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திருப்பனந்தாள் – 612504

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QUESTION BANK

Title of the Paper

ADVANCED CORPORATE ACCOUNTING

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Prepared by

Mrs. T. SUBA, M.Com., M.Phil.,
Assistant Professor
Department of Commerce

CORE COURSE- X

ADVANCED CORPORATE ACCOUNTING

UNIT - I

Valuation of Goodwill and Shares – Liquidation – Inflation Accounting

UNIT – II

Amalgamation by merger and Amalgamation by Purchases – External Reconstruction of companies and Alteration of Share capital

UNIT – III

Holding company accounts (including intercompany holdings) – Bank Account New format – NPA – Classification of Investment.

UNIT – IV

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UNIT – V

Human Resource Accounts- Definition, Objectives, and Valuation Methods, Advantages - Accounting Standards, with reference to depreciation, Inventory Valuation, (Theory only) - Inflation Accounting
(Theory only)

UNIT – I

CHOOSE THE CORRECT ANSWER

1. Good will means
    a. Reputation
    b. Investment
    c. Fixed account
    d. All of the above

2. For calculating price- earnings ratio, it is essential to know
    a. Market value per share
    b. Nominal value per share
    c. Paid up value per share
    d. None of the above

3. Goodwill is
    a. Intangible asset
    b. Tangible asset
    c. Miscellaneous expenditure
    d. Current asset

4. Super profit is the difference between
    a. Capital employed and average capital employed
    b. Average profit and normal profit
    c. Current year profit and last profit
    d. None of the above

5. For calculating the value of an equity share by yield method it is essential to know
    a. Expected rate of return
    b. Called up equity share capital
    c. Capital employed
    d. None of the above

6. The company modes of winding up are
    a. By the court
    b. Voluntary winding up
    c. Winding up subject to supervision of court
    d. All of the above

7. A contributory is a
    a. Unsecured creditor
    b. Preferential creditor
    c. Shareholder
    d. Debenture holder

8. Inflation accounting is also known as
    a. Decision Accounting
    b. Historical Accounting
    c. Standard Accounting
    d. Accounting for price level changes

9. The main objective of current cost accounting(CCA) method is
    a. To measure all values at constant rupees
    b. To find out the general purchasing power gain or loss
    c. To maintain the purchasing power of shareholders fund
    d. To maintain operating capability of the enterprise

10. Under net assets method, the value of a shares depends on the amount that would be available to:
    a. Preference shareholders
    b. Equity shareholders
    c. Creditors
    d. Debenture holders

Answers: 1.a 2.a 3.a 4.b 5.a 6.d 7.c 8.d 9.d 10.b

SHORT QUESTION (2 MARKS)

11. Define goodwill.
12. Write a note on "super profit".
13. What is normal "rate of return"?
14. Write a note on "intrinsic value of shares".
15. How do you calculate average capital employed?
16. What is inflation accounting?
17. What is current purchasing power method?
18. What are conversion factors?
19. What is liquidation of a company?
20. Write a note on voluntary winding up.

PARAGRAPH QUESTIONS (5 MARKS)

21. Calculate the amount of goodwill on the basis of three years purchases of the last five years average profits. The profits for the last five years are;
    I year 4900; II year 7,500; III year 10,000; IV year ;3,000; V year 5,000

22. The profits of Lakshmi Ltd, for the last 5 years were are as follows:

Years	Rs
2001	15,000
2002	18,000
2003	22,000
2004	25,000
2005	27,000

Compute the value of goodwill of Lakshmi Ltd. On the basis of years purchase of weighted average profit after assigning weights 1, 2, 3, 4 and 5 serially to the profits.

23. A firm earned net profits during the last three years as follows:
    1^{st} year 36,000; 2^{nd} year 40,000; 3^{rd} year 44,000;
    The capital investment of the firm is Rs. 1,00,000. A fair return on the capital, having regard to the risk involved is 10%. Calculate the value of goodwill on the basis of 3 years purchase of super profit.

24. The following is the balance sheet of NSC Ltd. As on 31 December 2001

Liabilities	Rs.	Assets	Rs.
4,000 10% Preference shares of Rs.100 each	4,00,000	Sundry Assets at book value	12,00,000
60,000 Equity shares of Rs.10 each	6.00,000		
Bills Payable	50,000		
Creditors	1,50,000		
	12,00,000		12,00,000

The market value of 60% of the assets is estimated to be 15% more than the book value and that of the remaining 40% at 10% less than the book value. There is an unrecorded liability of Rs. 10,000. Find the value of each equity shares.

25. Explain the methods of valuation of goodwill.

26. From the following particulars relating to X Ltd, calculate the value of shares if (i) only a few shares are to be sold and if (ii) majority shares are to be sold.
    a) Share capital: 20,000 shares of Rs.100 each fully paid
    b) Profits (after deduction of tax and divided) for the last three years: Rs. 4,50,000; Rs.70,000 and Rs. 5,50,000;
    c) Dividend paid for the last three years 12%; 15%; 18%
    d) Normal rate of return 10%.

27. From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.
    i) Cash with liquidator (after all assets are realized and secured creditors and debenture holders are paid) is Rs.6,73,800.
    ii) Preferential creditors to be paid Rs. 30,000
    iii) Other unsecured creditors Rs. 2,15,000.
    iv) 4,000 6% preference shares of Rs.100 each fully paid.
    v) 2,000 equity shares of Rs.100 each, Rs.75 per share paid up.
    vi) 6,000 equity shares of Rs.100 each, Rs.60 per share paid up.
    vii) Liquidator's remuneration 2% on preferential and other unsecured creditors.
    viii) Preference dividends were in arrears for 2 years.

28. The following particulars relate to a limited company which went into voluntary liquidation:

    Preferential creditors Rs. 25,000
    Unsecured creditors Rs. 58,000
    6% dentures Rs. 30,000

    The assets realized Rs.80,000. The expenses of liquidation amounted to Rs. 1,500 and the liquidator's remuneration was agreed at 2 ½ % on the amount realized and 2% on the amount paid to unsecured creditors including preferential creditors. Show the liquidator's final statement of account.

29. A real estate company started with a capital of Rs. 50,00,000 which was invested in urban land on 1-1-90. On that date the general price index was 100 and specific price index for land was 200. The company had no other transactions and it sold the land on 1-1-95 on which date the general price index was 180 and the specific price index was 420. The sale price of the land was Rs.18,00,000.

    You are required to ascertain profits under :

    (1) Historical cost
    (2) CCA method
    (3) CPP method.

30. From the following details compute appropriate conversion factors.
    (a) General price index numbers- opening 200; closing 300; average for the year 240
    (b) General Price index numbers – At the end of the year 200. On the date of acquiring an item of stock 120. On the date of acquiring an asset 150.

ESSAY TYPE QUESTIONS (10 MARKS)

31. Mr. Ram Kishore has invested a sum of Rs.4,00,000 in his own business which is a very profitable one. The annual profit earned from his business is Rs.96,000 which includes a sum of Rs. 15,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposits for a period of five years and over at 12% interest and himself could earn Rs. 12,000 per annum in alternative employment. Considering 3% as fair compensation for the risk involved in the business, calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

32. Following is the balance sheet of Maruthy Co.Ltd as on March 2018

Liabilities	Rs.	Assets	Rs.
60,000 equity shares ofRs.100 each, fully paid	60,00,000	Goodwill at cost	5,00,000
Capital reserve	2,00,000	Plant and machinery less depreciation	17,00,000
General reserve	13,90,000	Furniture & fixtures less depreciation	6,00,000
Profits and loss A/c	30,000	Stock	32,00,000
Sundry creditors	25,70,000	Sundry debtors	20,00,000
Provision for taxation	15,00,000	Cash	49,10,000
Proposed dividend	13,20,000	Preliminary expenses	1,00,000
	1,30,10,000		**1,30,10,000**

The following additional information is provided to you:

(i) The reasonable return on capital employed in the industry in which Maruthy Co. Ltd is engaged is 18%.

(ii) The rate of tax is 50%. The balance in provision for taxation account is in respect of profit for the ended 31st March 2018.

(iii) The year 2017-18 was a normal year and the prospects for 2018-19 are equally good. Calculate value of goodwill at four years' purchase of super profits of the company.

33. The Following is the balance sheet of Mr.Shangar as on 30th September 2018.

Liabilities	Rs.	Assets	Rs.
Capital	1.64,000	Land & buildings	36,000
General reserve	40,000	Plant	54,000
Creditors	38,040	Investment	30,000
		Stock	26,850
		Bank	75,990
		Debtors	19,200
	2,42,040		**2,42,040**

The following were the net profits for the years ended30th September 2016 Rs.32, 280;30th September 2017 Rs.36, 870;30th September 2018 Rs. 43,350

The above amounts include income from investments Rs. 1,800 each year. You are required to value the goodwill of the above business at 2 years purchase of the average super profit for 3 years, taking into account the fact that the standard rate of return on capital employed in such type of business is 10%. Assume that each year's profit is immediately withdrawn in full by Mr. shangar.

34. On 31st march 2018, the balance sheet of lakshmi Ltd., was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital: 8% preference shares of Rs.100 each fully paid 4,000 equity shares of Rs. 100 each fully paid General reserve Capital reserve Profits & loss A/c 5% debentures Sundry creditors Provision for taxation	 2,00,000 4,00,000 1,60,000 20,000 1,20,000 1,20,000 1,80,000 40,000	Goodwill Land & buildings Machinery Furniture Investment in 44 % govt. securities at cost (face value Rs. 80,000) Stock Book debts Cash at bank	1,00,000 2,20,000 3,00,000 40,000 1,00,000 3,00,000 1,20,000 60,000
	12,40,000		**12,40,000**

The assets were revalued as under:

	Rs.
Land & buildings	3,00,000
Machinery	2,50,000
Furniture	50,000

The normal return on capital employed for valuation of goodwill is 12%, the basis of valuation being four years purchase of super profits. 50% of investments in building is treated as non- trading assets because a sum of Rs. 15,000 is collected annually as rent from the building. Calculate the value of each equity share assuming that the average annual profit after tax at 50% is Rs. 1, 40,000.

35. The following is the balance sheet of Robert Lee ltd as on December 31,2018

Liabilities	Rs.	Assets	Rs.
Share capital: 20,000 shares of RS.10 each General reserve Taxation reserve Workmen savings account Profit & profit A/c Sundry creditors	 2,00,000 40,000 60,000 30,000 32,000 98,000	Land buildings Plant machinery at cost(less depreciation) Trade marks Stock Debtors Cash Preliminary expenses	1,10,000 1,30,000 20,000 48,000 88,000 52,000 12,000
	4,60,000		4,60,000

The plant & machinery is worth Rs. 1, 20,000 and land & buildings have been valued at Rs. 2,40,000 by an independent valuer. Rs.8, 000 of the debts are bad. The profits of the company have been as follows:

2016-Rs 80,000; 2017-Rs.90,000 and 2018- Rs. 1,06,000. It is the company's practice to transfer 25% of the profits to reserve. Ignoring taxation, find out the value of the shares. Similar companies give a yield of 10% on the market value of their shares. Goodwill may be taken to be worth Rs. 1,60,000.

36. Explain the circumstances under which valuation of shares is essential and discuss the various methods.

37. Given below is the balance sheet of XYZ Ltd., as on 1.8.2018 on which dates goes into liquidation

Liabilities	**Rs.**	**Assets**	**Rs.**
Share capital: 10,000 preference shares of Rs.10each, fully paid 5,000 equity shares of Rs.10 each, fully called 50,000 less: calls in arrears on 1,000 shares @ Re.1 Per share 1,000 10,000 equity share of Rs.10 each,Rs.5 per share paid 20,000 equity shares paid 20,000 equity shares of Rs.10 each, Rs. 3 per share paid Secured loan from bank: Against pledge of stock of Raw material Unsecured dues: Preference 1,200 Others 1,01,800	 1,00,000 49,000 50,000 60,000 38,000 1,03,000	Cash at bank Stock of raw material Other stocks Other assets Profit & Loss A/c (debit balance)	5,000 50,000 1,50,000 1,45,000 50,000
	4,00,000		**4,00,000**

The assets were realized as under:

(i) Stock of raw materials realized by bank –Rs. 30,000

(ii) Other stocks-Rs.80,000

(iii) Remaining assets – 20,000

The liquidator is entitled to a fixed remuneration of Rs. 2,000 plus 2% of the gross amounts realized by him. Other costs and chares amounted to Rs.11,000.
Equity shares carry the same rights, regardless of the amount paid, as far as capital repayment is concerned. Show the liquidator's final statement of account.

38. On 31.3.2018 the date of liquidation of a company, its Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Share capital:		Land buildings	4,00,000
7% preferences shares	3,00,000	Plant & Machinery	1,60,000
6,000 equity shares of Rs.10 Each, Rs. 8 paid up	48,000	Stock	4,00,000
3,000 equity shares of Rs.10 each, Rs.7 paid up	21,000	Debtors	6,40,000
6% debentures of Rs.100 each	12,00,000	Cash at bank	51,000
Outstanding interest on debentures	72,000		
Creditors	8,000		
Bills payable	2,000		
	16,51,000		**16,51,000**

The assets were realized as under:

Land & Buildings - Rs. 3,50,000; Plant & Machinery - Rs.2,00,000; Stock – Rs,4,61,000; Debtors - Rs. 6,00,000; Liquidation expenses – Rs. 2,000. Remuneration of liquidator: $^1/_2$ % on the assets realized including cash and 1% on the amount paid to insecure creditors. Creditors shown in the balance sheet included – Rs. 2,000 preferential. Interest on debenture is to be paid up to 31.5.2018. Dividend on preference shares is in arrears for 1 ½ years. Legal changes Rs.1, 000.

39. From the following information you are required to ascertain a) Cost of sales b) Closing inventory as per CPP method, when the firm follows LIFO method for inventory valuation.

	Rs.
Inventory on 1.4.2017	1,20,000
Purchases during 2017-18	72,000
Inventory on 31.3.2018	1,80,000

The firm has decided to adopt retail price index which was as follows: On 1.4. 2017=100. On 31.3.2018 = 140. Average during 2017-18 = 125.

40. Vikas ltd., purchased a machine on 1-1-2017 for Rs. 50,000 whose life span is estimated at 5 years and straight line method of depreciation has to be provided assuming no scrap value. Replacement cost of the machine on 31-12-2017 was Rs. 70,000 and on 31-12-2018 was Rs. 1,00,000. You are required to compute for 2017 and 2018,

(1) Depreciation under CCA method and depreciation Adjustment .
(2)Additional depreciation
(3)Backlog depreciation
(4)Transfer to current cost reserve.

UNIT – II

CHOOSE THE CORRECT ANSWER

1. Amalgamation means
   a. When one existing company takes over all business of one or more existing companies.
   b. When two or more existing companies combine together to form a new company.
   c. When an existing company is liquidated and a new company is formed the same shareholders to take over it business.
   d. None of the above.

2. Accounting standard for amalgamation is
   a. As-8
   b. As-20
   c. As-14
   d. As-3

3. The amount of purchase consideration can be computed under
   a. Lump sum method
   b. Net payment method
   c. Net assets method
   d. All of the above

4. The methods of accounting for amalgamation are
   a. The pooling of interests methods
   b. The purchasing method
   c. Both a and b
   d. Only a

5. Pooling of interests method is used to account for amalgamations in the nature of
   a. Purchase
   b. Sale
   c. Merger
   d. None of the above

6. Excess purchase consideration paid to the transfer company and debited to goodwill account under purchase method of accounting for amalgamation should be written off within a period of
   a. 2 years
   b. 8 years
   c. 20 years
   d. 5 years

7. Alteration of share capital is effected by a company if it is authorized by the
   a. Memorandum of Association
   b. Articles of Association
   c. shareholders
   d. Board of directors

8. Purchase consideration, as per AS-14, should include cash and securities agreed to be given by the transferee company to Transferor Company's
   a. Shareholders
   b. Shareholders & debenture holders
   c. Creditors, debenture holders and shareholders
   d. None of the above

9. Expenses of liquidation of Transferor Company may be shown as reimbursement in transferor company's books if the expenses are agreed to be paid by
   a. Transferor company
   b. Transferee company
   c. Both the companies
   d. Neither company

10. Transferor company means
    a. The company which is amalgamated into another company
    b. The company in which a transferor company is amalgamated
    c. The special resolution is passed by the company to that effect
    d. All of the above

Answers: 1.b 2.c 3.d 4.c 5.b 6.d 7.b 8.a 9.b 10.a

SHORT QUESTION (2 MARKS)

11. What is amalgamation?
12. What do you understand purchase consideration?
13. Define absorption.
14. What is internal reconstruction?
15. What is reconstruction?
16. What is pooling of interest method?
17. What do you understand by "Alteration of shares capital"?
18. What is a net asset?
19. What is net payment method?
20. What is Lump sum method?

PARAGRAPH QUESTIONS (5 MARKS)

21. Give the journal entries that all are passed in the books of companies in the case of absorption.
22. Following is the balance sheet of Samy Ltd. As on 31-3-2005

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed Assets	16,25,000
8% preferences shares of Rs.		Investment	3,00,000
100 each	3,75,000	Current Assets	2,50,000
Equity shares of Rs. 10 each	7,50,000		
General Reserve	4.50,000		
7% Debentures	3,50,000		
Current Liabilities	2,50,000		
	21,75,000		**21,75,000**

Romy Ltd., agreed to take over the business of Samy Ltd. Calculate purchase consideration under Net assets method on the basis of the following: i) Romy Ltd, agreed to discharge 7% debentures at a premium of 10% issuing 9% debentures of RomyLtd, ii) fixed assets are to be valued at 10% above book value the investments at par current assets at 10% discount and current liabilities at book value.

23. Following is the Balance Sheet of Samy Ltd. As on 31-3-2003

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed Assets	16,25,000
8% preferences shares of Rs.		Investment	3,00,000
100 each	3,75,000	Current Assets	2,50,000
Equity shares of Rs. 10 each	7,50,000		
General reserve	4,50,000		
7% Debentures	3,50,000		
Current Liabilities	2,50,000		
	21,75,000		**21,75,000**

Calculate purchase consideration under Net payment method on the basis of the following:

a. Romy Ltd., agrees to discharge the 7% debentures was a premium of 10% by issuing 9% debentures of Romy Ltd.,
b. preference shares are discharged at a premium of 10% by issuing 10% preference shares of Rs. 100 each in Romy ltd,
c. For every 2 equity shares in Samy Ltd. 3 equity of Rs. 10 each in Romy Ltd. Will be issued in addition to Cash payment of Rs.3 per Equity share in Samy Ltd.

24. Lakshmi Ltd., agrees to purchase the business of Krishnan Ltd., on the following terms:
    a. For each of the 10,000 shares of Rs. 10 each in krishan Ltd. Shares in Lakshmi Ltd, 2 shares in Raman Ltd., of Rs.10 each will be issued at an agreed value of Rs. 12 per share. In addition, Rs. 4 per share cash also will be paid.
    b. 8% Debentures worth Rs. 80,000 will be issued to settle the Rs. 60,000 9% debentures in Krishanan Ltd.
    c. Rs. 10,000 will be paid towards expenses of winding up. Calculate the purchase consideration.

25. On 30th June 2017, fortunes Ltd. Passed a resolution consolidating 80,000 fully paid shares of Rs.10 each into 8,000 fully paid shares of Rs.100 each. On 30thJune 2018 the company passed another resolution converting the shares into stock. Show journal entries.

26. Lal Ltd, agreed to absorb the business Mal. Ltd. The purchase consideration was as under:
    a. For every 4 10 % preference shares of Rs.10 each in Mal Ltd. 7 Equity shares of Rs.10 each in Lal Ltd. as Rs.8 paid up.
    b. For every 3 equity shares of Rs.10 each in Mal Ltd. 8 equity shares in Lal Ltd. as Rs.10 paid up. There were 90,000 Equity shares in Mal Ltd. Find out purchase consideration.

27. Marshall Ltd, has share capital Rs.5,00,000 divided into 5,000 shares of Rs.100 each, fully paid. Show the entries under each of the following conditions:

    i. When Marshall Ltd., resolves to sub- divide the shares into 50,000 shares of Rs.10 each fully paid
    ii. When Marshall Ltd., resolves to convert its 5,000 of Rs.100 each into Rs.5,00,000 worth of stock.

28. Distinguish between "Net Assets and Net Payment" as basis for computation of purchase consideration.

29. X ltd. Is negotiating to sell its business to Y Ltd. its assets are agreed to be worth Rs. 40,00,000. Its share capital consists of 10,000 equity shares of Rs, 10 each and it has reserves of Rs. 50,000. Workmen 's compensation fund amounts to Rs. 25,000 (estimated Liablity10,000) and Provident fund Rs. 20,000. Employees security deposits amount to Rs. 10,000. Trade creditors amounted to Rs. 80,000. Ascertain the purchase consideration, if it is paid 75% in Rs. 10 equity shares of the transferee company and the balance in cash.

30. Explain various provision of accounting standard for amalgamation (AS-14).

ESSAY TYPE QUESTIONS (10 MARKS)

31. Following is the balance sheet of Suma Ltd. Which is absorbed by Kusum Ltd.

Liabilities	Rs.	Assets	Rs.
Equity Share capital(Rs.10 each)	6,00,000	Fixed Assets:	
Pref. shares (Rs.100 each)	2,00,000	Machinery	3.40,000
Current liabilities	1,00,000	Buildings	1,60,000
10 % debentures	3,00,000	Current assets:	
		Stock	4,00,000
		Debtors	2,00,000
		Profit & Loss A/c	1,00,000
Total	**12,00,000**		**12,00,000**

Kusum Ltd., takes over Suma Ltd., on the following terms:

1. Take the fixed assets at 10%depreciation, stock at Rs. 3,00,000 and debtors after a provision of 25%.
2. Debentures are to be settled by issuing them 9% debentures is Kusum Ltd., Current liabilities will be taken over at book values.
3. The consideration will be discharged by issue of 10,000 equity shares of Rs.10 each in Kusum Ltd., at an agreed value of Rs. 15 per share and the balance in cash.
4. Expenses of liquidation of Rs. 20,000 will be reimbursed by Kusum Ltd. You are required to give a) journal entries to close the books of Suma Ltd. b) journal entries to record the acquisition assuming it is in the nature of purchase.

32. Following is the Balance Sheet of X Ltd. As on 31-3-2018

Liabilities	Rs.	Assets	Rs.
Share capital:		Land & Buildings	10,00,000
2,00,000 shares of Rs. 10each	20,00,000	Plant &Machinery	15,00,000
General reserve	2,50,000	Furniture	25,000
Dividend equalization reserve	2,00,000	Stock	6,00,000
Profits & Loss A/C	51,000	Work – in – progress	3,00,000
12% Dentures	10,00,000	Sundry debtors	2,50,000
Sundry creditors	3,00,000	Cash at Bank	1,26,000
	3,801,000		**3,801,000**

The company was absorbed by A Ltd. on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5%, taking over the liability in respect of sundry creditors and a payment of Rs.7 in cash and one share of Rs.5 in A Ltd., at the market value of Rs. 8 per share for every share in X ltd. The cost of liquidation of Rs. 15,000 is to be met by the purchasing company. Close the books X Ltd., and pass journal entries in the books of A Ltd.

33. Following is the balance sheet of K Ltd. As on 31-12-2018

Liabilities	Rs	Assets	Rs
2,000 shares of Rs. 10each fully paid	20,000	Goodwill	4,000
Profit & Loss A/c	7,000	Fixed assets	16,500
Debentures	10,000	Current asset	19,500
Creditors	3,000		
	40,000		**40,000**

R limited agreed to take over the assets of K. Ltd., (exclusive of one fixed assets of Rs. 4,000 and cash Rs.1,000 included in current assets) at 10% more than the book values. It agreed to take over creditors also. The purchase price was to be discharged by the issue of 2,000 shares of Rs. 10 each at the market value of Rs. 15 each and the balance in cash. Liquidation expenses came to Rs.400. K Ltd. sold the fixed assets of Rs. 4,000 and realized the book value. It paid off its debentures and liquidation expenses. You are required to give journal entries in the books of K Ltd., and R Ltd

34. Following is the Balance Sheet of X Co. Ltd. as on 30th June 2018

Liabilities	Rs.	Assets	Rs.
Share capital:		Goodwill	35,000
2,000 shares of Rs.10each	2,00,000	Land & Building	85,000
Reserves	20,000	Plant & Machinery	1,60,000
5%Debentures	1,00,000	Stock	55,000
Loan from A (a director)	40,000	Sundry debtors	65,000
Sundry Creditors	80,000	Cash at bank	34,000
		Discount on debenture	6,000
	4,40,000		**4,40,000**

The business of the company is taken over by Y Co., Ltd. as on that date on the following terms:

(i) Y Co., to take over all assets except cash, to value the assets at book values less 10% except goodwill which is to be valued at 4 years purchase of the excess of average (5 years) profits over 8% of the combined amount of share capital and reserves.

(ii) Y Co. Ltd to take over trade liabilities at a discount of 5%.

(iii) The purchase consideration was to be discharged in cash to the extent of Rs.1,50,000 and the balance in fully paid equity shares of Rs.10 each valued at Rs.12.50 per share. The average of 5 years profits was Rs. 30,100. The expenses of absorption, Rs.4,000 were paid by X Co. Ltd. but afterwards reimbursed by Co. Ltd. pass journal entries in the books of X Co. Ltd. to close the above transactions.

35. Big Ltd. agreed to acquire the assets of small Ltd. except its investment, as on December 31, 2018

Liabilities	Rs.	**Assets**	**Rs**
Share capital (Rs.10 each)	1,60,000	Goodwill	50,000
Reserves	43,000	Land & building	80,000
8% Debentures	60,000	Plant	80,000
Provision for taxation	20,000	Investment	30,000
Creditors	37,000	Stock	40,000
		Debtors	20,000
		Bank	20,000
	3,20,000		**3,20,000**

Big Ltd. will:

a. Discharge the dentures at 8% premium by issue of 7% debentures in Big Ltd. at 10% Discount.

b. Issue of shares of Big Ltd. at a valuation of Rs.11 for every two shares in Small Ltd.

c. Pay Rs.2 in cash for each share of Small Ltd. And

d. Pay absorption expenses of Rs.3,000

Small Ltd sells its investment for Rs.32,000. $^1/_3$ of the shares received from Big Ltd. are sold at Rs.10.50 each. Tax liability was determined at Rs. 24,000. Before the absorption, small Ltd. declares and pays 10% dividend to its shareholders. You are required to give the required journal entries and ledger accounts in the books of the vendor company.

36. The balance sheet of 'J" Co., Ltd. and 'H' Co. Ltd. as on 31.3.2004 were as follows

Liabilities	**J Ltd Rs.**	**H Ltd Rs.**	**Assets**	**J Ltd Rs.**	**H Ltd Rs.**
Share capital:			Goodwill	40,000	-
Rs.100 each	5,00,000	-	Fixed assets	4,00,000	8,00,000
Rs. 10 each	-	4,00,000	Cash at bank	-	1,00,000
Capital reserve	1,00,000	-	Other current assets	4,50,000	3,30,000
General reserve	35,000	4,00,000			
Secured loan	-	2,50,000			
Unsecured loan	1,00,000	-			
Sundry creditors	1,55,000	1,80,000			
	8,90,000	**12,30,000**		**8,90,000**	**12,30,000**

It was proposed that J Co., Ltd., should be taken over by H Ltd. the following arrangement were accepted by both the companies.

(i) Goodwill of J Ltd., is considered worthless

(ii) Arrears of depreciation in J Co. Ltd amounted to Rs. 20,000

The holder of every 2 shares in J Ltd. was to receive.

a) As fully paid at par, 10 shares in H. Ltd. and
b) So much cash as is in necessary to adjust the right of shareholders of both the companies in accordance with the intrinsic values of the shares as per their Balance Sheet after adjustments mentioned above.

You are required to:

1. Determine the purchase consideration
2. Show the Balance Sheet of H Co. Ltd., after the absorption, if the amalgamation is in the nature of purchase.

37. Sick Ltd., had the following balance sheet as on 31.3.2007

Liabilities	Rs	Assets	Rs
6% preference shares of Rs. 100each	2,00,000	Goodwill	60,000
		Stock	3,00,000
Equity shares of Rs. 100 each	4,00,000	Debtors	1,50,000
Debentures	1,00,000	Discount on debentures	60,000
Sundry creditors	1,50,000	Bank	10,000
		P & L A/c	1,000
			2,69,000
Total	**8,50,000**		**8,50,000**

The following reconstruction be reduced scheme was approved:

a) Preference shares be reduced to 8% preference shares of Rs. 60 each,
b) Equity shares to be reduced by Rs. 80 each.
c) The amount thus made available to be utilized to write off fictitious assets including goodwill and Rs. 50,000 from fixed assets.Give entries for the reconstruction and the final balance sheet.

38. Given below is the balance sheet of Hard Luck Ltd. as at 31st march 1995 Balance Sheet

Liabilities	**Rs.**	**Assets**	**Rs.**
40,000 shares of Rs. 10 each		Land & Building	3,20,000
fully paid	4,00,000	Plant & Machinery	1,30,000
Creditors	3,00,000	Stock	70,000
		Debtors	1,20,000
		Cash	500
		Preliminary expenses	5,000
		Profit & Loss A/c	54,500
	7,00,000		**7,00,000**

The following scheme of reconstruction was arranged;

1) The company go to into liquidation and a new company, Lucky Ltd. with an authorized capital of Rs. 8,00,000 to be formed to take over the assets and liabilities.
2) Preferential creditors of Rs. 10,000 included in the above balance sheet are to be paid in full.
3) Unsecured creditors to receive either a) 50 percent of their claim in cash or b) 6 percent debentures in the new company, equitant to their claims at par.
4) Shareholders in Hard Luck Ltd. to be allotted one share in the new company of Rs. 10 each, Rs. 5 paid for every existing share held by them.
5) Reconstruction costs amounting to Rs. 6,000 to be paid by Hard Luck Ltd. from cash made available by the new company.

Half of the unsecured creditors in value opted out for immediate cash payment for which purpose necessary cash was made available by the new company which made a call of Rs.5 Each on the party paid shares allotted as aforesaid. The new company valued all assets (except Land & Buildings) taken over from Hard Luck Ltd. at book values. Prepare the Balance Sheet of the new company after the above transactions are concluded.

39. The books of S Ltd. contained the following balance on May 31.1994.

	Debit Rs.	Credit Rs.
Equity share capital (Rs. 10 each)		12,00,000
Creditors		14,00,000
Patents & Trade marks	12,00,000	
Plant & Machinery	4,00,000	
Stock	3,00,000	
Debtors	5,00,000	
Cash	12,500	
preliminary expenses	72,500	
Profits & Loss A/c	1,15,000	
	26,00,000	26,00,000

The patents and trademarks are considerably over valued. The company is also not in a position to raise any further capital. The following scheme of reconstruction has, therefore been framed.

(i) The company will go into voluntary liquidation. A new company S.S Ltd. will be formed with an authorized capital of Rs. 20,00,000 to take over the assets.
(ii) Liability will be discharged by the new company to the creditors by payment of 25 Paise in a rupee in cash and 50 paisa in a rupee by issue of 9% debentures.
(iii)1,20,000 shares of Rs. 10 each (Rs. 5 per share paid) will be issued to the shareholders of S Ltd,; the balance Rs. Per share to be paid on allotment.
(iv) Expenses of liquidation amounting to Rs. 17,500 will be paid by S.S Ltd.

The scheme was approved by all concerned. You are required to:

(i) Close the ledger of S. Ltd.
(ii) Give entries to open the books of S.S Ltd
(iii) Prepare the opening balance sheet of S.S Ltd.

40. The following are the balance sheet of C Ltd. and D Ltd. as on 31-3-2004.

Liabilities	**C Ltd Rs**	**D Ltd Rs**	**Assets**	**C Ltd Rs**	**D Ltd Rs**
Share capital: (Rs.100 each) P& L A/c Current liabilities	 10,00,000 7,50,000 7,50,000	 2,50,000 1,25,000 75,000	Land & Buildings Investments Current Assets	7,50,000 1,25,000 16,25,000	1,00,000 - 3,50,000
	25,00,000	**4,50,000**		**25,00,000**	**4,50,000**

C Ltd. has agreed to absorb D Ltd. on the following terms:

1. It is assessed that Net assets of D Ltd. may be taken at Rs. 3,62,500 which is to be satisfied by issue of fully paid shares of Rs. 100 each by C Ltd. at par.
2. C Ltd's investment includes 20% of the shares in D Ltd. At a cost of Rs.60,000 Close the books of D Ltd. and give journal and Balance Sheet in the books of C Ltd.

UNIT – III

CHOOSE THE CORRECT ANSWER

1. A holding company is one which controls one or more other companies by means of:
   a. Holding majority shares
   b. Controlling the composition of Board of directors
   c. Controlling a holding company with subsidiaries
   d. All of the above.

2. A company in which more than 50% of shares are held by another company is termed as:
   a. Holding company
   b. Subsidiary
   c. Government company
   d. Public company

3. Profits earned by a subsidiary company up to the date of acquisition of shares by the holding company are called.
   a. Revenue profits
   b. Capital profits
   c. Revaluation profits
   d. Realization profits

4. The term minority interest represents
   a. The shareholders holding 50% of shares in Subsidiary co,
   b. Interest of the outsiders in the Subsidiary co,
   c. The company which holds more than 51% in Subsidiary co.
   d. None of the above.

5. The Banking Regulation Act was passed
    a. 1949
    b. 1956
    c. 1959
    d. 1950

6. Banking define:
    a. Accepting for the purpose of lending or investment
    b. Deposits of money from the public repayable on demand or otherwise.
    c. With draw able by cheque draft, order or otherwise
    d. All of the above

7. Every banking company is required to close its account on:
    a. 31^{st} December
    b. 31^{st} march
    c. 30^{th} June
    d. 30^{th} September

8. Letter of credit and endorsement are shown in the bank accounts under the:
    a. Bill payable
    b. B. contingent liabilities
    c. Bills of collections
    d. Other assets

9. Which committee recommended in Non Performance Assets
    a. Narsimham committee
    b. Srikrishna committee
    c. Malhotra committee
    d. None of the above

10. A non- banking asset is:
    a. An investment
    b. An item of office appliances
    c. Any asset acquired from the debtors in satisfaction of claim
    d. Money at call and short notice

Answers: 1.d 2.b 3.b 4.b 5.a 6.d 7.b 8.b 9.a 10.c

SHORT QUESTION (2 MARKS)

11. What is rebate on bills discounted?
12. What is statutory reserve?
13. What do you understand by contingent liabilities?
14. What are non-performing assets?
15. Define holding company?
16. Give the meaning of subsidiary company.
17. What do you understand by capital profit?
18. What is mutual obligation?
19. What is a consolidated Balance sheet?
20. How do you calculate cost of capital?

PARAGRAPH QUESTIONS (5 MARKS)

21. Explain the classification of Nonperformance assets.
22. Explain the method of preparing consolidated profits and less account.
23. Explain the legal requirement relating to presentation of accounts.
24. X Ltd. purchased 60% shares of Y Ltd. on 1-1-2002 when balance on their P&L A/c and General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31-12-2002, the Balance sheet of Y Ltd. showed P&L a/c balance of Rs. 4,00,000 and General reserve Rs. 3,00,000. Calculate Capital profits and Revenue profits.
25. On 31-12-2003, X Ltd. acquired 80% equity shares of Y Ltd. the P&L A/c and General reserve balance as per Balance sheet of Y Ltd prepared on 31-12-2003 amounting to Rs. 6,80,000 and Rs.1,44,000 respectively. On the date of acquisition of shares, the assets of Y Ltd. were revalued and gain of Rs. 1,20,000 was found out. Calculate capital profits and reserve profits.
26. On 31st March 2018, Bharat Commercial Bank Ltd., finds its advances classified as follows:

	Rs
Standard assets	14,91,300
Sub-standard assets	92,800
Doubtful assets (secured)	
Doubtful for one year	25,660
Doubtful for one year to 3 years	15,640
Doubtful for more than 3 years	6,580
Loan assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned advances.

27. On 31st March,2018 a bank held the following bills, discounted by it earlier

Date of bill 1998	Term of bill (months)	Discounted @ % p.a	Amount of bill Rs
i) January,17	4	17	7,30,000
ii) February,7	3	18	14,60,000
iii) March,9	3	17.5	3,64,000

You are required to calculate the rebate on bills discounted. Also show the necessary journal entry for the rebate.

28. On 1.1.2018, the rebate on bills discounted of a bank showed a credit balance of Rs.1,00,000. On 31.12.2018, the discount showed a credit balance of Rs. 15,00,000 before adjusting unexpired discount. The bills discounted outstanding on 31.12.2018 were Rs.2 crores with average maturity date of January 31, 2019 and were all discounted at 12% p.a.

    Write adjustment entries and relevant ledger accounts to record these items and also show how these items will appear in the final accounts of the bank.

29. Calculate Rebate on bills discounted as on 31-3-2000

Date of bill	Amount (Rs.)	Period	Rate of discount
15-1-2000	25,000	5 Months	8%
10-2-2000	15,000	4 Months	7%
25-2-2000	20,000	4 Months	7%
20-3-2000	30,000	3 Months	9%

30. On 31st December 2018, Pandian Bank Ltd. has the following Bills

Date 1998	Rs.	Term in Months	Discounted @ % p.a
November 11	50,000	4	6
November 16	60,000	3	5
November 07	40,000	4	5.5

Calculate the rebate on bills discounted and give necessary Journal entry, assuming accounts are closed on the date.

ESSAY TYPE QUESTIONS (10 MARKS)

31. The Balance sheet of C Ltd, and D Ltd. as at 31st December, 2018 are as follows:

Liabilities	**C Ltd Rs**	**D Ltd Rs**	**Assets**	**C Ltd Rs**	**D Ltd Rs**
Share capital: (shares of Rs.10 each)	2,00,000	1,00,000	Sundry assets	1,32,500	1,38,200
General reserve	18,000	20,000	Goodwill	-	20,000
P& L A/c	24,500	23,000	Shares in D Ltd at cost	1,40,000	-
Creditors	30,000	15,200			
	2,72,500	**1,58,200**		**2,72,500**	**1,58,200**

In the case of 'D' Ltd., profit for the year ended 31st December 2018 is Rs.12,000 and transfer to reserve is Rs. 5,000. The holding of C Ltd. in D Ltd. is 90% acquired on 30th June 2018. Draft a consolidated Balance Sheet of 'C' Ltd. and its subsidiary.

32. From the following Balance sheet relating to H Ltd. and S Ltd. prepare consolidated Balance Sheet.

Balance Sheet as on 31- 12- 2018

Liabilities	**H Ltd Rs**	**S Ltd Rs**	**Assets**	**H Ltd Rs**	**S Ltd Rs**
Share capital: (shares of Rs.10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
P& L A/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	-
Bills payable	-	30,000	Shares in S Ltd at cost(15,000 shares)	1,50,000	
	17,00,000	**5,30,000**		**17,00,00**	**5,30,000**

(a) All profits of S Ltd have been earned after shares were acquired by H Ltd. but there was already a reserve of Rs. 60,000 on that date.
(b) All the bills payable of S Ltd. was accepted in favour of H Ltd.
(c) The stock of H Ltd. includes Rs. 50,000 purchased from S Ltd. the profit added was 25% on cost.

33. X Ltd. purchased 750 shares in Y Ltd. on 1.7.2018. The following were their Balance sheets on 31.12.2018.

Liabilities	**X Ltd Rs.**	**Y Ltd Rs.**	**Assets**	**X Ltd Rs.**	**S Ltd Rs.**
Share capital:			Buildings	2,05,000	1,25,000
(shares of Rs.100	3,00,000	1,00,000	Stock	1,00,000	80,000
each)	1,00,000	70,000	Debtors	1,00,000	40,000
General reserve on	1,00,000	60,000	Investment in Y Ltd	1,00,000	-
1.1.94	80,000	40,000	Bills receivable	40,000	45,000
P& L A/c	50,000	20,000	Cash at bank	60,000	20,000
Creditors			Current account:		
Bills payable	-	20,000	Y Ltd	25,000	-
Current account:					
X Ltd					
	6,30,000	**3,10,000**		**6,30,000**	**3,10,000**

Additional information
a) Bills receivable of X Ltd. Include Rs. 10,000 accepted by Y Ltd.
b) Debtors of X Ltd, include Rs. 20,000 payable by Y Ltd.
c) A cheque of Rs. 5,000 sent by Y Ltd. on 28th December was not yet received by X Ltd. on 31st December 1994.
d) Profit and Loss A/c of Y Ltd. showed a Balance sheet of Rs. 20,000 on 1.1.1994.

You are required to prepare a consolidated Balance sheet of X Ltd. and Y Ltd. as on 31.12.1994.

34. The summarized Balance sheet of H Ltd. and S Ltd. as on 31st December 2018 are given below

Liabilities	**H. Ltd Rs**	**S. Ltd Rs**	**Assets**	**H Ltd Rs**	**S Ltd Rs**
Share capital:			Sundry assets	5,00,000	1,70,000
shares of Rs.10	5,00,000	1,00,000	8,000 shares in S.	1,40,000	-
each	80,000	30,000	Ltd		
Reserves	60,000	40,000			
Profit & Loss A/c					
	6,40,000	**1,70,000**		**6,40,000**	**1,70,000**

S Ltd. had the reserve of Rs. 30,000 when H Ltd. acquires the shares in S Ltd. but the profit & Los account balance of S Ltd. was fully earned after the purchase of shares. S Ltd decided to issue bonus shares out of the post acquisition profit in the ratio of 2 shares for every 5 shares held. Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares.

35. From the following particulars, prepare a Profits and Loss A/c of New bank Ltd., for the year ended 31.12.2018.

	Rs. (in '000')		Rs. (in '000')
Interest on loans	260	Interest on cash credits	225
Interest on fixed deposits	280	Rent and taxes	20
Rebate on bills discounted	50	Interest on overdrafts	56
Commission charged to customers	9	Directors' and Auditor's fees	4
Establishment expenses	56	Interest on savings bank accounts	70
Discount on bills discounted	200	Postage and telegrams	2
Interest on current accounts	45	Sundry charges	2
Printing and advertisements	3		

36. From the following information, relating to Adarsh Bank Limited, prepare Profits and Loss A/c for the year ending 31-3-2018 along with necessary schedules in the Revised format:

	(Rs. In 000)
Interest, discount earned	31,628
Income on investments	11,810
Interest received on balance with RBI	4, 243
Commission, exchange and brokerage	2,907
Profits on sale of investments	114
Interest on RBI loan paid	31,404
Interest on employees	3,362
Salareies to employees	9,717
Rent, taxes and lighting	1,168
Depreciation on Bank property	379
Director's fees	7
Auditors fees	41
Law charges	22
Postages, telegrams, telephone, etc.,	403
Other expenditure	1,799
Balance of profit B/D from last year	1000

Adjustments:

a) Make a provision for I.T @ 51.75% on profit.
b) Transfer 25% of profit to statutory reserve and 5% to Revenue Reserve.
c) Transfer to proposed dividend 2,00,000.

37. Explain the treatment of the following while consolidating the accounts of Holding company its subsidiary company.
    a. Bonus shares issued from pre-acquisition profits
    b. Profit/loss on revaluation of fixed Assets.

38. Some of the items in the Trial Balance of Modern Bank Limited as on March 31, 2018 were as follows:

	Rs.		Rs.
Loans and advances	71,50,000	Printing and stationary	4,500
Current account (including overdraft of Rs. 15,00,000)	66,00,000	Interest on savings bank deposits	75,000
Bills discounted and purchased	19,20,000	Auditor's fees	5,000
Interest on fixed deposit	1,55,000	Director's fees	2,500
Interest on loans	2,25,000	Interest on overdrafts	95,000
Discount (subject to unexpired discount Rs. 30,000)	2,01,000	Provision for bad debts, January 1,2018	42,000
Interest on cash credits	1,05,000	Bad debts	21,000
Commission earned	46,500	Provision for income tax, January 1, 2018	6,000
Loss on sale of investments	34,000	Income tax paid for 2018	54,000
Salaries and allowances	82,000		

You are required to prepare the profit and loss account of the bank, maintaining the provision for income tax at Rs. 84,000 and provision for bad debts at Rs. 52,000 for the year ended March 31, 2018. All workings should form part of your answer.

39. On 31st march 2018. The following balances stood in the books of Asaian Bank Ltd., after preparation of its Profits and Loss Account.

	Rs. (in'000')		Rs. (in '000')
		Cash in hand	380
Share Capital:		Cash with RBI	10,000
Issued and subscribed	4,000	Cash with other banks	6,000
Reserve fund (under section 17)	6,200	Bills discounted and purchased	3,800
Fixed deposits	42,600	Loans, cash credits and over drafts	51,000
Savings bank deposits	19,000	Bills payable	70
Current accounts	23,200	Unclaimed dividend	60
Money at call and short notice	1,800	Rebate on bills discounted	50
Investments	25,000	Shorts loans (borrowing from other banks)	4,750
P and L Account(Cr)1st Jan1986	1,350	Furniture	1,164
		Other assets	336
		Net profits for 2018	1,550
Dividend for 2017	400		
Premises	2,950		

Prepare the Balance sheet of the bank an on 31 December 2018.

40. The following is the Trial Balance extracted from the books of Town Bank Ltd.

Debit balances	Rs.	Credit Balances	Rs.
Balances with banks	46,350	Share capital	3,00,000
Investment in Government bonds	1,94,370	Security deposit of employees	15,000
Other investment	1,55,630	SB Accounts	7,420
Gold Bullion	15,130	Current accounts	97,000
Interest accrued on investment	24,620	Fixed deposits	1,13,050
Silver	2,000	Reserved fund	1,40,000
Constituent's liability for acceptance, etc.,	56,500	Borrowings from banks	77,230
Building	65,000	Profits and Loss A/c	6,500
Furniture	5,000	Bills for collection	43,500
Money at call	26,000	Acceptances and endorsement	56,500
Loans	2,00,000	Interest	72,000
Bills discounted	12,500	Discount	42,000
Interest	7,950	Rent	600
Bills for collection	43,500	Profit on bullion	1,200
Audit fees	5,000	Miscellaneous income	2,700
Loss on sale of furniture	1,000	Accumulated depreciation on building	20,000
Directors' fees	1,200		
Salaries	21,200		
Postage	50		
Managing directors' remuneration	12,000		
Loss on sale of investment	30,000		
Cash in hand	25,000		
Cash with RBI	50,000		
Branch adjustment A/c	20,000		
	10,20,000		10,20,000

You are required to prepare the Profit and Loss Account and Balance sheet after taking into consideration the following

i) Bad debts Rs. 500
ii) Rebate on bills 1,000
iii) Current year's depreciation on building Rs.2,000
iv) Some current accounts are over drawn to the extent of Rs. 25,000 and total of credit balances is Rs. 1,22,000.

UNIT – IV

CHOOSE THE CORRECT ANSWER

1. Insurance business in India is new regulated by the provision of
   a. The insurance Act 1938
   b. The IRDA Act 1999
   c. The Banking Regulation Act 1949
   d. The Indian Companies Act 1956

2. Number of schedules to be prepared by the insurance companies for their financial statement are
   a. 26 schedules
   b. 12 schedules
   c. 15 schedules
   d. 10 schedules

3. In general insurance, the policy amount is payable
   a. After the death of the insured
   b. After the expiry of the policy period
   c. Only when the loss occurs or the liability arises
   d. Only when the insured has incurred loss.

4. A valuation of Balance Sheet is prepared by:
   a. Joint stock company
   b. Banking company
   c. Life insurance company
   d. General insurance company

5. The percentage of profit of life business to be distributed to policy holders is:
   a. 95%
   b. 100%
   c. 50%
   d. 40%

6. In life insurance the policy amount is payable
   a. After the death of the assured
   b. After the expiry of the policy period
   c. On death of the insured or on expiry of policy period whichever is earlier
   d. Only when the insured has incurred loss

7. Under double accounts system, interest on debentures in shown in
   a. Revenue A/c
   b. Net revenue A/c
   c. Capital A/c
   d. General Balance sheet

8. What is the name of the account showing Profit or Loss under double account system.
    a. Interest & Expenditure A/c
    b. Net Revenue A/c
    c. Revenue A/c
    d. Net revenue expenditure A/c

9. Under double account system, depreciation is
    a. Debited to revenue A/c
    b. Debited to Net revenue A/c
    c. Debit side of capital A/c
    d. Credited to depreciation fund A/c

10. Original cost of an asset is Rs.50,000 present cost of the replacement is Rs.65,000. The amount spent in its replacement is Rs.76,000.The amount to be capitalized will be
    a. 65,000
    b. 76,000
    c. 11,000
    d. 50,000

Answers: 1.b 2.c 3.c 4.c 5.a 6.c 7.b 8.c 9.d 10.c

SHORT QUESTION (2 MARKS)

11. What do you understand by Life Assurance fund?
12. What is meant by 'Annuity'?
13. What is Re insurance?
14. What is additional reserve?
15. What is Net Current Assets?
16. What is meant by Double Account System?
17. How do you calculate clear profit?
18. Mention any two characteristic features of Double Account System?
19. What is Single Account System?
20. Mention any two limitation of double account system.

PARAGRAPH QUESTIONS (5 MARKS)

21. Distinguish between Life Insurance and General Insurance.
22. How does a life insurance company ascertain its profit or loss?
23. A life Assurance Company prepared its Revenue A/c for the year ended 31.3.2006 and ascertained its Life Assurance fund is Rs. 28,35,000. It was found later that the following had been omitted from the accounts:
    a) Interest accrued on investment Rs. 39,000; income tax liable to be deducted thereon is estimated to be Rs, 10,500.
    b) Outstanding premium Rs.32,800.
    c) Bonus utilized for reduction of premium Rs. 6,750
    d) Claims intimated but not admitted Rs. 17,400
    e) Claims covered under reinsurance Rs. 6,500

    What is the true Life Assurance Fund?

24. The Life fund of a Life Insurance Company on 31.3.2006 showed a balance of Rs. 54,00,000. However, the following items were not taken into account while preparing the Revenue A/c for 2005-2006:
   a) Interest and dividends accrued on investment Rs.20,000
   b) Income tax deducted at source on the above Rs.6,000
   c) Reinsurance claims recoverable Rs.7,000
   d) Commission due on reinsurance premium paid Rs.10,000
   e) Bonus in reduction of premium Rs.3,000

25. From the following figures appearing in the books of Fire insurance division of a general company, show the amount of claim as it would appear in revenue account, by preparing schedule2, claims incurred.

	Direct Business Rs('000)	Re-insurance Rs.('000)
Claims paid during 2005-06	4,670	700
Claims payable 1-4-2005	763	87
31-3-2006	812	53
Claims received	-	230
Claims receivable 1-4-2005	-	65
31-3-2006	-	113
Expenses of management (includes Rs.35 thousand Surveyor's fees band Rs.45 Thousand legal expenses for settlement of claims)	230	

26. The Bangalore municipal corporation replaces part of its existing water mains with larger mains at the cost of Rs. 75,00,000. The original cost of laying the old mains was Rs. 15,00,000 and the present cost of laying those mains would be three times the original cost. Rs.1,25,00 was realized by the sale of old materials and old materials of Rs.3,75,000 were used in the replacement and included in the cost given above. Give the journal entries to record the above and show the allocation of expenses between revenue and capital along with Replacement Account.

27. The Revenue account of a Life insurance company showed a balance of Rs. 4,75,000 at the end of 2005 -06 before considering the following items:

		Rs
a.	Bonus in reduction of premiums	40,000
b.	Outstanding premiums	1,00,000
c.	Interest accured on investments	20,000
d.	Claims intimated but not admitted	35,000
e.	Claims recovered under reinsurance	3,000

Pass necessary adjustments entries.

28. Write short note on;
    a) development reserve ;
    b) tariffs and dividends control;
    c) clear profit

29. How is depreciation? Treated under the double account system?

30. Bring out the format of ‘Revenue A/c of an Electricity supply company.

ESSAY TYPE QUESTIONS (10 MARKS)

31. Explain the provisions relating to reasonable return and disposal of surplus of an Electric supply company.

32. City electricity Ltd. earned a profit of Rs. 8,45,000 during the year ended 31st March 2004 after debenture interest @ 7½ % on Rs. 2,50,000. With the help of the figures given below, show the disposal of profits:

	Rs.
Original cost of fixed assets	1,00,00,000
Formation and other expenses	5,00,000
Monthly Average of current assets (net)	25,00,000
Reserve fund (represented by 4% Govt. securities)	10,00,000
Contingencies reserve fund investments	2,50,000
Loan from electricity Board	15,00,000
Total depreciation written off to date	20,00,000
Tariff and Dividend Control Reserve	50,000
Security deposits received from customers	2,00,000

Assume Bank Rate to be 6%.

33. A Life Insurance Co, disclosed a fund of Rs. 20,00,000 and the Balance sheet total Rs. 45,00,000 on 31.3.2006 before taking into consideration:
    a) A claim of Rs. 10,000 intimated and admitted but not paid during the year.
    b) A claim of Rs. 6,000 outstanding in the books for 8 years and written back.
    c) Interest on securities accrued Rs. 800 but not received during the year.
    d) Premium of Rs. 600 is payable under reinsurance.
    e) Reinsurances recoveries Rs.26,000
    f) Bonus utilized in reduction of premium Rs. 10,000
    g) Agent’s commission to be paid Rs. 8,000

    Pass the necessary journal entries for the above omissions, recomputed the fund and show the Balance sheet total after making the above adjustments.

34. The pioneer Gas Co. rebuilt and re equipped part of their works at a cost of Rs. 15,00,000. The part of the old works thus superseded cost Rs. 9,00,000. Rs.60,000 is realized by the sale of old materials and old materials valued Rs. 2,000 are used in the reconstruction and included in the cost of Rs, 15,00,000 mentioned above. The cost of labour and materials is 20% higher now than when the old works were constructed. Give journal entries and prepare the necessary ledger accounts.

35. The following are the balances on 31-03-04 in the books of the Ernakulam power and Light company Ltd.

	Rs.	Rs.
Lands on 31-3-03	1,20,000	-
Land expended during 2003-04	4,000	-
Machinery on 31-3-03	4,80,000	-
Machinery expended during	4,000	-
2003 -04	1,60,000	-
Mains including cost of laying	40,800	-
Mains expended during 2003-04	-	4,39,200
Equity shares	-	1,60,000
Debentures	-	800
Sundry creditors	-	2,00,000
Depreciation fund A/c	32,000	-
Sundry debtors for current supplied	400	-
Other debtors	4,000	-
Cash	28,000	-
Cost of generation of electricity	4,000	-
Cost of distribution of electricity	4,000	-
Rent rates and taxes	9,600	-
Management expenses	16,000	-
Depreciation	-	1,04,000
Sale of current	-	4,000
Rent of meters	8,000	-
Interest on debentures	16,000	-
interim dividend	-	22,800
Net balance A/.c Balance on 31-3-03		
	9,30,800	9,30,000

From the above Trial Balance, Prepare Revenue A/c, Net Revenue a/c, capital A/c, General Balance sheet.

36. The following balances are abstracted from the books of new Bharart life insurance Co., as on 31-3-2006.

	Rs('000)		Rs('000)
Life assurance fund (1-4-2005)	15,00,000	Claims paid during the year	64,900
Premiums	4,96,000	Annuities	2,050
Consideration of annuities granted	15,000	Bonus in reduction of premiums	1,600
Interest and dividends	1,00,000	Medical fees	2,400
Fines for revival of policies	750	Surrenders	4,000
Reinsurance premium	20,750	Commission	18,650
Claims outstanding (1-4-2005)	4,500	Management expenses	22,000
		Income tax on dividends	8,500

Prepare Revenue A/c after making the following adjustments:

	Rs.('000)
i)Outstanding balances:	
Claims	14,000
Premiums	4,600
ii) Further bonus for premium	2,400
iii) Claim under reinsurance	8,000

37. Prepare, in the proper statutory form, the revenue account of the jai Hind Life Assurance Co. Ltd., for the year ended 31st march 2006 from the following figures.

	Rs.('000)		Rs. ('000)
Claims by death	76,140	Expenses of management	31,920
Claims by maturity	30,110	Commission	9,574
Premiums	7,05,690	Interest, dividend & rent	97,840
Transfer fees	129	Income tax thereon	35,710
Consideration for annuities granted	82,127	Surrenders	13,140
annuities paid	53,461	Bonus reduction of premium	980
bonus paid in cash	2,416	Dividend paid to shareholders	5,500
		Life Assurance Fund(1.4.2005)	15,21,000

Paid up share of the above life assurance company is Rs.5,00,000. Thousands and net liability as per actuary's valuation is Rs.11,05,000 thousands of 31.3.2006. Prepare a valuation sheet of the company as on that date.

38. Indian insurance Co., furnishes you the following information:

i) On 31-3-2005 it had reserve for unexpired risks to the tune of Rs.40 crores. It comprised of Rs.15 crores in respect of Marine insurance business, Rs. 20 crores in respect of fore insurance business and Rs. Crores in respect of miscellaneous insurance business.

ii) It is the practice of the company to create reserves at 100% of net premium income in respect of Marine insurance polices and at 50% of net premium in respect of Fire and miscellaneous insurance policies.

iii) During 2005-2006, the following business was conducted.

	Figures Rs. In Crores		
	Marine	Fire	Miscellaneous
Permia collected from:			
a) Insured in respect of policies issued	18	43	12
a) Other insurance companies in respect of risks undertaken	7	5	4
Permia paid/ payable to other insurance Companies on business ceded.	6.7	4.3	7

Indian Insurance Company asks you to:

(a) Pass journal entries relating to " unexpired risks reserve".

(b) Show in columnar form "unexpired risks reserve A/c for 2005-2006.

39. From the following balances, prepare the fire insurance revenue account for the year ended 31.3.2006 of ABC fire insurance Co.Ltd.

	Rs.('000)		Rs. ('000)
Commission on reinsurance accepted	1,86,458	Audit fees	2,500
Commission on direct business	1,95,172	Professional taxes	2,875
Depreciation on furniture	650	Bad debts written off	2,206
Depreciation on Library	148	Claims under policies less reinsurance	
Depreciation on Motor car	6,240	paid during the year	1,52,930
Loss on sales of motor car	12,074	Reserve for unexpired risk as	
General Manager's salary	24,000	at 31.3.05	3,66,954
Telephone	5,100	Additional reserve for unexpired	
Postage & telegrams	5,510	risk as at 31.3.05	45,824
Rent	62,500	premiums received less reinsurance	9,89,980
Travelling expenses	45,600	commission on reinsurance ceded	3,41,208
Motor car expenses	45,500	unpaid claims on 31.3.06	6,264
Establishment	24,000	unpaid claims on 31.3.06	1,198
Bonus	24,000	miscellaneous expenses	250
Stationery	35,550		
Newspapers & periodicals	14,062		
Legal expenses	23,400		
Electricity charges	16,100		
Provident fund contribution	11,875		

You are required to make 40% of the net premium received as provision for unexpired risk as at 31.3.06 and 10% of the net premium as additional reserve for the same.

40. From the following details, prepare the Reveue A/c, profit & Loss A/c and Balance sheet of Moon Shine Insurance Co. Ltd. carrying on Marine Insurance business for the 15 months ended 31.3.2006.

	Rs. ('000)		Rs.('000)
Agents balances (Dr)	1,46,400	Share capital	15,00,000
Interest accrued but not due	8,200	Balance of Marine fund (1.4.05)	7,60,000
Furniture (cost Rs.12,600)	8,400	Unclaimed Dividends	2,400
Stock of stationery	2,500	Profit & Loss A/c (Cr)	2,40,00
Expenses of management	2,20,000	Sundry creditors	12,600
Foreign taxes & insurance	12,300	Due to reinsurers	60,000
Outstanding premium	21,200	Premium less reinsurance	12,40,000
Donations paid	8,600	Interest & Dividends	2,40,000
Advance income tax payments	62,000	Transfer fees received	600
Sundry debtors	9,200		
Government of India securities	9,20,000		
Debenture of public bodies	1,80,000		
Shares in limited companies	3,60,000		
State government securities	8,80,000		
Claims less re insurance	10,60,000		
Commission paid	62,400		
Cash & bank balances	94,400		

Outstanding claims on 31.3.2006 were Rs.1,40,000 Thousands. Depreciation on furniture to be provided at 20% per annum.

UNIT – V

CHOOSE THE CORRECT ANSWER

1. Measurement of the value of human resources is based on the
    a. Stock concept in accounting
    b. Future profit concept
    c. Ownership concept of an asset
    d. None of the above

2. The prominent among the value based model is the
    a. Flamholtx model
    b. Lev and Schwarz model
    c. Lee and Rosenbloom model
    d. Rensis Likert Model

3. Expenses incurred by a business enterprise on the recruitment , training and development of workers are considered as:
    a. Opportunity costs
    b. Imputed costs
    c. Current costs
    d. Capital costs

4. disclosure of Accounting Policies is detail in
    a. AS-2
    b. AS-1
    c. AS-5
    d. AS-19

5. Extraordinary items are dealt in under which accounting standard?
    a. AS-5
    b. AS-2
    c. AS-1
    d. AS-10

6. Inventories should be valued at
    a. Cost
    b. Net realizable value
    c. Cost or net reliable value whichever is lower
    d. None of the above

7. Inflation accounting is also known as:
    a. Accounting for price level changes
    b. Decision accounting
    c. Standard accounting
    d. Historical accounting

8. In the historical accounting system, cost represent:
    a. Replacement costs
    b. Current costs
    c. Imputed costs
    d. Original costs

9. Under CPP method, assets are presented at:
    a. Historical costs adjusted for general price level changes
    b. Replacement costs
    c. Current costs
    d. Net realizable costs

10. The main objective of current cost accounting (CCA) method is :
    a. To measure all values at constant rupees
    b. To find out the general purchasing power gain or loss
    c. To maintain the purchasing power of shareholders fund
    d. To maintain operating capability of the represents

Answers: 1.d 2.b 3.d 4.b 5.a 6.c 7.a 8.d 9.a 10.d

SHORT QUESTION (2 MARKS)

11. What is human resource accounting?
12. State the process of human resource accounting.
13. What do you understand by "Un purchased goodwill" method?
14. Write the formula under Rewards valuation method of HR accounting.
15. What are accounting standards?
16. How are inventories defined in AS-2, valuation of inventories?
17. What is a depreciable asset as per AS-6?
18. What is inflation accounting?
19. What are the conversion factors?
20. What is monetary working capital adjustment?

PARAGRAPH QUESTIONS (5 MARKS)

21. What is the need for HRA? Trace briefly the development of HRA.
22. Explain the various cost based method of valuing human resources.
23. Explain the different value based methods of valuing human resources.
24. What are the main benefits derived from human resource accounting?
25. Explain the methods of valuation of inventories under CPP method
26. What are the objectives against inflation accounting?
27. Explain the Monetary assets and liabilities
28. What are the procedure for formulation and issuing accounting standard?
29. Differentiate between 'Monetary items' and 'non monetary items'.
30. Distinguish between "Holdings Gains" and "Operating Gains".

ESSAY TYPE QUESTIONS (10 MARKS)

31. Explain the various approaches for the valuation of human Resources.
32. Distinguish between:
    i) Historical cost approach and replacement cost approach
    ii) Net benefit model and equivalent net benefit model
33. Discuss the list the principal failures of conventional accounting in relation to human resources.
34. Discuss the scope of accounting standards
35. Explain the significance and advantages of accounting standards.
36. Explain the briefly five Indian accounting.
37. Describe different methods of inflation accounting.
38. Discuss the merits if current purchasing power accounting.
39. Explain the steps in finalizing accounts under CPP method of inflation accounting.
40. Distinguish between historical, current cost and current purchasing power concepts of accounts.

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