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**SUGGESTED SOLUTION**  
**IPCC NOVEMBER 2016 EXAM**  
**ADVANCED ACCOUNTS**  
**Test Code - I N J 1 0 7 2**  
**BRANCH - (MUMBAI) (Date : 19.06.2016)**

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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		–	–
<b>Total (A)</b>		<b>4,27,500</b>	<b>1,40,000</b>
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			
<b>Total (B)</b>		<b>1,92,000</b>	<b>1,58,000</b>
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

(6 Marks)

**Schedules forming part of Revenue Account**

**Schedule – 1**

	Fire Current Year Rs.	Marine Current Year Rs.
Premiums earned (net)		
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
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**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.
<b>Operating Profit/(Loss)</b>			
(a) Fire Insurance	2,35,500		
(b) Marine Insurance	(18,000)		
(c) Miscellaneous Insurance	—		
<b>Income From Investments</b>			
Interest, Dividend & Rent–Gross	1,29,000*		

<b>Other Income (To be specified)</b>	
<b>Total (A)</b>	<b><u>3,46,500</u></b>
Provisions (Other than taxation)	—
Depreciation	9,000
<b>Other Expenses – Director's Fee</b>	<b><u>80,000</u></b>
<b>Total (B)</b>	<b><u>89,000</u></b>
Profit Before Tax	2,57,500
Provision for Taxation	99,138
Profit After Tax	<b><u>1,58,362</u></b>

(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	<u>10,000</u>	<u>15,000</u>
	1,10,000	95,000
Less : Outstanding on 1st April, 2012	<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 31st March, 2013	<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 31st March, 2013	<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>

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

**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)		<u>62</u>
		832
Capital funds – Tier II		
Capital reserve (arising out of revaluation of assets)	16	
Less: Discount to the extent of 55%	<u>(8.8)</u>	<u>7.2</u>
		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	<u>78</u>
			5,793.50

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

(4 Marks)

#### Risk Weighted Assets Ratio:

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

$$(839.2 / 11,393.50) \times 100 = 7.37\%$$

(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			
		<b>16,00,000</b>			<b>16,00,000</b>

(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		By Interest on sinking fund	
(Bal.fig.)	16,93,200	A/c (W.N.3)	1,42,800
		By Own debentures A/c	
		(W.N.4)	2,000
<b>16,99,600</b>		<b>16,99,600</b>	

(4 Marks)

**Working Notes:**

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

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

(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%)	<u>Rs. 24,000</u>
	<b><u>Rs. 1,42,800</u></b>

(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		
<b>2,00,000</b>		<b>2,00,000</b>	

(1 Mark)

**5. 9% Stock Account**

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

(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		Calls in advance	5,000
equity share of Rs. 50 each (Rs. 5 x		Equity shareholders of	

1,000) See WN below	5,000	Rs. 100 each (3,000 x Rs. 30)	90,000
	<b>4,28,000</b>		<b>4,28,000</b>

(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	<u>5,000</u>	<u>(3,38,000)</u>
		75,000
Add: Calls in arrears		<u>10,000</u>
		85,000
Add: Amount to be received from equity shareholders of Rs. 50 each (1,000 x 20)		<u>20,000</u>
Amount disposable		<u>1,05,000</u>

(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  $\left(15 \times \frac{100}{50}\right)$

= 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
	<b>1,38,400</b>		<b>1,38,400</b>

(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
	<b>30,720</b>		<b>30,720</b>

(2 Marks)

**Branch Profit & Loss Account**

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

(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 (Transfer)	16,800
To Bank A/c (Salaries & wages)	12,000		
To Bank A/c (Office expenses)	1,200		
	<b>16,800</b>		<b>16,800</b>

(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
	<b>86,400</b>		<b>86,400</b>

(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		
	<b>1,20,000</b>		<b>1,20,000</b>

(1 Mark)

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