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IPCC May 2017 EXAM

ADVANCED ACCOUNTS

Test Code - I N J 1 0 7 2

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Answer-1 :

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)

(6 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

(3 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

(2 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	To Balance c/d	1,24,138	31.3.2013	By P & L A/c (Bal Fig)	99,138
		1,84,138			**1,84,138**

Answer-2 :

		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-3 :

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**

(1 Mark)

Debenture Redemption Sinking Fund Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.13	To 9% Stock A/c		01.04.12	By Balance b/d	14,98,000
	(loss) (W.N.5)	6,400		By Profit and loss A/c	56,800

	To General reserve A/c (Bal.fig.)	16,93,200		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**

(4 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

(0.5 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

(0.5 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**

(2 Marks)

Answer-4 :

Liquidators' Final Statement of Account

Receipts	**Rs.**	**Payments**	**Rs.**
Cash	4,13,000	Return to contributors:	
Realisation from:		Arrears of Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of Rs. 5 per equity share of Rs. 50 each (Rs. 5 x 1,000) See WN below	5,000	Calls in advance	5,000
		Equity shareholders of Rs. 100 each (3,000 x Rs. 30)	90,000

	4,28,000		**4,28,000**

(3 Marks)

Working Note:

		Rs.
Cash account balance		4,13,000
Less: Payment for dividend	33,000	
Preference shareholders	3,00,000	
Calls in advance	5,000	(3,38,000)
		75,000
Add: Calls in arrears		10,000
		85,000
Add: Amount to be received from equity shareholders of Rs. 50 each (1,000 x 20)		20,000
Amount disposable		1,05,000

(2 Marks)

Number of equivalent equity shares:

3,000 shares of Rs. 100 each = 6,000 shares of Rs. 50 each

1,000 shares of Rs. 50 each = 1,000 shares of Rs. 50 each

= 7,000 shares of Rs. 50 each

Final payment to equity shareholders = $\frac{\text{Amount left for distribution}}{\text{Total number of equivalent equity shares}}$

= Rs. 1,05,000 / 7,000 shares = Rs. 15 per share to equity shareholders of Rs. 50 each.

Therefore for equity shareholders of Rs. 100 each $\left(15\text{x}\frac{100}{50}\right)$

= Rs. 30 per share to equity shareholders of Rs. 100 each.

(1 Mark)

Calls in advance must be paid first, so as to pay the shareholders on pro rata basis. Equity shareholders of Rs. 50 each have to pay Rs. 20 and receive Rs. 15 each. As a result, they are required to pay net Rs. 5 per share.

Answer-5 :

Nagpur Branch Stock Account

Particulars	**Amount (Rs.)**	**Particulars**	**Amount(Rs.)**
To Balance b/d	12,000	By Goods sent to branch A/c (Returns)	2,400
To Goods sent to branch A/c	1,20,000	By Bank A/c (Cash sales)	40,000
To Branch debtors A/c (Returns)	1,600	By Branch debtors A/c (credit sales)	72,000
To Branch adjustment A/c (Surplus over invoice price)	4,800	By Balance c/d	24,000
	1,38,400		**1,38,400**

(3 Marks)

Nagpur Branch Adjustment Account

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To Stock reserve - 20% of Rs. 24,000 (closing stock)	4,800	By Stock reserve - 20% of Rs. 12,000 (Opening stock)	2,400
To Branch profit & loss A/c (Gross profit)	25,920	By Goods sent to branch A/c – 20% of Rs. 1,17,600	23,520
		By Branch stock A/c	4,800
	30,720		**30,720**

(2 Marks)

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch expenses A/c	16,800	By Branch adjustment A/c	25,920
To Branch debtors A/c (Discount)	1,200	(Gross Profit)	
To Branch debtors A/c (Bad Debts)	800		
To Net profit (transferred to Profit & Loss A/c)	7,120		
	25,920		**25,920**

(2 Marks)

Branch Expenses Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c (Rent, rates & taxes)	3,600	By Branch profit and loss A/c	
To Bank A/c (Salaries & wages)	12,000	(Transfer)	16,800
To Bank A/c (Office expenses)	1,200		
	16,800		**16,800**

(2 Marks)

Branch Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	14,400	By Bank A/c	64,000
To Branch stock A/c	72,000	By Branch profit and loss A/c	
		(Bad debts and discount)	2,000
		By Branch stock A/c (Sales returns)	1,600
		By Balance c/d (bal.fig.)	18,800
	86,400		**86,400**

(2 Marks)

Goods sent to Branch Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch stock A/c	2,400	By Branch stock A/c	1,20,000
To Branch adjustment A/c	23,520		
To Purchases A/c	94,080		
	1,20,000		**1,20,000**

(1 Mark)

-x-x-x-