



## INTER CA – MAY 2018

Sub – Accountancy & Advanced Accountancy  
 Topic – Company Final Accounts, Redemption of Debentures, Investments Accounts, Departmental Accounts, Insurance Company Final Accounts & Internal reconstruction.

Test Code – M1

Branch: Multiple Date: 03.12.2017

(50 Marks)

*Note: All questions are compulsory.*

Question 1 (8 Marks)

### FORM B– RA

Name of the Insurer: Xeta Insurance Company Limited

Registration No. and Date of registration with IRDA: .....

Revenue Account for the year ended 31<sup>st</sup> March, 2016 (4 marks)

| Particulars  | Schedule | Amount (₹) |
|--|----------|------------|
| Premium earned (net)                               | 1        | 29,81,000  |
| Profit on sale of investment                       |          | 30,000     |
| Others   |          | –          |
| Interest and dividend (gross)                      |          | 1,50,000   |
| Total (A)  |          | 31,61,000  |
| Claims incurred (Net)                              | 2        | 20,25,000  |
| Commission   | 3        | 3,50,000   |
| Operating expenses related to insurance            | 4        | 7,50,000   |
| Total (B)  |          | 31,25,000  |
| Operating profit from insurance business (A) – (B) |          | 36,000     |

Schedule –1 Premium earned (net) (1 mark)

|   |            |
|---|------------|
| Premium received  | 33,60,000  |
| Less: Premium on reinsurance ceded                                      | (2,25,000) |
| Net Premium   | 31,35,000  |
| Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.) | (1,54,000) |
| Total premium earned  | 29,81,000  |

Schedule -2 Claims incurred (net) (1 mark)

|  |           |
|--|-----------|
| Claims paid  | 19,20,000 |
| Add: Expenses regarding claims                             | 90,000    |
|  | 20,10,000 |
| Less: Re-insurance recoveries                              | (60,000)  |
|  | 19,50,000 |
| Add: Claims outstanding as on 31 <sup>st</sup> March, 2016 | 2,70,000  |

|   |            |
|---|------------|
|   | 22,20,000  |
| Less: Claims outstanding as on 31st March, 2015 | (1,95,000) |
|   | 20,25,000  |

Schedule -3 Commission (1/2 mark)

|                 |          |
|-----------------|----------|
| Commission paid | 3,50,000 |
|-----------------|----------|

Schedule-4 Operating expenses related to Insurance Business (1/2 mark)

|   |          |
|---|----------|
| Expenses of management ( ` 4,20,000 – ` 45,000) | 3,75,000 |
|---|----------|

Working Note:

Calculation for change in Reserve for Unexpired risk: (1 mark)

|   |                 |             |
|---|-----------------|-------------|
| Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2016       | 12,54,000       |             |
| Additional Reserve as on 31 <sup>st</sup> March, 2016               | <u>7,00,000</u> | 19,54,000   |
| Less: Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2015 | 15,00,000       |             |
| Additional Reserve as on 31 <sup>st</sup> March, 2015               | 3,00,000        | (18,00,000) |
|   |                 | 1,54,000    |

Question 2 (16 Marks)

In the books of R Ltd.

Ledger Accounts

Capital Reduction Account (3 marks)

| Particulars   | Amount   | Particulars   | Amount   |
|---|----------|---|----------|
| To Intangibles (68,000 – 48,000)                      | 20,000   | By 8% Cumulative preference shares capital account    | 1,60,000 |
| To Plant and equipment account<br>2,40,000 – 1,40,000 | 1,00,000 | By Equity share capital account                       | 4,80,000 |
| To Deferred revenue expenditure account               | 48,000   | By Freehold premises account<br>(3,80,000 – 1,40,000) | 2,40,000 |
| To Profit and loss account                            | 4,40,000 | By Stock account (2,50,000 – 2,48,000)                | 2,000    |
| To Investment account (W.N. 2)                        | 11,500   |   |          |
| To Provision for doubtful debts                       | 6,400    |   |          |
| To Capital reserve account (Bal Fig)                  | 2,56,100 |   |          |
|   | 8,82,000 |   | 8,82,000 |

Equity Share Capital Account (2 marks)

| Particulars                  | Amount   | Particulars   | Amount   |
|------------------------------|----------|---|----------|
| To Capital reduction account | 4,80,000 | By Balance b/d  | 4,80,000 |
| To Balance c/d               | 6,60,000 | By Equity share final call account<br>(64,000 × ` 2.5)                  | 1,60,000 |
|                              |          | By Loan from Directors account (60,000<br>/ 2.5 = 24,000) Equity Shares | 60,000   |
|                              |          | By Bank account (Further issue of                                       | 4,40,000 |

|  |           |   |           |
|--|-----------|---|-----------|
|  |           | 64,000 + 24,000 Equity Shares: 2 for every 1 share held = 1,76,000 shares @ 2.5 each) |           |
|  | 11,40,000 |   | 11,40,000 |

8% Cumulative Preference Share Capital Account (1 marks)

| Particulars  | Amount   | Particulars    | Amount   |
|--|----------|----------------|----------|
| To 10% Cumulative preference share capital account | 4,80,000 | By Balance b/d | 6,40,000 |
| To Capital reduction account                       | 1,60,000 |                |          |
|  | 6,40,000 |                | 6,40,000 |

Bank Account (1 marks)

| Particulars  | Amount   | Particulars                | Amount   |
|--|----------|----------------------------|----------|
| To Equity share final call account                 | 1,60,000 | By Balance b/d (overdraft) | 2,08,000 |
| To Equity share capital account                    | 4,40,000 | By Balance c/d             | 5,12,000 |
| To 10% Cumulative preference share capital account | 1,20,000 |                            |          |
|  | 7,20,000 |                            | 7,20,000 |
| To Balance b/d                                     | 5,12,000 |                            |          |

10% Cumulative Preferences Share Capital Account (1 marks)

| Particulars    | Amount   | Particulars  | Amount   |
|----------------|----------|--|----------|
| To Balance c/d | 6,00,000 | By 8 % Cumulative preference share capital account                               | 4,80,000 |
|                |          | By Bank ( 1 for every 4 pref shares held = 64,000 /4 = 16.000 shares @ 7.5 each) | 1,20,000 |
|                | 6,00,000 |  | 6,00,000 |
|                |          | By Balance b/d   | 6,00,000 |

R. Ltd., (and Reduced)

Balance Sheet as at 1 April, 2008 ( 2 marks)

| Particulars               | Note No | Amount    |
|---------------------------|---------|-----------|
| I. Equity and Liabilities |         |           |
| (1) Shareholder's Funds   |         |           |
| (a) Share Capital         | 1       | 12,60,000 |
| (b) Reserves and Surplus  | 2       | 2,56,100  |
| (2) Current Liabilities   | 3       | 4,40,000  |
| TOTAL                     |         | 19,56,100 |

|                                 |   |           |
|---------------------------------|---|-----------|
| II. Assets                      |   |           |
| (1) <u>Non – current assets</u> |   |           |
| (a) <i>Fixed assets</i>         |   |           |
| Tangible assets                 | 4 | 5,20,000  |
| Intangible assets               |   | 48,000    |
| (b) Non- current investment     | 5 | 3,12,500  |
| (2) <u>Current assets</u>       |   |           |
| (a) Inventories                 |   | 2,50,000  |
| (b) Trade Receivable            | 6 | 3,13,600  |
| (c) Cash and cash equivalents   |   | 5,12,000  |
| TOTAL                           |   | 19,56,000 |

Notes to Accounts (3 marks)

|    |   | Amount          |
|----|---|-----------------|
| 1. | Share Capital<br><i>Authorised</i>  | 14,00,000       |
|    | <i>Issued: 80,000 10% Cumulative preference shares of ` 7.5 each</i>                  | 6,00,000        |
|    | <i>2,64,000 equity shares of ` 2.5 each</i>   | <u>6,60,000</u> |
| 2. | Reserve and Surplus<br>Capital Reserve  | 12,60,000       |
| 3. | Current liability<br>Creditors  | 2,56,100        |
| 4. | Fixed Assets<br>Freehold premises<br>Freehold premises                                | 4,40,000        |
|    |   | 3,80,000        |
|    |   | <u>1,40,000</u> |
|    |   | 5,20,000        |
| 5. | Non Current Investments<br>Investment in Q Ltd., (W.N.1)                              | 3,12,500        |
| 6. | Trade receivables<br>Debtors less provision for doubtful debts (` 3,20,000 – ` 6,400) | 3,13,600        |

Working Notes: (1 mark)

- Valuation of investments in shares of Q Ltd.,  $= \frac{2,50,000}{12\%100} \times \frac{15}{100} = ` 3,12,500$
- Reduction in the value of investment in shares of Q Ltd.  
 $3,24,000 - ` 3,12,500 = ` 11,500.$

Question 3 (8 Marks)

Points for Considerations

- Sale Proceeds of Rights is to be credited to P&L A/c and not investment A/c.
- Reduce the Dividend on Shares acquired on 1<sup>st</sup> September 2017 from the cost of acquisition, to arrive at the Net Cost of Shares as on 31<sup>st</sup> March 2018, since it is Pre-Acquisition Dividend.

| Particulars                                 | Computation (4 marks)   | Result       |
|---|---|--------------|
| 1. No. of Bonus Shares                      | $(40,000 + 1,000) + 5 \times 2$                                       | 2,000 shares |
| 2. no. of Rights Shares eligible            | $(4,000 + 1,000 + 2,000) \times \frac{2}{7}$                          | 2,000 shares |
| 3. No. of Rights Shares Renounced           | $2,000 \times \frac{1}{2} = 1,000$ Shares at ` 8 will be taken to P&L | ` 8,000      |
| 4. No. of Rights Shares subscribed          | $2,000 - 1,000 = 1,000$ Shares at ` 10 + 25% Premium                  | ` 12,500     |
| 5. Total Dividend Received                  | On OB + Fresh Purc. = 5,000 Shares x ` 10 x 20%                       | ` 10,000     |
| (a) Dividend on OB Shares taken to P&L      | $4,000 \times ` 10 \times 20\%$                                       | ` 8,000      |
| (b) Dividend on Shares pure. On 01.09.2017  | $1,000 \times ` 10 \times 20\%$ is adjusted in Investment A/c.        | ` 2,000      |
| 6. Cost of Shares sold on 01.02.2018        | $(60,000 + 14,000 + 12,500 - 2,000) \times \frac{4,000}{8,000}$       | ` 42,250     |
| 7. Net Sale Proceeds for sale on 01.02.2018 | $8,000 \text{ shares} \times \frac{1}{2} \times (` 10 + ` 4)$         | ` 56,000     |
| 8. Profit on Sale of Shares on 01.02.2018   | Net Sale Proceeds ` 56,000 less Cost ` 42,250                         | ` 13,750     |

Investment (Equity Shares in Akash Ltd) Account (4 marks)

| Date     | Particulars             | Shares Nos. | `        | Date     | Particulars                     | Shares Nos. | `        |
|----------|-------------------------|-------------|----------|----------|---------------------------------|-------------|----------|
| 01.04.17 | To balance b/d at ` 15  | 4,000       | 60,000   | 20.01.18 | By Bank (Dvd) (WN 5b)           | -           | 2,000    |
| 01.09.17 | To Bank at ` 14 (10+4)  | 1,000       | 14,000   |          |                                 |             |          |
| 30.09.17 | To Bonus (WN 1)         | 2,000       | -        | 01.02.18 | By Bank (Sale of Shares) (WN 7) | 4,000       | 56,000   |
| 31.12.17 | To Bank (Rights) (WN4)  | 1,000       | 12,500   |          |                                 |             |          |
| 31.03.18 | To P&L – Pft Lfr (WN 8) | -           | 13,750   | 31.03.18 | By balance c/d (Note)           | 4,000       | 42,250   |
|          | Total                   | 8,000       | 1,00,250 |          | Total                           | 8,000       | 1,07,250 |

Note: 50% of the Shareholdings are sold, for which cost is ` 42,250 as per WN 6. Hence, Cost of Balance 50% Shareholdings at period – end is also ` 42,250. Market Price =  $4,500 \times ` 13 = ` 58,500$ . Hence, Carrying Amount of current investment = Cost of Market Price, whichever is lower = ` 42,250.

Question 4 (8 Marks)

1. Computation of Net Profits (4 marks)

| Particulars  |          |           |
|--|----------|-----------|
| Add: Balance from Trading Account                  |          | 38,35,414 |
| Interest on Investments                            |          | 10,964    |
| Transfer Fees Received                             |          | 537       |
| Profit on Sale of Plant                            |          | 8,000     |
| Total  |          | 38,54,915 |
| Less: Administrative, selling and Finance Expenses | 5,75,804 |           |
| Contribution to National Defence Fund              | 20,000   |           |
| Particulars  |          |           |
| Directors Fees                                     | 54,780   |           |
| Interest on Debentures                             | 21,380   |           |
| Depreciation of Fixed Assets                       | 4,69,713 | 11,41,677 |
| Net Profits for Managerial Remuneration            |          | 27,13,238 |

1. Profit on sale of Plant: (1 mark)

it is assumed that the cost of plant and Machinery is over and above ₹ 40,000 (given a WDV of ₹ 32,000 and the value realized being ₹ 40,000) Profits to extent of the difference between the Original Cost and WDV can be considered for the purpose of determining the Net Profit. Hence in this case, the entire ₹ 8,000 has been considered for determining the Net Profit.

2. Maximum Remuneration Payable to the Managing Director: (1 mark)

= 5% of Net Profit (Computed) =  $5\% \times ₹ 27,13,238 = ₹ 1,35,662$ . However, Managing Director's Remuneration as per the above P & L Account is ₹ 3,70,500.

3. Maximum Remuneration Payable under schedule V (Inadequate Profits): (1 mark)

Or its profits are Inadequate; it may pay Remuneration to any Managerial Person, within the limits specified in Schedule V. The ceiling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Negative or Less than ₹ 5 Crores", the Maximum Permissible Remuneration is ₹ 60,00,000 p.a.

4. Audit Observation: (1 mark)

Remuneration of ₹ 3,70,500 paid to Managing Director exceeds the limits  $\frac{1}{5}$  of 197, but is within the limits specified by Schedule V.

Question 5 (12 Marks)

ABC Limited  
Balance Sheet as on June 30,2014 (7 marks)

| Particulars             | Note No | Figures as at the end of current reporting period |
|-------------------------|---------|---|
|                         |         | Rs.   |
| I. Equity and Liability |         |   |
| 1. Shareholder's Funds  |         |   |

|     |                           |   |                    |
|-----|---------------------------|---|--------------------|
| a.  | Share Capital             | 1 | 90,00,000          |
| b.  | Reserves and Surplus      | 2 | 1,92,50,000        |
| 2.  | Non Current Liabilities   |   |                    |
| a.  | Long –term borrowings     |   | 70,00,000          |
| 3.  | Current Liabilities       |   |                    |
| a.  | Short –term provisions    |   | <u>1,80,00,000</u> |
|     | Total                     |   | <u>5,32,50,000</u> |
| II. | Assets                    |   |                    |
| 1.  | Non- current assets       |   |                    |
| a.  | Fixed assets              |   | 2,50,00,000        |
| 2.  | Current assets            |   |                    |
| a.  | Cash and cash equivalents |   | <u>12,50,000</u>   |
| b.  | Other current assets      |   | <u>2,70,00,000</u> |
|     | Total                     |   | <u>5,32,50,000</u> |

Notes to Accounts (2 marks)

|    |  |                    | Rs.                |
|----|--|--------------------|--------------------|
| 1. | Share Capital                              |                    |                    |
|    | 9,00,000 Equity Shares of Rs.10each        |                    | <u>90,00,000</u>   |
| 2. | Reserves and Surplus                       |                    |                    |
|    | General Reserve                            | 1,10,00,000        |                    |
|    | Add: Debenture Redemption Reserve transfer | <u>70,00,000</u>   |                    |
|    |  | 1,80,00,000        |                    |
|    | Add: Profit on sale of investments         | <u>10,00,000</u>   |                    |
|    |  | 1,90,00,000        |                    |
|    | Less :Premium on redemption of debentures  | <u>(15,00,000)</u> | 1,75,00,000        |
|    | Securities Premium Account                 |                    | 17,50,000          |
|    |  |                    | <u>1,92,50,000</u> |

Working Notes : (3 marks)

- (i) Calculation of number of shares to be allotted :
- |  |                 |
|--|-----------------|
| Total number of debentures                           | 1,50,000        |
| Less :Number of debentures not opting for conversion | <u>(50,000)</u> |
|  | 1,00,000        |
| 25% of 1,00,000                                      | 25,000          |
| Redemption value of 25,000 debentures@110            | Rs.27,50,000    |
| Number of Equity Shares to be allotted               |                 |
| =27,50,000/27.50=1,00,000 shares of Rs.10 each.      |                 |
- (ii) Calculation of Cash to be paid:
- |   |                 |     |
|---|-----------------|-----|
| Total number of debentures                                    | 1,50,000        | Rs. |
| Less :Number of debentures to be converted into equity shares | <u>(25,000)</u> |     |
|   | <u>1,25,000</u> |     |
| Redemption value of 1,25,000 debentures @110                  | Rs.1,37,50,000  |     |
- (iii) Cash and Bank Balance:
- |                           |           |
|---------------------------|-----------|
| Balance before redemption | 80,00,000 |
|---------------------------|-----------|

|                                       |                  |
|---------------------------------------|------------------|
| Add: Proceeds of investments sold     | <u>70,00,000</u> |
|                                       | 1,50,00,000      |
| Less : Cash paid to debenture holders | (1,37,50,000)    |
|                                       | <u>12,50,000</u> |

Note :The premium on redemption of debentures can also be adjusted against Securities Premium Account .

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