Assignment - 2
Business - Finance

1) B. All of the above
2) C. an advance opinion
3) B. Statement of change in equity
4) C. All of the above

5) Realization concept:

(a) The realization principle is the concept that revenue can only be recognized once the underlying goods or services associated with the revenue have been delivered or rendered. Thus, revenue can only be recognized after it has been earned.
On the other hand, the general concept of accrual accounting states that economic events are recognized by matching revenue to expenses at the time when the transaction occurs rather than when payment is made or received.

(b) The health insurance company would record premium ~~fluctuations~~ payments expected either quarterly or monthly on a specific date to avoid fluctuations, using the realisation concept.
They would account for their sales according to the financial year, thus recording sales between April of the first year to the March of the next year only at the end of one financial year.

6) Manipulation using accounts:
- inappropriate depreciation of tangible assets
- inappropriate ammortization of intangible assets.

- inappropriate valuation of inventories.
- inappropriate valuation of future liabilities.
- ommitting contingent liabilities.
- prebooking anticipated sales revenue
- unwanted revaluation of tangible assets
- understanding profits to save on tax.

7. (i) Gross Profit ⟶ No change
Cash flow ⟶ No change

(ii) Gross Profit ⟶ No change
Cash Flow ⟶ Decreases

(iii) Gross Profit ⟶ No change
Cash flow ⟶ No change

(iv) Gross Profit ⟶ decreases
Cash flow ⟶ No change

(v) Gross Profit ⟶ No change
Cash flow ⟶ No change

8 (i) Roles of financial regulations:-
- Market confidence
- financial stability
- Consumer Protection

(ii) Regulatory bodies of Indian Financial System -
a) SEBI
b) PFRDA
c) IRDAI

d) RBI

iii) a) RBI
b) PFRDA
c) IRDAI
d) SEBI
e) SEBI
f) SEBI
g) RBI
h) RBI

9 i) The cost concept has been presented as one of the corner-stones of accounting for a very long time. Under that concept, non-current assets generally appear in the statement of financial position at their original cost less depreciation to date, subject to a possible impairment write-down.

Growing concern concept means the enterprise will continue in operational existence for the forseeable future. This only sets as a justification for the limitations imposed by the cost concept because there is little harm in reporting historical figures for value if the assets concerned are unlikely to be sold in the immediate future.

ii) The general financial accounting standards are said to give a fair & true values, therefore they should be considered. Eventhough the standards are not strictly adhered with, directors must ensure it is consistent with good accounting practice. Past events ~~cost~~ can be refered to as well that may be similar.

iii). The optimism of accounting choices are quite visible to analysts & market participants.

iv) • The market examines information carefully to prevent mis-priced securities.

• Instead of amounting policies, the ~~conservatism~~ conservativeness of a company's policy also reflects its ability to present better results in volatile times which work for its stock price.

10 (i) Investment Banks –

• Roles → ~~help co~~ give companies financial consultancy.

• Source of funds – ~~Fees~~ fees for advice, underwriting commission, fund management, Eurobond dealing etc.

• Application funds – Invests in bills & provides loans

(ii) Pension scheme –

• Role → Channel savings from retirement into long term capital markets.

• Source of funds – Contributions from employers & employees

• Applications of funds – funds invested in equities & long term loan securities & company debt, overseas securities too.

(iii) Life Insurance company –

• Role – ~~Providing~~ Collect mortality & investment risk values & invest it in long term capital market.

• Sources of funds – Premium collected

• Application of funds – Investment in diversified mixture of equity, oversea securities, fixed securities etc.

11 • They may bring difficulty on comparison due to different regulatory bodies.
• There may be subjectivity in few sections of accounts
• The choice of accounting formats can mean that different firms can produce sets of account that are difficult to compare
• Some firms show more detailed split of items ~~than~~ other firms.

12 i) Difficulties in preparing an insurance company's accounts:-
• The underlying contracts (liabilities) fall due outside the accounting period & are uncertain in time & size.
• Premature transfer of 'profit' to shareholders may endanger the financial liability of the company & ability to meet future liabilities.

ii) Components of Insurance company's reserves:
• Unexpected risk reserve - It is to cover the claims & expenses that are expected ~~to~~ to ~~occ~~ occur from an unexpired period of cover.
• Outstanding claim reserves - It is to cover the claims & expenses for all outstanding claims that have not yet been settled.

13 i) Advantages -
• They eliminate or atleast reduce, variations between companies in the way they prepare accounts.
• The discussion process leading up to a standard being issued focuses attention on particular areas from debate about accounting practices.
• They oblige companies to disclose more information ~~than~~ that is required by national laws.
• They allow some degrees of flexibility in a way that legislation often does not.

Disadvantages -

- The set of rule in the standard may not be appropriate in all circumstances
- Standard setting may not be entirely objective.
- Standard often allows more than one alternative treatment which negates the attempt to ensure conformity between companies.
- Some of standards are so general as to be meaningless, while others are far too detailed.

ii) Sources of regulations -

- Principles, concepts & conventions of accounting
- National company laws
- Stock exchange requirements
- Best ~~accounting~~ practices in accounting followed by leading companies from time to time.

iii) The statement of profit or loss & statement of financial position do not provide a sufficient insight into movements in cash balances. This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid. Hence the cashflow statement is important to supplement the statement profit & statement of financial position.

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