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TEST SERIES
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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- ADVANCE ACCOUNTS

Test Code - CIM 8304

BRANCH - () (Date :)

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Answer 1:

(i) Capital Funds - Tier I :	Rs. in lakhs	Rs. in lakhs
Equity Share Capital		480,00
Statutory Reserve		280,00
Capital Reserve (arising out of sale of assets)		<u>9,30</u>
		769,30

Capital Funds - Tier II :

Capital Reserve (arising out of revaluation of assets)	280	
Less : Discount to the extent of 55%	<u>(154)</u>	<u>1,26</u>
		<u>770,56</u>

(ii) Risk Adjusted Assets

Funded Risk Assets	Rs. in lakhs	Percentage weight	Amount Rs. in lakhs
Cash Balance with RBI	4,80	0	—
Balances with other Banks	12,50	20	2,50
Claims on banks	28,50	20	5,70
Other Investments	782,50	100	782,50
Loans and Advances:			
(i) guaranteed by government	128,20	0	—
(ii) guaranteed by public sector undertakings of Central Govt.	702,10	0	—
(iii) Others	52,02,50	100	52,02,50
Premises, furniture and fixtures	1,82,00	100	1,82,00
Other Assets	2,01,20	100	<u>2,01,20</u>
			<u>63,76,40</u>

Off-Balance Sheet Item	Rs. in lakhs	Credit Conversion Factor	
Acceptances, Endorsements and Letters of credit	37,02,50	100	<u>37,02,50</u>
			100,78,90

$$\text{Risk Weighted Assets Ratio} = \frac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets + Off Balance Sheet items}} \times 100$$

$$= \frac{7,69,30 + 1,26}{63,76,40 + 37,02,50}$$

$$\text{Capital Adequacy Ratio} = \frac{770,56}{100,78,90} \times 100 = 7.65\%$$

Expected ratio is 9%. So the bank has to improve the ratio by introducing further Tier I capital.

(10 marks)

Answer 2:

Particulars	Loan Rs. Lakhs	Provision %	Provision Rs. Lakhs
Standard Assets (Assumed NBFC-D / NBFC-NDSI) (Note)	10,000	0.40%	40
Sub-Standard Assets	1,000	10%	100
Secured Portions of Doubtful Debts - up to one year	160	20%	32
- 1 year to 3 years	70	30%	21
- more than 3 years	20	50%	10
Unsecured Portions of Doubtful Assets	90	100%	90
Loss Assets	30	100%	30
Total			313

Note: For NBFC-Non Systemically Important Non Deposit taking Company, Provision for Standard Assets will be 0.25% = Rs. 25. **(5 marks)**

Answer 3:**Allocation of earnings**

	Old unit holders (9 lakh units) (Rs. Lakh)	New unit holders (1 lakh units) (Rs. Lakh)	Total earning (Rs. Lakh)
First half-year (Rs. 5.00 per unit)	45.0	Nil	45.0
Second half-year (Rs. 3.60 per unit)	32.4	3.6	36.0
	77.4	3.6	81.0
Add: Equalisation payment recovered			5.0
Total available for distribution			86.0

Note: Equalisation payment = Rs. 45 lakh / 9 lakh = Rs. 5 per unit.

(4 marks)**Distribution of earning per unit**

	Old unit holders Rs.	New unit holders Rs.
Dividend distributed	8.60	8.60
Less: Equalisation payment		(5.00)
Net distributed income	8.60	3.60

(1 mark)

Journal Entries

Date			Rs. lakh	Rs. lakh
30.09.16	Bank	Dr.	65	1 lakh x Rs. 65
		To Unit Capital		10 1 lakh x Rs. 10
		To Reserves		50 1 lakh x Rs. 50
		To Dividend Equalisation		5 1 lakh x Rs. 5
31.03.17	Dividend Equalisation	Dr.	5	
		To Revenue A/c		5
31.03.17	Revenue A/c	Dr.	86	
		To Bank		86 10 lakh x Rs. 8.60

(3 marks)

Answer 4:

1. Computation of Rebate pertaining to period after B/S date

Due Date	Amount (Rs.)	No. of Days after 31.03.2018	Rebate (Rs.)
(1)	(2)	(3)	(4) = (2) x 12% x $\frac{(3)}{365}$
15.04.2014	3,75,000	15	1,849
06.05.2014	4,90,000	30 + 6 = 36	5,800
01.06.2014	2,45,000	30 + 31 + 1 = 62	4,994
20.06.2014	3,68,000	30 + 31 + 20 = 81	9,800
04.07.2014	4,85,000	30 + 31 + 30 + 4 = 95	15,148
		Total	37,591

(4 marks)

2. Computation of Amount to be credited to Profit & Loss A/c

Particulars	Rs.
Transfer from Rebate on Bills Discounted (Opening Balance on 01.04.2017)	60,610
Add: Discount Received	6,10,800
	6,71,410
Less: Rebate on Bills Discounted as on 31.03.2018 (WN 1)	(37,591)
Amount to be credited to P& L A/c	6,33,819

(1 mark)

3. Journal Entries

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Rebate on Bills Discounted A/c To Discount Received A/c (Being transfer of Opening Balance in Rebate A/c to Discount Received)	Dr. 60,610	60,610
2.	Discount Received A/c To Rebate on Bills Discounted A/c (Being provision for Unexpired Discount Charges as on 31.03.2014)	Dr. 37,591	37,591
3.	Discount Received A/c To Profit and Loss A/c (Being Discount Earned Income for the year credited to P&L A/c)	Dr. 6,33,819	6,33,819

(3 marks)

Answer 5:

Calculation of effective yield on per annum basis in respect of three mutual fund schemes of Preeti up to 31.3.2017

		X	Y	Z
1	Amount of Investment (Rs.)	2,50,000	3,00,000	1,50,000
2	Date of investment	1.12.2016	1.1.2017	1.3.2017
3	NAV at the date of investment (Rs.)	10.00	10.50	10.00
4	No. of units on date of investment [1/3]	25,000	28,571.43	15,000
5	NAV per unit on 31.03.2017 (Rs.)	10.10	10.40	9.80
6	Total NAV of mutual fund investments on 31.03.2017 [4 × 5]	2,52,500	2,97,143	1,47,000
7	Increase / decrease of NAV [6 – 1]	2,500	(2,857)	(3,000)
8	Dividend received up to 31.3.2017	4,500	5,700	Nil
9	Total yield [7 + 8]	7,000	2,843	(3,000)
10	Yield % [9/1] × 100	2.80%	0.95%	(2%)
11	Number of days	121	90	31
12	Effective yield p.a. [10/11] × 365 days	8.45%	3.85%	(23.55%)

(10 marks)

Alternative solution :

Particulars	X	Y	Z
1. Amount of Investment	2,50,000	3,00,000	1,50,000
2. Date of Investment	1.12.16	1.1.17	1.3.17
3. NAV on dt. of investment	10	10.5	10
4. No. of units on dt. of Investment	25,000	28,571.43	15,000
5. NAV per unit on 31.3.17	10.10	10.40	9.80
6. Total NAV of Mutual Fund on 31.3.17	2,52,500	2,97,143	1,47,000
7. Increase / Decrease	2,500	(2,857)	(3,000)
8. Dividend received	4,500	5,700	NIL
9. Total yield	7,000	2,843	(3,000)
10. Yield %	2.80%	0.95%	(2%)
11. No. of months	4	3	1
12. Effective yield p.a.	8.4%	3.80%	(24%)

Answer 6:**TOP Bank Limited****Profit and Loss Account for the year ended 31st March, 2017**

		Schedule	Year ended 31.03.2017 (‘ in ‘000s)
I.	Income:		
	Interest earned	13	5923.18
	Other income	14	728.00
	Total		6,651.18
II.	Expenditure		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960+210+900)		2,070.00
	Total		6,098.38
III.	Profits/Losses		
	Net profit for the year		552.80
	Profit brought forward		nil
			552.80
IV.	Appropriations		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		414.60
			552.80

(4 marks)

		Year ended 31.3. 2017 (Rs. in ‘000s)
	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
II	Profit on sale of investments	320
III	Rent received	104
		728
	Schedule 15 – Interest Expended	
I	Interests paid on deposits	3259.92

		3259.92
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

(1 mark x 4 = 4 marks)

Working Note: 1

	(Rs. in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	(25.00)
	5,923.18

Working Note : 2

Provisions & Contingencies

	Rs. In '000
Provision for RDD : - (960 + 210)	1,170
Provision for Tax	900
	2,070

(1 mark)