

PAPER – 1 : ACCOUNTING

Answer all questions.

Wherever appropriate, suitable assumption(s) should be made by the candidate.

Working notes should form part of the answer.

Question 1

The following are the summarized Balance Sheet of Star Ltd. as on 31st March, 2008 and 2009:

(Rs.'000)		
	2008	2009
Equity share capital of Rs.10 each	3,400	3,800
Profit and Loss A/c	400	540
Securities Premium	40	80
14% Debentures	800	900
Long term borrowings	180	240
Sundry Creditors	360	440
Provision for Taxation	20	40
Proposed Dividend	300	480
	5,500	6,520
Sundry Fixed Assets:		
Gross Block	3,200	4,000
Less: Depreciation	640	1,440
Net Block	2,560	2,560
Investment	1,200	1,400
Inventories	1,000	1,400
Sundry Debtors	640	900
Cash and Bank Balance	100	260
	5,500	6,520

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The Profit and Loss account for the year ended 31st March, 2009 disclosed:

	(Rs.'000)
Profit before tax	780
Less: Taxation	<u>(160)</u>
Profit after tax	620
Less: Proposed dividend	<u>(480)</u>
Retained Profit	140

The following information are also available:

- (1) 40,000 equity shares issued at a premium of Re.1 per share.
- (2) The Company paid taxes of Rs.1,40,000 for the year 2008-09.
- (3) During the period, it discarded fixed assets costing Rs.4 lacs, (accumulated depreciation Rs.80,000) at Rs.40,000 only.

You are required to prepare a cash flow statement as per AS 3 (Revised), using indirect method.

(16 Marks)

Answer

Cash Flow Statement for the year ended 31st March, 2009

		Rs.('000)
(A)	Cash flow from operating activities	
	Net profit before tax	780
	Add: Adjustment for depreciation	880
	Loss on sale of fixed assets	280
	Interest on debentures*	<u>126</u>
	Operating profit before changes in working capital	2,066
	Less: Increase in Sundry Debtors	<u>(260)</u>
	Less: Increase in Inventories	<u>(400)</u>
	Add: Increase in Sundry Creditors	<u>80</u>
	Cash generated from operations	1,486
	Less: Income tax paid (W.N.1)	<u>(140)</u>
	Net cash from operating activities	1,346
(B)	Cash flow from investing activities	
	Purchase of fixed assets	<u>(1,200)</u>
	Sale of fixed assets	40
	Purchase of investments	<u>(200)</u>
	Net cash used in investing activities	(1,360)

* It is assumed that debentures of Rs. 1,00,000 were issued at the beginning of the year.

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(C)	Cash flow from financing activities		
	Proceeds from issue of shares including premium (400 + 40)	440	
	Proceeds from issue of 14% debentures (900 – 800)	100	
	Proceeds from long term borrowings	60	
	Interest on debentures	(126)	
	Payment of dividend	<u>(300)</u>	
	Net cash from financing activities		174
	Net increase in cash and cash equivalents (A+B+C)		160
	Cash and cash equivalents at the beginning of the year		100
	Cash and cash equivalents at the end of the year		<u>260</u>

Working Notes:

1. Calculation of Income tax paid during the year	Rs.('000)
Income tax expense for the year	160
Add: Income tax liability at the beginning of the year	<u>20</u>
	180
Less: Income tax liability at the end of the year	<u>(40)</u>
Income tax paid during the year	<u>140</u>
2. Calculation of Fixed assets purchased during the year	
Closing balance of gross block of fixed assets	4,000
Add: Cost of assets discarded during the year	<u>400</u>
	4,400
Less: Opening balance of gross block of fixed assets	<u>(3,200)</u>
Fixed assets purchased during the year	<u>1,200</u>
3. Calculation of Depreciation charged during the year	
Closing balance of accumulated depreciation	1,440
Add: Depreciation charged on assets discarded during the year	<u>80</u>
	1,520
Less: Opening balance of accumulated depreciation	<u>(640)</u>
Depreciation charged during the year	<u>880</u>

Question 2

- (a) A, B and C run a business sharing profits and losses in proportion of 2:2:1. On 1st January, 2008 their respective capitals were Rs.96,000, Rs.90,000 and Rs.84,000.

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On 30th June, 2008 the following was the position:

	Rs.
Creditors	30,000
Furniture	9,000
Book debts	1,80,000
Stock	90,000
Cash in hand and at bank	36,000

The drawings of the partners respectively were Rs.12,000, Rs.9,000 and Rs.6,000 during the half-year. Each partner is entitled to an interest at the rate of 5% p.a. on capital. Interest on drawings was calculated as Rs.600 for A, Rs.450 in case of B and Rs.300 in case of C.

You are required to prepare:

- (i) A statement of affair as on 30th June, 2008.
 - (ii) Calculate the profits for the half-year ending on 30th June, 2008 and allocate the same amongst the partners. Also calculate capital of each partner as on 30th June, 2008.
- (b) The following is the Balance Sheet of X Ltd. as on 31st March, 2009:

Liabilities	Rs.	Assets	Rs.
12,000, 10% Preference shares of Rs.100 each	12,00,000	Goodwill	90,000
24,000, Equity shares of Rs.100 each	24,00,000	Land & building	12,00,000
10% Debentures	6,00,000	Plant & machinery	18,00,000
Bank overdraft	6,00,000	Stock	2,60,000
Sundry Creditors	3,00,000	Debtors	2,80,000
		Cash	30,000
		Profit & Loss Account	14,00,000
		Preliminary expenses	40,000
	51,00,000		51,00,000

On the above date, the company adopted the following scheme of reconstruction:

- (i) The equity shares are to be reduced to shares of Rs.40 each fully paid and the preference shares to be reduced to fully paid shares of Rs.75 each.
- (ii) The debentureholders took over stock and debtors in full satisfaction of their claims.
- (iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.

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(iv) The fictitious and intangible assets are to be eliminated.

(v) Expenses of reconstruction amounted to Rs.5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet. (8 + 8 = 16 Marks)

Answer

(a) (i) Statement of Affairs of A, B & C

As on 30th June, 2008

Liabilities	Rs.	Assets	Rs.
Capital (Bal. Fig.)	2,85,000	Furniture	9,000
Creditors	30,000	Stock	90,000
		Book debts	1,80,000
		Cash in hand and at bank	36,000
	3,15,000		3,15,000

(ii) Statement showing Profit and Loss of partners A, B and C for six months ending on 30th June, 2008

Particulars	Rs.
Capital as on 30 th June, 2008	2,85,000
Add: Drawings of A, B and C (Rs.12,000 + Rs.9,000 + Rs.6,000)	27,000
Add: Interest on drawings of A, B and C (Rs.600 + Rs.450 + Rs.300)	1,350
	3,13,350
Less: Interest on capital of A, B and C (Rs.2,400+Rs.2,250+Rs.2,100)	(6,750)
	3,06,600
Less: Capital as on 1 st January, 2008 of A, B and C (Rs.96,000 + Rs.90,000 + Rs.84,000)	(2,70,000)
Net Profit	36,600

Statement showing allocation of profits and other adjustments in the capital accounts of A, B and C

Particulars	A (Rs.)	B (Rs.)	C (Rs.)
Capital as on 1 st January, 2008	96,000	90,000	84,000
Add: Net profit in the ratio of 2:2:1	14,640	14,640	7,320
Add: Interest on capital @ 5% p.a. for 6 months	2,400	2,250	2,100
	1,13,040	1,06,890	93,420

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Less: Drawings	(12,000)	(9,000)	(6,000)
Less: Interest on drawings	(600)	(450)	(300)
Capital as on 30 th June, 2008	1,00,440	97,440	87,120

(b)

In the books of X Ltd.

Journal Entries

31 st March, 2009		Rs.	Rs.
(i)	Equity Share Capital A/c (Rs. 100) Dr.	24,00,000	
	To Equity Share Capital A/c (Rs. 40)		9,60,000
	To Capital Reduction A/c		14,40,000
	(Being 24,000 equity shares of Rs.100 each reduced to Rs.40 each fully paid up)		
(ii)	10% Preference Share Capital A/c (Rs.100) Dr.	12,00,000	
	To 10% Preference Share Capital A/c (Rs.75)		9,00,000
	To Capital Reduction A/c		3,00,000
	(Being 12,000 Preference shares of Rs.100 each reduced to Rs.75 each fully paid up)		
(iii)	10% Debentures A/c Dr.	6,00,000	
	To Stock A/c		2,60,000
	To Debtors A/c		2,80,000
	To Capital Reduction A/c		60,000
	(Being Debentureholders given stock and debtors in full settlement of their claims)		
(iv)	Land & Building A/c Dr.	3,60,000	
	To Capital Reduction A/c		3,60,000
	(Being Land & Building appreciated by 30%)		
(v)	Reconstruction expenses A/c Dr.	5,000	
	To Cash A/c		5,000
	(Being expenses of reconstruction paid)		
(vi)	Capital Reduction A/c Dr.	21,60,000	
	To Goodwill A/c		90,000
	To Profit and Loss A/c		14,00,000
	To Plant & Machinery A/c		5,40,000
	To Preliminary expenses A/c		40,000

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To Reconstruction expenses A/c	5,000
To Capital Reserve A/c (Bal. Fig.)	85,000
(Being various losses written off, assets written down and balance in Capital Reduction A/c transferred to Capital Reserve A/c)	

Balance Sheet (And Reduced) of X Ltd.

as at 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
24,000, Equity shares @ Rs.40 each fully paid up	9,60,000	Land & Building	15,60,000
12,000, 10 % Preference shares @ Rs.75 each fully paid up	9,00,000	Plant & Machinery	12,60,000
Reserves & Surplus:		Current Assets:	
Capital Reserve	85,000	Cash (30,000 – 5,000)	25,000
Current Liabilities:			
Bank Overdraft	6,00,000		
Sundry Creditors	3,00,000		
	28,45,000		28,45,000

Question 3

- (a) Neo Ltd., with headquarters at Mumbai, maintains a branch at Goa . Goods are invoiced at cost plus 25%. In respect of Goa branch, the following information pertaining to the year ended 31st March, 2009 are made available to you:

	Rs.
Goods sent to Branch (at Invoice price)	6,75,000
Goods returned by branch during the year (at Invoice price)	24,000
Cash sales effected by branch	1,85,000
Discount allowed to customers	2,500
Amount received from branch debtors	3,25,000
Cheques of customers which got dishonoured	8,000
Branch expenses met in cash	72,500
Sales return at Goa branch	10,000
Bad debts	5,500

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	On 31 st March, 2009	On 31 st March, 2008
Branch debtors	1,05,000	50,000
Stock at branch (at Invoice price)	2,36,000	1,50,000

Adopting the Stock and debtors system, you are required to prepare the following Ledger accounts, as appearing in the books of the Head Office:

- (i) Goa branch debtors account;
 - (ii) Goa branch adjustment account;
 - (iii) Goa branch profit and loss account.
- (b) P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2009 is as follows:

Liabilities	Rs.	Assets	Rs.
Capital accounts		Plant and Machinery	1,08,000
P 1,20,000		Fixtures	24,000
Q 48,000		Stock	60,000
R 24,000	1,92,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash	60,000
Creditors	48,000		
	3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

	Rs.
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded asset of Rs.6,000 which was taken over by Q at Rs.4,800. A bill for Rs.4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

- (i) Realisation account.
- (ii) Partners' capital accounts.
- (iii) Cash account.

(8 + 8 = 16 Marks)

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Answer

(a) In the books of Neo Ltd. (Head Office)

Goa Branch Debtors Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2008	To Balance b/d	50,000	31.3.2009	By Bank (Collection from debtors)	3,25,000
31.3.2009	To Bank A/c (Dishonour of cheques)	8,000		By Branch Stock (Goods returned by customers)	10,000
	To Branch Stock A/c (Credit sales)	3,90,000		By Bad debts	5,500
				By Discount allowed	2,500
				By Balance c/d	1,05,000
		4,48,000			4,48,000

Goa Branch Adjustment Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.2009	To Goods sent to Goa Branch A/c (goods returns to H.O.)	4,800	1.4.2008	By Balance b/d (Opening stock reserve)	30,000
	To Branch P & L A/c (Profit on sale at invoice price) (Bal. Fig.)	1,13,000	31.3.2009	By Goods sent to Goa Branch A/c (Loading)	1,35,000
	To Balance c/d (Closing stock reserve)	47,200			
		1,65,000			1,65,000

Goa Branch Profit and Loss Account

for the year ending 31st March, 2009

Particulars	Amount	Particulars	Amount
To Branch Expenses A/c	72,500	By Branch Adjustment A/c	1,13,000
To Branch Debtors - Discount	2,500		
Bad debts	5,500		
To Net Profit (Transferred to General Profit & Loss A/c)	32,500		
	1,13,000		1,13,000

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Working Note:

Goa Branch Stock Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2008	To Balance b/d	1,50,000	31.3.2009	By Bank (Cash sales)	1,85,000
31.3.2009	To Goods sent to Goa Branch	6,75,000		By Branch Debtors (Credit sales)	3,90,000
	To Branch Debtors (Goods Returned)	10,000		By Goods sent to Goa Branch (Goods returned to H.O.)	24,000
				By Balance c/d	2,36,000
		8,35,000			8,35,000

(b) **Realisation Account**

Particulars	Rs.	Particulars	Rs.
To Debtors	48,000	By Creditors	48,000
To Stock	60,000	By Cash A/c (Assets realized):	
To Fixtures	24,000	Plant and Machinery	1,02,000
To Plant and machinery	1,08,000	Fixtures	18,000
To Cash A/c (Creditors)	45,600	Stock	84,000
To Cash A/c (Sales tax)	4,200	Sundry Debtors	<u>44,400</u>
To Cash A/c (Realisation expenses)	1,500	By Q (Unrecorded asset)*	4,800
To Profit on Realisation			
P	3,960		
Q	3,960		
R	<u>1,980</u>		
	9,900		
	3,01,200		3,01,200

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Realisation A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund	24,000	24,000	12,000

* An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

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				By Realisation A/c (Profit)	3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

Particulars		Rs.	Particulars		Rs.
To	Balance b/d	60,000	By	Realisation A/c (Creditors)	45,600
To	Realisation A/c (Assets)	2,48,400	By	Realisation A/c (Expenses)	1,500
			By	Realisation A/c (Sales Tax)	4,200
			By	P's Capital A/c	1,47,960
			By	Q's Capital A/c	71,160
			By	R's Capital A/c	37,980
		3,08,400			3,08,400

Question 4

- (a) 'X' Ltd., issued 1,00,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows:

A – 60,000 shares (Firm underwriting 8,000 shares)

B – 30,000 shares (Firm underwriting 10,000 shares)

C – 10,000 shares (Firm underwriting 2,000 shares)

The total applications including firm underwriting were for 80,000 shares.

The marked applications were as follows:

A- 20,000 shares; B- 14,000 shares; C- 6,000 shares.

The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter.

- (b) 'A' Ltd is to be liquidated. Their summarised Balance Sheet as at 30th September, 2008 appears as under:

	Rs.
Liabilities:	
5,00,000 equity shares of Rs.100 each	50,00,000
Secured debentures (on Land and Buildings)	20,00,000
Unsecured loans	40,00,000
Trade creditors	70,00,000
	1,80,00,000

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Assets:	
Land and buildings	10,00,000
Other fixed assets	40,00,000
Current assets	90,00,000
Profit and loss account	40,00,000
	1,80,00,000
Contingent liabilities are:	
For bills discounted	2,00,000
For excise duty demands	3,00,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:

	Rs.
Land and Building	22,00,000
Other fixed assets	36,00,000
Current assets	70,00,000

Taking the above into account, prepare the statement of affairs. (8 + 8 = 16 Marks)

Answer

Statement showing liability of underwriters*

	No. of shares			
	A	B	C	Total
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Firm underwriting	(8,000)	(10,000)	(2,000)	(20,000)
	52,000	20,000	8,000	80,000
Less:Marked applications	(20,000)	(14,000)	(6,000)	(40,000)
	32,000	6,000	2,000	40,000
Less:Unmarked applications (total application less firm underwriting less marked applications) in gross liability ratio (i.e. 80,000 – 20,000 –40,000)	(12,000)	(6,000)	(2,000)	(20,000)
Net Liability	20,000	-	-	20,000
Add: Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	28,000	10,000	2,000	40,000

* The solution is given on the basis that 'the benefit of firm underwriting is given to individual underwriters.'

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(b) Statement of Affairs of 'A' Ltd. (in Liquidation)
as at 30th September, 2008

		Estimated Realisable Value (Rs.)								
	Assets not specifically pledged (as per List A):									
	Other Fixed Assets	36,00,000								
	Current Assets	70,00,000								
		1,06,00,000								
	Assets specifically pledged (as per List B):									
		<table><tr><td>Estimated Realizable value</td><td>Due to secured creditors</td><td>Deficiency ranking as unsecured</td><td>Surplus carried to the last column</td></tr><tr><td>Rs.</td><td>Rs.</td><td>Rs.</td><td>Rs.</td></tr></table>	Estimated Realizable value	Due to secured creditors	Deficiency ranking as unsecured	Surplus carried to the last column	Rs.	Rs.	Rs.	Rs.
	Estimated Realizable value	Due to secured creditors	Deficiency ranking as unsecured	Surplus carried to the last column						
	Rs.	Rs.	Rs.	Rs.						
	Land and Building	22,00,000	20,00,000	–	2,00,000	2,00,000				
	Estimated total assets available for preferential creditors, debenture holders secured by a floating charge and unsecured creditors					1,08,00,000				
	<u>Summary of Gross Assets:</u>									
	Gross realizable value of assets specifically pledged				22,00,000					
Other Assets				1,06,00,000						
Total Assets				1,28,00,000						
Liabilities										
Gross Liabilities	Liabilities									
20,00,000	Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specifically pledged					–				
3,00,000	Preferential creditors (as per List C) – for demand of excise duty					3,00,000				
	Balance of assets available for debentureholders secured by floating charge and unsecured creditors					1,05,00,000				
–	Debentureholders secured by floating charge (as per List D)					–				
	Unsecured creditors (as per List E):									
40,00,000	Unsecured Loans					40,00,000				
70,00,000	Trade creditors					70,00,000				
2,00,000	Liability for bills discounted (Contingent)					2,00,000				
1,35,00,000	Estimated deficiency as regards creditors (difference between gross assets and gross liabilities)					7,00,000				
	Issued and called up capital:									
	5,00,000 Equity shares of Rs.10 each (as per List G)					50,00,000				
	Estimated deficiency as regards members/ contributories					57,00,000				

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Question 5

- (a) The following facts have been taken out from the records of Dee Bank Ltd. as on 31st March, 2009:

	Dr. (Rs.)	Cr. (Rs.)
Rebate on bills discounted (not due on March 31 st , 2008)		45,800
Discount received		2,02,500
Bills discounted	12,25,000	

An analysis of the bills discounted is as follows:

	Amount	Due date	Rate of discount
	Rs.	2009	
(i)	3,75,000	April 8	12%
(ii)	1,50,000	May 5	14%
(iii)	2,20,000	June 12	14%
(iv)	4,80,000	July 15	15%

You are required to:-

- Calculate rebate on bills discounted as on 31st March, 2009.
 - The amount of discount to be credited to the profit and loss account.
 - Show necessary journal entries in the books of Dee Bank Ltd. as on 31st March, 2009.
- (b) On 31st March, 2009 the books of Zee Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount (Rs.)
Reserve for unexpired risks on March 31, 2008	5,00,000
Additional reserve for unexpired risks on March 31, 2008	1,00,000
Premiums	11,20,000
Claims paid	6,40,000
Estimated liability in respect of outstanding claims:	
On March 31, 2008	65,000
On March 31, 2009	90,000
Expenses of management (including Rs.30,000 legal expenses paid in connection with the claims)	2,80,000
Interest and dividend	64,250
Income tax on the above	6,520
Profit on sale of investment	11,000
Commission paid	1,52,000

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On 31st March, 2009 provide Rs.5,60,000 as unexpired risk reserve and Rs.75,000 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, 2009. (8 + 8 =16 Marks)

Answer

(a) (i) Calculation of Rebate on bills discounted

S.No.	Amount (Rs.)	Due date (year 2009)	Unexpired portion from 31 st March, 2009	Rate of discount	Rebate on bills discounted (Rs.)
(i)	3,75,000	April 8	8 days	12%	986
(ii)	1,50,000	May 5	35 days	14%	2,014
(iii)	2,20,000	June 12	73 days	14%	6,160
(iv)	4,80,000	July 15	106 days	15%	20,910
	12,25,000				30,070

(ii) Amount of discount to be credited to the Profit and Loss Account

	Rs.
Transfer from Rebate on bills discounted A/c as on 31 st March, 2008	45,800
Add: Discount received during the year ended 31 st March, 2009	2,02,500
	2,48,300
Less: Rebate on bills discounted as on 31 st March, 2009	(30,070)
Discount credited to Profit and Loss Account	2,18,230

(iii) In the books of Dee Bank Ltd.

Journal Entries

	Particulars	Dr. (Rs.)	Cr. (Rs.)
(1)	Rebate on bills discounted A/c To Discount on bills A/c (Being the transfer of opening balance of rebate on bills discounted account to discount on bills account)	Dr. 45,800	45,800
(2)	Discount on bills A/c To Rebate on bills discounted A/c (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)	Dr. 30,070	30,070
(3)	Discount on bills A/c To Profit and Loss A/c (Being the amount of income for the year transferred from Discount on bills A/c to Profit and Loss A/c)	Dr. 2,18,230	2,18,230

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(b)

FORM B– RA

Name of the Insurer: Zee Insurance Company Limited

Registration No. and Date of registration with IRDA:

Revenue Account for the year ended 31st March, 2009

Particulars	Schedule	Amount (Rs.)
Premium earned (net)	1	10,85,000
Profit or loss on sale/redemption of investment		11,000
Others		–
Interest, dividend & rent (gross)		64,250
Total (A)		11,60,250
Claims incurred (Net)	2	6,95,000
Commission	3	1,52,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,97,000
Operating profit/loss from insurance business (B) – (A)		63,250

Schedule –1 Premium earned (net)

	Rs.
Premium received	11,20,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	35,000
Total premium earned	10,85,000

Schedule -2 Claims incurred (net)

	Rs.
Claims paid	6,40,000
Add: Legal expenses regarding claims	30,000
	6,70,000
Add: Claims outstanding as on 31 st March, 2009	90,000
	7,60,000
Less: Claims outstanding as on 31 st March, 2008	65,000
	6,95,000

Schedule -3 Commission

	Rs.
Commission paid	1,52,000

Schedule-4 Operating expenses related to Insurance Business

Expenses of management (Rs.2,80,000 – Rs.30,000)	2,50,000
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Working Note:

Calculation for change in Reserve for Unexpired risk:

		Rs.
Reserve for Unexpired Risk as on 31 st March, 2009	5,60,000	
Additional Reserve as on 31 st March, 2009	75,000	6,35,000
Less: Reserve for Unexpired Risk as on 31 st March, 2008	5,00,000	
Additional Reserve as on 31 st March, 2008	1,00,000	(6,00,000)
		35,000

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

Answer any four of the following:

- (a) A Company entered into an agreement to sell its immovable property to another company for Rs.35 lakhs. The property was shown in the Balance Sheet at Rs.7 lakhs. The agreement to sell was concluded on 15th February, 2009 and sale deed was registered on 30th April, 2009.

You are required to state, with reasons, how this event would be dealt with in the financial statements for the year ended 31st March, 2009. (5 Marks)

- (b) 'A' and 'B' are partners sharing Profits and Losses in the ratio of 3:1. Their capitals were Rs.3,00,000 and Rs.2,00,000 respectively. As from 1st April, 2009, it was agreed to change the profit sharing ratio to 3:2. According to the partnership deed, goodwill should be valued at two years' purchase of the average of three years' profits. The profits of the previous three years ending 31st March were:

2007-Rs.1,50,000; 2008-Rs.2,00,000 and 2009-Rs.2,50,000. Pass the necessary journal entry to give effect to the above arrangement in the capital accounts of the partners.

(5 Marks)

- (c) Explain the structure of Government Accounts in India. (5 Marks)

- (d) (i) Explain the disclosure requirement for fixed assets as per AS 10. (3 Marks)

(ii) During the year 2008-09, P Limited incurred the following expenses on machinery:

Rs.2.50 lacs as routine repairs and Rs.75,000 on partial replacement of a part. Rs.7 lacs on replacement of part of a machinery which will improve the efficiency of the machine.

Which amount should be capitalized as per AS 10? (2 Marks)

- (e) Explain the use of accounting information in Agricultural Farm. (5 Marks)

- (f) Goods of Rs.5,00,000 were destroyed due to flood in September, 2006. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

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In March, 2009, the claim was passed and the company received a payment of Rs.3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2009. (5 Marks)

Answer

- (a) According to para 13 of AS 4 “Contingencies and Events Occurring after the Balance Sheet Date”, assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 15th February 2009 i.e. before the balance sheet date. Registration of the sale deed on 30th April, 2009, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of immovable property is necessary in the financial statements for the year ended 31st March, 2009.

- (b) Journal Entry

	Rs.	Rs.
B's Capital A/c Dr.	60,000	
To A's Capital A/c		60,000
(Being the adjusting entry for goodwill, passed due to change in profit and loss sharing ratio, through capital accounts of partners)		

Working Notes:

1. Calculation of Goodwill

	Rs.
Profit for the year 2007	1,50,000
Profit for the year 2008	2,00,000
Profit for the year 2009	2,50,000
Total profit of 3 years	6,00,000

$$\text{Average Profit} = \frac{6,00,000}{3} = \text{Rs.}2,00,000$$

$$\text{Goodwill} = \text{Rs.}2,00,000 \times 2 = \text{Rs.}4,00,000$$

2. Effect of change in Profit Sharing Ratio

Old ratio of A and B = 3 : 1

New ratio of A and B = 3 : 2

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Gaining Ratio = New Ratio – Old Ratio

$$\text{For A} = \frac{3}{5} - \frac{3}{4} = \frac{12-15}{20} = \frac{3}{20} \text{ i.e. A loses by } \frac{3}{20}$$

$$\text{For B} = \frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20} \text{ i.e. B gains by } \frac{3}{20}$$

3. Amount of compensation payable by B to A

$$\frac{3}{20} \times \text{Rs. } 4,00,000 = \text{Rs. } 60,000$$

- (c) In India, Government Accounts are kept in three main parts – Consolidated Fund, Contingency Fund and Public Accounts.

Part I: The Consolidated Fund of India (including Union Territory Administration) or of the State or Union Territory having a Legislature

The consolidated fund is further classified into:-

- (1) Revenue consisting of sections for 'Receipt heads (Revenue Account)' and 'Expenditure heads (Revenue Account)'.
- (2) Capital, Public Debts, Loans consisting of sections for 'Receipt Heads (Capital Account)', 'Expenditure Heads (Capital Account)', and 'Public Debt', 'Loans' and 'Advances'.

Part II: Contingency Fund

Transactions connected with the Contingency Fund set up by the Government of India or of a State or Union Territory Government are recorded in this part.

Part III: Public Account of India (including Union Territory Administration/Government) or of the State

In the Public Account, the transactions relating to Debt (Other than those included in Part I), 'Deposits', 'Advances', 'Remittances' and 'Suspense' are recorded. The transactions under Debt, Deposits and Advances in this part are such in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid together with the repayments of the former, (Debt and Deposits) and the recoveries of the latter (Advances).

- (d) (i) As per para 39 of AS 10 "Accounting for Fixed Assets", following information should be disclosed in the financial statements:
1. Gross and net book values of fixed assets at the beginning and at the end of an accounting period showing additions, disposals, acquisitions and other movements.
 2. Expenditure incurred on account of fixed assets in the course of construction or acquisition; and

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3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.
- (ii) As per para 12.1 of AS 10 "Accounting for Fixed Assets", only those expenditures that increase the future benefits from the existing assets, is to be included in the gross book value. Example: Increase in capacity.
- Hence, in the given case, amount of Rs. 3.25 lacs spent on repairs and partial replacement of a part of the machinery should be charged to Profit and Loss Account as they will help in maintaining the capacity but will not improve the efficiency of the machine. However, Rs.7 lacs incurred on replacement of a part of the machinery, which will increase the efficiency, should be capitalized by inclusion in the gross book value of assets.
- (e) A suitably designed accounting system can be used for extracting the following information:
1. Crop-wise performance and overall performance of the agricultural enterprise.
 2. Comprehensive information regarding yield, revenue, input and cost of the enterprise.
 3. The assets and liabilities of the farm at a particular point of time.
 4. Profit/Loss of the farm during a year.
 5. Data base for other decisions, namely, acquiring assets on hire services, replacement of draught animal, farm, machinery, selection of crop mix, choosing farm size and the like.
 6. Supporting data to the lenders including banks and co-operative societies to assess farm's financial requirements as well as debt servicing ability.
 7. Reliable source document for assessment of agricultural income tax.
- (f) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, 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.
- In the given instance, it is clearly a case of error in preparation of financial statements for the year 2006-07. Hence, claim received in the financial year 2008-09 is a prior period item and should be separately disclosed in the statement of Profit and Loss.