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)

Q5 a) 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 avoid the flucutations in reported income which might occur if accounts were made on cash basis.

II Accrual concept

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

b) The specific ways in which relization and accrual accounting concept 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 relization concept.

ii 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

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

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

IV Minimize current period earning 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 & ~~cas~~ outflow of cash in this case, there will be no effect on cash flow

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

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

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Date
Page

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

Q8 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 follow

- 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 → ~~PFDA~~ PFRDA
c> GIC → IRDAI
d> Stock brokers → SEBI
e> Mutual funds → SEBI
f> Market for listed securities → SEBI

g> Foriegn exchange dealers → RBI
h> Money Changers → RBI

~~Q9 10 COST CONCEPT~~

~~The cost concept principle states that~~

~~Q10~~ Q9 ii Key guiding principles for setting accounting policies for unusual transactions are

a> There is a genral requirement that the financial statements give true & fair view. Amongst other things, any treatment that gives realstic view

b> The guidance provided by Accounting regulation board in this regard should be considered.
Eg: Objective of relevance, reliablity, comparablity, and understandablity

c> The directors must ~~laid down~~ consider looking at the treatment laid down by standards for similar balances, even though those standard might not be strictly applicable.

iii Most of the optimism in making accounting choices is quite visible to the analyst and market participants. For eg: companies publish their accounting policies and so it is possible to tell whether a particular approach has been followed and accordingly opinions formed about the price.

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 ~~role~~ -

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 h~~ 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.

classmate

Date

Page

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

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	Disadvantages
1)	They eliminate, or atleast reduce variations b/w companies in the way they produce accounts	The rules contained in the acc. standards may not be applicable to all companies in all circumstances
2)	The discussion process which leads to a standard being issued, focusses attention on particular areas for debate on accounting practice.	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)	The 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 prod~~

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 a 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
iii) 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 us. It also tell 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 (9)	(45)
P.A.T		5[illegible]	574
Closing	200	~~180~~ ~~743~~ 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		~~1905~~ 1912

① Admin expense

A.S.W	3

② Distⁿ Exp.

C.o.M	55
D.V.R.C	60
S.S	120
Depn	31
	~~235~~ ~~266~~ 266

③ Finⁿ Exp.

Interest	10

4 N.C.A

	Building	D.V	Total
Cost	400	325	
- Acc. Dep.	(40)	(170)	
- ~~Depri~~	~~(...)~~	(31)	
Revol. (depri)	700 (7)	124	817
~~Clsg~~. Clsg	~~710~~ 693		
	Land	Machinery	
Cost	600	150	
- Acc. Depri	–	(80)	
- Depri	–	(15)	
+ Revol	800	55	855
Clsg	800		1672

5 C.A

Clsg. Inv.	30
T.R	210
	240

⑥ N.C.L

Loan	145

⑦ C.L

Bank O.D	18
T.P	50
	68

⑧ C.o.S

Op. Inv.	380
Fac. Running C.	100
Clsg. Inv.	(30)
M.W	175
B-Depri	7
~~D.V. Depri~~	
M-Depri	15
	647

⑨ Reval. Reserve

Building (693 - 360)	340
Land	200
	540