

3 SEM TDC AFAC 1 (Sp) N/O

2017

(November)

COMMERCE

(Speciality)

Course : 301

(Advanced Financial Accounting)

Time : 3 hours

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

(New Course)

Full Marks : 80

Pass Marks : 24

1. (a) State whether the following statements
are True or False : 1×4=4

(i) Paid up capital of a banking
company must be at least two-third
of the subscribed capital of a
banking company.

(ii) In the financial statements of insurance companies liabilities under the existing policies are determined by actuarial valuation in case of life insurance.

(iii) In case of marine insurance, the provision against unexpired risk is 50%.

(iv) Brokerage is added in the cost of investment in the books of purchaser of investment.

(b) Fill in the blanks : 1×4=4

(i) A banking company cannot grant loan to any of its _____.

(ii) Life insurance business is carried on by Life Insurance Corporation of India since _____.

(iii) The general insurance business was taken over by the Central Government with effect from _____.

(iv) Sale of right is a _____ receipt in case of right issue.

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

(a) Statutory reserve

(b) Surrender value

(c) Reserve for unexpired risk

(d) Purposes of an Investment A/c

(e) Ex-interest quotations

3. (a) Discuss the following items which are usually found in a Bank's Balance Sheet : 3½×4=14

(i) Rebate on bills discounted

(ii) Inter branch adjustments

(iii) Contingent liabilities

(iv) Money at call and short notice

Or

(b) From the following information, prepare Profit & Loss A/c of Jai Bharat Bank Ltd. for the year ended 31st March, 2017. Working should form a part of your answer : 14

Interest on loans	₹ 300	(in '000)	Interest on Savings Bank deposits	₹ 87	(in '000)
Interest on fixed deposits	275		Postage and stamps	10	

	₹ (in '000)	₹ (in '000)
Commission	10	20
Exchange and brokerage	20	10
Salaries and allowances	150	15
Discount on bills (gross)	152	10
Interest on cash credit	240	10
Interest on temporary overdrafts in current accounts	30	10
		Printing and stationery
		Sundry expenses
		Rent
		Taxes and licences
		Audit fees

Additional Information :

- (i) Rebate on bills discounted—₹ 30,000
- (ii) Salary of managing director—₹ 30,000
- (iii) Provision for bad debts—₹ 40,000
- (iv) Provision for income tax is to be made @ 55% (round off to the nearest thousands)
- (v) Interest of ₹ 4,000 on doubtful debts was wrongly credited to Interest on Loan A/c
- (vi) Provide ₹ 15,000 as dividend

4. (a) What is Life Insurance? What are the statutory and subsidiary books maintained by a life insurance company?
2+6+6=14

(Continued)

Or

(b) From the figures set out below, prepare Revenue A/c of Eastern India Life Insurance Company for the year ended 31st March, 2017 :
14

	₹ (in '000)
Life Assurance Fund (01.04.2016)	7,50,000
Premiums	3,72,000
Interest, dividends and rents	2,26,000
Consideration for annuities granted	12,500
Fines for revival of lapsed policies	200
Claims paid	42,500
Bad debts	400
Expenses of management	35,000
Commission	16,000
Bonus in reduction of premium	500
Annuities paid	18,500
Surrenders	25,500
Surplus on revaluation of reversions purchased	1,500
Income tax paid	32,000
Bonus in cash	18,000

5. (a) What is 'General Insurance'? Point out the main features of accounts of general insurance companies. How is profit or loss ascertained in general insurance business?
2+7+5=14

(Turn Over)

Or

(b) You are required to prepare Revenue A/c of X Fire Insurance Co. Ltd. from the following figures for the year ended 31st March, 2017 :

Reserve for unexpired risk (01.04.2016)	₹	1,65,000
Fire insurance premium		4,00,000
Fire insurance claims paid		2,10,000
Fire insurance commission		24,730
Fire insurance expenses		85,000
Contribution to fire brigades		2,800
Additional fire insurance reserve		1,55,000
Dividend to shareholders		8,000
Transfer fees (general)		10,000
Interest and dividend (fire fund)		30

Make provision for unexpired risk on the basis of fire insurance premiums. 14

6. (a) What is Investment Account? Why is it prepared? Mention the special features of Investment Account. How are stock exchange transactions (sale and purchase of securities) recorded in books?
2+2+6+4=14

Or

(b) On 1st April, 2016, 400, 12% debentures of ₹ 100 in X Ltd. were held as investment by Y Ltd. at a cost of ₹ 36,800. Interest is payable on 31st March every year.

On 1st August, 2016, 50 debentures were purchased @ ₹ 96 cum-interest and on 1st February, 2017, 250 debentures were sold at ₹ 99 ex-interest. On 1st March, 2017, 100 debentures were purchased at ₹ 94 ex-interest. On 31st March, 2017, 150 debentures were sold at ₹ 98 cum-interest.

Prepare Investment A/c from the above for the year ending 31st March, 2017 using FIFO method. Market price of debentures on 31st March, 2017 is at par.

(Old Course)

Full Marks : 80
Pass Marks : 32

1. (a) Fill in the blanks :

1x4=4

(i) A non-performing asset is an asset that ceases to generate _____ for the bank.

(ii) Revenue Account of a life insurance business is prepared in the prescribed form _____ of the Insurance Act.

(iii) Under the Provincial Insolvency Act, rent due to the _____ is not preferential.

(iv) Investment Account is a _____ Account.

(b) Write True or False :

1x4=4

(i) Banks show the provision for income tax under 'Provisions and Contingencies'.

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

8P/277

(Continued)

(iii) Only FIFO method is used to calculate cost of closing balance of investment.

(iv) Inflation is a state in which 'too much of money is chasing too few goods'.

2. Write short notes on any four of the following : 4x4=16

(a) Sub-standard Assets

(b) Life Insurance Corporation Act, 1956

(c) Deficiency A/c

(d) Columnar Investment A/c

(e) Historical Accounting

3. (a) From the following information, prepare the Profit & Loss A/c with necessary schedules of AB Bank Ltd. for the year ended 31st March, 2017 : 12

Interest on Loans	25,90,000
Interest on Deposits	38,50,000
Rebate on Bills Discounted	4,90,000
Commission	82,000

8P/277

(Turn Over)

Establishment Charges	₹	5,40,000
Discount on Bills Discounted (Net)		14,60,000
Interest on Cash Credit		22,30,000
Rent and Rates		1,80,000
Interest on Overdrafts		15,40,000
Directors' Fees		30,000
Auditor's Fees		12,000
Postal Expenses		14,000
Printing and Stationery		29,000
Sundry Expenses		17,000

Other Information :

- (i) Bad Debts—₹ 4,00,000
- (ii) Provision for Income Tax—₹ 10,00,000

Or

(b) Explain in relation to Bank Accounting :

- (i) Non-Performing Assets 3×4=12
- (ii) Rebate on Bills Discounted
- (iii) Cash Reserve Ratio
- (iv) Slip System of Posting

4. (a) What is meant by 'Reserve for Unexpired Risk'? How and why is it created in general insurance? Also distinguish between general insurance and life insurance. 2+3+3+3=11

Or

(b) The Life Assurance Fund of an insurance company showed a balance of ₹ 64,24,000. It is found that the following adjustments are yet to be made :

Dividend from investments	₹	3,21,000
Income tax on above		65,200
Bonus in reduction of premium		9,35,400
Claims covered under reinsurance		3,79,000
Claims intimated but not accepted		9,40,000

Pass necessary Journal Entries and compute the actual Life Assurance Fund. 8+3=11

5. (a) What is 'Statement of Affairs'? How is it prepared? Distinguish between a Statement of Affairs and a Deficiency Account.

2+5+4=11

Or

(b) Mr. Rajen filed his petition for bankruptcy on 31st March, 2017, on which date his books showed the following balance :

11

Cash in hand	Dr. ₹	Cr. ₹
Fixtures and fittings (estimated to produce ₹ 1,600)	200	
Stock-in-trade (estimated to produce ₹ 24,000)	5,000	
Trade creditors	36,000	40,000
Bills payable		40,000
Sundry debtors :		44,000
Goods	20,000	
Doubtful (estimated to produce 50%)	40,000	
Bad	40,000	
Bank overdraft		24,000
Capital		33,200
	<u>1,41,200</u>	<u>1,41,200</u>

(Continued)

6. (a) What are 'Investment Accounts'? What are the special features of Investment Accounts? Discuss the purposes of Investment Accounts.

2+5+4=11

Or

(b) Mr. A held on 1st January, 2016, ₹ 1,00,000 of 3.5% Government Loan at ₹ 95,000. Three months' interest had accrued. On 31st May, he purchased a further ₹ 40,000 of the loan @ ₹ 96 (net) cum-interest. On 31st July, ₹ 30,000 of

Prepare the Statement of Affairs and the Deficiency A/c of Mr. Rajen. 7+4=11

(Turn Over)

the loan was sold at ₹ 94 (net) ex-interest. On 30th November ₹ 20,000 of the loan was sold at ₹ 96 (net) cum-interest. Interest on the loan was paid each year on 31st March and 30th September and was collected on 4th April and 5th October. The price of the loan on 31st December, 2016 was ₹ 96.

Draw up the Loan A/c. Ignore income tax and paise.

11

7. (a) What do you mean by Accounting for Price Level Changes? Explain clearly accounting for price level changes under Current Purchasing Power (CPP) method.

3+8=11

Or

(b) Ram Ltd. followed the LIFO system. From the particulars given below, ascertain the cost of sales and closing inventory under CPP method :

11

Inventory on 01.01.2016

₹ 20,000

General price index

200

8P/277

(Continued)

	<i>General price index</i>
Purchases during 2016	240 (average for 2016)
₹ 75,000	
Inventory on 31.12.2016	300
₹ 25,000	

8P—7000/277

3 SEM TDC AFAC 1 (Sp) N/O