



J.K. SHAH[®]
TEST SERIES
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SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- ACCOUNTS AND ADVANCED ACCOUNTS

Test Code – CIM 8125

BRANCH - () (Date :)

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Journal Entries

			(Rs.) Dr.	(Rs.) Cr.
2006 Jan	1	Bank Dr. To 9% Debenture Applications & Allotment Account (Being application money on 20,000 debentures @ Rs. 100 per debenture received)	20,00,000	20,00,000
		9% Debentures Applications & Allotment Account Dr. To 9% Debentures Account (Being allotment of 20,000 9% Debentures of Rs.100 each at par)	20,00,000	20,00,000
(i) 2008 Jan.	1	9% Debenture Account Dr. Loss on Redemption of Debentures Account Dr. To Bank (Being redemption of 2,000 9% Debentures of Rs.100 each by purchase in the open market @ Rs.101 each)	2,00,000 2,000	2,02,000
"	"	Profit & Loss Account Dr. To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)	2,000	2,000
(ii) 2011Jan	1	9% Debentures Account Dr. To Sundry Debenture holders (Being Amount payable to debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot)	6,00,000	6,00,000
"	"	Sundry Debenture holders Dr. To Bank (Being Payment made to sundry debenture holders for redeeming debentures of	6,00,000	6,00,000

		Rs.6,00,000 at par)			
(iii)		Own Debentures	Dr.	3,95,600	
2012	1	To Bank			3,95,600
Jan.		(Being purchase of own debentures of the face value of Rs.4,00,000 for Rs.3,95,600)			
2013	"	9% Debentures	Dr.	4,00,000	
		To Own Debentures			3,95,600
		To Profit on Cancellation of Own Debentures Account			4,400
		(Being Cancellation of own debentures of the face value of Rs.4,00,000 purchased last year for Rs.3,95,600)			
"	"	Profit on Cancellation of Own Debentures Account	Dr.	4,400	
		To Capital Reserve Account			4,400
		(Being transfer of profit on cancellation of own debentures to capital reserve)			
(iv)		9% Debentures Account	Dr.	8,00,000	
2016	1	Premium on Redemption of Debentures Account	Dr.	16,000	
Jan.		To Sundry Debenture holders			8,16,000
		(Being amount payable to holders of debentures of the face value of Rs. 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)			
"	"	Sundry Debenture holders	Dr.	8,16,000	
		To Bank Account			8,16,000
		(Being payment to sundry debenture holders)			
"	"	Profit & Loss Account	Dr.	16,000	
		To Premium on Redemption of Debentures Account (Being utilization of a part of the balance in Securities Premium Account to write off premium paid on			16,000

redemption
of debentures)

ANSWER-2

Revenue Account of Kalyan General Insurance Company for the year ended 31.03.2018

Particulars	Sch.	This Yr	Last Yr
Premium (Net)	1	59,75000	
Total (A)		59,75,000	

(1 MARK)

	Particulars	Sch.	This Yr	Last Yr
1.	Claims Incurred	2	45,26,000	
2.	Commission	3	1,47,000	
3.	Operating Expenses related to Insurance Business (2,30,000 - 45,000 - 35,000)		1,50,000	
	Total (B)		48,23,000	
	Operating Profit / (Loss) from Insurance Business (A - B)		11,52,000	
	Appropriations		NIL	
	Total (C)		11,52,000	

(2 MARKS)

Schedule 1 - Premium Earned (Net)

Particulars		This Yr	Last Yr
Add :	Premium from Direct Business Written	65,75,000	
	Premium on Re-Insurance accepted	9,50,000	
Less :	Premium on Re-Insurance ceded	(4,75,000)	
	Net Premium	70,50,000	
Less:	Changes in Unexpired Risk Reserve Provn [Reqd 50% of 70,50,000 - Opg 24,50,000]	(10,75,000)	
	Total Premium Earned (Net)	59,75,000	

(2 MARKS)

Schedule 2 - Claims Paid (Net)

	Particulars	This Yr	Last Yr
	Claims Paid - Direct (Paid 42,50,000 + Legal Exps 45,000 + Surveyor's Fees 35,000)	43,30,000	
	Add: Claims paid on Re-Insurance Accepted	5,00,000	

Less: Claims from Re-Insurance Ceded (Received 3,25,000 + Due at end 1,10,000 - Due at opg 65,000)		(3,70,000)	
Net Claims Paid		44,60,000	
Add: Claims Outstanding as on 31.03.2018 (Direct Rs. 7,18,000 +Re-Insurance Rs. 60,000)		7,78,000	
Less: Claims Outstanding as on 01.04.2017 (Direct 6,25,000 + Re- Insurance 87,000)		(7,12,000)	
Total Claims Incurred		45,26,000	

(3.5 MARKS)

Schedule 3 - Commission

Particulars	This Yr	Last Yr
Commission Paid	1,50,000	
Add:Re-Insurance Accepted	11,000	
Less: Commission on Re-Insurance ceded	(14,000)	
Net Commission	1,47,000	

(1.5 MARKS)

ANSWER-3

Spices Ltd.

Balance Sheet as on 01.04.2018

Particulars	Note No.	Figures as at the end of current reporting period
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,10,000
(b) Reserves and Surplus	2	91,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		28,000
(3) Current Liabilities		
(a) Short-term borrowings		19,000
Total		2,48,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		72,000
(2) Current assets		
(a) Cash and cash equivalents		98,000
(b) Other current assets		78,000
Total		2,48,000

(3 MARKS)

Notes to Accounts

		Rs.
1 Share Capital		
11,000 Equity Shares of Rs. 10 each		1,10,000
(Out of above, 2000 shares issued to debentures holders who opted for conversion into shares)		
2 Reserve and Surplus		
General Reserve	38,000	
<i>Add:</i> Debenture Redemption Reserve transfer	<u>35,000</u>	
	73,000	
<i>Add:</i> Profit on sale of investments	<u>22,000</u>	
	95,000	
<i>Less:</i> Premium on redemption of debentures (1,200 x Rs. 5)	<u>(6,000)</u>	89,000
Securities Premium Account (2,000 x Rs. 1)		2,000
		<u>91,000</u>

Working Notes:

(i) Calculation of number of shares to be allotted	Rs.
Total number of debentures	1,200
<i>Less:</i> Number of debentures not opting for conversion	<u>(200)</u>
	1000
40% of 1,000	400

Redemption value of 400 debentures (400 x Rs. 55) Rs. 22,000

Number of Equity Shares to be allotted $22,000/11 = 2,000$ shares of Rs. 10 each

(ii) Calculation of cash to be paid	Rs.
Number of debentures	1,200
<i>Less:</i> Number of debentures to be converted into equity shares	<u>(400)</u>
	<u>800</u>

(iii) Cash and Bank Balance	Rs.
Balance before redemption	86,000
<i>Add:</i> Proceeds of investments sold	<u>56,000</u>
	1,42,000
<i>Less:</i> Cash paid to debenture holders	<u>(44,000)</u>
	<u>98,000</u>

(7 MARKS)

ANSWER-4

ANSWER-4

1. Form-B-RA - Revenue Account for the year ending 31st March 2018

Particulars	Sch.	This Yr	Last Yr
Premium Earned (Net)	1	25,21,750	
Total (A)		25,21,750	
1. Claims Incurred (Net)	2	17,81,000	
2. Commission	3	1,47,000	
3. Operating Expenses related to Insurance Business	4	3,41,000	
Total (B)		22,69,000	
Operating Profit / (Loss) from Marine Insurance Business (A - B)		2,52,750	
Appropriations		NIL	
Total (C)		2,52,700	

(3 MARKS)

2. Form—B—PL - Profit and Loss Account for the year ending 31st March 2018 (Rs. in 000's)

Particulars	Sch.	This Yr	Last Yr
1. Operating Profit - Marine Insurance Business		2,52,750	
2. Income from Investments - Interests, Dividends and Rent		1,15,500	
3. Other Income		NIL	
(a) Interest on Income Tax Refund		12,000	
(b) Profit on Sale of Motor Car		5,000	
Total (A)		3,85,250	
4. Provisions (other than Taxation)		NIL	
5. Other Expenses - Bad Debts Written Off		5,000	
Total (B)		5,000	
Profit Before Tax (A - B)		3,80,250	
Less: Provision for Taxation(Tax Rate not specified)		Not Given	

Profit After Tax = Profit available for appropriation		3,80,250	
Appropriations		NIL	
Balance of Profit / (Loss) brought forward from Last Year		NIL	
Balance Carried forward to Balance Sheet		3,80,250	

(3 MARKS)

Note: Income Tax Paid and TDS will be reduced from the Provision for Tax, and the net balance will be shown in B/s.

Schedule 1 -Premium Earned (Net)

Particulars	This Yr
Premium on Direct Business (Reed 24,00,000 + Due at end 1,80,000 - Due at opg 1,20,000)	24,60,000
Add: Premium on Re-Insurance Accepted (Reed 3,60,000 + Due at end 28,000 - Due at opg 21,000)	3,67,000
Less: Premium on Re-Insurance Ceded (Paid 2,40,000 + Due at end 42,000 - Due at opg 20,000)	(2,62,000)
Net Premium	25,65,000
Less: Adjustment for change in Unexpired Risk Reserve (Note)	(2,40,000)
Less: Adjustment for change in Additional Reserve (Note)	1,96,750
Premium Earned (Net)	25,21,750

(3 MARKS)

Note: Adjustment for Changes in Reserve for Unexpired Risks is computed as under -

	Particulars	Reserve	Addnl Reserve
	Closing Balance required	100% Of 25,65,000 = 25,65,000	5% Of 25,65,000 = 1,28,250
Less:	Opening Balance available	26,50,000 - 3,25,000 = 23,25,000	Given 3,25,000
	Amt to be transferred to Reserve for the year	2,40,000	(1,96,750)

(1 MARK)

Schedule 2 - Claims Paid (Net)

Particulars	This Yr
Claims Paid Direct (Paid 16,50,000 + Legal Exps 20,000)	16,70,000
Add: Re-Insurance Accepted (Paid)	1,25,000
Less: Re-Insurance Ceded (Reed)	(1,00,000)
Add: Claims Outstanding at the end of the year	

(Direct 1,75,000 + On Re-Insurance Accepted 22,000 (less) On Re-Insurance Ceded 12,000)	1,85,000
Less: Claims Outstanding at the beginning of the year (Direct 95,000 + On Re-Insurance Accepted 13,000 (less) On Re-Insurance Ceded 9,000)	(99,000)
Total Claims Incurred	17,81,000

(3 MARKS)

Schedule 3 - Commission

Particulars	This Yr	Last Yr
Commission Paid – Direct	1,50,000	
Add: Re-Insurance Accepted	11,000	
Less: Commission on Re-Insurance ceded	(14,000)	
Net Commission	1,47,000	

(1 MARK)

Schedule 4 - Operating Expenses related to Insurance Business

	Particulars	This Yr	Last Yr
1.	Employees Remuneration and Welfare Benefits - Salary	2,60,000	
2.	Rent, Rates and Taxes	18,000	
3.	Printing and Stationery	23,000	
4.	Legal and Professional Charges (60,000 - Claims related 20,000)	40,000	
	Total	3,41,000	

(1 MARK)

ANSWER-B

(5 MARKS)

In the books of Long Live Insurance Co. Ltd.

Journal Entries

Date	Particulars	(Rs. in crores)	
		Dr.	Cr.
1.4.2016	Unexpired Risk Reserve (Fire) A/c	Dr.	40.00
	Unexpired Risk Reserve (Marine) A/c	Dr.	30.00
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	10.00
	To Fire Revenue Account		40.00
	To Marine Revenue Account		30.00
	To Miscellaneous Revenue Account		10.00
	(Being unexpired risk reserve brought forward from last year)		
31.3.2017	Marine Revenue A/c	Dr.	30

To Unexpired Risk Reserve(Marine) A/c (Being closing reserve for unexpired risk created at 100% of net premium income for marine)			30
Fire Revenue A/c	Dr.	43	
To Unexpired Risk Reserve(Fire) A/c (Being closing reserve for unexpired risk created at 50% of net premium income for Fire)			43
Miscellaneous Revenue A/c	Dr.	8.5	
To Unexpired Risk Reserve(Misc.) A/c (Being closing reserve for unexpired risk created at 50% net premium income for Misc.)			8.5

Working Note:

Calculation of Closing balance of Reserve for Unexpired Risks

	Marine	Fire	Misc.
Premium Collected from:			
a. Insured in respect of policies issued	36.00	86.00	24.00
b. Other insurance companies in respect of risks undertaken	14.00	10.00	8.00
Total (a+b)	50.00	96.00	32.00
Less: Premium paid/payable to other insurance companies on business ceded	20.00	10.00	15.00
	30.00	86.00	17.00
% of creation of unexpired Risk Reserve	100%	50%	50%
Amount of Closing Unexpired Risk Reserve	30.00	43.00	8.50