

3 SEM TDC AFAC 1 (Sp) (N/O)

2021

(March)

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) A banking company cannot grant loan to any of its directors.

(ii) The Insurance Regulatory Authority set up in 1996 is presently known as Insurance Regulatory and Management Authority.

- (iii) General Insurance includes all types of insurance.
- (iv) Ex-interest price is less than the cum-interest price.

(b) Fill in the blanks : 1×4=4

- (i) Paid-up capital of a banking company must be at least _____ of the subscribed capital of the banking company.
 - (ii) Life insurance has an element both of protection and _____.
 - (iii) Commission on reinsurance ceded is _____.
 - (iv) Brokerage is added in the cost of investment in the books of _____ of investment.
2. Write short notes on any four of the following : 4×4=16

- (a) Rebate on bills discounted
- (b) Cash reserve ratio
- (c) Surrender value
- (d) Fire insurance
- (e) Objectives of investment

3. (a) Discuss the following items which are related to a banking company : 3½×4=14
- (i) Unexpired discount
 - (ii) Non-banking assets
 - (iii) Contingent liabilities
 - (iv) Sub-standard assets

Or

(b) The following are the figures extracted from the books of Sun Rise Bank Ltd. as on 31st March, 2020. You are asked to prepare Profit and Loss Account for the year ended 31st March, 2020. Working notes should form part of your answer : 14

	(₹ '000)	(₹ '000)
Interest on Loans	300	Interest on Temporary Overdrafts in
Interest on Fixed Deposits	275	Current A/c
Interest on Savings Bank Deposits	87	Postage and Stamps
Commission	10	Printing and Stationery
Exchange and Brokerage	20	Sundry Expenses
Salaries and Allowances	150	Rent
Discount on Bills	152	Audit Fees
Discounted (Gross)	152	Taxes and Licenses
Interest on Cash Credit	240	

Additional information :

- (i) Rebate on bills discounted— ₹ 30,000
- (ii) Salary of managing director— ₹ 30,000

(iii) Provision for doubtful debts—
₹ 40,000

(iv) Provision for income tax is to be made @ 55% (to be rounded off to the nearest thousand)

(v) Provide ₹ 15,000 as dividend

4. (a) Prepare (with imaginary figures) Revenue Account and Balance Sheet of a life insurance company. 7+7=14

Or

(b) The following information have been supplied relating to Jai Hind Insurance Company for the year ending on 31st March, 2020 :

Life Insurance Fund	(₹)
Premiums	24,50,000
Interest, Dividend and Rent Received	13,80,000
Fines and Fees	7,50,000
Bonus in Cash	720
Income Tax	1,58,400
Management Expenses	1,18,500
Bonus in Reduction of Premium	1,75,000
Commission	1,900
Surrender	54,000
	85,200

Surplus on Revaluation of Reversion Purchased	(₹)
Reassurance Balance Irrecoverable	4,800
Claims	1,250
Consideration for Annuities Granted	8,90,000
	45,000

According to actuarial valuation, the net liability on the policies of the company including the annuity transactions amounted to ₹ 22,50,000. The surplus is to be allocated as 25% to shareholders, 70% to policyholders and the balance to be carried forward to the next period. The company also paid interim bonus amounting to ₹ 1,03,000.

Prepare the Revenue Account on the basis of the above information and also show the Valuation Balance Sheet. 10+4=14

5. (a) Explain in brief the following items relating to general insurance business : 3½×4=14

- (i) Reinsurance recoveries
- (ii) Profit on sale of investment
- (iii) Reserve for unexpired risks
- (iv) Legal expenses regarding claims

Or

(b) From the following particulars, you are required to prepare Fire Revenue Account of Jai Durga Insurance Co. Ltd. for the year ended 31st March, 2020 : 14

	(₹)
Reserve for Unexpired Risk as on 1st April, 2019	52,000
Additional Reserve as on 1st April, 2019	12,000
Claims Paid	65,000
Management Expenses	28,250
Insurance Premium	1,14,000
Interest and Dividends	6,400
Income Tax on Interest and Dividends	800
Reinsurance Premium	7,000
Profit on Sale of Investments	1,600
Legal Charges regarding Claims	400
Reinsurance Claims Recoveries	2,800
Commission on Direct Business	11,200
Commission on Reinsurance Ceded	600
Commission on Reinsurance Accepted	400
Outstanding Claims :	
On 31st March, 2020	7,000
On 31st March, 2019	9,000

The company calculates the reserve for unexpired risks @ 50% of the net premium each year and increase additional reserve by 5% of net premium annually.

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(Continued)

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, 2019, 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, 2019, 50 Debentures were purchased @ ₹ 96 cum-interest and on 1st February, 2020, 250 Debentures were sold @ ₹ 99 ex-interest. On 1st March, 2020, 100 Debentures were purchased @ ₹ 94 ex-interest. On 31st March, 2020, 150 Debentures were sold @ ₹ 98 cum-interest.

Prepare Investment Account for the year ended 31st March, 2020 using FIFO method. Market price of debentures on 31st March, 2020 is at par.

14

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(Turn Over)

(Old Course)

Full Marks : 80
Pass Marks : 32

Time : 3 hours

1. (a) Write True or False : 1×4=4

(i) Rebate on bills discounted for a banking company is an income.

(ii) In case of marine insurance, the provision against unexpired risk is 100%.

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

(iv) Adjusting account to charging prices is a never ending process.

(b) Fill in the blanks : 1×4=4

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

(ii) Life insurance is more appropriate to be called _____.

(iii) The insolvency proceedings begin with an insolvency _____ filed in a proper court of law.

(iv) Investment Account is a _____ Account.

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(Continued)

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) Fully Secured Creditors

(d) Limitations of Inflation Accounting

(e) Cum-Dividend or Cum-Interest Quotations

3. (a) Define 'Bank Accounting'. Discuss its features. Write any three advantages and three disadvantages of slip system of posting of bank accounts. 2+4+3+3=12

Or

(b) From the following particulars, prepare Profit and Loss Account of Good Luck Bank Ltd. for the year ending on 31st March, 2020 : 12

Interest on Loans	(₹ '000)		(₹ '000)
Interest on Cash Credits	518	Advertisement and Publicity	1-4
Discount on Bills Discounted (Net)	446	Directors' Fees	6
	390	Printing and Stationery	0-4

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(Turn Over)

	(₹ '000)	(₹ '000)
Interest on Overdrafts	108	108
Interest on Saving Bank Deposits	220	0-7
Interest on Fixed Deposits	554	1-4
Commission, Exchange and Brokerage	16-4	10
Rent, Taxes and Lighting	36	
Auditors' Fees	2-4	
Postage and Telephone Expenses	2-8	
Sundry Expenses	2	
Interest charged against Current Account	45	

Additional information :

	(₹ '000)
(i) Rebate on Bills Discounted	90
(ii) Provide for Bad Debts	58
(iii) Provide for Taxation	10

4. (a) Explain in brief the following items relating to insurance business : 4+4+3=11

- (i) Reinsurance
(ii) Surrender value
(iii) Actuarial valuation

Or

(b) From the following particulars, you are required to prepare the Fire Revenue Account of Jai Bharat Fire Insurance Co. Ltd. for the year ended 31st March, 2020 :

Claims Paid	(₹)	11
Claims Outstanding as on 01-04-2019	4,20,000	
Claims Intimated and Accepted but not Paid	42,000	
Premium Received	65,000	
Reinsurance Premium	10,60,000	
Commission of Direct Business	1,80,000	
Claims Intimated but not Accepted on 31-03-2020	2,20,000	
Commission on Reinsurance Ceded	8,000	
Commission on Reinsurance Accepted	12,000	
Expenses on Management	6,000	
Reserve for Unexpired Risks as on 01-04-2019	2,80,000	
Additional Reserve for Unexpired Risks as on 01-04-2019	3,90,000	
Bonus in Reduction of Premium	4,000	
	15,000	

You are asked by the management to provide for additional reserve for unexpired risk at 1% of the premium in addition to the opening balance.

5. (a) (i) Mention the lists that have to be prepared in support of the Statement of Affairs, prepared under the Indian Insolvency Act, giving short particulars as to the contents of each of them. 6
- (ii) Distinguish between Statement of Affairs and Balance Sheet. 5

Or

(b) Mr. Sandip filed his petition for bankruptcy on 31st March, 2020 on which date his books showed the following balance :

	Dr. (₹)	Cr. (₹)
Cash in Hand	200	
Fixtures and Fittings (estimated to produce ₹ 1,600)	5,000	
Stock-in-trade (estimated to produce ₹ 24,000)	36,000	
Trade Creditors		40,000
Bills Payable		44,000
Sundry Debtors :		
Good	20,000	
Doubtful (estimated to produce 50%)	40,000	
Bad	40,000	
Bank Overdraft		24,000
Capital		33,200
	1,41,200	1,41,200

Preferential creditors include trade creditors amounting to ₹ 700. Liabilities on bills discounted was ₹ 10,000, out of which ₹ 2,000 were expected to rank.

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(Continued)

His household furniture was valued at ₹ 5,000. He owned a house valued ₹ 15,000 having a mortgage on it of ₹ 12,000 at 4%. Interest was paid up to September 30, 2019. Creditors for rates on the house amounted to ₹ 300.

Prepare a Statement of Affairs and the Deficiency Account of Mr. Sandip. 7+4=11

6. (a) (i) What is 'Investment Account'? Discuss the special features of an Investment Account. 2+5=7

(ii) Distinguish between Cum-interest and Ex-interest. 4

Or

(b) Anik Investments held 600, 6% Debentures of ₹ 100 each in Tata Ltd. on 1-4-2019 at a cost of ₹ 72,000. Interest is payable on 30th June and 31st December every year. On 1st June, 2019, 250 Debentures were purchased cum-interest at ₹ 37,750. On 1st November, 2019, 400 Debentures were sold ex-interest at ₹ 46,250.

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(Turn Over)

On 30th November, 2019, 250 Debentures are purchased ex-interest for ₹ 23,250. On 31st December, 2019, 350 Debentures are sold cum-interest at ₹ 42,000.

Prepare Investment Account for the year ended 31st March, 2020 valuing closing stock at cost (using FIFO method) or market price whichever is less. Debentures are quoted at ₹ 140 on 31st March, 2020.

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7. (a) (i) What is price level accounting? What are its features? 2+5=7
- (ii) Mention any two advantages and two disadvantages of inflation accounting. 2+2=4

Or

(b) Below is given the Balance Sheet as on 31st March, 2019 on the basis of Historical Cost Accounting :

	(₹)	(₹)
Capital	10,00,000	10,00,000
Plant and Machinery	10,00,000	

During the year 2019-2020, Wholesale Price Index has gone up by 20%. On 31st March, 2020, the replacement cost of Plant and Machinery was ₹ 13,00,000.

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(Continued)

It is supposed further that Plant and Machinery is sold for ₹ 14,00,000.

You are required to prepare Final Statements for the year ended 31st March, 2020 under the following approaches :

$5\frac{1}{2} + 5\frac{1}{2} = 11$

- (i) Current Purchasing Power Accounting
- (ii) Current Cost Accounting

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