Name - Monisha Vaswani
Roll no - 87.

10/5/21

Assignment - 2.

Ans 1) B) All of the above
Ans 2) C) Adverse opinion
Ans 3) C) Chairman's report
Ans 4) B) II & III
Ans 5) a) Realisation Concept :- Revenue/ income ~~the~~ is recognized when it is earned/ realised. It follows the same Concept as accrual basis accounting thus avoiding fluctuations arising out of cash basis of accounting. However ~~if~~ it may fail to indicate the scarcity of cash in business.

Accrual Concept - This concept states that expenses & income should be accounted when they are incurred/ earned and not whether they have been paid/ settled. Eg:- Outstanding rent & prepaid salaries are recorded.

b) ◦ Claims would be recorded when incurred irrespecti of actual payment
◦ Prepaid insurance premium would be accounted. Similarly outstanding insurance premium would be ~~on~~ a current asset for the financial year.
◦ Comissions to be paid to agents/ brokers will be recorded when incurred & not when they are paid.

Ans 6). Manupilation of accounts (window dressing) is ~~often~~ done to paint a false picture regarding the financial position of the business.

Date
Page

→ In order to show higher profits, they may record revenue prematurely or defer expenses incurred during the current financial year to a later period

→ They may show inflated profits by reducing provisions, inflating sales etc.

→ Similarly, they may increase provision, suppress sales, inflate expenses to show lower profits.

Ans 7) i) Revaluation gain will increase profit.
It will not affect cash flow.
ii) It will be deducted as financial expense & accounted as a cash outflow from financing activities
iii) It will increase the gross profit & no effect on cash flow.
iv) It will be deducted under cost of sales & ~~be~~ ~~added back~~ is a non-cash expense. It ~~can~~ will however be added back in cash flow statement.
v) Reduce the profit.

Ans 8) i) The main role of regulation in the financial system:-
(1) It helps in maintaining confidence in the market and financial system.
(2) It enhances the stability of financial system.
(3) It secures the the intrest of the consumer & protects their rights.
(4) These regulation ensure proper code of conduct by the various institutions functioning in the system.

ii) Regulatory bodies which regulate the Indian financial system:

1) Reserve Bank of India (RBI) - It is the regulatory body that supervises banking system of India.
2) Securities & Exchange Board of India - It protects the interest of investors in securities & ~~promot~~ market.
3) Insurance ~~dev~~ Regulatory & Development Authority of India - It regulates insurance industry in India.
4) PFRDA - Regulates pension scheme in India

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

Ans 9) i) Cost concept - The cost concept states that assets are recorded at their original value & depreciated over the years.

ii) Going concern concept - It is assumed that a business will continue indefinitely in its present form.

ii) The Board of Directors can choose the method of ~~s~~ ~~exp~~ stating the transaction as a 'disclosure' in the books & final statements.

iii) Optimistic accounting policies may paint a false picture of the actual ~~account~~ position of the business

- Thus it may be misleading investors willing to invest in the company.
- Creative accounting techniques can lead to higher expectations and thus the business suffers from reputational risk.
- If the investors understand manipulations, they will lose out on their investments which will harm the company.

Ans 10) a) Investment bank

Role - They act as intermediaries between a corporation and the financial markets by helping businesses with investing in financial markets, wealth management, IPOs, asset management etc.

Sources of funds - Investment banks help clients i.e businesses & governments to manage their funds & assets, mergers & acquistions, proprietory trading etc. Thus it helps its clients to manage their funds, wealth & assets & charges a fees/comission for its services.

Application of funds :- They use the funds & provide various services such as proprietory trading or trading securities for their own accounts, leveraged finance etc.

b) Pension Scheme

Role :- Pension schemes help in providing guaranteed, monthly income for life to provide a sense of financial Security ~~and~~ , maintain standard of living & meet unforseen expenses.

Sources of funds :- Both employees and employers contribute to the pension scheme as they pay a certain propotion (as contribution) of their salary.

Application of funds :- They use funds to invest in fixed income instruments i.e bonds & shares issued by local & foreign government & companies

c) Life insurance company.

Role :- It provides insurance i.e financial compensation against risk of life i.e death.

Sources of funds :- The main source of funds is premiums received from the policyholder along with equity share capital raised; loans etc

Application of funds :- The company invests in various kinds of investments and financial instruments. The funds are also ~~to~~ used to create reserves & provisions as per IRDAI guidelines.

Ans 11) o Since both companies are ~~to~~ from different countries, both firms will follow different accounting standards which cannot be compared directly

o The regulations put forth by each regulator may be different owing to difference in mortality rates, economic conditions of the country etc.

o The different countries having different currencies could ~~be~~ have unstable exchange rate thus increasing risk.

Ans 12) i) (i) Insurance companies have to prepare two sets of accounts: technical & non-technical

(ii) moreover, liabilities of an insurance company cannot be measured with certainity.

(iii) As per accounting standards, the activities of insurance companies have to be accounted for separately thus leading to complication.

(iv) Premature transfer of 'profit' to shareholders may affect financial stability.

ii) Claims equalisation reserve is accounted in technical accounts of a general insurance company.

Ans 13) Advantages:-

* They eliminate/reduce variations between preparation of accounts between different companies.
* They oblige companies to disclose more information.
* They allow some degree of flexibility
* The attention on particular areas for debate about accounting practice.

Disadvantages:-
1) The sets of rules may not be applicable to all companies.
2) Standard-setting is not entirely objective.
3) Standards allow more than one alternative treatment which negates attempt to ensure conformity
4) Some standards are too general while some are too detailed

iii) • It provides sufficient insight into movements in cash balances which statement of financial position fails to provide
~~• It~~ • It involves investing activities such as purchasing new equipment or buildings.

ii) • Principles, concepts & conventions
• National company laws-
• Good practice by leading companies
• Stock exchange requirements
• Other legislation.

Income Statement for the year 1st Apr 2018 - 31 Mar 20

Ans 4)

Particulars	Note no.	Amount
Revenue		15,00,000
- Cost of sales	1	6,47,000
Gross profit		8,53,000
- Admin expenses	9	(3,000)
- Distribution expenses	2	(2,66,000)
		5,84,000
Operating profit		
- financial exp.	5	10,000
Profit ~~before tax~~		5,74,000
~~OCI~~		~~5,00,000~~

Statement of financial position

Particulars		Note no	Amount
ASSETS			
Non-current assets		4	16,72,000
Current Assets		7	2,40,000
			19,12,000
EQUITY & LIABILITIES			
Equity			
Share capital	2,00,000		16,99,000
Revaluation reserve	7,20,000		
Retained earnings.	7,79,000		
Non current liabilities		6	1,45,000
Current liabilities.		3	68,000
			19,12,000.

Statement of changes in equity

	Share capital	Retained earning	Revaluation reserve.
Opening balance	2,00,000	2,50,000	1,80,000
Adj: Div paid		(45,000).	
Reval. gain		5	5,00,000
Profit		5,74,000	
Closing balance.	2,00,000	7,79,000	7,20,000

Notes :-

1) Cost of Sales

[illegible]	[illegible]
Cost of inventory consumed	3,50,000
Factory running cost	1,00,000
~~Closing inventory~~	~~(30,000)~~
Manufacturing wages	1,75,000
Building depre.	[illegible],000
Machinery deprec	15,000
~~Delivery deprec~~	~~31,000~~
	6,47,000

2) Distribution expenses

Cost of marketing	55,000
Delivery vehicle running cost	60,000
Delivery vehicle depre.	31,000
Sales salaries	1,20,000
	2,66,000

3) Current liabilities

Bank OD	18,000
Trade payables	50,000
	68,000

4) Non current Asset

	Buildings	Delivery vehicles	Land	Machinery
Asset	[illegible],00,000	3,85,000	6,00,000	1,50,000
Acc. depr.	40,000	1,70,000	-	80,000
Depr.	~~4,000~~ 7,000	31,000	-	15,000
Final	6,93,000	1,24,000	8,00,000	55,000

5) Financial expenses
Intrest 10,000

6) Non current liability
Loan 1,45,000

7) Current Asset
Trade receivable 2,10,000

8) ~~Current liabilities~~
~~Trade payables~~ 50,000

9) Admin expenses
Admin staff wages 3000

Ans 15). ~~Statement~~ of profit & Loss a/c.

Particulars		Note no.	Amount
Revenue	55,000		58,200
Fees revenue	2,000		
Unearned fees.	1,000		
Intrest income	200		
Expenses			
Employee salaries	(14,000)		(41,832)
Office supplies	(1,000)		
Office electricity	(4,000)		
Mobile & Internet bill	(583)		
Laptop deprec.	(3208)		
Office equipment depr.	(1833)		
Office building rent	(14,207)		
Tax	(3000)		
Profit			16,368

classmate
Date
Page

Note:

Rent - 15,917 - (1,000 × (1.05)^{11}) = 14,207

Depreciation on laptop = $\left(\frac{35,000}{10}\right) \times \frac{11}{12}$ = Rs 3,208

Depreciation on office equipment = $\left(\frac{20,000}{10}\right) \times \frac{11}{12}$ = Rs 1,8

Balance Sheet

ASSETS	
Laptop	31,792
Office Equipment	18,167
Office supplies	1,000
Trade receivable	1,500
Cash	1,000
Bills receivable	5,000
Rent	1710
Revenue o/s	2000
Interest o/s	200
	62,368
LIABILITIES	
Trade payables	3000
Unearned fees	9000
Employees salaries payable.	4000
Income tax payable.	3000
Share capital.	32,000
Retained earnings.	11368
	62,368