

Note : All questions are compulsory.

Question-1 : (8 marks)

In the books of Mr. Chena Swami

Salem Branch Account **(3marks)**

| | | | | |
|----|------------------------------|-----------|------------------------------|-----------|
| To | Balance b/d | | By Bank (Remittance to H.O.) | 19,50,000 |
| | Opening stock: | | By Balance c/d | |
| | Ghee | 40,000 | Closing stock: | |
| | Oil | 22,500 | Refined oil | 19,500 |
| | Debtors | 1,80,000 | Ghee | 90,000 |
| | Cash on hand | 25,690 | Debtors (W.N. 1) | 2,10,000 |
| | Furniture & fittings | 23,800 | Cash on hand (W.N. 2) | 44,800 |
| To | Goods sent to Branch A/c | | Furniture & fittings | 21,420 |
| | Refined Oil (30x1500x12) | 5,40,000 | | |
| | Ghee (20x5000x12) | 12,00,000 | | |
| To | Bank (Expenses paid by H.O.) | 76,800 | | |
| | Net Profit | | | |
| To | Transferred General P&L | 2,26,930 | | |
| | | 23,35,720 | | 23,35,720 |

Mr. Chena Swami

Trading and Profit and Loss account for the year ended 31st March, 2016

(Excluding branch transactions)**(3 marks)**

| | | | | | |
|----|---------------------------------------|-----------|----|----------------|-----------|
| To | Opening Stock: | | By | Sales: | |
| | Refined Oil | 44,000 | | Refined Oil | 24,10,000 |
| | Ghee | 10,65,000 | | Ghee | 38,40,500 |
| To | Purchases: | | By | Closing Stock: | |
| | Refined Oil | 27,50,000 | | Refined Oil | 8,90,000 |
| | Less: Goods sent to Branch (5,40,000) | 22,10,000 | | Ghee | 15,70,000 |
| | Ghee | 48,28,000 | | | |
| | Less: Goods sent | | | | |

| | | | |
|--|-----------|------------------------------|-----------|
| to Branch (12,00,000) | 36,28,000 | | |
| To Direct Expenses | 6,35,800 | | |
| To Gross Profit | 11,27,700 | | |
| | 87,10,500 | | 87,10,500 |
| To Manager's Salary | 2,40,000 | By Gross Profit | 11,27,700 |
| To General Expenses | 1,86,000 | By Branch Profit transferred | 2,26,930 |
| To Depreciation | | | |
| Furniture (88,600-79,740) | 8,860 | | |
| Building (5,10,800+2,41,600-7,14,780) | 37,620 | | |
| To Manager's Commission @ 10% (8,82,150 x10/110) | 80,195 | | |
| To Net profit | 8,01,955 | | |
| | 13,54,630 | | 13,54,630 |

Working Notes

1 Debtors Account (1 mark)

| | | | |
|--------------------------------|-----------|------------------------------|-----------|
| To Balance b/d | 1,80,000 | By Cash Collections | 20,15,000 |
| To Sales made during the year: | | By Balance c/d (Bal. Figure) | 2,10,000 |
| Refined oil | 5,95,000 | | |
| Ghee | 14,50,000 | | |
| | 22,25,000 | | 22,25,000 |

2 Branch Cash Account (1 mark)

| | | | |
|----------------|-----------|------------------------------|-----------|
| To Balance b/d | 25,690 | By Remittance | 19,50,000 |
| To Collections | 20,15,000 | By Exp. | 45,890 |
| | | By Balance c/d (Bal. Figure) | 44,800 |
| | 20,40,690 | | 20,40,690 |

Note:

1. Branch managers generally get commission based on the Branch profits and not on overall organizational profits. The answer given above is on the basis of the information given in the

question and the commission of branch manager is computed as 10% on overall organizational profits after charging such commission.

- Since the amount of cash sales was not given specifically in the question, total amount of cash collections during the year amounting ` 20,15,000 has been considered as collection from Debtors in the above solution.

Question 2: (12marks)

Form B – RA (Prescribed by IRDA) Superb General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2016 Fire and Marine

Insurance Businesses (4 marks)

| | <i>Schedule</i> | <i>Fire Current Year</i> | <i>Marine Current Year</i> |
|---|-----------------|------------------------------|--------------------------------|
| | | Rs. | Rs. |
| Premiums earned (net) | 1 | 4,27,500 | 1,40,000 |
| Profit / (Loss) on sale / redemption of investments | | — | — |
| Others (to be specified) | | | |
| Interest, Dividends and Rent – Gross | | — | — |
| Total (A) | | <u>4,27,500</u> | <u>1,40,000</u> |
| Claims incurred (net) | 2 | 82,000 | 88,000 |
| Commission | 3 | 40,000 | 20,000 |
| Operating expenses related to Insurance business | 4 | 70,000 | 50,000 |
| Premium Deficiency | | | |
| Total (B) | | <u>1,92,000</u> | <u>1,58,000</u> |
| Profit from Fire / Marine Insurance business (A-B) | | 2,35,500 | (18,000) |

Schedules forming part of Revenue Account (1 1/2 marks)

| <i>Schedule –1 Premiums earned (net)</i> | | <i>Fire Current Year</i> | <i>Marine Current Year</i> |
|--|--|----------------------------------|------------------------------------|
| | | Rs. | Rs. |
| Premiums from direct business written | | 4,80,000 | 3,50,000 |
| Less: Premium on reinsurance ceded | | <u>(25,000)</u> | <u>(15,000)</u> |
| Total Premium earned | | 4,55,000 | 3,35,000 |
| Less: Change in provision for unexpired risk | | <u>(27,500)</u> | <u>(1,95,000)</u> |
| | | <u>4,27,500</u> | <u>1,40,000</u> |
| Schedule – 2 | | | |
| Claims incurred (net) | | <u>82,000</u> | 88,000 |
| Schedule – 4 | | | |
| Operating expenses related to insurance business | | | |
| Expenses of Management | | 70,000 | 50,000 |

Form B-PL

Superb General Insurance Co. Ltd.

Profit and Loss Account for the year ended 31st March, 2016 (4 marks)

| Particulars | Schedule | Current Year | Previous Year |
|---|----------|-----------------------|---------------|
| | | Rs. | Rs. |
| Operating Profit/(Loss) | | | |
| (a) Fire Insurance | | 2,35,500 | |
| (b) Marine Insurance | | (18,000) | |
| (c) Miscellaneous Insurance | | — | |
| Income From Investments | | | |
| Interest, Dividend & Rent–Gross | | 1,29,000 [#] | |
| Other Income (To be specified) | | | |
| Total (A) | | <u>3,46,500</u> | |
| Provisions (Other than taxation) | | | |
| Depreciation | | 9,000 | |
| Other Expenses –Director’s Fee | | <u>80,000</u> | |
| Total (B) | | <u>89,000</u> | |
| Profit Before Tax | | 2,57,500 | |
| Provision for Taxation | | 99,138 | |

Working Notes: (2 ½ mark)

| | | Fire | Marine |
|----|---|-----------------|-----------------|
| | | Rs. | Rs. |
| 1. | Claims under policies less reinsurance | | |
| | Claims paid during the year | 1,00,000 | 80,000 |
| | Add: Outstanding on 31 st March, 2016 | <u>10,000</u> | <u>15,000</u> |
| | | 1,10,000 | 95,000 |
| | Less : Outstanding on 1 st April, 2015 | <u>(28,000)</u> | <u>(7,000)</u> |
| | | <u>82,000</u> | <u>88,000</u> |
| 2. | Expenses of management | | |
| | Expenses paid during the year | 60,000 | 45,000 |
| | Add: Outstanding on 31 st March, 2016 | <u>10,000</u> | <u>5,000</u> |
| | | <u>70,000</u> | <u>50,000</u> |
| 3. | Premiums less reinsurance | | |
| | Premiums received during the year | 4,50,000 | 3,30,000 |
| | Add: Outstanding on 31 st March, 2016 | <u>30,000</u> | <u>20,000</u> |
| | | 4,80,000 | 3,50,000 |
| | Less : Reinsurance premiums | <u>(25,000)</u> | <u>(15,000)</u> |
| | | <u>4,55,000</u> | <u>3,35,000</u> |

4. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance. Reserve for unexpired risks for fire insurance =

Rs.4,55,000 X 50% = Rs.2,27,500. Opening Balance in reserves for unexpired risk for fire insurance was Rs.2,00,000. Hence, additional transfer to reserve for fire insurance in the year will be Rs.27,500. On similar basis of calculation, the additional transfer to reserve for marine insurance will be Rs.1,95,000

5. **Provision for taxation account**

| | Rs. | | Rs. |
|---------------------------------------|----------|----------------------------------|----------|
| 31.3.2016 To Bank A/c (taxes paid) | 60,000 | 1.4.2015 By Balance b/d | 85,000 |
| 31.3.2016 To Balance c/d | 1,24,138 | 31.3.2016 By P & L A/c (Bal Fig) | 99,138 |
| | 1,84,138 | | 1,84,138 |

Interest and dividend in case can't be bifurcated between fire and marine thus taken to profit and loss account.

Question 3 : (6 marks)

| | Departments | | |
|--|----------------|----------------|----------------|
| | A Rs. | B Rs. | C Rs. |
| Profit before adjustment of unrealized profits | 54,000 | 40,500 | 27,000 |
| Add : Managerial commission (1/9) | <u>6,000</u> | <u>4,500</u> | <u>3,000</u> |
| | 60,000 | 45,000 | 30,000 |
| Less: Unrealised profit on stock (Refer W.N.) | <u>(6,000)</u> | <u>(6,750)</u> | <u>(3,000)</u> |
| | 54,000 | 38,250 | 27,000 |
| Less: Managers' commission @ 10% | <u>(5,400)</u> | <u>(3,825)</u> | <u>(2,700)</u> |
| Profit after adjustment of unrealized profits | <u>48,600</u> | <u>34,425</u> | <u>24,300</u> |

3 marks

Working Notes:

Value of unrealised profit

| | Rs. |
|---|-------|
| <u>Transfer by department A to</u> | |
| B department (22,500 * 25/125) = 4,500 | |
| C department (16,500 * 10/110) = <u>1,500</u> | 6,000 |
| <u>Transfer by department B to</u> | |
| A department (21,000 * 15/100) = 3,150 | |
| C department (18,000 * 20/100) = <u>3,600</u> | 6,750 |
| <u>Transfer by department C to</u> | |
| A department (9,000 * 20/120) = 1,500 | |
| B department (7,500 * 25/125) = <u>1,500</u> | 3,000 |

3 marks

Question 4 : (12 marks)

KLM Bank Limited

Profit and Loss Account for the year ended 31st March, 2016 (6 marks)

| | | Schedule | Year ended 31.03.2016 |
|------|--|----------|--------------------------|
| | | | Rs. |
| I. | Income: Interest | | |
| | earned Other | 13 | 37,95,160 |
| | income | 14 | <u>4,87,800</u> |
| | Total | | <u>42,82,960</u> |
| II. | Expenditure | | |
| | Interest expended | 15 | 22,95,360 |
| | Operating expenses Provisions and contingencies (4,50,000+2,00,000+2,00,000) | 16 | 5,70,340 |
| | Total | | <u>8,50,000</u> |
| III. | Profits/Losses | | |
| | Net profit for the year | | 5,67,260 |
| | Profit brought forward | | <u>Nil</u> |
| | | | <u>5,67,260</u> |
| IV. | Appropriations | | |
| | Transfer to statutory reserve (25% of 5,67,260) | | 1,41,815 |
| | Proposed dividend | | 50,000 |
| | Balance carried over to balance sheet | | <u>3,75,445</u> |
| | | | <u>5,67,260</u> |

Profit & Loss Account balance of Rs.3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet. (1 mark)

(Schedules will carry one mark each)

| | | Year ended 31.3.2016 Rs. |
|-------|---|--------------------------------|
| | Schedule 13 – Interest Earned | |
| I. | Interest/discount on advances/bills (Refer W.N.) | <u>37,95,160</u> |
| | | <u>37,95,160</u> |
| | Schedule 14 – Other Income Commission, | |
| I. | exchange and brokerage | 1,90,000 |
| II. | Profit on sale of investment | 2,25,800 |
| III. | Rent received | <u>72,000</u> |
| | | <u>4,87,800</u> |
| | Schedule 15 – Interest Expended | |
| I. | Interests paid on deposits | <u>22,95,360</u> |
| | | <u>22,95,360</u> |
| | Schedule 16 – Operating Expenses | |
| I. | Payment to and provisions for employees (salaries & allowances) | 2,50,000 |
| II. | Rent, taxes paid | 1,00,000 |
| III. | Depreciation on assets | 40,000 |
| IV. | Director's fee, allowances and expenses Auditor's fee | 35,000 |
| | | 12,000 |
| V. | Statutory (law) expenses | 38,000 |
| VI. | Postage and telegrams | 65,340 |
| VII. | Preliminary expenses ^[2] | <u>30,000</u> |
| VIII. | | <u>5,70,340</u> |

Working Note: (1 mark)

| | Rs. |
|---|------------------|
| Interest and discount received | 38,00,160 |
| Add: Rebate on bills discounted on 31.3. 2015 Less: | 15,000 |
| Rebate on bills discounted on 31.3. 2016 | <u>(20,000)</u> |
| | <u>37,95,160</u> |

Question 5 : (12 marks)

Karma Limited
Balance Sheet as on 01.04.2016 (6marks)

| Particulars | Note No. | Figures as at the end of current reporting period |
|--|----------|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 55,00,000 |
| (b) Reserves and Surplus | 2 | 85,85,000 |
| (2) Non-Current Liabilities | | |
| (a) Long-term borrowings - Unsecured Loans | | 45,00,000 |
| (3) Current Liabilities | | |
| (a) Short-term provisions | | 90,00,000 |
| Total | | 2,75,85,000 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Fixed assets | | |
| (i) Tangible assets | | 1,50,00,000 |
| (2) Current assets | | |
| (a) Cash and cash equivalents | | 5,85,000 |
| (b) Other current assets | | 1,20,00,000 |
| | | 2,75,85,000 |

Notes to Accounts (2 marks)

| | Rs. |
|---|-------------------|
| 1 Share Capital | |
| 5,50,000 Equity Shares of Rs.10 each | 55,00,000 |
| 2 Reserve and Surplus | |
| General Reserve | 50,00,000 |
| Add: Debenture Redemption Reserve transfer | <u>35,00,000</u> |
| | 85,00,000 |
| Add: Profit on sale of investments | <u>2,00,000</u> |
| | 87,00,000 |
| Less: Premium on redemption of debentures (80,000 x Rs.5) | <u>(4,00,000)</u> |
| Securities Premium Account (1,50,000 x Rs.1.9) | 2,85,000 |
| | 85,85,000 |

Working Notes:

(i) Calculation of number of shares to be allotted (2 marks)

| | | |
|---|-----------------|---------------|
| Total number of debentures | 80,000 | |
| Less : Number of debentures not opting for conversion | <u>(12,000)</u> | |
| | | <u>68,000</u> |

| | |
|---|---------------------------------|
| 25% of 68,000 | 17,000 |
| Redemption value of 17,000 debentures | Rs.17,85,000 |
| Number of Equity Shares to be allotted: | |
| $\frac{17,85,000}{11.90}$ | =1,50,000 shares of Rs.10 each. |

11.90

(ii) Calculation of cash to be paid

| | |
|---|-----------------|
| Number of debentures | 80,000 |
| Less: Number of debentures to be converted into equity shares | <u>(17,000)</u> |
| | <u>63,000</u> |
| Redemption value of 63,000 debentures (63,000 × Rs.105) | Rs.66,15,000 |

(iii) Cash and Bank Balance

| | |
|---------------------------------------|--------------------|
| | Rs. |
| Balance before redemption | 40,00,000 |
| Add : Proceeds of investments sold | <u>32,00,000</u> |
| | 72,00,000 |
| Less : Cash paid to debenture holders | <u>(66,15,000)</u> |
| | <u>5,85,000</u> |

(ii) &(iii) will carry one mark each
