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IPCC NOVEMBER 2016 EXAM

ADVANCED ACCOUNTS

Test Code - I N J 1 0 7 0

BRANCH - (MUMBAI) (Date : 19.06.2016)

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Answer-1 (a) :

(i) Cheques collected by the marketing personnel of the company is an adjusting event as the marketing personnels are employees of the company and therefore, are representatives of the company. Handing over of cheques by the stockiest to the marketing employees discharges the liability of the stockiest. Therefore, cheques collected by the marketing personnel of the company on or before 31st March, 2013 require adjustment from the stockiest accounts i.e. from Trade Receivables A/c even though these cheques (dated on or before 31st March, 2013) are presented in the bank in the month of April, 2013 in the normal course. Hence, collection of cheques by the marketing personnel is an adjusting event as per AS 4 'Contingencies and Events Occurring after the Balance Sheet Date'. Such cheques in hand will be shown in the Balance Sheet as Cash and Cash equivalents with a disclosure in the Notes to accounts about the accounting policy followed by the company for such cheques.

(2 Marks)

(ii) Even if the cheques bear the date 31st March or before and are sent by the stockiest through courier on or before 31st March, 2013, it is presumed that the cheques will be received after 31st March. Collection of cheques after 31st March, 2013 does not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director s Report is necessary.

(2 Marks)

Answer-1 (b) :

WDV of asset at the end of year 2011-12= Rs. 5,00,000 – Rs. 45,000 x 3 = Rs. 3,65,000
WDV of asset at the end of year 2011-12 (by reducing balance method)
= Rs. 5,00,000 (1 – 0.15)3 = Rs. 3,07,062.50
Depreciation to be charged in year 2012-13
= (Rs. 3,65,000 – Rs. 3,07,062.50) + 15% of Rs. 3,07,062.50
Rs. 57,937.50 + Rs. 46,059.38 = Rs. 1,03,997 (approx.)

(2 Marks)

As per AS 5 'Net profit or loss for the period, Prior Period Items and Changes in Accounting Policies' the revision of remaining useful life is change in accounting estimate, and adoption of reducing balance method of depreciation instead of the straight-line method is change in accounting policy. Since it is difficult to segregate impact of these two changes, the entire amount of difference between depreciation at old rate and depreciation charged in 2012-13 (Rs. 1,03,997- Rs.45,000 = Rs. 58,997) is regarded as an effect of change in accounting estimate as per provisions of the standard. The effect of this change in accounting estimate should be properly disclosed in the financial statements of the company for the year ended 31st March, 2013.

(2 Marks)

Answer-1 (c) :

According to para 6 of AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also para 10 of AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost
= Rs. 11,00,000 – Rs. 2,00,000
= Rs. 9,00,000

(3 Marks)

Sr.No.	Particulars	Nature of Assets	Interest to be Capitalized (Rs.)	Interest to be charged to Profit & Loss Account (Rs.)
i.	Construction of factory building	Qualifying Asset*	9,00,000 x 40/100 = Rs.3,60,000	Nil
ii.	Purchase of Machinery	Not a Qualifying Asset	Nil	9,00,000 x 35/100 = Rs.3,15,000
iii.	Working Capital	Not a Qualifying Asset	Nil	9,00,000 x 25/100 = Rs.2,25,000
	Total		**Rs.3,60,000**	**Rs.5,40,000**

(3 Marks)

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Answer-2 :

12% Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.13	To Own debentures A/c	2,00,000	01.04.12	By Balance b/d	16,00,000
	To Bank A/c	14,00,000			
		16,00,000			**16,00,000**

(2 Marks)

Debenture Redemption Sinking Fund Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.13	To 9% Stock A/c (loss) (W.N.5)	6,400	01.04.12	By Balance b/d	14,98,000
	To General reserve A/c (Bal.fig.)	16,93,200		By Profit and loss A/c	56,800
				By Interest on sinking fund A/c (W.N.3)	1,42,800
				By Own debentures A/c (W.N.4)	2,000
		16,99,600			**16,99,600**

(3 Marks)

Working Notes:

1. **Amount of stock as on 1st April, 2012**

	Rs.
Sinking fund balance as on 1st April, 2012	14,98,000
Less: Own debentures	(1,98,000)
	13,00,000

(1 Mark)

2. **Sales value of 9% stock**
= Face value / Rs. per stock
= Rs. 13,20,000 / Rs. 100 = 13,200 stock
Sales value = 13,200 stock x Rs. 98 per stock
= Rs. 12,93,600

(1 Mark)

3. **Interest credited to Sinking Fund**

(i) Interest on 9% stock (Rs. 13,20,000 x 9%)	Rs. 1,18,800
(ii) Interest on own debentures (2,000 Debentures x Rs. 100 x 12%)	Rs. 24,000
	Rs. 1,42,800

(1 Mark)

4. Own Debentures Account

		Rs.			Rs.
01.04.12	To Balance b/d	1,98,000	31.03.13	By 12% Debentures A/c	2,00,000
31.03.13	To Sinking fund A/c	2,000			
		2,00,000			**2,00,000**

(1 Mark)

5. 9% Stock Account

		Rs.			Rs.
01.04.12	To Balance b/d (Face value Rs. 13,20,000) (W.N.1)	13,00,000	31.03.13	By Bank account (W.N.2)	12,93,600
				By Sinking fund (loss on sales)	6,400
		13,00,000			**13,00,000**

(1 Mark)

Answer-3 (a) :

Computation of provision to be made by a Bank

	Rs.
Outstanding Value of Doubtful Asset (up to 3 years)	7,24,000
Less :Value of security (excluding ECGC cover)	(Rs. 1,75,000)
Sub Total	Rs. 5,49,000
Less :ECGC Cover (subject to Rs. 1,50,000 maximum)	(Rs. 1,50,000)
Unsecured Portion	Rs. 3,99,000
Provision:	
For unsecured portion @ 100% of Rs. 3,99,000	Rs. 3,99,000
For secured portion @ 40% of Rs. 1,75,000	Rs. 70,000
Total Provision	Rs. 4,69,000

(4 Marks)

Answer-3 (b) :

		Rs. in crores	Rs. in crores
(i)	Capital funds – Tier I		
	Equity share capital		500
	Statutory reserve		270
	Capital reserve (arising out of sale of assets) (78-16)		62
			832
	Capital funds – Tier II		
	Capital reserve (arising out of revaluation of assets)	16	
	Less: Discount to the extent of 55%	(8.8)	7.2
			839.2

(3 Marks)

		Rs. in crores	% of weight	Rs. in crores
(ii)	Risk Adjusted Assets			
	Funded Risk Assets			
	Cash balance with RBI	10	0	0

Balance with other banks	18	20	3.60
Other investments	36	102.5	36.90
Loans and advances:			
(i) Guaranteed by the government	16.5	0	0
(ii) Others	5,675	100	5,675
Premises, furniture and fixtures	78	100	78
			5,793.50

	Rs. in crores	Credit conversion factor	
Off-Balance Sheet items:			
Guarantees and other obligations	800	100	800
Acceptances, endorsements and letters of credit	4,800	100	4,800
			11,393.50

(4 Marks)

Risk Weighted Assets Ratio:

$$\frac{\text{Capital Fund x 100}}{\text{Risk adjusted Assets}}$$

(839.2/ 11,393.50) x 100 =7.37%

(1 Mark)

At present, capital adequacy ratio as per RBI norms is 9%. Therefore, Bank has to improve the ratio by introducing further Tier I capital.

Note: As per RBI Master Guidelines dated 1st July 2013, Revaluation Reserves have been advised to be discounted by 55%.

Answer-4 :

Form B – RA (Prescribed by IRDA)
Perfect General Insurance Co. Ltd
Revenue Account for the year ended 31st March, 2013
Fire and Marine Insurance Businesses

	Schedule	Fire Current Year Rs.	Marine Current Year 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)		**4,27,500**	**1,40,000**
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)		**1,92,000**	**1,58,000**
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

(4 Marks)

Schedules forming part of Revenue Account

Schedule –1

Premiums earned (net)	**Fire Current Year Rs.**	**Marine Current Year Rs.**

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

(4 Marks)

Form B-PL

Perfect General Insurance Co. Ltd.

Profit and Loss Account for the year ended 31st March, 2013

Particulars	Schedule	Current Year Rs.	Previous Year 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)	**3,46,500**		
Provisions (Other than taxation)	—		
Depreciation	9,000		
Other Expenses – Director's Fee	80,000		
Total (B)	**89,000**		
Profit Before Tax	2,57,500		
Provision for Taxation	99,138		
Profit After Tax	1,58,362		

(3 Marks)

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

Working Notes:

		Fire Rs.	Marine Rs.
1.	Claims under policies less reinsurance		
	Claims paid during the year	1,00,000	80,000
	Add: Outstanding on 31st March, 2013	10,000	15,000
		1,10,000	95,000
	Less : Outstanding on 1st April, 2012	(28,000)	(7,000)
		82,000	88,000
2.	Expenses of management		
	Expenses paid during the year	60,000	45,000
	Add: Outstanding on 31st March, 2013	10,000	5,000
		70,000	50,000
3.	Premiums less reinsurance		
	Premiums received during the year	4,50,000	3,30,000
	Add: Outstanding on 31st March, 2013	30,000	20,000
		4,80,000	3,50,000
	Less : Reinsurance premiums	(25,000)	(15,000)

		4,55,000	3,35,000

(3 Marks)

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.**
31.3.2013	To Bank A/c (taxes paid)	60,000	1.4.2012	By Balance b/d	85,000
			31.3.2013	By P & L A/c (Bal Fig)	99,138
31.3.2013	To Balance c/d	1,24,138			
		1,84,138			**1,84,138**

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