Corporate accounting

Answer scheme

Section A

1. In an insurance contract, the insurer compensates the actual loss suffered by the insured or the insured cannot make profits by insuring risks. This is considered as a contract of indemnity.
2. It is the amount owed by the insurance company to the insurance agents on account of commission. It is shown in the Balance sheet under schedule 13 and if any amount owed by the agents to the insurance company is shown in schedule 12 of balance sheet.
3. Valuation Balance Sheet may be defined as a statement prepared to ascertain the excess of life assurance fund over net liability on existing policies (surplus/profit) or excess of net liability on existing policies over life assurance fund (Deficit or loss). It is prepared once in two years.
4. External reconstruction means the existing company has to be liquidated for the purpose of forming another new company which takes over the business of the existing company, which is in a bad financial position.
5. Surrender of shares means voluntary return of shares by a member to the company. It can be accepted by the company provided it is authorised by the articles of the company.
6. Reduction of share capital is the cancellation of any paid up share capital which is lost or unrepresented by available assets. It is unlawful except when sanctioned by the court because conservation of capital is one of the main principles of the company law.

Section B

1. A marine insurance policy covers the losses which are suffered when goods are moved from one place to another. The policy can be taken to cover the loss suffered by the goods being transported or to cover the vessel or vehicle in which transportation is taking place.

* **Cargo insurance**

A cargo insurance policy covers the cargo, or the goods, which are being transported from one place to another.

* **Hull insurance**

This policy covers the vessel of transportation against damages and accidents. The policy covers the hull and torso of the transportation vehicle, like a ship, as well as the different articles present in the vessel.

* **Freight insurance**

Under freight insurance, the loss of freight suffered by the vessel operator is covered. In many cases of marine transportation, the vessel operator is supposed to receive the freight amount for carriage of goods only when the goods are delivered safely to their destination. If, however, the goods are damaged in transit, the operator would lose the freight receivable. A freight insurance policy, therefore, provides compensation for the loss of freight.

* **Time policy** – this policy provides coverage up to a specified time, for instance, one year.
* **Voyage policy** – this policy provides coverage for a specific voyage. As soon as the voyage or trip comes to an end, the policy expires
* **Mixed policy** – this policy combines time policy and voyage policy and covers voyages taken between specific destinations during a specific time period.
* **Port risk policy** – this policy covers the loss suffered by the ship when it is anchored at a port
* **Floating policy** – this policy is for businesses which transport goods frequently. Under this policy the policyholder buys the policy for a lump-sum value. Nothing else is specified. When the goods are actually transported, a declaration is made for the value of goods which is deducted from the lump sum amount selected under the policy. The policy, therefore, covers multiple voyages up to the lump sum limit.
* **Fleet policy** – this policy is taken by the owner of the vessel to cover the fleet of vessels which he owns.

8. Life Insurance is a contract which ensures your life risk and also works as in an investment avenue. Whereas, General Insurance is a contract of indemnity which promises to make good your losses.

1. In Life Insurance, the sum assured along with benefits is paid either on the event of death of the policy holder or on maturity of the policy. On the contrary, in General Insurance, the amount of actual loss or claim is reimbursed on the happening of the certain event against which the policy has been issued.
2. Life Insurance is a long term contract, some policies even run till such time you are alive. On the other hand General Insurance is a short term contract, generally for one year and needs to be renewed every year on expiry.
3. Since Life Insurance is a long term contract, the premium needs to be paid throughout the term of the policy or upto the minimum premium paying term. The premium for General Insurance is payable only in case the policy is renewed after one year.
4. Through certain Life Insurance policies you can also create wealth in the long term apart from securing your life. Contrary to this, in General Insurance, the amount payable is confined to the losses suffered or the maximum cover amount of the policy. If there is no claim during a year, the premiums are not returned to the policy holder; therefore, there is no savings component attached to the General Insurance policy.
5. In case of Life Insurance, the insurable interest i.e. the individual who is taking the policy must be present at the time of contract. Whereas, in case of General Insurance, the insurable interest must be present both at the time of contract and at the time of loss.

9. Internal reconstruction of a company can be carried out in the following different ways. These are as under:

**1.** Alteration of Share Capital; and

**2.** Reduction in Share Capital

**Alteration of Share Capital:** Memorandum of Association contains capital clause of a company. Under Section 94 of the Companies Act 1956, a company, limited by shares, can alter this capital clause, if is permitted by (i) the Articles of Association of the company; and (ii) if a resolution to this effect is passed by the company in the general meeting. A company can alter share capital in any of the following ways:

**A)** The company may increase its capital by issuing new shares.

**B)** It may consolidate the whole or any part of its share capital into shares of larger amount.

**C)** It may convert shares into stock or vice versa.

**D)** It may sub-divide the whole or any part of its share capital into shares of smaller amount.

**E)** It may cancel those shares which have not been taken up and reduce its capital accordingly.

**Reduction of Capital:** Sometimes there may be a genuine necessity for the reduction of capital. This power is, given by Section 100 of the Companies Act, subject to the compliance of conditions. According to this, a company may,

(1) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up

(2) cancel any paid-up share capital which is lost or is unrepresented by any available assets;

(3) pay off any paid-up share capital which is in excess of what is required by the company. Conditions for effecting a reduction

10. Marine revenue account

Loss= 3665000

Provision for unexpired risk=7250000

11. Valuation balance sheet

Surplus=100000

Distribution of surplus to policyholders

Amount available to policyholders=157000

Amount due to policyholders=89150

12. Claim to be debited to revenue account

Amount of claim to be debited=4635000

(Add: claim intimated, accepted but not paid, claim intimated not accepted, expense on claim

Less: reinsurance claim received, claims outstanding at the beginning)

Section C

13. (Old) equity share capital Dr. 300000

To (new) equity share capital 210000

To capital reduction 90000

(old)8% preference share capital Dr. 400000

To 10% preference share capital 160000

To capital reduction 240000

8% debentures a/c Dr. 100000

To 10% debenture 70000

To capital reduction 30000

Capital reduction Dr. 360000

To goodwill 100000

To patent 80000

To preliminary expenses 50000

To P&L a/c 70000

To plant & machinery 60000

14. Revenue account

Schedule 1 premium earned=86750

Schedule 2 commission=4650

Schedule 3 operating expenses=16250

Schedule 4 benefits paid=101850

Total A=152750

Total B=20900

Total C=98100

Surplus D=2250

Balance sheet

Schedule 5 share capital=50000

Policyholders fund=1488400

Total sources of fund 1538400

Schedule 8 investment=1152500

Schedule 9 loans=332900

Schedule 10 fixed assets=20000

Schedule 11 cash and bank=3650

Schedule 12 advances and other assets=33950

Schedule 13 current liabilities=4600

Net current assets 33000

Total application of funds 1538400