

**2 0 1 6**

( November )

**COMMERCE**

( Speciality )

Course : 301

**( Advanced Financial Accounting )**

*The figures in the margin indicate full marks  
for the questions*

( New Course )

Full Marks : 80

Pass Marks : 24

Time : 3 hours

1. (a) Write True or False : 1×4=4
- (i) Banking companies are governed by the Banking Regulations Act, 1949.

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(ii) Life Assurance Fund represents profit of the life insurance companies.

(iii) General insurance includes all types of insurance.

(iv) Cum-dividend price is not the real price of investment.

(b) Fill in the blanks :  $1 \times 4 = 4$

(i) A bank can open a branch only at the permission of the \_\_\_\_\_.

(ii) Consideration for annuities granted is a source of \_\_\_\_\_ for a life insurance company.

(iii) In case of marine insurance, the provision against unexpired risk is maintained at \_\_\_\_\_% of net premium.

(iv) Investment Account is a \_\_\_\_\_ Account.

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2. Write short notes on any *four* of the following :  $4 \times 4 = 16$

(a) Rebate on Bills Discounted

(b) Valuation Balance Sheet

(c) Fire Insurance Revenue Account

(d) Cum-dividend

(e) Ex-dividend

3. (a) What is investment? Is it treated as fixed asset? Discuss the various purposes of maintaining an investment ledger. What journal entries are required to be passed in the books of buyer, when an investment is purchased cum-dividend and dividend is received by cheque?  $2+2+6+4=14$

Or

(b) On 1st April, 2015, AB & Co. held 9% debentures in Star Ltd. of the face value of ₹ 10,000 at a cost of ₹ 8,000. Market value on that date was ₹ 9,000. Interest is payable on 31st December every year. On 1st December, 2015, debentures of nominal value of ₹ 6,000 were purchased for ₹ 5,000 ex-interest and on 31st December, 2015,

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debentures of nominal value of ₹ 2,000 were sold cum-interest for ₹ 1,900. On 1st January, 2016, debentures of nominal value of ₹ 6,000 were bought at ₹ 5,800. The market value of the debentures on 31st March, 2016 was at ₹ 90.

Make out Investment Account in the books of AB & Co. showing profit or loss on sale of investment. Stocks on 31st March each year are valued at lower of cost (apply FIFO method) and market price.

14

4. (a) Give a proforma of Balance Sheet of a banking company. Also distinguish between performing and non-performing assets of a bank. 10+4=14

Or

- (b) From the following information, prepare Profit & Loss Account of Good Luck Bank Ltd. for the year ended on 31st March, 2016 : 14

	₹ ('000)
Interest on Loans	5,180
Interest on Fixed Deposits	6,340
Commission	164
Payment to Employees	1,080
Discount on Bills Discounted	2,120

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	₹ ('000)
Interest on Cash Credit	4,460
Rent, Taxes and Lighting	360
Interest on Overdrafts	3,080
Director's Fees	60
Auditor's Fees	24
Interest on Savings Bank Deposits	1,360
Postage and Telephone Expenses	28
Printing and Stationery	58
Sundry Expenses	34

Additional Information :

	₹ ('000)
Provide for Contingencies	400
Transfer to Reserves	300
Transfer to Central Government	400

5. (a) What are the statutory and subsidiary books maintained by a life insurance company? What purposes do they serve? (6+6)+2=14

Or

- (b) Prepare a Revenue Account of Ganpati Life Assurance Company for the year ended on 31st March, 2016 from the following balances extracted from its books of account : 14

	₹
Life Assurance Fund	51,00,000
Premium Received	17,30,000

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Re-insurance Premium	₹
Consideration for Annuities Granted	70,000
Claims :	1,90,000
By Death	3,50,000
By Maturity	2,20,000
Re-insurance Claims	30,000
Management Expenses	2,60,000
Annuity Paid	15,000
Outstanding Premium on 01.04.2015	30,000
Interest, Dividend and Rent	6,40,000
Commission on Direct Business	70,000
Commission on Re-insurance Accepted	10,000
Commission on Re-insurance Ceded	6,000

**Additional Information :**

- (i) Outstanding premium—₹ 40,000
- (ii) Bonus in reduction of premium—  
₹ 10,000
- (iii) Interest accrued—₹ 15,000
- (iv) Net liability on all contracts in force :  
As on 31st March, 2015—₹ 32,00,000  
As on 31st March, 2016—₹ 38,00,000
- (v) Transfer 30% of surplus to  
Shareholders' Account

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6. (a) What is meant by 'reserve for unexpired risk'? Why is it created in general insurance? What provisions should be made by a fire insurance company in regard to unexpired risks at the end of each financial period? 3+6+5=14

Or

- (b) Prepare a Revenue Account in respect of Seven-star Fire Insurance Co. Ltd. from the following details for the year 2015-16 : 14

	₹
Reserve for Unexpired Risk	
on 01.04.2015 @ 50%	1,80,000
Additional Reserve	36,000
Estimated Liability for Claims Intimated on :	
01.04.2015	31,000
31.03.2016	42,000
Claims Paid	3,65,000
Legal Expenses	6,000
Medical Expenses	4,000
Re-insurance Recoveries	32,000
Bad Debts	800
Premium Recovered	4,86,000
Premium on Re-insurance Accepted	32,000
Premium on Re-insurance Ceded	43,000

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	₹
Commission on Direct Business	48,000
Commission on Re-insurance Accepted	1,600
Commission on Re-insurance Ceded	2,150
Expenses of Management	90,000
Interest, Dividend and Rent	24,000
Profit on Sale of Investments	3,000

Create Reserve on 31st March, 2016 to the same extent as on 1st April, 2015.

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( Old Course )

Full Marks : 80

Pass Marks : 32

Time : 3 hours

1. (a) Choose the correct answer : 1×5=5

- (i) Rebate on Bills Discounted is an expired discount/unexpired discount.
- (ii) According to Insurance Regulatory and Development Authority (IRDA) Regulations, 2002, every general insurance company must prepare its Financial Statements as per Schedule B/C/D.
- (iii) In Insolvency Accounts, the Provincial Insolvency Act, 1920 is applicable to Bombay, Calcutta and Madras / rest of India.
- (iv) When investments are sold at cum-interest, the amount of interest is deducted from/added to the quoted selling price.
- (v) During inflation, the monetary unit shrinks in value as the prices rise/fall.

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(b) Fill in the blanks : 1×3=3

- (i) In India, banking companies are governed by the Banking Regulation Act, \_\_\_\_.
- (ii) AS \_\_\_\_ deals with accounting for investments.
- (iii) As per the provisions of the IRDA Act, 2002, the Revenue Account of life insurance companies is to be prepared as per Schedule \_\_\_\_.

2. Write short notes on the following : 4×4=16

- (a) Rebate on Bills Discounted
- (b) Revenue Account of Life Insurance Companies
- (c) Preferential Creditors in Insolvency Account
- (d) Limitations of Historical Cost Accounting

3. (a) From the following information, prepare Profit & Loss Account of Assam Bank Ltd. for the year ended on 31st March, 2016 : 12

	₹
Commission	10,000
Interest on Loan	3,00,000
Interest on Fixed Deposits	2,75,000
Salaries and Allowances	1,50,000
Exchange and Brokerage	20,000

( 11 )

	₹
Discount on Bills (Gross)	1,52,000
Interest on Cash Credits	2,40,000
Interest on Temporary Overdrafts on Current Account	30,000
Interest on Savings Bank Deposits	87,000
Postage, Telegram and Stamps	10,000
Printing and Stationery	20,000
Sundry Expenses	10,000
Rent	15,000
Taxes and Licences	10,000
Audit Fee	10,000

Additional Information :

- (i) Provision for income tax is to be maintained @ 55%
- (ii) Rebate on Bills Discounted—₹ 30,000
- (iii) Bad Debts—₹ 40,000
- (iv) Provide for Directors' Fees and Allowances—₹ 30,000
- (v) Transfer 20% net profit to Statutory Reserve and provide ₹ 15,000 as dividends
- (vi) Interest of ₹ 4,000 on doubtful debts was wrongly credited to interest on Loan Account

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Or

(b) Explain the principal provisions of the Banking Regulation Act, 1949.

4. (a) Jorhat Fire Insurance Co. Ltd. commenced its business on 01.04.2015. It submits you the following information for the year ended 31.03.2016 :

	₹
Re-insurance premium paid	1,00,000
Premium received	15,00,000
Claims paid	7,00,000
Expenses of management	3,00,000
Commission paid	50,000
Claims outstanding on 31.03.2016	1,00,000
Create reserve for unexpired risk @ 40%	

Prepare Revenue Account for the year ended 31.03.2016. 11

Or

(b) What is Valuation Balance Sheet? How is it prepared? 4+7=11

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5. (a) From the following Trial Balance of Mr. Ashok who commenced business on January 1, 2015, you are required to prepare a Statement of Affairs and a Deficiency Account : 11

	₹		₹
Cash	2,300	Creditors (unsecured)	1,80,000
Stock-in-Trade	6,660	Secured Creditors	25,000
Debtors (all good)	1,30,000	Preferential Claims for	
Furniture	2,820	Rent, Rates & Taxes	1,900
Investment		Capital	13,500
in Shares	5,000	Profit (2013, 2014)	55,540
Value of Securities			
held by Creditors	35,000		
Loss (2015)	25,000		
Drawings (up to			
December, 2015)	69,160		
	<u>2,75,940</u>		<u>2,75,940</u>

Or

(b) (i) Who are preferential creditors?  
(ii) Distinguish between Statement of Affairs and Balance Sheet. 5+6=11

6. (a) Assam Investments Ltd. holds 1000, 15% debentures of ₹100 each in Udaipur Industries Ltd. as on 1st April, 2010, at a cost of ₹1,05,000.

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Interest is payable on 30th June and 31st December every year. On 1st May, 2010, 500 Debentures are purchased cum-interest at ₹ 53,500. On 1st November 2010, 600 Debentures are sold ex-interest at ₹ 57,300. On 30th November, 2010, 400 Debentures are purchased ex-interest at ₹ 38,400. On 31st December, 2010, 400 Debentures are sold cum-interest for ₹ 55,000.

Prepare Investment Account valuing holdings on 31st March, 2010 at cost. 11

Or

- (b) Write notes on the following : 5+6=11
- (i) Cum-interest purchase and Ex-interest purchase
  - (ii) Cum-interest sale and Ex-interest sale

7. (a) The following data relate to ABC Company Ltd. You are required to compute cost of sales and cost of sales adjustment : 11

	₹
Opening Inventory	2,000
Purchases	4,000
Closing Inventory	1,000

( 15 )

Price level during the year :

	₹
Beginning	100
Closing	120
Average	110

Give your opinion on Monetary Working Capital Adjustment (MWCA).

Or

- (b) What do you mean by Inflation Accounting? "Financial Statements based on historical cost basis are meaningless and highly distorted." Explain. 4+7=11

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