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Business Finance - 2

Assignment - 2

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57 - B

Q1] (C) I, II, IV
Q2] (A) disclaimer of opinion

Q3] (C) chairman reported

Q4] (D) I, II and III

Q5] Realization concept - Income is recognised as and when it's earned. It's not necessary to wait until the customer settles his or her bill. This avoids the fluctuations reported income which might arise if everything was reported for on cash basis.

accrual concept - expenses are recognised as and when they are incurred, regardless of whether the amount has been paid. Again this avoids the random allocation of costs to periods depending on whether the bill happens to have been paid or not.

b (i) Realisation concept in health insurance company is utilised in a way that maybe the premium payments could be monthly, quarterly or half yearly depending upon the type of insurance and hence still in their records its recorded as revenue

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on the basis of number of policies sold.

(ii) whereas accrual concepts of health care insurance company is utilised in the preparing of accounts of the company, they would include underwriting, administrative expenses etc as and when the policy is sold. regardless the amount has been extracted from the premium yet.

06) Different ways in which accounts can be manupilated are:

(1) choosing accounting policy: by Choosing accounting policies which would help ~~overshaving the~~ overstating the profits made by the company.

(2) Creative accounting: It is the delibrate abuse of subjectively inhert in accounting rules to select accounting policies or make assumptions which tends to bias the figure in direction choosen by the management; misleading the ~~uses~~ users of accounts.

for eg: the charge of ~~dec~~ depreciation requires an estimate of the expected useful life of company fixed assets. By assuming a longer useful life than expected, depriciation is charged less and thereby increasing reported profits.

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Q7.

(i) Gross profit will increase and no change to cashflow.

(ii) Gross profit no change and cashflow will decrease.

(iii) Gross profit and cash flow no change

(iv) gross profit decrease and cashflow no change

(v) gross profit no change, and cashflow decreases.

Q8. Main roles of financial regulations are:

(i) Market confidence : to maintain confidence in financial system.

(ii) financial stability - contributing to the protien and enchantment of stability of financial system.

(iii) Fair and proper functioning - securing the ~~oppurun~~ ~~oppurtuni~~ degree of ~~protect~~ protection for consumers.

(iv) prevention of ~~malfunction~~ malpractices

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(ii) Financial regulators of India :
- Reserve Bank of India, (RBI)
- Securities and exchange board of India. (SEBI)
- Insurance Regulatory and Development Authority of India (IRDAI)
- Pension Fund Regulatory and Developement Authority (PFRDA)

(iii) (a) Banks - RBI
(b) superannuation Products (PFRDA)
(c) General Insurance companies (IRDAI)
(d) stock brokers (SEBI)
(e) Mutual funds (RBI)
(f) Market for listed securities (SEBI)
(g) Foreign Exchange dealers (RBI)
(h) Money changers (RBI)

Q9]
(i) cost concept - It has been presented one of the cornerstones of accounting for a very long time. Under this concept, non current assests generally appear in the statement of financial position at their original cost less depriciation to date, subject to a possible impairement write down.

Going concern concept :
It is usually assumed that a business will continue indefinitely in it's present form. This concept acts as a justification for the

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limitations imposed by the cost concept. because there is little harm in reporting historial figures for value if assets concerned are unlikely to be sold in near future.

(ii) IAS 8 states that in the absence of a specific rule to specify an appropriate accounting policy, the company should select policies on the basis that information is both relevant 4 reliable

Information is relevant if it informs decisions taken by users of financial statements and information is reliable if
(i) It provides a faithfull, representation of entity's financial portion, Performance 4 cashflows
(ii) It is free of bias
(iii) It is Prudent

If there are accounting standards that cover the treatment of similar items, the company could use those.

(iii) a) ~~Accountin~~ According to the Prudence concept, the prepares of financial statements should avoid presenting an unduly set of optimistic results.

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(b) If a company's records are showing unduly optimistic records, the shareholders and other ~~the~~ users of financial statements may be of the view that the statements are ~~most~~ not giving true & fair view hence will loose confidence in the company.

(c) They may ask for the exchange of auditor and to reaudit the statements.

(d) If the audit report is not satisfactory, the shareholders, might start selling the shares, thereby lowering the sharePrice.

Q.10

(a) Investment Bank: The primary goal is to advice businesses & governments on how to meet their financial challenges.

The main sources of fundings are: retained earnings, equity financing and government loans.

Application of funds: help global & local business with capital financing. They also engage in trading.

(b) Pension funds: Their role is to help in the development of financial markets through their replacement and complimentary role with other financial institutions, espically

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with commercial investments banks.

sources of funds: They are funded by contributions from employers and occasionally from employers.

Applications: The pension funds invest in private equity, real estate, infrastructure and securities and offer a lumpsum pay-back to investors.

(c) Life insurance company

Role: They collect contributions from many people who face the same risk to provide a safeguard in case of accident or drop in income after retirement.

sources of funds: collection of premiums from customers, retained earnings, debt capital, equity capital.

Applications

investing in ~~mom~~ market, they help pay for final expenses like cremation costs, estate settlements costs, etc

12.

(i)

(a) The underlying contracts (liability) fall due outside the accounting period and are uncertain in size.

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b) Premature transfer of "profit's" to shareholders may endanger ~~that~~ the financial stability of the company & the ability to meet future liablities.

(ii) major components of reserves for a general insurance company's technical account are : prepayments of premiums, reserves against outstanding claims and acturial reserves against outstanding risks in respect of life insurance policies including reserves. for with profit policies which add values on maturity

Q.13

ADVANTAGES.	DISADVANTAGES
→ They eliminate or reduce variations b/w companies	The sets of rules contain in them may not be suitable for every company.
→ The discussion process leading up to a standard being issued & focusses attention on particular areas of ~~to~~ debate	→ standard setting may be entirely objective.
→ They oblige companies to disclose more info than that of national law.	→ Standards often allow more than ~~al~~ one alternative treatment which negotes the attempt to ensure conforming b/w companies

→ They allow some degree of flexibility in a way that ~~legislature~~ legislature often does not.	→ some standards are so general as to be meaningless while others are far too detailed.

13 Various sources of regulations that influence the preparation of financial statements are:

→ International Financial reporting standard
→ principles, concepts and convection
→ National company laws.
→ Good practices by leading companies.
→ stock exchange requirements
→ other lesistons.

(c) The statements of P & L and statements of financial position donot provide a sufficient insight into movements in cash balances. This is unfortunate because. This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid. Hence the cashflow statement is important

14. (i)

Statement of profit or loss

	(1000's)	Notes
Revenue	1500	
- cost of sales	(647)	(i)
gross profit	853	
- Adminstrative exp.	(3)	(ii)
- Distributive cost	(266)	(iii)
Net profit	584	
- Financial exp.	(10)	
profit before tax	574	
Tax	( )	
profit for the year	574	

Notes:

(1) cost of sales:

depriciation of building : '7'

cost of inventory consumed : 350

depriciation of machinery : 15

factory running cost : 100

Manufacturing cost : 175

total : 647

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(II) Administrative expenses

wages 3

(III) Distribution cost

cost of market	: ~~55~~	55
Delivery vehicle depriciation	: ~~31~~	31
Sales salary	~~120~~	120
delivery running cost		60
total		266

(iii) Statement of changes in equity

	Share capital	Retail earnings	Other reserves
	200		
		250	180
		574	
		45	
total	200	779	340 + 200
			720

(III) Statement of financial Position

Assets	($1000)
Non current Assets	1749
Current Assets	240
Total Assets	$\boxed{1912}$

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Equity.

Share capital	200
Reserves	720
Retained Earnings	779
Total equity	1699

Liabities

Non current liability :

loan payable :	145

Current Liability.

Bank overdraft	18
Trade payable	50
Total Liability	213

Notes

(i) Non current Assets :

→ Building	700
depriciat^{n}	(7)
→ Delivery vehicle	325
depriciation	(201)
→ land	800
→ Machinery	150
depriciation	(95)

Total $\boxed{1672}$

(ii) Current Assets	
Trade receivable	210
Inventory	30
Total	$\boxed{240}$