

INTERMEDIATE EXAMINATION – GROUP - I
(SYLLABUS- 2008)

SUGGESTED ANSWERS TO QUESTIONS
December - 2008

IP - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks :100

Question : 1

- (a) Distinguish between shares and stocks.
- (b) Match the following items shown below :
- | | |
|-----------------------|-------------------------|
| I Cash Reserve | I Electric Supply Co. |
| II Clear Profit | II Construction Company |
| III Escalation clause | III Banking Company |
- (c) Choose the correct answer :
The amortisation of amount of software commences from the date when it is
- (i) available for use
 - (ii) put to use
 - (iii) developed upto 75%
- (d) Match the following :
- | | |
|------------|--|
| I AS – 1 | I Contingencies and events occurring after the Balance Sheet date. |
| II AS – 3 | II Accounting for Fixed Assets. |
| III AS – 4 | III Disclosure of Accounting policies. |
| IV AS – 10 | IV Cash flow statement. |
- (e) What is meant by Reversionary Bonus ?
- (f) A non-profit organization has furnished the following data in connection with finalisation of accounts for the year ended 31st March, 2008 :
- | | Rs. |
|---|--------|
| (i) Membership subscriptions received as per books | 57,000 |
| (ii) Subscription in arrear for 2007-08 | 1,400 |
| (iii) Contribution to indoor games section included in item no. (i) above | 2,000 |
| (iv) Advance receipt of subscriptions (for 2008-09) | 480 |
| (v) Subscription outstanding for 2006-07 now received | 3,000 |

The amount of subscription to be taken as income for 2007-08 is
A : Rs. 57,000. B : Rs. 51,520. C : Rs. 55,000. D : Rs. 52,920. Select the correct one.

policyholders or it can be paid on maturity of the policy, together with the policy amount. Bonus paid at the end alongwith the policy amount is called reversionary bonus.

			Rs.
(f)	Subscriptions as per books		57,000
	Less : Paid for indoor games being capital items	2,000	
	Last year subscription received	3,000	
	Next year subscription received	<u>480</u>	5,480
	Balance		51,520
	Add : Subscription receivable for the year	<u>1,400</u>	
	Total Subscription Income		<u>52,920</u>

(g) Present Share – Proposed share will give sacrifice in case of existing partners –

<u>Partner</u>	<u>Present</u>	<u>Proposed</u>	<u>Net</u>
A	7/12	13/24	1/24
B	5/12	7/24	3/24

The ratio of sacrifice is 1 : 3

goodwill will be shared in 1 : 3

Ratio as under :

$$A = 96,000 \times \frac{1}{4} = \text{Rs. } 24,000$$

$$B = 96,000 \times \frac{3}{4} = \text{Rs. } 72,000$$

(h)(iv) Immediately after the payment of last instalment.

Question : 2

(a) From the following information relating to ND Ltd., prepare a Balance Sheet as on 31.12.2007.

Current Ratio - 2

Fixed Assets/shareholders' net worth - .60

Reserve & Surplus/share capital - .25

Average Debt collection period – 2 months

G. P. Ratio - 25%

Cost of sales /closing stock – 9 times

Net working capital – Rs. 4,00,000

Liquid Ratio - 1.5

(b) Mention any five purposes for which share premium account can be utilized.

ANSWER TO Q2

$$(a) \text{ Current Ratio} = \frac{CA}{CL} = 2$$

$$\text{or, } CA = 2CL$$

$$\text{Net W/c} = CA - CL = 4,00,000$$

$$\text{or, } 2CL - CL = 4,00,000$$

Suggested Answers to Questions (Syllabus- 2008)– December 2008

or, CL = Rs. 4,00,000

CA = Rs. 8,00,000

Liquid Ratio = $\frac{CA - Stock}{CL} = 1.5$

or, $\frac{8,00,000 - Stock}{4,00,000} = 1.5$

or, Stock = Rs. 2,00,000

Cost of Sales = 9

Closing stock

or, Cost of Sales = 9 x 2,00,000 = Rs. 18,00,000

Gross Profit Ratio = 25%

$\frac{\text{Cost of Sales}}{\text{Sales}} = 75\%$ or, Sales = $\frac{18,00,000}{75\%} = \text{Rs. } 24,00,000$

Average Debt Collection period = 2 months = 6 times

or, Sales / Debtors = 6 , or Debtors = 24,00,000 / 6 = Rs. 4,00,000

Fixed Assets to Net Worth = .60 or, FA / Net Worth = .60

or, WC / Net Worth = 1 - .60 = .40

or, Net Worth = $\frac{4,00,000}{.40} = 10,00,000$

Fixed Assets = Rs. 6,00,000

$\frac{\text{Reserve \& Surplus}}{\text{Share Capital}} = .25 / 1$

Reserve & Surplus + Share Capital = 1 + .25
= 1.25

Reserve & Surplus = 10,00,000 x .25 / 1.25 = Rs. 2,00,000

Share Capital = Rs. 8,00,000

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share Capital	8,00,000	Fixed Assets	6,00,000
Reserve & Surplus	2,00,000	Current Assets	8,00,000
Current Liabilities	4,00,000		
	14,00,000		14,00,000

(b) As per Sec. 78 of the Companies Act, 1956 the share premium account can be utilized for the following purposes :

- (i) For the issue of fully paid bonus shares to the members of the company.
- (ii) For writing off preliminary expenses of the company.
- (iii) For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company and
- (iv) For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

Question : 3

- (a) Kanpur Electric Supply Company rebuild and reequipped one of their plant at a cost of Rs. 80,00,000. The old plant thus, superceded, cost Rs. 30,00,000. The capacity of new plant is thrice of the old plant. Rs.1,00,000 was realised from sale of old materials. Four old motors valued at Rs. 2,00,000 salvaged from old plant, were used in the construction. The cost of labour and material was respectively 20% and 25% lower than now.

The proportion of labour to material in the plant then and now is 2 : 1. Show the journal entries for recording the above transactions if accounts are maintained under double entry system.

- (b) Mention any five areas in which different accounting policies may be adopted by different enterprises.

ANSWER TO Q3

(a) Plant A/c	Dr.	41,66,667	
Replacement A/c	Dr.	38,33,333	
To Bank A/c			80,00,000
Plant A/c	Dr.	2,00,000	
To Replacement A/c			2,00,000
Bank A/c	Dr.	1,00,000	
To Replacement A/c			1,00,000
Revenue A/c	Dr.	35,33,333	
To Replacement A/c			35,33,333

Amount to be capitalized :	Rs.	Amount to be charged to revenue :	Rs.
Cost of new plant	80,00,000	Estimated Replacement cost	38,33,333
Add : Value of material from old plant	2,00,000	Less : Sale of old materials	1,00,000
	82,00,000		37,33,333
Less : Estimated current cost of replacing new plant	38,33,333	Less : Value of material used in new plant	2,00,000
	43,66,667		35,33,333

Cash expenditure 43,66,667 – 2,00,000 = 41,66,667.

Estimated Current Cost of replacing old plant :-

Element of Cost	Ratio	Cost of existing plant	Increased % of cost	Current Cost (Rs.)
Material	2/3	20,00,000	25%	25,00,000
Labour	1/3	10,00,000	33 ^{1/3} %	13,33,333
		30,00,000		38,33,333

(b) Areas involving different accounting policies by different enterprises are :

- (i) Methods of depreciation, depletion and amortization.
- (ii) Treatment of expenditure during construction.
- (iii) Treatment of Foreign Currency conversion/translation, valuation of inventories.
- (iv) Treatment of Intangible assets.
- (v) Valuation of investment.
- (vi) Treatment of retirement benefits.
- (vii) Recognition of profit on long term contracts / valuation of fixed assets.
- (viii) Treatment of contingent liabilities.

Question : 4

(a) Suchandra, Ashmita and Kasturi were running partnership business sharing Profit and Losses in 2 : 2 : 1 ratio. Their Balance Sheet as on 31.03.2008 stood as following :-

(Rs. in 000's)

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Fixed Capital :			Fixed Assets		920.00
Suchandra	690.00		Investment		115.00
Ashmita	460.00		Current Assets :		
Kasturi	230.00	1,380.00	Stock	230.00	
Current Account :			Debtors	632.50	
Suchandra	138.00		Cash at Bank	287.50	1,150.00
Kasturi	92.00	230.00			
Unsecured Loan		230.00			
Current Liabilities		345.00			
		2,185.00			2,185.00

On 1.4.2008, they agreed to form new company Tata (P) Ltd. with Ashmita and Kasturi each taking up 460 equity share of Rs. 10 each, which shall take over the firm as going concern including Goodwill, but excluding cash and bank balance.

The following are also agreed upon :

- (a) Goodwill will be valued at 3 years purchase of super profit.
- (b) The actual profit for the purpose of Goodwill valuation will be Rs. 4,60,000.
- (c) The normal rate of return will be 18% p.a. on Fixed Capital.
- (d) All other assets and liabilities will be taken at Book value.
- (e) Ashmita and Kasturi are to acquire interest in the new company at the ratio 3 : 2.
- (f) The purchase consideration will be payable partly in shares of Rs. 10 each and partly in cash. Payment in cash given to meet the requirement to discharge Suchandra, who has agreed to retire.
- (g) Realisation expenses amounted to Rs. 1,17,300.

You are required to close the books of the firm by passing necessary journal entries.

(b) Write short notes on treatment of abnormal losses in Branch Account.

ANSWER TO Q4

(a) Realisation A/c	Dr.	26,49,600	
To Fixed Assets A/c			9,20,000
To Investment A/c			1,15,000
To Stock A/c			2,30,000
To Sundry Debtors A/c			6,32,000
To Bank A/c (Realisation Exp.)			1,17,300
To Goodwill A/c			6,34,800
Unsecured Loan A/c	Dr.	2,30,000	
Current Liabilities A/c	Dr.	3,45,000	
To Realisation A/c			5,75,000
Suchandra Capital A/c	Dr.	46,920	
Ashmita Capital A/c	Dr.	46,920	
Kasturi Capital A/c	Dr.	23,460	
To Realisation A/c			1,17,300
Tata (P) Ltd. A/c	Dr.	19,57,300	
To Realisation A/c			19,57,300
Goodwill A/c	Dr.	6,34,800	
To Suchandra Capital A/c			2,53,920
To Ashmita Capital A/c			2,53,920
To Kasturi Capital A/c			1,26,960
Suchandra Current A/c	Dr.	1,38,000	
Kasturi Current A/c	Dr.	92,000	
To Suchandra Capital A/c			1,38,000
To Kasturi Capital A/c			92,000
Suchandra Capital A/c	Dr.	10,35,000	
To Bank A/c			10,35,000
Ashmita Capital A/c	Dr.	11,500	
To Kasturi Capital A/c			11,500
(Amount payable by Kasturi to Ashmita in order to make their claim in New co as 3 : 2)			

Bank A/c	Dr.	8,64,800	
(1,17,300 + 10,35,000 – 2,87,500)			
Shares in Tata (P) Ltd. A/c	Dr.	10,92,500	
To Tata (P) Ltd. A/c			19,57,300
Ashmita Capital A/c	Dr.	6,55,500	
Kasturi Capital A/c	Dr.	4,37,000	
To Shares in Tata (P) Ltd.			10,92,000

Working Notes :1) Ashmita Capital A/c

	4,60,000
46,920	2,53,920
11,500*	
<hr/>	<hr/>
58,420	7,13,920
Balance	6,55,500

Kasturi Capital A/c

	2,30,000
23,460	1,26,960
	92,000
	11,500*
<hr/>	<hr/>
23,460	4,60,460
Balance	4,37,000

* Balancing figure payable by Ashmita to Kasturi to acquire interest in the new company at the ratio 3 : 2 between Ashmita and Kasturi.

2) Computation of Goodwill

Fixed Capital of the firm $13,80,000 \times 18\% = \text{Rs. } 2,48,400$

Average Profit Rs. 4,60,000

(-) Normal Return Rs. 2,48,400

 Super Profit Rs. 2,11,600

Goodwill = $2,11,600 \times 3 = \text{Rs. } 6,34,800$

Partners' Share of Goodwill :-

Suchandra $6,34,800 \times \frac{2}{5} = 2,53,920$

Ashmita $6,34,800 \times \frac{2}{5} = 2,53,920$

Kasturi $6,34,800 \times \frac{1}{5} = 1,26,960$

3) Calculation of purchase consideration

Fixed Assets	9,20,000
Investments	1,15,000
Stock	2,30,000
Debtors	6,32,500
Goodwill	<u>6,34,800</u>
	25,32,300
Less : Unsecured Loan	2,30,000
Current Liabilities	<u>3,45,000</u>
	<u>19,57,300</u>

(b) Treatment of abnormal losses in branch account.

Due to loss of goods in transit or theft and pilferages at branch, abnormal losses may arise. In such cases the branch stock account must be credited with such abnormal losses. This is necessary to find out stock discrepancies for other reasons. The loading on abnormal losses is to be debited to Branch Adjustment account and the cost of goods to Profit and Loss Account.

Question : 5

(a) Following balances have been extracted from the books of an electricity company at the end of 2007 :

	(Figures in '000)
Share Capital	1,00,00
Reserve fund (investment in 4.5% Govt. securities at par)	50,00
Contingencies reserve investment in 5% State Loan	10,00
8% debenture	20,00
Loan from State Electricity Board	40,00
Development Reserve	10,00
Fixed Assets	2,00,00
Depreciation reserve on fixed assets	50,00
Consumer deposit	55,00
Amount contributed by consumer for fixed assets	1,00
Intangible assets	5,00
Tariffs and dividend control reserve	5,00
Current Assets (monthly average)	20,00

The company earns a profit of Rs. 8,50,000 (after tax) in 2007. Show how the profit is to be dealt with by the company, assuming bank rate is 5%.

(b) Distinguish between Statutory Reserve and Cash Reserve in respect of Banking Companies.

ANSWER TO Q5

(a)1. <u>Computation of capital base</u>		(Rs. in 000')
Fixed Assets (200 – 1)	19900	
Intangible assets	500	
Contingency Reserve Investment	1000	
Current Assets (Monthly Average)	<u>2000</u>	23400
Less :		
8% Debenture	2000	
Tariff and Dividend Control Reserve	500	
Depreciation on fixed assets	5000	
Consumer Deposit	5500	
Development Reserve	1000	
Loan from State Electricity Board	<u>4000</u>	<u>18000</u>
		<u>5400</u>
Capital Base		

2. Computation of Reasonable Return (RR)

	Rs.
(5 + 2)% on capital base in 54,00,000	3,78,000
0.5% on Debenture (20,00,000 x .5%)	10,000
0.5% on Development Reserve (10,00,000 x 0.5%)	5,000
0.5% on Loan from State Electricity Board (40,00,000 x .5%)	20,000
Income from Reserve Fund other than contingency reserve investment (50,00,000 x 4.5%)	2,25,000
	6,38,000

	Rs.	
3. <u>Surplus</u> :		
Clear Profit	8,50,000	
Less : RR	6,38,000	
	2,12,000	

4. Disposal of Surplus

Transfer to consumer rebate reserve :-

Surplus	2,12,000	
Less : 20% of RR (6,38,000 x 20%)	1,27,600	
	84,400	

To be kept by the company

Being lower of the two.

i) 1/3 rd of surplus (2,12,000 x 1/3)	70,667	
ii) 5% of RR (6,38,000 x 5%)	31,900	31,900

Transfer to Consumer Rebate Reserve and Tariff & Dividend Control Reserve

Balance Profit (2,12,000 – 84,400 – 31,900) = 95,700

50% of the balance profit to consumer rebate reserve = 95,700 x 50% = Rs. 47,875

50% of the balance profit to tariff and dividend control reserve = 95,700 x 50%
= Rs. 47,875

(b) Statutory Reserve

Banking companies incorporated in India shall create a reserve fund and transfer to it atleast 20% of its annual profit as disclosed in the profit and loss account prepared Under Sec. 29 and before any dividend is declared.

Where a banking company appropriates any sum or sums from the Reserve Fund or the Share Premium Account, it shall report the fact to the Reserve Bank explaining the circumstances relating to such appropriations within 21 days from the date of such appropriation.

Cash Reserve

Every banking company not being a scheduled bank, has to maintain a Cash Reserve (CRR) of atleast a percentage of the total of its demand and time liabilities in India, as on last Friday of the second preceding fortnight, as specified by Reserve Bank of India, from time to time.

Cash Reserve can be maintained with itself or by way of a balance in the Current Account with Reserve Bank or by way of net balance in current accounts or in one or more of the aforesaid methods.

Question : 6

- (a) The income and expenditure account of an association for the year ended 31st March, 2008 is as under :

		Rs.			Rs.
To	Salaries	1,20,000	By	Subscription	1,70,000
	Printing and Stationery	6,000		Entrance fee	4,000
	Telephone	1,500		Contribution for dinner	36,000
	Postage	500			
	General Expenses	12,000			
	Interest and bank charges	5,500			
	Audit fees	2,500			
	Annual dinner expenses	25,000			
	Depreciation	7,000			
	Surplus	30,000			
		<u>2,10,000</u>			<u>2,10,000</u>

The aforesaid income and expenditure account has been prepared after the following adjustments :

	Rs.
Subscription outstanding as on 31 st March, 2007	16,000
Subscription outstanding on 31 st March, 2008	18,000
Subscription received in advance as on 31 st March, 2007	13,000
Subscription received in advance as on 31 st March, 2008	8,400
Salaries outstanding as on 31 st March, 2007	6,000
Salaries outstanding as on 31 st March, 2008	8,000
Audit fees for 2006-2007 paid during 2007-2008	2,000
Audit fee for 2007-2008 not paid	2,500
The building owned by the association since 1990 costs	1,90,000
Equipment as on 31 st March, 2007 valued at	52,000
At the end of the year after depreciation of Rs. 7,000, equipment amounted to	63,000
In 2006-2007, the association raised a bank loan, which is still not paid	30,000
Cash in hand as on 31 st March, 2008	28,500

You are required to prepare Receipts and Payments Account of the association for the year ended 31st March, 2008 and the Balance Sheet as at that date.

- (b) Distinguish between 'Receipts and Payments Account' and 'Income and Expenditure Account'.

ANSWERTO Q6(a) Subscription Account for the year ended 31st March, 2008

	Rs.		Rs.
Subscription receivable 2006-07	16000	Bank (balancing figure)	163400
Subscription received in advance 2008-09	8400	Subscription received in advance 2006-07	13000
Income & Expenditure A/c	170000	Subscription receivable 2007-08	18000
	194400		194400

Salaries Account

	Rs.		Rs.
Bank (balancing figure)	118000	Income & Expenditure A/c	120000
Salary outstanding 2007-08	8000	Salary outstanding 2006-07	6000
	126000		126000

Equipments Account

	Rs.		Rs.
Balance b/d	52000	Depreciation	7000
Bank (balancing figure)	18000	Balance c/d	63000
	70000		70000

Balance Sheet as at 31st March, 2007

<u>Liabilities</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
Capital Fund (balancing figure)	220600	Building	190000
Bank Loan	30000	Equipments	52000
Creditors : Salaries	6000	Cash in hand	13600
Audit Fees	2000	Subscription Receivable	16000
Subscription recd. in advance	13000		
	271600		271600

Receipts & Payments Account for the year ended 31st March, 2008

	Rs.		Rs.
Balance b/d	13600	Salaries	118000
Subscription	163400	Printing & Stationery	6000
Entrance Fees	4000	Postage	500
Annual Dinner Contribution	36000	Telephone	1500
		General Expenses	12000
		Audit Fees	2000
		Dinner Expenses	25000
		Interest	5500
		Equipments	18000
		Balance c/d	28500
	217000		217000

Equipments :	Opening Balance	52000
	Additions	<u>18000</u>
	Total	70000
	Depreciation	<u>7000</u>
	Closing Balance	<u>63000</u>

Balance Sheet as at 31st March, 2008

<u>Liabilities</u>		<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
Capital Fund	220600		Building	190000
Add : Surplus	<u>30000</u>	250600	Equipments	63000
Bank Loan		30000	Cash in hand	28500
Creditors : Salaries		8000	Subscription Receivable	18000
Audit Fees		2500		
Subscription recd. in advance		8400		
		<u>299500</u>		<u>299500</u>

(b) Distinction between Receipts & Payments Account and Income & Expenditure Account :
Receipts & Payments Account :

1. It resembles cash book
2. Income is debited and expenditure credited
3. Amounts relating to earlier or future periods are included
4. It records capital and revenue items
5. It does not include the notional losses and non cash items
6. Balance is carried forward to the next year.

Income & Expenditure Account :

1. It resembles Profit & Loss Account
2. Income is credited and expenditure is debited
3. Transactions recorded on accrual basis
4. It records only items of revenue
5. It considers notional losses and non-cash items also
6. Its closing balance is transferred to the Balance Sheet as a surplus over expenditure or a deficit over income.

Question : 7

(a) The summarized balance sheet of A Co. Ltd. as on 30th June, 2008 is as under :

Share Capital :

10% redeemable preference shares of Rs. 100 each	10,00,000
Equity shares of Rs. 10 each	15,00,000
12% Debentures	7,00,000
Revenue reserves	40,00,000
Total	<u>72,00,000</u>
Represented by Net Assets	72,00,000

The redeemable preference shares were due for redemption on 31st August, 2008 and were redeemed and duly paid off. The company is permitted to redeem the debentures at any time at a premium of 10% and did so on 30th September, 2008.

The company was in a reasonably liquid position but to assist in providing funds for redemption of the redeemable preference shares, a rights issue of equity shares was made. 20000 equity shares were issued for cash at a premium of Rs. 20 per share, Rs. 12.50 payable on application on 15th July, 2008 and the balance on allotment on 31st July, 2008. All cash due was received on the due dates.

During the three months ended 30th September, 2008, the company traded at a profit of Rs. 2,50,000.

Required :

- (i) Pass journal entries (including cash transactions) showing the relevant entries in respect of the above.
 - (ii) Prepare summarized balance sheet of the company as on 30th September, 2008.
- (b) State the prerequisites to be complied with by a company for issue of shares at a discount.

ANSWER TO Q7

- (a) 20000 equity shares of Rs.10 issued at a premium of Rs. 20. Total value per share is Rs. 30. Application money is Rs. 12.50 and Allotment money is Rs. 17.50.

Application 20000 x 12.50	Rs. 250000	
Allotment 20000 x 17.50	Rs. 350000	
Bank	Dr. 250000	
To Application & Allotment		250000
Bank	Dr. 350000	
To Application & Allotment		350000
Application & Allotment	Dr. 600000	
To Equity Share Capital A/c		200000
To Share Premium A/c		400000
10% Preference Shares A/c	Dr. 1000000	
To Preference Shareholders A/c		1000000
Preference Shareholders A/c	Dr. 1000000	
To Bank A/c		1000000
Revenue Reserves	Dr. 800000	
To Capital Redemption Fund		800000

(Rs. 1000000 of Preference shares redeemed with Rs. 200000 of equity capital and hence balance is met from reserves)

Debentures A/c	Dr.	700000	
Share Premium A/c	Dr.	70000	
To Debenture-holders A/c			770000
Debenture-holders A/c	Dr.	770000	
To Bank			770000
Net Assets	Dr.	250000	
To Revenue Reserves			250000
(Profits earned and invested in assets)			

Revised Balance Sheet :

Share Capital :

170000 Equity shares of Rs. 10 each	1700000
Share Premium A/c	330000
Reserves	3450000
Capital Redemption Reserve	<u>800000</u>
Total	<u>6280000</u>
Assets	<u>6280000</u>

(b) Prerequisites for issue of shares at a discount :

- (i) Issue should be authorised by a resolution of general meeting and should be approved by Central Government.
- (ii) The resolution should specify maximum rate of discount not exceeding 10%.
- (iii) One year must have elapsed after the company was allowed to commence business.
- (iv) Issue must take place within two months after the sanction by court.
- (v) Every prospectus relating to issue and balance sheet after the issue should contain the particulars of the discount allowed and so much of discount not written off

Question : 8

Write notes on :-

- (a) Re-insurance ;
- (b) Double Accounting System ;
- (c) Bonus shares ;
- (d) Segment reporting ;
- (e) Materiality concept.

ANSWER TO Q8(a) **Re-insurance**

If an insurer finds that a particular risk is too heavy for his capacity to bear, he may re-insure a part of the risk with another insurer. Such an arrangement between two insurers is called reinsurance. The first insurer, in that event, parts with a proportionate share of the premium

with the second insurer. On maturity of the claim, both the insurers share the claim, in agreed ratio.

(b) **Double Accounting System**

Under this system separate accounts in respect of capital and revenue receipts and payments are prepared. Any deficiency in capital or revenue receipt is compared with the expenditure incurred. The balance sheet is divided into two segments to show receipts and expenditure on capital account and general balance sheet.

(c) **Bonus shares**

Bonus shares are issued by a company when it desires to pay dividends by issue of shares. Issue of bonus shares does not affect the liquidity of the company. It amounts to capitalization of reserves and increases the credit worthiness of the company. Bonus shares are issued out of free reserves.

(d) **Segment reporting**

Segment reporting enables the users to assess the underlying risks and returns of the enterprise. Segments may be business segments or geographical segments. Business segments may be by the nature of the products or production process. Disclosure is required in respect of segment revenue with break up of sales and results. Reconciliation should be made in respect of segment wise revenue result assets and liabilities with respect to aggregated information of the enterprise.

(e) **Materiality concept**

Materiality implies significance, substance, importance and consequence. In accounting, an item is recorded only when it is considered to be useful or important to the user of a financial statement. Rounding off the expenses is a relevant point in this regard.