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1] B) 2] C) 3] B) 4] A)

5] Solution:
i] According to realization concepts, Income and profits should be recognized as and when it is earned. According to accrual concepts, expenses should be recognized as and when they are incurred regardless of whether or not the amount has been paid
ii] The incurred claims for a financial year considers the paid claim during the year, outstanding claim reserves for known and unknown claims at end and start of the financial year.

6] Different ways of manipulating accounts:
i] Inappropriate depreciation of tangible assets
ii] Inappropriate amortisation of intangible assets
iii] Inappropriate valuation of inventories.
iv] Inappropriate valuation of future liabilities
v] Unwarrented revaluation of tangible assets
vi] Creating intangible assets of questionable true worth.
vii] Omitting contigent liabilities.
viii] 'pre booking' of anticipated sale revenues.

		Gross Profit	Cash flow
7]	i]	No change	No change
	ii]	No change	Decreases
	iii]	No change	No change
	iv]	Decreases	No change
	v]	No change	No change

8] Solution:

i] Main roles of regulation in the financial system are:

- Maintain public/investor confidence
- Promote stability of the financial system.
- Protect investors
- Maintain international confidence
- Deter fraudulent behaviour

ii] a) The Reserve Bank supervises via prudential regulations all deposit taking activities as well controls foreign exchange market beside overall stability of financial system and setting monetary policy and payments system

b) SEBI is responsible for financial market integrity, companies consumer protection in relation to financial products and services. It also licenses and supervises a number of financial market participants such as security brokers, underwriters, depositories, mutual funds etc.

c) IRDA is responsible for insurance companies in a manner similar to RBI in arena of banking. It licenses all insurance sector related intermediaries and prudentially supervises over them.

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iii]

Entity	Regulator
Banks	RBI
Superannuation products	IRDA
General Insurance Companies	IRDA
Stock Brokers	SEBI
Mutual Funds	SEBI
The market for listed securities	SEBI
Foreign exchange dealers	RBI
Money Changers	RBI

9] Solution:

i] According to the cost concept, non-current assets should be valued at cost less depreciation. According to the going concern concept, accounts should be prepared on the assumption that the business will continue indefinitely in its present form.

ii) Some guiding principles for setting accounting policies for unusual transactions are -

a) There is a requirement that the financial statements give a true and fair view.

b) The guidance provided by Accounting Regulations Board in this regard should be considered.

c) The directions might consider looking at the treatment laid down by standards for similar balances, even though those standards might not be strictly applicable.

iii] Most of the optimism in making accounting choices is quite visible to the analysts and market participants. The stock market examines information carefully to ensure that it does not misprice securities. If shares are overpriced then there will be opportunities for astute market participants to make profits by identifying the overpriced companies and selling shares. Market forces would push the shares down and these activities would also draw attention to the distortion.

1d a) Investment Bank

★ Role : Advice companies and help companie raise finance.

★ Sources of funds : Invest in bills and provide loans and leases to companies.

★ Application of funds : Receive fees for advice, underwriting commision, fund management, Eurobond dealing, trusteeship and bill acceptance

b) Pension Scheme

★ Role : Channel savings for retirement into long term capital markets.

★ Sources of funds : Typical fund invests in equities and longerdated loan securities and company debt. Also some investment in overseas securities. Small proportion of the assets invested in property.

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* Application of Funds: Contributions from employers and employees only. No borrowings.

c) Life Insurance Company
* Role: Pool mortality and investment risks by channeling savings into long term capital markets.
* Sources of funds: Typical fund invests in a mixture of equities and short and long fixed interest securities. May have some investment in overseas securities, property, money market investments and index-linked gilts.
* Application of Funds: Premium income from policyholders. Do not usually borrow money.

ii] Solution:
The possible limitation and challenges are as follows-
i] Different regulation will govern these companies on a same subject may bring difficulty in comparison e.g. solvency ratio.
ii] There may be subjectivity involves in few sections of accounts e.g. revaluation of assets, accounting of tangible assets.

iii] There is be difference between these companies as their business is different which will make comparison difficult. e.g. Reserve utilization.
iv] There is inherent limitation in different ratio analysis e.g. ignore the size of business.

2] Solution:
i] The reason of complication in preparing the insurance companies accounts as compared to normal company accounts are as follows:-
a) The insurance contracts with policyholders fall due outside the accounting period and are uncertain in size.
b) Premature transfer of profit to shareholders may endanger the financial stability of the company and ability to meet the future liabilities.

ii] The following are major component of reserves for a general insurance company's technical accounts:
a) URR (Unexpired risk reserve)
b) Outstanding claim reserves
~~→ URR~~

9 i) Advantages of compliance with the international accounting standards.

→ They eliminate, or at least 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 for debate about accounting practice.

→ They oblige companies to disclose more information than that required by national laws.

→ They allow some degree of flexibility in a way that legislation often doesn't.

Disadvantages of international accounting

→ the sets of rules contained in the standards may not be appropriate to all companies in all circumstance.

→ Standard-setting may not be entirely objective.

→ Standards offten allow more than one alternative treatment, which negates the attempt to ensure conformity between companies.

→ Some standards are so general as to be meaningless, while others are far too detailed.

ii] • Principles, concepts and conventions of accounts.
• National company laws
• Stock exchange requirements
• Best practices in accounting followed by leading companies from time to time.

iii] Additional information available from cashflow statement.

• Whether the core business operations of the entity have led to a net cash inflow or outflow. This is important because even if the entity generates a lot of profit, it may not lead to any positive cash inflow as the profits may get locked up in current assets like accounts receivable and inventory.
• It is the single statement that summarises the change in the financial position since the previous years. It shows what is the entity's investment in various assets.

14) i) ABC Ltd: Income statement for the year ended 31st March 2019

Revenue	1500000
- Cost of sales	(647000)
Gross Profit	858000
- Administrative staff wages	(3000)
- Distribution Cost	(266000)
	584000
- Interest	(10000)
Profit for the year	574000

ii) ABC Ltd. Statement of changes in equity for the year ended 31st March 2019

	Share Capital	Revaluation Reserve	Retained Earning	Total
Opening Balance	200000	180000	250000	63000
Revaluation		540000		5400
Profit for year			574000	5740
Dividend Paid			(45000)	(4500
Closing Balance	200000	720000	779000	16990

iii) ABC Ltd. Statement of financial position as on 31st March 2019

Non-current Assets	
Property, Plant & Equipment	1672000
Current Assets	
Inventory	30000
Trade Receivables	210000
	240000
Total Assets.	1912000

Equity and Liabilities

Equity

Share Capital	200000
Revaluation Reserve	720000
Retained Earnings	779000
	1699000
Non-current Liability	
Loan	145000
Current liability	
Trade payables	50000
Bank	18000
	68000
Total Equity & Liabilities	1912000

* Working Notes.

1) Property, Plant & Equipment

Cost or Valuation	Land	Building	Machinary	Vehicles	Total
Opening Balance	600000	400000	150000	325000	1475000
Revaluation	200000	300000			500000
Closing Balance	800000	700000	150000	325000	1975000

2) Depreciation

Cost or Valuation	Land	Building	Machinery	Vehicle	Total
			80000	170000	290000
Opening Balance		40000			(40000)
Revaluation		(40000)			83000
Closing Balance		7000	15000	31000	
		7000	95000	201000	303000
Net book Value	200000	693000	55000	124000	167200

3) Cost of Sales

Cost of Inventory Consumed	350,000
Factory running costs	100000
Manufacturing wages	175000
Depreciation of buildings	7000
Depreciation of Machinery	15000
	647000

4) Cost of Distribution

Advertising Cost	55000
Delivery vehicle running costs	60000
Sales Salaries	120000
Depreciation of vehicles	31000
	266000