Assignment-2

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Subject: Business Finance-2
Section: FY-B

Soln ① (c)

Soln ② (c)

Soln ③ (c)

Soln ④ (A)

Soln ⑤

a) Realization -

- Income is recognized as & when it is earned, it is not necessary to wait until the customer settle his/her bill. This avoids the fluctuation in reported income which might arise if everything was accounted.

- It may also create the impression that the business is performing well when, in fact, it is in danger of running out of cash.

Accrual -

- Expense are recognised as & when they are incurred, regardless whether the amount had been paid or not.

- Again, this avoids the random allocation of cost to period depending on whether the bill happen have to be

(b) Realization:

The premium of year can be counted even if the policyholder has choose to pay the premium quarterly, the income of whole year will be mentioned.

Accrual:

The fund which they kept a reserve, so as when the claim occurrence, they can pay. eg., claim incurred but not reported.

(6) Types by which accounts can be manipulated.

(i) Inappropriate depreciation of tangible asset

(ii) Inappropriate amortisation of intangible asset

(iii) Inappropriate valuation of the Inventories

(iv) Inappropriate valuation of the future liabilities

(v) Omitting contingent liability

(vi) Probability of anticipated sales returns.

(7)

i) Increase

ii) Decrease

iii) ~~Decrease~~ Increase

(iv) decrease

(v) Decrea

(8)

i) The main roles of regulation in Financial statement is -

→ Market Confidence - to maintain confidence in financial system.

→ Financial Stability - Contributing to protect & enhancement of stability of the financial system

→ Consumer Protection - securing appropriate degree of protection ~~for~~ constumers.

ii) Accounting Standard Board (ISB)

iii)

a) RBI

b) RBI

c) IRDAI

d) SEBI

e) SEBI

f) SEBI

g) RBI

h) RBI.

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(9)

i) Cost Concept -

Under this non-current asset are generally appear in the statement of financial position at their original cost less depreciation to date, subject to a possible impairm write-down

The cost of concept is being gradually phased out to provide more scope for realism in the financial statement. eg, tangible non-current assets such as prom, plat are shown at thir fair market value not at historical value.

· Going Concern Concept -

Assumed that a busin will continue indefinite in its prest form. to increas cost concept

(ii) Going The prudence concept tells the prepare of the financial statement to avoid presently an unduly optimistic set of result. lowest value of profit realiable to the highest value of liability incurring should be taken into account. Thus leave very little rm for fake sense of security by overtaking company strength

(10)

(i) Investment bank -

~~Formulates~~ Role - The create wealth for the people depositing their money in the bank

Source of fund - The money deposit by the Custmer in the look for good return.

Application of fund - Investing the money receivable from the customer in equities, bond in market judicious to get better return

(ii) Pension scheme -

Role - To provide annuity product to people after retirement as income support.

Source of Fund - Premium collect from customer during their time of employment

Application of Fund - Investing & growing the premium received & to provide annuity to customer.

(iii) Life Insurance Company.

Role - To provide lumpsum amount to the policyholder family incase of death of the policyholder.

Source of fund - Premium collected from policyholder.

Application of fund - To provide the said amount to the family of the policyholder at his / her death.

(11) Challenges to Interpret the account will be as follow -

(i) Different treatment of income

(ii) Different treatment of depreciation

(iii) Non-Uniformality

(iv) Uncompareable.

(12)

(i) The preparation of insurance Company is Complicated due to following reasons-

a) The underlying Contract fall due outside the accounting [illegible] are uncertain in size

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b) Parameter test of profit to shareholder may endo the financial ability of the company & the ability to meet future liability

(ii) Technical account include every item expense from the insurance business.

Earned premium
+ Investment gain
+ Realised capital gain
(−) Claim incurred
(−) Operating expense
Balance.

(13)

Advantage of IASB.

- They reduce the variation betw the company account
- The discussion process leading to the standard may issue forum attention a participant an a debate.
- They oblidge the company to disclose more information than any other standard
- They allow more flexibility to oblidge than other standard

Disadwantage of the IASB

- They set of standars are not appoprict for all the companies in all situation
- Standard ofte allow more then one treatment, which neglect the confirmation of the company.
- Standard selling may be broan by govt, pressure or Industry lobbying.
- Some standar are very general whereas some are far too detailed.

(ii) Source of regulation

a) National company laws
b) Principle, concern
c) good practice & conne
d) Stock exchange

(iii)

- Cash movement is dipicted in cash flow.
- Profit figure are not indicating of the company doing good.

(14) Comprehensive Income statement of year 2018-2019

Revenue		15,00,000
Cost of Sales	5	675000
Gross profit		825000
Admin	1	3000
distribution	2	235000
Operating profit		587000
Finance expense	6	10000
Profit befr Tax		577000
Tax		-
Profit Aftr Tax		577000
Oth Income		544000
Net Profit		

Statement of Changes in equity for year 2018-19.

	Share Capital	retain earning	revalued
Opening balance	2,00,000	2,50,000	1,80,000
			544000
		577000	
dividen		(45000)	
	200000	782000	724000

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* Financial Statement on 31st March 2019

Assets		
Non Current Assets	4	1679000
Current Assets.	7	240000
		1919000
Equity / liability		
Equity		
Share Capital		2100000
Retainer earning		782000
research reserve		724000
liability.		
Non Current liability	8	175000
Current liability.	3	68000
		1919000

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1. Administration ~~expense~~

Administration staff wages - 3000

3000

2. Distribution expense -

Cost of Marketing - 55000

Vehicle run cost - 60000

Sales salary - 1,20,000

235000

3. Current liability -

Bank overdraft - 18000

Trade payable - 50,000

680000

4. Non Current Assets

	Building	Vehicle	Machinery
Cost	400000	3,25,000	150000
dep	(40000)	(1,70,000)	80000
	(4000)	(31000)	(15000)
	700000	124000	55000

Land - 600000 → 800000

1679000

⑤ Cost of Sales -

Cost of Invtory Consume - 350,000
Factory runn Cost - 100000
Manufach wage - 175000
depr (Vehicle) - 31000
depr (Machi) - 15000
depr (Building) - 4000
675000

⑥ Financial expense

Interest - 10,000
10,000

⑦ Current Asset -

Inventory - 30,000
Trade receiv - 210000
240000

⑧ Non Current liability

loan - 145000
145000

(15) Comprehensive Income statement for year

Particular	W.N	INR
Revenue	5	58000
Cost of Sales	4	4041
Gross profit		53959
Admin expense	1	34790
Distribt expense.		-
Operating profit		19169
Financial Income	7	200
Financial expense		
Profit before Tax		19369
Tax		3000
Profit after Tax		16369
Other Income	-	
Net profit		16369

Statement of Changes in equity.

	Share Capital	Retained earnings.
Cost	32000	
		16369
divided		(5000)
		11369

Financial Statement of ABC Ltd On 31 december, 2019

Particular	W.N	INR
Assets.		
Non-Current Asset	2	12410
Current Asset	3	49959
Total		62369
Equity/liability.		
Share Capital		32000
Retain earning.		11369
liability		
Non-current liability.		—
Current liability	5	19000
Total.		62369

(1) Administratin expense -

rent - 15917
Prepaid (1710)
14207

Offie supply	2000
Employe Salary	10000
elech Bill -	4000
Mobile Bill -	583.
Salary -	4000
	34790

(2) Curnt Asset -

prepaid rent	1710.
Track receivable -	1500
cash	1000
Bill receiv	5000
closin	1000
	2000
	12210
Tnh	+ 200
	12410

(3) Non Curnt Assest

	Laptop	Office equipment
Cost	35000	20000
depr	3208	1833
	31792	18167
		49959

49959

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(4) Cost of Stalw
Closing fund - (1000)
depr 5041
4041

(5) Current liabilities -
Unear fees - 10000
Trade payabl. 3000
ear fun (1000)
Slary 4000
Tax 3000
19000

(6) Revenue
Fee revenue 55000
Rev due fr Curr 2000
earn fee 1000
58000

(7) Financial income
Intert 200
200

—— x —— x —— x ——

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