Business finance - 2

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Assignment 1.

1) B. All of the above, 2) C. an adverse opinion, 3) C. chairman's report
4) A. II only.

5) a) Realization - income is recognized as and when it is earned. it is not necessary to wait until customer settles the bill. this avoids fluctuations in reported income which might arise if everything was accounted for on a cash basis.
Accrual - expenses are recognised as and when they are incurred, regardless of wether the amount has been paid.
b) insurance company will account for income recieved through premiums throughout the year - realization concept & claims will be accounted as and when incurred.

4) i) increase, ii) decrease, iii) increase, iv) decrease, v) increase.

8) i) Regulatory bodies oversee the functioning & fairness of financial markets & the firms that engage in financial activity.
ii) SEBI, IRDAI, RBI, NFA, etc.
iii) a) RBI, b) IRDAI, c) IRDAI, d) SEBI, e) SEBI, f) SEBI, g) NFA, h) RBI

9) i) cost concept - non-current assets generally appear in statement of financial position at their original cost less depreciation to date, subject to impairment write-down
going concern concept - a business will continue indefinitely in its present form.

ii) → financial statement should give a true & fair view. Any treatement gives realistic & representative treatment of transaction
→ guidances of accounts regulation board should be followed.
→ directors might consider looking at treatment laid down by standards for similar balances.

iii) most of optimism in making accounting choices is quite visible to analysts & market participants. The stock market examines info carefully to ensure it does not misprice securities if shares are overpriced, there will be opportunities for astute markets to make profits by selling shares.
Market usually reward companies with good corporate governance which also reflected from the conservativeness of estimates & accounting policies. They also provide ability to company to present more smooth results.

10) Investment bank - to advise government & businesses on how to meet their financial needs. helps in raising money through debt & equity offering.
Pension - provide protection in form of lump sum or annuity to dependents in event of member's death. these are large investment blocks & dominate the stock markets where they invest.
Life insurance - protects your beneficiaries & provide them with a sum assured at the time of your death. Can be used for loans as well. Stock investment of premiums is most of the profit.

11) - the liablities are uncertain in time & size.
→ if theres early transfer of profits may affect financial stabl

12) i) Same ans as 11).

13) i. <u>Advantages</u>
→ they eliminate variations between ways of making company's accounts
→ make company disclose more info.
→ allow flexibility
<u>Disadvantges</u>
→ rules may not be appropirate for all companies standard setting may not be entirely objective. Some are meaningless & some are too detailed.

Particulars	Amount (000)	Amount (000)
Assets		
Non current assests		
land	800	
building	673	
machinery	88	
delivery vehicles	124	
		1672
Current assests		
Inventory	30	
trade recievables	210	
		240
Total assests		1912
equity & liablities		
equity		
share capital	200	
Retained earnings	779	
reserves & surplus	720	
total equity		1699
Non current liablities		
loan		145
current liablities		
Bank	18	
Trade Payable	50	
		68
Total equity & liablity		1912

ii) IFRS, National company laws, stock exchange requirements, good practice leading companies, principles, concepts & conventions,

iii) → info of bank overdraft
→ what was done to the loan taken during year
→ is the company able to generate cash as to profit from trading activities.

14) i)

Particulars	Amount ('000)	Amount ('000)
Revenue		1500
Cost of inventory consumed	350	
factory running cost	100	
manufacturing wages	175	
depreciation - building	7	
depreciation - machinery	15	
Cost of Sales.		647
Gross profit		853
Selling and distribution expenses		
Cost of marketing	55	
delivery vehicle running costs.	60	
Sales Salaries.	120	
depreciation - delivery vehicles	31	
		266
G&A expenses.		
administrative staff expenses.	3	
Operating profit		584
Finance costs		10
Profit for the year		574

iii) 1) depreciation on land

opening balance	600
revaluation	200
closing balance	800

2) depreciation on building

cost	400
- cumilative depreciation	(40)
pre - revaluation value	360
Revaluation	340
- current year depreciation	(7)
closing balance	693

3) depreciation on delivery vehicles

cost	325
- cumilative depreciation	(170)
opening balance	155
- current year depreciation	(31)
closing balance	124

4) depreciation on machinery

cost	150
- cumilative depreciation	(80)
opening balance	70
- current year depreciation	(15)
closing balance	55

15) Income statement

Particulars	Amount (000)
Revenue from operations	66 000
other income	200
total revenue	66 200
expense	
purchase of stock in trade	1000
G & A expenses	14121
employee benefit expenses	14000
utility expenses	4583
depreciation	5042
Total expenses	38746.
Profit before interest & tax	27454
− dividend	(5000)
Taxable income	22454
− Tax payable	(3000)
Profit year ended 31 dec '19	19454

Notes

1) Revenue from operations

fee revenue earned	55000
unearned fee revenue	10 000
− earned in dec	(1000)
+ fee due	2000
	66 000

2) Other income

interest income	200

3) G & A expense

	₹
rent paid	15917
less: depreciation	(1796)
	14121

Balance sheet as of 31 dec 2017

Particular	Amount
Assets	
Non current assests	
(a) Fixed assests	
(i) tangible assests	49958
Accured income	11000
Current assets	
(a) Inventories	1000
(b) Trade recievables	1500
(c) Cash	6200
(d) other current assests	1796
Total Assests	71454
Liablity	
1) Shareholders fund	
Share capital	32000
Reserves & surplus	22454
Non current liablities	
2) Trade payables	3000
other non current liablities	4000