

BF-2

Assignment - 2

- Q1 B (All of the above)
- Q2 C (Adverse opinion)
- Q3 C (Chairman's report)
- Q4 ~~A (II only)~~ A (2 only)

Q5a) I. Income is recognized as and when it is earned but not received. It is therefore, not necessary to wait until the customer settles his/her bill.

- This avoids the fluctuations in reported income which might occur if accounts were made on cash basis.

II Accrual concept

- Expenses are recorded as and when the expenses are incurred, regardless of whether the amount has been paid or not.

b) The specific ways in which realization and accrual accounting concepts are used as follows:-

- i The earned premium for the year is calculated by considering the earned portion of the total written premium in the year and carried forward unexpired risk premium is an application of realization concept.

11

The incurred claim in the financial year considers the paid claim during the year, outstanding claim reserves for known and un-known claims at the end and start of financial year.

Q6: Different ways in which accounts can be manipulated

IV

i Exaggerate current period earnings on the income statement by inflating revenue/gains

ii Exaggerate current period earnings on the income statement by deflating current period expenses

V

iii Minimize current period earnings on the income statement by deflating revenue

Q8 i

IV Minimize current period earnings on the income statement by inflating current period expenses.

Q7 i There will be no change in gross-profit and cash-flow of the company as there is increase in the value of asset which will not affect Gross profit and as there is no inflow & ~~no~~ outflow of cash in this case, there will be no effect on cash flow

ii

ii There will be no change in gross-profit because it does not include Interest & Tax, whereas in terms of cash-flow there is a outflow of ₹1000 crores in terms of interest, so there is a 1000 crore decrease in cash flow from financing activity

iii An increase in inventory / closing inventory will impact the company's cash flow statement negatively i.e. there is a outflow of cash from the business whereas increase in inventory will also increase the gross profit of the company.

iii a)
b)
c)
d)
e)
f)

IV There will be no effect on cash flow of the company as there is no outflow or inflow of cash from the business, the gross profit of the company will decrease

V There will be no change in gross profit and no change in cash flow

28 i Roles of financial regulation are as follows:

- Prevents market failure
- Promotes macroeconomic stability
- Protects investors
- Mitigates the effect of failure on the real economy

ii Regulatory bodies are as follows

- IRDAI → Insurance regulatory & development authority of India
- RBI → Reserve bank of India
- SEBI → Securities exchange board of India
- PFRDA → Pension fund regulatory & development authority

iii a) Banks → RBI

b) Superannuation Product → ~~PFRDA~~ PFRDA

c) GIC → IRDAI

d) Stock brokers → SEBI

e) Mutual funds → SEBI

f) Market for listed securities → SEBI

g> Foreign exchange dealers → RBI

h> Money Changers → RBI

~~1979~~ ~~1980~~ ~~1981~~ ~~1982~~ ~~1983~~ ~~1984~~ ~~1985~~ ~~1986~~ ~~1987~~ ~~1988~~ ~~1989~~ ~~1990~~ ~~1991~~ ~~1992~~ ~~1993~~ ~~1994~~ ~~1995~~ ~~1996~~ ~~1997~~ ~~1998~~ ~~1999~~ ~~2000~~ ~~2001~~ ~~2002~~ ~~2003~~ ~~2004~~ ~~2005~~ ~~2006~~ ~~2007~~ ~~2008~~ ~~2009~~ ~~2010~~ ~~2011~~ ~~2012~~ ~~2013~~ ~~2014~~ ~~2015~~ ~~2016~~ ~~2017~~ ~~2018~~ ~~2019~~ ~~2020~~ ~~2021~~ ~~2022~~ ~~2023~~ ~~2024~~ ~~2025~~ ~~2026~~ ~~2027~~ ~~2028~~ ~~2029~~ ~~2030~~ ~~2031~~ ~~2032~~ ~~2033~~ ~~2034~~ ~~2035~~ ~~2036~~ ~~2037~~ ~~2038~~ ~~2039~~ ~~2040~~ ~~2041~~ ~~2042~~ ~~2043~~ ~~2044~~ ~~2045~~ ~~2046~~ ~~2047~~ ~~2048~~ ~~2049~~ ~~2050~~ ~~2051~~ ~~2052~~ ~~2053~~ ~~2054~~ ~~2055~~ ~~2056~~ ~~2057~~ ~~2058~~ ~~2059~~ ~~2060~~ ~~2061~~ ~~2062~~ ~~2063~~ ~~2064~~ ~~2065~~ ~~2066~~ ~~2067~~ ~~2068~~ ~~2069~~ ~~2070~~ ~~2071~~ ~~2072~~ ~~2073~~ ~~2074~~ ~~2075~~ ~~2076~~ ~~2077~~ ~~2078~~ ~~2079~~ ~~2080~~ ~~2081~~ ~~2082~~ ~~2083~~ ~~2084~~ ~~2085~~ ~~2086~~ ~~2087~~ ~~2088~~ ~~2089~~ 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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.

Q10 a) Investment bank ~~note~~ -

Role -

- They act as a bridge between large enterprises and investors
- Their primary goal is to advice businesses and governments on how to meet their financial challenges
- Investment bank help their clients with
 - Financing
 - Research
 - Trading & sales
 - Wealth management
 - IPO's
 - Mergers

Sources of funds

- Equity financing
- Specialist financing

b) Pension Scheme

Role :

Pension funds are typically managed by companies. The main goal of a pension scheme is to ensure that there will be enough money to cover the pensions of employees after their retirement in the future.

Sources of funds

- Employers
- Employee

Application of funds

→ Under this funds are used for primarily payment of pensions, whereas the secondary role where these funds can be used in government securities, equity.

c) Life insurance company.

Roles:

- Life insurance is important, ~~as it~~ it protects your family and lets you leave them a non-taxable amount at time of death.
- It helps to cover your mortgage loan and your personal loan.

Sources of funds

→ Charging premiums by selling their insurance coverage

Application of funds

→ Bonds

→ Mortgages

→ Liquid short-term investment

→ Payment of coverage [Most imp / Primary].

12) The preparation of insurance company accounts is complicated by two special features →

- 1) The underlying contracts (liabilities) fall due outside the accounting period and are uncertain in size.
- 2) Premature transfer of 'profit' to shareholders may endanger the financial stability of the company and the ability to meet future liabilities.

The Major Components of Reserves →

- 1) The 'Claims Equalisation Provision' is a type of reserve used to smooth out fluctuations in claims from year to year.
- 2) The 'Fund for future appropriations' is a type of reserve applicable to life insurance business.

13) i) Advantages & Disadvantages of International Accounting Standards →

Advantages

- 1) They eliminate, or at least reduce variation b/w companies in the way they produce accounts.

- 2) The discussion process which leads to a standard being issued, focusses attention on particular areas for debate on accounting practice.

Disadvantages

The rules contained in the acc. standards may not be applicable to all companies in all circumstances.

The standards may not always be objective (some standards in the past have been under govt. pressure or industry lobbying).

- | | |
|---|--|
| 3) They oblige companies to disclose more information than required by the national laws. | The standards often allow more than one alternative treatment, which negates the amount attempt to ensure conformity b/w companies. |
| 4) They provide some degree of flexibility in the way legislation often does not. | Some standards are so general as to be meaningless, others are far too detailed. |

ii) a) Security Exchange Board of India (SEBI) - It provides

ii) a) Generally Accepted Accounting Principles (GAAP) -

It refers to a common set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Boards (FASB)

b) International Financial Reporting Standards (IFRS) -

These are a set of international accounting standards, which state how particular types of transactions and other events should be reported in financial statements.

c) Indian Accounting Standards (Ind-As)

It is an Accounting standard adopted by companies in India and issued under the supervision of Accounting Standards Board (ASB) which was constituted as a body in the year 1977.

provided by

(ii)

The additional information ~~that~~ cashflow statement which is not available in the Financial Position and Statement of Comprehensive Income is that actual cash cash earned by the company. The net increase/decrease in cash during the year which is available to use. It also tells from where the cash is generated or used either in operating, financing or investing activities.

14) i) Statement of Comprehensive Income for the year ended on 31 March 2019.

Particulars	Note	INR (000s)
Revenue		1500
- Cost of Sales	(8)	(675) (647)
Gross Profit		825 853
- Administrative Costs	(1)	(3)
- Distribution Costs	(2)	(266)
Operating Profit		584
- Financial expense	(3)	(10)
+ Financial income		-
Profit Before Tax		574
- Tax		-
Profit After Tax		574

ii) Statement of Changes in Equity

Particulars	Share Capital	Other Reserves	Retained Earnings
Opening	200	180	250
Dividend Paid		40 (a)	(45)
P.A.T		583	574
Closing	200	180 720	779

iii) Statement of Financial Position as on 31 March 2019

Note

INR (000s)

I) Assets

A) Non-Current Assets

④

1672

B) Current Assets

⑤

240

Total Assets

1912

II) Equity And Liabilities

Share Capital

200

Other Reserves

7230

Retained Earnings

779

Total Equity

16929

III) Liabilities

A) Non-Current Liability

⑥

145

B) Current - Liability

⑦

68

Total Liabilities

Total Equity And Liabilities

1912

① Admin expense

A.S.W

3

② Distⁿ Exp.

C.o.M

55

D.V.R.C

60

S.S

120

Depos

31

~~285~~ ~~2366~~ 266

③ Finⁿ Exp.

Interest

10

④ N.C. A

	Building	D. V	Total
Cost	400	325	
- Acc. Dep.	(40)	(170)	
- Depri	(4)	(31)	
Reval. (depr)	<u>700</u>	<u>124</u>	<u>817</u>
Orig. Clog	693	Machinery	
Land			
Cost	600	150	
- Acc. Depri	-	(80)	
- Depri	-	(15)	
Reval	<u>800</u>	<u>55</u>	<u>855</u>
Clog	<u>800</u>		<u>1672</u>

⑤ C. A

Clog. Inv.	30
T. R	<u>210</u>
	<u>240</u>

⑥ N.C.L

Loan

145

⑦ C.L

Bank O.D
T.P

18

50

68

⑧ Co.S

Op. Inv.	380
Fac. Running C.	100
Chg. Inv.	(30)
M.W.	175
B-Depr	79
B-Depr	91
M-Depr	15
	647 647

⑨ Reval. Reserve

Building (693 - 360)	333
Land	200
	533 540