



**J.K. SHAH**<sup>®</sup>  
**TEST SERIES**  
Evaluate Learn Succeed

**SUGGESTED SOLUTION**

**INTERMEDIATE M'19 EXAM**

**SUBJECT- ACCOUNTS AND ADVANCED ACCOUNTS**

**Test Code – CIM 8126**

**BRANCH - () (Date :)**

**Head Office : Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

## 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

### 1. Journal Entries

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Rebate on Bills Discounted A/c To Interest and Discount A/c (Being the amount of provision for unexpired discount brought forward from the previous year credited to interest and Discount A/c)	Dr. 70,080	70,080
2.	Interest and Discount A/c To Rebate on Bills Discounted A/c (Being provision for unexpired discount required at the end of the year)	Dr. 96,860	96,860
3.	Interest and Discount A/c To Profit and Loss A/c (WN 3) (Being transfer of balance to Profit and Loss A/c)	Dr. 1,98,38,020	1,98,38,020

(5 MARKS)

### 2. Rebate on Bills Discounted Account

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2015	To Interest and Discount A/c	70,080	01.04.2016	By balance b/d	70,080
31.03.2016	To balance c/d	96,860	31.03.2017	By Interest and Discount A/c (Rebate Required at year-end)	96,860
	<b>Total</b>	<b>1,66,940</b>		<b>Total</b>	<b>1,66,940</b>

(2 MARKS)

### 3. Interest and Discount Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2017	To Rebate on Bills Discounted	96,860	01.04.2016	By Rebate on Bills Discounted (Opening Balance)	70,080
31.03.2017	To Profit & Loss A/c (bal. fig.) (Income for the year)	1,98,38,020	31.03.2017	By Cash and Sundries	1,98,64,800
	<b>Total</b>	<b>1,99,34,880</b>		<b>Total</b>	<b>1,99,34,880</b>

(3 MARKS)

**ANSWER-3**

**Spices Ltd.**  
**Balance Sheet as on 01.04.2018**

Particulars	Note No.	Figures as at the end of current reporting period
<b>I. Equity and Liabilities</b>		
(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
<b>II. Assets</b>		
(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.
<b>1 Share Capital</b>	
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)	
<b>2 Reserve and Surplus</b>	
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:**

<b>(i) Calculation of number of shares to be allotted</b>	<b>Rs.</b>
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

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

<b>(iii) Cash and Bank Balance</b>	<b>Rs.</b>
Balance before redemption	<u>86,000</u>
<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	
<b>Total (A)</b>		<b>25,21,750</b>	
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	
<b>Total (B)</b>		<b>22,69,000</b>	
Operating Profit / (Loss) from Marine Insurance Business (A - B)		<b>2,52,750</b>	
Appropriations		<b>NIL</b>	
<b>Total (C)</b>		<b>2,52,700</b>	

**(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	
<b>Total (A)</b>		<b>3,85,250</b>	
4. Provisions (other than Taxation)		NIL	
5. Other Expenses - Bad Debts Written Off		5,000	
<b>Total (B)</b>		<b>5,000</b>	
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		<b>3,80,250</b>	
Appropriations		<b>NIL</b>	
Balance of Profit / (Loss) brought forward from Last Year		<b>NIL</b>	
Balance Carried forward to Balance Sheet		<b>3,80,250</b>	

**(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)
<b>Net Premium</b>	<b>25,65,000</b>
Less: Adjustment for change in Unexpired Risk Reserve (Note)	(2,40,000)
Less: Adjustment for change in Additional Reserve (Note)	1,96,750
<b>Premium Earned (Net)</b>	<b>25,21,750</b>

**(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	<b>2,40,000</b>	<b>(1,96,750)</b>

**(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 <b>(less)</b> 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 <b>(less)</b> On Re-Insurance Ceded 9,000)	(99,000)
<b>Total Claims Incurred</b>	<b>17,81,000</b>

**(3 MARKS)**



**Schedule 3 - Commission**

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

**(1 MARK)**

**Schedule 4 - Operating Expenses related to Insurance Business**

	<b>Particulars</b>	<b>This Yr</b>	<b>Last Yr</b>
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	
	<b>Total</b>	<b>3,41,000</b>	

**(1 MARK)**

**ANSWER-B**

**(5 MARKS)**

**Calculation of amount of provision to be made in the Profit and Loss Account**

<b>Classification of Assets</b>	<b>Amount of Advances ( Rs. in lakhs)</b>	<b>% age of provision</b>	<b>Amount of provision ( Rs. in lakhs)</b>
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	15	2,400
Doubtful assets:			
For one year (secured)	6,000	25	1,500
For two to three years (secured)	4,000	40	1,600
For more than three years (unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	1,500
<b>Total provision required</b>			<b>9,080</b>