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4 (Sem-4) ADAC

2018

ADVANCED FINANCIAL ACCOUNTING

Paper : 405

(Accountancy Major)

Full Marks – 80

Time – Three hours

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

1. Answer the following as directed : $1 \times 8 = 8$

(a) Banking Companies are governed by Banking Regulation Act, _____ .

(Fill in the blank.)

(b) The money received by the Government of India and by the Government of States, which can not be credited into the Consolidated Fund, is credited to Contingency Fund, as per the instructions of Government Accounting Standards Advisory Board.

(State whether the statement is true or false.)

(c) Wealth maximisation is one of the objectives of Government Accounting.

(State whether the statement is true or false.)

[Turn over

(d) Loss of profit insurance is also known as _____.

(Fill in the blank with appropriate word / words.)

(e) Mention one objective of preparing Investment Accounts.

(f) Final Accounts of Insurance Companies are prepared according to the provisions of the LICI Act, _____.

(i) 1965 (ii) 1938

(iii) 1956 (iv) 1972

(g) What is 'surrender value' in life insurance business ?

(h) According to the guidelines of the RBI, an asset becomes non-performing when it ceases to generate income for a bank.

(State whether the statement is true or false.)

2. Answer the following questions : 2×6=12

(a) What are sub-standard advances of a bank ?

(b) Write two names of statutory books to be maintained by an insurance company.

(c) Write the meaning of 'cum-interest' in respect of Investment Accounting.

- (d) Explain why average clause is applied in insurance claims.
- (e) Write two differences between Government Accounting and Commercial Accounting.
- (f) What is Consolidated Fund ?
3. (a) Bandhan Bank Ltd. discounted bills of the face value of Rs. 1,00,000 for Rs. 88,000 on 15th January, 2018. Out of total discount, Rs. 2,500 pertains to the next accounting year, i.e. 2018-19.

Show the Journal Entries to be passed at the time of discounting the bills. Also show the opening entry in the books of the bank at the beginning of the next year. 5

Or

Write a note on Rebate on Bills Discounted in respect of banking business. 5

- (b) Briefly describe five principles of Government Accounting. 5

Or

Write a note on Government Accounting Standard Advisory Board. 5

- (c) AB Ltd. bought and sold 12% stock as follows :

Interest being payable on 31st March and 30th September each year. Brokerage in each case $\frac{1}{8}\%$. The transactions were cum-interest :

2017, March 1 : Bought Rs. 48,000 stock
@ Rs. 92 each

2017, June 30 : Sold Rs. 20,000 stock
@ Rs. 94 each.

Calculate the amounts to be debited / credited to the principal and interest columns in the Investment Account. 5

Or

Explain the treatment of Bonus Shares and Right Shares in Investment Accounts. 5

- (d) Ascertain the amount of claim for loss of profit policy from the following information : 5

Period of indemnity	6 months
Short sales	Rs. 48,000
Net profit	Rs. 1,20,000

Insured standing charges Rs. 24,000

Saving in standing charges Rs. 800

Increased cost of working Rs. 2,400

Sales for 12 months immediately preceding
the date of fire Rs. 5,00,000

Sales for the last financial year Rs. 4,80,000

Amount of policy taken Rs. 1,80,000

Or

Point out the main features of accounts of
general insurance companies. 5

4. The following balances appear in the ledgers of
Lucky Bank Ltd. as on 31.3.2018 :

	Rs.
Share Capital	2,40,000
Investments :	
In Government securities :	20,000
Gold :	6,000
Cash credits	1,62,000
Overdrafts	31,000
Term loans	3,40,000
Borrowings from Banks	15,000
Cash in hand	60,000

	Rs.
Balance with RBI (Dr)	50,000
Money at call and short notice	35,000
Deposits :	
Demand	1,50,000
Savings Bank	1,60,000
Fixed	1,40,000
Current liabilities	5,000
Fixed assets	56,000
Statutory reserve	30,000
Capital reserve	20,000

You are required to prepare the Balance Sheet of the Bank as on 31.3.2018 after considering the following :

- (a) Bills for collection amounted to Rs. 10,000.
- (b) Claims against the bank not acknowledged as debts Rs. 15,000.
- (c) Ignore the relevant schedules for the Balance Sheet.

Use the Balance Sheet format as per Banking Regulation Act. 10

Or

Briefly explain the salient features of the directives issued by RBI to scheduled banks on the concept of income recognition and provision for bad and doubtful debts. 10

5. The Revenue Account of a Life Insurance Company for five years shows the following :

	Rs.
Life Assurance Fund	5,50,000
Premiums	2,90,000
Consideration for annuities granted	1,40,000
Interest, dividends and rents	60,000
Bonus in cash	10,000
Surrenders	25,000
Claims	1,55,000
Expenses of management	30,000
Commission	15,000
Annuities	20,000

According to actuarial valuation, the net liability on the policies of the company including the annuity transactions amounted to Rs. 4,50,000.

The surplus is to be allocated as 30% to shareholders and 60% to policyholders and the balance is to be carried forward.

On the basis of the above figures prepare

(a) a Revenue Account

(b) a Valuation Balance Sheet and also show the distribution of surplus. 10

Or

Explain the treatment of the following items in relation to Life Insurance Company :

(i) Life Fund

(ii) Bonus in reduction of premium

(iii) Commission on re-insurance ceded.

$4+3+3=10$

6. On 1.1.2017, Mr. P. K. Das purchased 1,000 equity shares of Rs. 100 each in Reliance Ltd. @ Rs. 120 each from a broker who charged 2% brokerage. He paid Rs. 600 for stamp duty. On 25.11.2017, bonus was declared in the ratio of 1 : 2. On 31.12.2017, Mr. P.K. Das sold bonus shares through a broker at Rs. 94 per share who charged 1% as brokerage.

Prepare an Investment Account in the books of Mr. P. K. Das for the year ending 31.12.2017 assuming that Mr. P. K. Das holds the shares as current assets. 10

Or

Describe the power of Comptroller and Auditor General of India in the context of Government Accounting. 10

7. On July 1st, 2017 the godown of Paban Ltd. was destroyed by fire. The records of the company revealed the following particulars :

	Rs.
Stock on 1.1.2016	95,000
Stock on 31.12.2016	80,000
Purchases during 2016	3,10,000
Sales during 2016	4,00,000
Purchases from 1.1.2017 to the date of fire Rs. 75,000, sales from 1.1.2017 to the date of fire Rs. 1,00,000.	

In valuing the closing stock of 2016, Rs. 1,000 was written off on certain stock whose cost was Rs. 4,800. A part of this stock was sold in 2017 at a loss of Rs. 400 whose cost was Rs. 2,400. The salvaged value was Rs. 5,000. The godown was fully insured.

You are required to calculate the amount of claim to be made to the Insurance Company. 10

Or

Explain the following terms used in insurance claims : 10

- (i) Consequential loss
- (ii) Period of indemnity
- (iii) Standing charges
- (iv) Standard turnover
- (v) Salvaged stock.