



Subject: Business Finance – 2

Chapter: Unit-1 & 2

Category: Assignment 1

1. What happens to the Gross profit and Cash flow of the company for a particular financial year (whether there is an increase / decrease) in the following cases:
 - i) Property that the company possess has been revalued upwards by Rs 100 crores by the Valuer.
 - ii) There has been an interest payment of Rs 1000 crores towards Masala bond issued by the company.
 - iii) There has been an increase in inventory of Rs 500 crores which were manufactured out of raw materials available in the previous year end, ignoring any manpower and production cost.
 - iv) There was a depreciation of plant and machinery to the extent of Rs 250 crores.
 - v) It was decided to write off Rs 200 crores due to EHFL defaulting.

2.
 - i) A company's accounts should comply with various accounting concepts. Outline the cost concept and the going concern concept.
 - ii) A company has entered into an unusual transaction that is not directly covered by any accounting standard. Explain how the Board of Directors can go about selecting the appropriate accounting policy for this situation.
 - iii) The Directors of a listed company believe that if optimistic accounting policies are applied consistently, the stock market will reward the company by increasing its share price. Explain why this may not be true.

3. A newly formed country is debating whether it should mandate compliance with the International Accounting Standards. As a reputed member of the accounting profession in a neighbouring country, you have been asked for your advice.
 - i) Describe four advantages and four disadvantages of compliance with the International Accounting Standards.
 - ii) List the various sources of regulations that influence the preparation of financial statements for companies in addition to the accounting standards.
 - iii) Describe the additional information that cashflow statements provide which is not available in the Statement of Financial Position and Statement of Comprehensive Income.

4. As an account officer, you have been requested to assist ABC Ltd., a company, to prepare its annual accounts. The following information has been provided from the company's Book-keeping records:

Balances as on 31 March 2019

Administrative staff wages: 3,000

Cost of Marketing: 55,000

Bank overdraft: 18,000

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Buildings – depreciation: 40,000
 Buildings – valuation: 400,000
 Cost of inventory consumed: 350,000

Delivery vehicle running costs: 60,000
 Delivery vehicles – cost: 325,000
 Delivery vehicles – depreciation: 170,000
 Dividend paid: 45,000
 Factory running costs: 100,000
 Interest: 10,000
 Inventory at 31 March 2019: 30,000
 Land – valuation: 600,000
 Loan (repayable 2024): 145,000
 Machinery – cost: 150,000
 Machinery – depreciation: 80,000
 Manufacturing wages: 175,000
 Retained earnings: 250,000

Revaluation reserve: 180,000
 Revenue: 1,500,000
 Sales salaries: 120,000
 Share capital 200,000
 Trade payables: 50,000
 Trade receivables: 210,000

In addition to figures shown above, below information is provided:

1. A revaluation exercise was conducted on 1 April 2018. Land was revalued at 800,000 and buildings at 700,000.
2. Depreciation has still to be charged as follows:
 - Buildings – 1% of cost or valuation
 - Delivery vehicles – 20% reducing balance
 - Machinery – 10% of cost

Prepare:

- i) An Income Statement for the year ended 31 March 2019
- ii) A Statement of changes in Equity, and
- iii) A Statement of Financial Position as on 31 March 2019

5. An interior designer company "ABC Ltd." has been set up on January 1, 2019 to provide advice to high value customers. The company has taken an office on rent starting from February 1, 2019. The terms of payment for rent are as follows –

- 1) Annual payment for 12 months will be INR 15917.
- 2) First month rent payment will be INR 1000.

3) Every month rent will be increased by 5% of previous month rent on compounded basis.

ABC Ltd. List of Balances on December 31, 2019 (Amount in INR)

Account	
Laptops	35,000
Office Equipment	20,000
Office Supplies	2,000
Trade Receivables	1,500
Cash	1,000
Bills Receivables	5,000
Office Building Rent	15,917
Dividends	5000
Employees' Salaries	10,000
Office Electricity Bill	4,000
Mobile and Internet Bill	583
-	-
Unearned Fees	10,000
Share Capital	32,000
Trade Payables	3,000
Fee Revenue Earned	55,000

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In addition, the following information is not reflected in the figures above:-

1. The Laptops and Office equipment purchase date: February 1, 2019 and having 10 years useful life.
2. The inventory of supplies on December 31 is INR 1000.
3. Fee revenue of INR 2000 is due from customers.
4. Unearned fees include INR 1000 earned in December.
5. December salaries of employees total INR 4000 have not been paid.
6. The bills receivable account is a six month bill for INR 5000 given by a customer on July 1, 2017. This bill carries INR 200 as interest income for the remaining financial year which will be paid at the end of the financial year.
7. Income tax of INR 3000 is payable on December 31.
8. The company's depreciation policy uses the straight line basis, with no salvage value after the useful life of machines and equipment.

Produce a Profit and Loss account, a Statement of Retained Earnings and a Balance Sheet (Statement of Financial Position) for ABC Ltd for the year ended December 31, 2019.

6. The following entries were taken from the book of HH Insurance co Ltd, which is in Health Insurance business.

	₹		(in ₹)
Risk Reserve carried forward (as on 31st March 2022)	10,23,000	Commission on direct business	3,29,755
General reserve	49,500	Commission on reinsurance accepted	66,042
Investments	33,82,500	Outstanding Premium on direct business	24,530
Premium	29,71,686	Total expense of management for health products	4,75,142
Claims paid	6,63,097	Audit Fees	39,600
Share capital	9,90,000	Rates and Taxes	6,384
P & L Account (cr.)	82,500	Rents	74,250
Re-insurance Premium on reinsurance ceded	1,23,778	Income from investments	1,68,300
Claims recovered from re-insures	23,231	Sundry creditors	24,751
Commission on reinsurance ceded	52,818	Cash in hand and Bank balances	2,00,708

The further information are as follows:

- Expense of management includes ₹39,600 of legal expense and survey fees.
- Expense relating to claim is ₹22,000.
- Claim intimated but not paid as at 31st March 2023 is ₹1,14,400.
- Income tax is provisioned @40% and dividend distribution tax is provisioned @12%.
- Transfer to be made from Current profit to General reserve is ₹2,20,000.
- Additional reserve for Unexpired risk is @40% of the net premium income.
- The director has proposed a dividend for this year to be provisioned @36%.

Prepare the Revenue Account, Profit & Loss account and Balance sheet as at 31st March 2023 with appropriate notes wherever applicable.

7. Companies pay corporation tax on their taxable profits. The company's accounting profit has to be adjusted to get to taxable profits. What are these adjustments?
8. The following information has been obtained from bookkeeping records of a manufacturing company XYZ Ltd as at 31.03.2022:

Particulars	Amount Rs
Administrative salaries	2,700
Advertising	49,500
Bank overdraft	59,185
Accumulated factory depreciation at start of the year	10,500
Factory Valuation	350,000
Cost of inventory consumed	326,250
Delivery vehicle running costs	38,250
Delivery vehicles cost	281,250
Accumulated delivery vehicles depreciation at start of the year	168,794
Dividend due but not paid	112,500
Factory running costs	78,750
Inventory at 31 Mar 2022	27,000
Land valuation	630,000
Loan (repayable 2025)	225,000
Machinery cost	139,500
Accumulated machinery depreciation at start of the year	63,547
Manufacturing wages	146,250
Retained earnings	196,475
Revaluation reserve	180,000
Revenue	1,264,500
Sales salaries	63,000
Share capital	157,500
Trade payables(creditors)	42,750
Trade receivables(debtors)	94,500

Following additional information is available:

Land was revalued at 1,200,000 and Factory at 350,000 at the start of the year.

Depreciation for the year is charged as follows:

- 3% straight line method for the Factory.
- 7% straight line method for the Machinery.
- 14% reducing balance method for Delivery Vehicles.

Interest coverage ratio was 18.187 times at the end of the year.

Cash in hand was not in the record above but it was observed that the current ratio at the end of the year was 1.615878.

The company is not subject to taxation.

Prepare the following in the suitable format for publication for the year ended 31 March 2022 (all values can be rounded off to the nearest integer value):

- i) An income statement.
- ii) A statement of change in Equity.
- iii) A statement of financial position.

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iv) List any four items from the above information that will be included in preparation of the cash flow

statement.

9. i) What are the types of shares issued by a Company?
- ii) What is a share premium account?
- iii) Where does this share premium account reflect in company financials?
- iv) How else can share premium account be used?

10. ABC Ltd. is a new insure-tech startup based out of Bangalore. A young accountant has joined in the finance team and needs review of his work of preparing financial statements.

i) Guide him by distributing the following account heads into those having a positive impact on P&L of the Company and those having a negative impact:

- a. TV commercial fees of a famous cricketer
- b. Salary of the accountant
- c. Sale of Bitcoin purchased by the Company last year
- d. Decrease in value of owned office space
- e. Interest on loan you took from the Company in personal capacity
- f. Profit sharing agreement with a client who made loss by using your services
- g. Deferred tax liability generated by making higher tax last year, adjusted in current year
- h. Shares awarded to Company employees as perks, which will vest in 2 years
- i. Service fees from a regular client against services provided in last financial year
- j. Valuation of the Company received when participated in recent season of Shark Tank

ii) Prepare a traditional Balance Sheet for the Company parallel to the accountant for review purposes, using ONLY the following information:

- a. Profit after tax of Rs. 1 crore
- b. Dividend paid on Share capital of Rs. 100 crore with ROE of 0.5%
- c. Interest paid on a new long term Debt of Rs. 50 crore @ 5% p.a.
- d. Computer assets purchased in 2020 of Rs. 25 lac with straight line depreciation at 20% p.a.
- e. Wifi bill overdue for the last 6 months amounting to Rs. 60,000
- f. Purchase of 1,000 "Company I" shares with face value of Rs. 10 per share, currently operating in market at Rs. 500 per share
- g. As per the rent agreement, your Company had to pay 1 year of rent of Rs. 100,000 p.m. in advance while renting this place. Currently only 6 months have passed.
- h. Recent participation on Shark Tank helped create a brand image for the Company which increased valuation of the Company by Rs. 25 crore
- i. The Company had paid 1 year advanced salary to a peon as his mother had passed away recently and the peon has eloped, total loss of Rs. 15,000
- j. Before preparation of these statements, the Company had Rs. 1,49,76,95,000