

3 SEM TDC AFAC 1 (Sp) N/O

2019

(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) Fill in the blanks : 1×4=4

(i) As per the Finance Act, 2005, banks are allowed to issue _____ shares.

(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) _____ price is not the real price of investment.

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

- (i) Banks in India are under the general supervision of the Central Government.
- (ii) Life insurance is more appropriate to be called life assurance.
- (iii) Commission on re-insurance ceded is an income.
- (iv) Only FIFO method is used to calculate cost of closing balance of investment.

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

- (a) Slip System of Posting
- (b) Insurance Regulatory and Development Authority
- (c) Life Assurance Fund
- (d) Marine Insurance
- (e) Cum-interest and Ex-interest Quotations

3. (a) Discuss the following items which are related to a banking company : $3\frac{1}{2} \times 4 = 14$

- (i) Rebate on Bills Discounted
- (ii) Non-performing Assets
- (iii) Statutory Reserve
- (iv) Statutory Liquidity Ratio

Or

(b) Following figures are extracted from the books of J. K. Bank Ltd. as on 31.03.2019 :

Interest and discount received	₹ ('000)
Interest paid on deposits	4,060
Share capital	2,404
Commission and exchange	1,000
Rent received	180
Profit on sale of investment	60
Salaries paid to employees	190
Rent paid	210
Stationery	108
Postal expenses	48
Audit fees	40
Depreciation on Bank's properties	8
Director's fees	25
Preliminary expenses	34
	10

Further Information :

(i) A customer to whom a sum of ₹ 5,00,000 has been advanced has become insolvent and 40% recovered from his estate

(ii) Provision for bad and doubtful debts necessary—₹ 1,00,000

(iii) Rebate on bills discounted as on 31.03.2018—₹ 10,000

Rebate on bills discounted as on 31.03.2019—₹ 15,000

(iv) Provide ₹ 7,00,000 for income tax

(v) The directors desire to declare 10% dividend

Prepare Profit & Loss A/c of J. K. Bank Ltd. in accordance with law.

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4. (a) What is life insurance? What are the statutory and subsidiary books maintained by a Life Insurance Company?

2+6+6=14

Or

(b) Best Life Insurance Co. Ltd. had a paid-up capital of ₹ 10,00,000 divided into 100000 shares of ₹ 10 each. Its net liability on all contracts in force as on 31st March, 2019 was ₹ 96,00,000 and

on 31st March, 2018, this liability was ₹ 84,00,000. The company has paid an interim bonus of ₹ 2,60,000 and 20% of the surplus is to be allocated to shareholders, 20% to reserves and balance being carried forward.

Following figures are extracted from the books of the company for the year ended 31st March, 2019 :

Premium less re-insurance premium	57,20,000
Interest, dividend and rent	28,00,000
Fees	16,000
Income tax	4,40,000
Management expenses	7,00,000
Annuities paid	50,000
Commission	2,20,000
Surrenders	3,20,000
Surplus on revaluation of reversions	20,000
Re-insurance irrecoverable	16,000
Claims less re-insurance claims	34,00,000
Consideration for annuities granted	1,60,000
Prepare Revenue A/c of Best Life Insurance Co. Ltd. for the year ended 31st March, 2019.	

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5. (a) What do you mean by 'Reserve for Unexpired Risk'? How and why is it created in General Insurance? Also distinguish between General Insurance and Life Insurance.

2+4+4+4=14

Or

(b) Prepare a Revenue A/c in respect of Fire Business from the following details for the year ended 31st March, 2019 : 14

Reserve for unexpired risk on 01.04.2018 @ 50%	1,80,000	₹
Additional Reserve as on 01.04.2018	36,000	
Estimated liabilities for claims :		
Intimated on 01.04.2018	31,000	
31.03.2019	42,000	
Claims paid	3,65,000	
Legal expenses	6,000	
Medical expenses	4,000	
Re-insurance, recoveries of claims	32,000	
Bad debts	800	
Premium recovered	4,86,000	
Premium on re-insurance accepted	32,000	
Premium on re-insurance ceded	43,000	
Commission on re-insurance accepted	1,600	
Commission on direct business	48,600	
Commission on re-insurance ceded	2,150	
Expenses on management	90,000	
Interest, dividend and rent	24,000	
Profit on sale of investments	3,000	

Create Reserve on 31st March, 2019 on the same extent as on 1st April, 2018.

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(Continued)

6. (a) (i) What is Investment A/c? Discuss about the features and purposes of Investment A/c. 2+4+4=10

(ii) Distinguish between Cum-interest and Ex-interest in Investment A/c. 4

Or

(b) Mr. Babubhai furnishes the following details relating to his holding in 6% Government Bonds :

Opening Balance (on 01.04.2018) : 1200 bonds of ₹ 100 each at a cost of ₹ 1,18,000	
01.06.2018 : 200 bonds purchased ex-interest at ₹ 98	
01.10.2018 : Sold 400 bonds ex-interest out of the original holding at ₹ 100	
01.01.2019 : Purchased 100 bonds at ₹ 98 cum-interest	
01.02.2019 : Sold 400 bonds ex-interest at ₹ 99 out of the original holdings	

Interests are calculated as on 30th June and 31st December. Mr. Babubhai closes his books on every 31st March.

Show the Investment A/c as it would appear in his books. Working note should be a part of your answer. 14

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(Turn Over)

Full Marks : 80
Pass Marks : 32

Time : 3 hours

1. (a) Fill in the blanks :

(i) Non-banking assets are shown in Schedule _____ of a bank Balance Sheet. 1×4=4

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

(iii) The Presidency Towns Insolvency Act, _____ applies to the persons residing in the Presidency Towns of Mumbai, Kolkata and Chennai.

(b) Write True or False : 1×4=4

(i) A bank can open a branch only at the permission of the Reserve Bank of India.

(ii) Valuation Balance Sheet is prepared to know surplus or deficiency of the life insurance business.

(Continued)

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(iii) Preferential creditors are shown under List C of the Statement of Affairs.

(iv) By the term inflation, we mean a rise in the value of money and a fall in general price level.

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

(a) Rebate on Bills Discounted

(b) Life Insurance Corporation Act, 1956

(c) Deficiency A/c

(d) Objectives of Investment Accounting

(e) Mid-period Conversion

3. (a) Explain in relation to Bank Accounting : 3×4=12

(i) Cash credit and overdraft

(ii) Cash reserve ratio

(iii) Core banking

(iv) Non-performing assets

(Turn Over)

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Or

(b) Prepare the Profit & Loss A/c with necessary schedules of Trinity Bank Ltd. for the year ended 31st March, 2019 :

Interest on loans	₹ ('000)	12
Interest on deposits	2,590	
Commission, exchange and brokerage	3,850	
Discount on bills discounted (gross)	82	
Payment to employees	1,950	
Interest on cash credit	540	
Rent and rates	2,230	
Interest on overdrafts	180	
Directors' fees	1,540	
Auditors' fees	30	
Postal expenses	12	
Printing and stationery	14	
Sundry expenses	29	
	17	

Other Information :

(i) Rebate on bills discounted	₹ ('000)	490
(ii) Bad debts	400	
(iii) Provision for income tax	1000	

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(Continued)

4. (a) (i) What are the different types of insurance contracts? Explain them in brief.

(ii) How is profit or surplus ascertained and distributed by a life insurance company? 7+4=11

Or

(b) From the following information, prepare a Revenue A/c of North-East Life Insurance Company for the year ended 31st March, 2019 :

Life assurance fund as on 1st April, 2018	₹ ('000)	11
Premiums	7,50,000	
Interest, dividends and rents	3,72,000	
Consideration for annuities granted	2,26,000	
Fines for revival of lapsed policies	12,500	
Claims paid	200	
Bad debts	42,500	
Expenses of management	400	
Commission	35,000	
Bonus in reduction of premiums	16,000	
Annuities paid	500	
Surrenders	18,500	
Surplus on revaluation of reversions purchased	25,500	
Income tax paid	1,500	
Bonus in cash	32,000	
	18,000	

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(Turn Over)

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. Ramesh Kumar filed a petition of insolvency on 30th June, 2018. His books showed the following balances :

Cash in Hand	₹	₹
Fixture and Fittings	150	
(estimated to produce ₹ 1,200)		3,750
Stock-in-Trade		
(estimated to produce ₹ 18,000)		27,000
Sundry Creditors :		
Trade Creditors		30,000
Bills Payable		33,000
Sundry Debtors :		
Good	15,000	
Doubtful (estimated at 50%)	30,000	
Bad	30,000	
Bank Overdraft	30,000	
Capital		18,000
		24,900
	<u>1,05,900</u>	<u>1,05,900</u>

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(Continued)

Other Information :

- (i) Liability on bills discounted amounting to ₹ 7,500 (expected to rank ₹ 1,500)

- (ii) His household furniture, etc. was valued at ₹ 3,750. He owned a house valued at ₹ 11,250, having a mortgage on it of ₹ 9,000 at 4% p.a. Interest thereon was paid up to the preceding 31st December

- (iii) Preferential creditors amounted to ₹ 525 (included in Sundry Creditors) and ₹ 225 for rates on the house

Prepare a Statement of Affairs and Deficiency A/c. 7+4=11

6. (a) What are the special features of Investment A/cs? How are stock exchange transactions (sale and purchase of securities) recorded in books? 6+5=11

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(Turn Over)

Or

(b) Jaipur Investment Ltd. holds 1000, 15% debentures of ₹ 100 each in Udaipur Industries Ltd. as on 1st April, 2018, at a cost of ₹ 1,05,000. Interest is payable on 30th June and 31st December each year. On 1st May, 2018, 500 debentures are purchased cum-interest at ₹ 53,500. On 1st November, 2018, 600 debentures are sold ex-interest at ₹ 57,300. On 30th November, 2018, 400 debentures are purchased ex-interest at ₹ 38,400. On 31st December, 2018, 400 debentures are sold cum-interest for ₹ 55,000.

Prepare Investment A/c valuing holding on 31st March, 2019 at cost (applying FIFO method).

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7. (a) What do you mean by 'Inflation Accounting'? What are the limitations of historical accounting in a period of inflation? Also distinguish between holding gain and operating gain.

2+5+4=11

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(Continued)

Or

(b) Compute the net monetary result of X Co. Ltd. as on 31st March, 2019. The relevant data are given below :

	01.04.2018	31.03.2019
	₹	₹
Cash	5,000	10,000
Book Debts	20,000	25,000
Creditors	15,000	20,000
Loan	20,000	20,000
Retail Price Index Numbers :		
1st April	200	—
31st March	—	300
Average for the year—240		

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