loss A/c	Dr.	21,60,000	
	To Employees Compensation Expense A/c			21,60,000
	(For transfer of employees compensation expense to profit and loss account)			

(b) Schedule 2 : Claims Incurred (Net)

Particulars	₹
Claims paid on direct business	69,00,000
Add: Re-insurance accepted (W.N. 1)	5,51,000
Less: Re-insurance ceded (W.N. 2)	<u>(1,99,000)</u>
Net claims paid	72,52,000
Add: Claims outstanding at the end of the year	95,000
Less: Claims outstanding at the beginning of the year	<u>(89,000)</u>
Total claims incurred	<u>72,58,000</u>

Working Note:

Reinsurance accepted and ceded

	₹
1. Claims paid under re-insurance	5,54,000
Add: Outstanding as on 31.3.2012	12,000
Less: Outstanding as on 1.4.2011	<u>(15,000)</u>
Reinsurance accepted	<u>5,51,000</u>

2. Claims received from re-insurance	2,01,000
Add: Outstanding as on 31.3.2012	38,000
Less: Outstanding as on 1.4.2011	<u>(40,000)</u>
Reinsurance ceded	<u>1,99,000</u>

- (c) Since the forward contract was for speculation purpose the premium on contract i.e. the difference between the spot rate and contract rate will not be recorded in the books. Only when the contract is sold the difference between the contract rate and sale rate will be recorded in the Profit & Loss Account.

Sale Rate	₹ 48.05
Less: Contract Rate	<u>(₹ 48.00)</u>
Premium on Contract	₹ 0.05
Contract Amount	US\$ 1,50,000
Total Profit (1,50,000 x 0.05)	₹ 7,500

(d) **Journal Entries**

		(₹)	
		Dr.	Cr.
Equity shares buy back A/c	Dr.	6,00,000	
To Bank A/c			6,00,000
(Being Buy back of 10,000 shares @ ₹ 60)			
Equity share capital A/c	Dr.	1,00,000	
Securities premium A/c	Dr.	5,00,000	
To Equity shares buy back A/c			6,00,000
(Being cancellation of equity shares bought back)			
Revenue reserves A/c	Dr.	1,00,000	
To Capital redemption reserve A/c			1,00,000
(Being amount equal to nominal value of shares bought back transferred to capital redemption reserve, as required by Section 77AA)			

- (e) As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognised when
- an enterprise has a present obligation as a result of a past event;
 - it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

In the given situation the directors of Expert Ltd. are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Expert Ltd. will disclose the same as contingent liability by way of the following note:

“Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of ₹ 500 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company.”