



J.K. SHAH[®]
TEST SERIES
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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM
ADVANCED ACCOUNTING
Test Code - I N J 1 0 8 9
BRANCH - (MULTIPLE) (Date :28.08.2016)

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Answer-1 (a) :

According to para 3 of AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

As per para 6 of the standard, 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. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The treatment of interest by Amazing Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized Rs.	Interest to be charged to Profit & Loss A/c Rs.
Construction of sea-link	Yes	62,50,000	[80,00,000*(25/32)]
Purchase of equipments and machineries	No		7,50,000 [80,00,000*(3/32)]
Working capital	No		5,00,000 [80,00,000*(2/32)]
Purchase of vehicles	No		1,25,000 [80,00,000*(.5/32)]
Advance for tools, cranes etc.	No.		1,25,000 [80,00,000*(.5/32)]
Purchase of technical know-how	No		2,50,000 [80,00,000*(1/32)]
Total		62,50,000	17,50,000

(5 Marks)

Answer-1 (b) :**(i) Computation of annual lease payment to the lessor**

	Rs.
Cost of equipment	10,00,000
Unguaranteed residual value	1,00,000
Present value of residual value after third year @ 10% (Rs. 1,00,000 × 0.7513)	75,130
Fair value to be recovered from lease payments (Rs. 10,00,000 – Rs. 75,130)	9,24,870
Present value of annuity for three years is	2.4868
Annual lease payment = Rs. 9,24,870 / 2.4868	3,71,911.70

(3 Marks)

The present value of lease payment i.e., Rs. 9,24,870 equals 92.48% of the fair market value i.e., Rs. 10,00,000. As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

(ii) Computation of Unearned Finance Income

	Rs.
Total lease payments (Rs. 3,71,911.70 × 3)	11,15,735
Add: Unguaranteed residual value	1,00,000
Gross investment in the lease	1,215,735
Less: Present value of investment (lease payments and residual value) (Rs. 75,130 + Rs. 9,24,870)	(10,00,000)
Unearned finance income	2,15,735

(2 Marks)

Answer-2 :

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)		<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			
Premium Deficiency	4	<u>70,000</u>	<u>50,000</u>
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)

(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	<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>
	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.
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
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	<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>

(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

(0.5 Mark)

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		
	1,84,138		1,84,138

(0.5 Mark)

Answer-3 (a) :

Computation of provision to be made by a Bank

Outstanding Value of Doubtful Asset (up to 3 years)	Rs. 7,24,000
Less : Value of security (excluding ECGC cover)	<u>(Rs. 1,75,000)</u>
Sub Total	Rs. 5,49,000
Less : ECGC Cover (subject to Rs. 1,50,000 maximum)	<u>(Rs. 1,50,000)</u>
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	<u>Rs. 70,000</u>
Total Provision	Rs. 4,69,000

(4 Marks)

Answer-3 (b) :

In case of a banking company, interest on performing assets to be recognised on accrual basis, but interest on Non-Performing assets should be recognised on cash basis.

		Rs. in Lakhs
Interest on Term Loan	(280+20)	300
Cash Credits and Over Drafts	(1700+48)	1748
Bills Purchases and Discounted	(400+70)	<u>470</u>
Total Interest to be recognised		<u>2518</u>

(4 Marks)

Answer-4 (b) :

In the Books of Shah
Trading and Profit and Loss Account for the year ended 31st March, 2013

Particulars	H.O.	Branch	Total		H.O.	Branch	Total
Rs. Rs. Rs.	Rs. Rs.	Rs. Rs.	Rs. Rs.		Rs. Rs.	Rs. Rs.	Rs. Rs.
To Purchases	19,69,500	-	19,69,500	By Sales	12,80,000	8,20,000	21,00,000
To Cost of processing	50,500	-	50,500	By Goods sent to Branch	9,24,000	-	
To Goods received from H.O.	-	8,80,000	-	By Stock shortage	-	16,000	14,545
To Gross profit c/d	3,40,000	1,64,000	5,02,545	By Goods in transit			44,000
				By Closing stock:			
				Processed goods	56,000	2,08,000	2,64,000
				Unprocessed goods	1,00,000	-	1,00,000
	23,60,000	10,44,000	25,22,545		23,60,000	10,44,000	25,22,545
To Admn. Expenses	1,39,000	15,000	1,54,000	By Gross profit b/d	3,40,000	1,64,000	5,02,545
To Selling Expenses	50,000	6,200	56,200				
To Stock shortage	-	16,000	14,545				
To Stock reserve	22,909	-	22,909				
To Net profit	1,28,091	1,26,800	2,54,891				
	3,40,000	1,64,000	5,02,545		3,40,000	1,64,000	5,02,545

(6 Marks)

Balance Sheet as at 31st March, 2013

Liabilities	Rs.	Assets	Rs.
Capital	3,10,000	Debtors	
Add: Net profit	2,54,891	H.O.	3,09,600
	5,64,891	Branch	1,13,600
Less: Drawings	<u>(55,000)</u>	Closing stock:	
Creditors:		Processed goods	
H.O.	6,01,400	H.O.	56,000
Branch	<u>10,800</u>	Branch	<u>2,08,000</u>
	6,12,200		2,64,000
		Less: Stock reserve	<u>18,909</u>
		Unprocessed goods	1,00,000
		Bank Balance	
		H.O.	1,52,000
		Branch	77,500
		Goods in transit	44,000
		Less: Stock reserve	<u>4,000</u>
		Cash in transit	84,300

(5 Marks)

Working Notes:**1. Calculation of closing stock:
Stock at Head Office:**

	Rs.	
Cost of goods processed Rs. (19,69,500 + 50,500 – 1,00,000)	19,20,000	
Less: Cost of goods sent to Branch		
9,24,000 x $\frac{100}{110}$	8,40,000	
Cost of goods sold 12,80,000 x $\frac{100}{125}$	<u>10,24,000</u>	<u>18,64,000</u>
Stock of processed goods with H.O.		<u>56,000</u>

(2 Mark)

Stock at Branch:

		Rs.
Goods received from H.O. (at invoice price)		8,80,000
Less: Invoice value of goods sold		
8,20,000 x $\frac{100}{125}$	6,56,000	
Invoice value of stock shortage 20,000 x $\frac{100}{125}$	<u>16,000</u>	<u>(6,72,000)</u>
Stock at Branch at invoice price		2,08,000
Less: Stock Reserve 2,08,000 x $\frac{10}{110}$		<u>(18,909)</u>
Stock of processed goods with Branch (at cost)		<u>1,89,091</u>

(2 Marks)

2. Stock Reserve:

		Rs.
Unrealised profit on Branch stock $\left(2,08,000 \times \frac{10}{110}\right)$		18,909
Unrealised profit on goods in transit $\left(44,000 \times \frac{10}{110}\right)$		<u>4,000</u>
		<u>22,909</u>

(1 Mark)