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IPCC NOVEMBER 2016 EXAM

ADVANCED ACCOUNTING

Test Code - I N J1 0 8 9

BRANCH - (MULTIPLE) (Date :14.08.2016)

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Answer-1 (a) :

According to para 3 of AS 16 'Borrowing costs', qualifying asset is an asset that necessarilytakes 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 thatasset. Other borrowing costs should be recognised as an expense in the period in which theyare 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 marketvalue i.e., Rs. 10,00,000. As the present value of minimum lease payments substantiallycovers the initial fair value of the leased asset and lease term (i.e. 3 years) covers themajor 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 x 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 ofinvestments	–	–	–
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 Insurancebusiness			
Premium Deficiency	4	70,000	50,000
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 CurrentYear Rs.**	**Marine CurrentYear 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 lossaccount.

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 netpremium 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 fireinsurance was Rs. 2,00,000. Hence, additional transfer to reserve for fire insurance in theyear will be Rs. 27,500. On similar basis of calculation, the additional transfer to reserve formarine 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

	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) :

In case of a banking company, interest on performing assets to be recognised on accrualbasis, 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)	470
Total Interest to be recognised		**2518**

(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.							
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				By Stock shortage	–	16,000	14,545
from H.O.	–	8,80,000	–	By Goods in transit			44,000
To Gross profit c/d	3,40,000	1,64,000	5,02,545	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	(55,000)	5,09,891	Closing stock:		
Creditors:			Processed goods		
H.O.	6,01,400		H.O.	56,000	
Branch	10,800	6,12,200	Branch	2,08,000	
				2,64,000	
			Less: Stock reserve	18,909	2,45,091
			Unprocessed goods		1,00,000
			Bank Balance		
			H.O.		1,52,000
			Branch		77,500
			Goods in transit	44,000	
			Less: Stock reserve	4,000	40,000
			Cash in transit		84,300

	11,22,091	**11,22,091**

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

(1 Mark)