

# Advanced Accounting

## Test No. 2

Topics : Financial Statements of Insurance Companies, Internal Reconstruction

Total Marks : 35

Time: 2 Hours

### Question 1

(12 Marks)

The following are the Balances of Hercules Insurance Co. Ltd. as on 31st March, 2017 :

		(Rs. in '000)
Capital		320,00
Balances of Funds as on 01.04.2016 Fire Insurance		800,00
Marine Insurance		950,00
Miscellaneous Insurance		218,65
Unclaimed Dividends		8,50
Amount Due to Other Insurance Companies		34,50
Sundry Creditors		72,50
Deposit and Suspense Account (Cr.)		22,80
Profit and Loss Account (Cr.)		80,40
Agents Balances (Dr.)		135,00
Interest accrued but not due (Dr.)		22,50
Due from other Insurance Companies		64,50
Cash in Hand		3,50
Balance in Current Account with Bank		74,80
Furniture and Futures WDV (cost 100,00)		58,00
Stationery Stock		1,40
Expenses of Management Fire Insurance	280,00	
Marine Insurance	168,00	
Miscellaneous Insurance	40,00	
Others	30,00	518,00
Outstanding premium		82,00
Donation Paid (No 80G Benefit)		10,00
Transfer Fees		1,00
Reserve for Bad Debts		11,70
Income Tax Paid		120,00
Mortgage Loan (Dr.)		975,00
Sundry Debtors		25,00
Government Securities Deposited with RBI		37,00
Government Securities		1020,00
Debentures		465,50
Equity Shares of Joint Stock Companies		225,00
Claims Less Re-insurance		

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Fire	450,00	
Marine	358,90	
Miscellaneous	68,00	876,90
Premium Less Re-insurance		
Fire	1762,50	
Marine	1022,50	
Miscellaneous	262,25	3047,25
Interest and Dividends Received on Investments (Net)		46,80
Tax Deducted at Source		11,70
Commission		
Fire	500,00	
Marine	350,00	
Miscellaneous	80,00	930,00
You are required to make the following provisions		
Depreciation on Furniture—10% of Original Cost		
Impairment on investments of Joint Stock Companies Shares		
10,00		
Transfer to General Reserve		10,00
Outstanding claims as on 31.3.2012		
Fire	200,00	
Marine	50,00	
Miscellaneous	32,50	

Provision for tax @ 50%. Proposed dividends @20%. Provision for the unexpired risks is to be made as follows:

- On Marine Policies 100% Premium less reinsurance.
- On Other Policies 50% Premium less reinsurance.

**You are required to prepare the revenue and profit and loss account for the year ended 31.3.2017 of the company.**

**Question 2**

**(16 Marks)**

**Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.2017:**

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised and issued capital:		Building at cost	
12,000, 7% Preference shares of ` 50 each (Note: Preference dividend is in arrear for five years)	6,00,000	less depreciation	4,00,000
15,000 Equity shares of ` 50 each	7,50,000	Plant at cost less depreciation	2,68,000
	13,50,000		
Loan	5,73,000		
Trade payables	2,07,000	Trademarks and goodwill at cost	3,18,000
Other liabilities	35,000		

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		Inventory	4,00,000
		Trade receivables	3,28,000
		Profit and loss A/c	4,51,000
	<b>21,65,000</b>		<b>21,65,000</b>

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.
- The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.
- Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.
- The directors have agreed to subscribe in cash for 40,000, new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.
- Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.
- The equity share capital cancelled is to be applied:
  - to write off the debit balance in the profit and loss A/c; and
  - to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.

### Question 3

(4 Marks)

#### a) Write Short Note On: (2 Marks)

- Principle of Indemnity.
- Co-insurance.

#### b) Fill in the Blanks: (2 Marks)

- In Marine Insurance Business, ..... percentage of net premium income is carried forward as provision for and the balance is transferred to unexpired risks reserve.
- The accumulated losses under the scheme of Internal Reconstruction are written off against ..... Account.

### Question 4

(3 Marks)

Janani Assurance Co. Ltd. received Rs. 5,90,000 as premium on new policies and Rs. 1,20,000 as renewal premium. The company received Rs. 90,000 towards reinsurance accepted and paid Rs. 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?