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Business Finance
Assignment - II

(1)

(2) A.

(3) C.

(4) D.

(5) a. Realisation concept: Income is realised as and when it is 'earned'. It is not, therefore, necessary to wait until the customer settles his or her bill.
It can also create the impression that the business is performing well.

Accruals concept: Expenses are recognised as and when they are incurred, regardless the amount has been paid.
This avoids the random allocation of costs to periods depending on whether the bill happens to have been paid or not.

b. Utilising realisation concept in health insurance company: The premium payments may be monthly, quarterly, semi-annualy, or yearly, we'd include complete payment for the policy in the accounts, when the policy is sold.

Utilising accruals concept in health insurance company: Administrative, medical, underwriting, etc. expenses are to be recognised when they are incurred, regardless the amount has been extracted from the premium.

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(6) Different ways in which the accounts can be manipulated :-

i. By choosing different accounting policies, which would tend to overstate the profits

ii. Creative accounting is the deliberate abuse of the subjectivity inherent in accounting rules to select accounting policies or make assumptions which tend to bias the figures in the direction chosen by management, misleading the users of the accounts.

- For example, the charge for depreciation requires an estimate of the expected useful lives of the company's fixed assets. By assuming the useful life of an asset is longer, a lower depreciation charge is produced thereby increasing reported profits.

(7) i. Gross Profit will increase, no change to cash flow.

ii. Gross Profit no change, Cash flow will decrease

iii. Gross Profit no change, Cash flow no change.

iv. Gross Profit will decrease, Cash flow no change

v. Gross Profit no change, Cash flow will decrease.

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⑧ i. Role of financial regulators:

- market confidence:- to maintain confidence in the financial system.

- financial stability:- contributing to the protection and enhancement of stability of the financial.

- consumer protection:- securing the appropriate degree of protection for consumers

- prevention of malpractices

ii. Financial Regulators of India:
- Reserve Bank of India (RBI).
- Securities and Exchange Board of India (SEBI).
- Insurance Regulatory and Development Authority of India. (IRDAI).
- Pension Fund Regulatory and Development Authority. (PFRDA)

iii. a. Banks - RBI
b. Superannuation Products - PFRDA
c. General Insurance Companies - IRDAI
d. Stock Brockers - SEBI
e. Mutual Funds - RBI
f. Market for listed securities - SEBI
g. Foreign Exchange dealers - RBI
h. Money changers - RBI

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9 i. The cost concept: Also known as historical cost, non-current assets generally appear in the statement of financial position at their original cost less depreciation to date, subject to a possible impairment write down.

The going concern: It is usually assumed that a business will continue indefinitely in its present form. This concept acts as a justification for the limitations imposed by the cost concept because there is little harm in reporting historical figures for value if the assets are unlikely to be sold in the immediate future.

ii. IAS 8 states that in the absence of a specific rule to specify an appropriate accounting policy, the company should select policies on the basis that they yield information that is both relevant and reliable.

If there are accounting standards that cover the treatment of similar items, the company could use those. This treatment could be considered to be objective and justifiable.

iii. The preparers of the financial statements should avoid presenting an unduly optimistic set of results. Doing so will breach the concept of prudence.
If optimistic accounting policies are applied consistently, the stakeholders will re-evaluate the company, ask for the enchange of auditor, loss confidence in the company.

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(12) i. The preparation of insurance company accounts is complicated by two special features:

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

ii. The technical reserves are prepayments of premiums, actuarial reserves against outstanding risks in respect of life insurance policies, amounts of money set aside to pay for underwriting liabilities.

(13) Advantages of IAS:
- 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 focusses attention on particular areas.
- 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 does not.

Disadvantages of IAS:
- They set of rules contained in the standards may not be appropriate to all companies in all circumstances.
- Standard setting may not be entirely objective (some may have been the subject of government).

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- Standards often allow more than one alternative treatment, which negates the attempt to ensure comformity between companies.
- Some standards are so general to be meaningless, while others are far too detailed.

ii. Sources of regulations that influence the preparation of financial statements for companies in addition to the accounting standards:

- International Financial Reporting Standards
- National Company Laws
- Stock Exchange Requirements
- Good Practice by Leading Companies
- Principles, concepts, and conventions

iii. The statement of profit or loss and statement of financial position do not provide a sufficient insight into movements in cash balances.
This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid.
Hence, the cash flow statement is important

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(14)

Statement of profit or loss

	(000's)	
Revenue	1500	1500
Cost of Sales	(574)	(647)
Gross Profit	926	853
Administrative expense	(3)	(3)
Distribution cost	(266)	(266)
Net Profit	657	584
Finance cost	(10)	(10)
		574
Profit before Tax	649	574
Profit for the year	649	574

Notes :

(i) Cost of Sales

Building Depreciation	7
Cost of inventory consumed	350
~~Delivery vehicle Depreciation~~	~~34~~
Factory running costs	100
Machinery Depreciation	15
Manufacturing wages	~~472~~ 175
	~~849~~ 647

(ii) Administrative expense

Administrative staff wages	3

(iii) Distribution cost

Delivery vehicle Depreciation	31
Sales Salaries	120
Cost of marketing	55
Delivery vehicle running cost	~~20~~60
	266

Statement of changes in equity

	Share Capital	Retained Earnings	Other Reserves
	200	250	180
Profit for the year		~~549~~ 574	
Dividend paid		(45)	
Building Revaluation			340
Land Revaluation			200
Total	200	~~754~~ 779	720

Statement of ~~changes i~~ financial position

Assets

Non Current Assets	(iii)	~~1744~~ 1672
Current Assets	(iv)	240
Total Assets		~~1984~~ 1912

Equity and Liabilities		
Equity		
	Share Capital	200
	Retained Earnings	~~454~~ 779
	Other Reserves	720
Total Equity		~~1874~~ 1699
Liabilities		
Non current liabilities		
	Loan	145
Current liabilities		
	Bank Overdraft	18
	Trade Payables	50
Total liabilities		213
Total equity and liabilities.		1912

Notes:

(iii)	Non Current Assets		
	Building	693	
	Delivery Vehicle	124	(325 - 170 - 31)
	Land	800	
	Machinery	55	(150 - 80 - 15)
		~~1749~~	
		1672	

(iv) Current Assets

Inventories	30
Trade receivables	210
	240

(15) Statement of profit or loss

	(000's)
Revenue	58
Cost of Sales	(19.04)
Gross Profit	38.96
Administrative expense	(19.789)
Operating Profit	19.171
Finance Income	0.2
Profit Before Tax	19.371
Tax expense	3
Profit For The Year	16.371

Notes:

Cost of Sales

Laptop - Depreciation	3.21
Office Equipments - Depreciation	1.83
Employee Salaries	10
Accrued Salary	4
	19.04

Administrative expense

Office Supplies	1
Office Building Rent	14.206
Office Electricity Bill	4
Mobile and Internet Bill	0.583
	19.789

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Statement of Changes in Equity

Share Capital	Retained Earnings	Other Reserves
32	16.371	9
	(5)	
32	11.371	9

Statement of Financial Position

Assets

Non Current Assets

Laptop	31.79
Office Equipments	18.17
	49.96

Current Assets

Rent	1.371
Trade receivables	1.5
Interest Income	0.2
Cash	1
Bill Receivables	5
Inventory	1
Fee Revenue Accrued	2
	12.21

Total Assets	62.371

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Equity and Liabilities

Equity

Share Capital	32
Retained Earnings	11.371
Other Reserves	9
Total equity	52.371

Liabilities

Current Liability

Trade Payables	3
Accrued Salary	4
Tax	3
	10

Total Equity and Liability	62.371