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Business Finance - 2 . Practice Questions - Unit 1

1.
Ans. (A) Accruals

2
Ans (B) Going concern

3.
Ans (C) Accounting standards reduce variations between companies in the way they prepare accounts

4
Ans (D) realisation

5
Ans (B) Some valuable assets will be excluded from the financial statements altogether.

6
Ans (C) Cost concept

7.
Ans (B) Every transaction affects two balances and both must be adjusted in the bookkeeping records

8
Ans (B) The national government

9
Ans (B) Financial statements prepared by an entity should be comparable from year to year

10.
Ans (D) IFRS provide guidance on the appropriate treatment of specific matters

11
Ans (a) Accoun~~tanying~~ting standards such as International financial reporting standards (IFRSs) issued by IASB prove to perform a vital role in the accounting field.
(b) Accounting standards ensure consistency among the financial statments issued by companies
(c) Since, companies prepare their accounts owing to the same accounting standards, investors can easily compare between the financials of different companies
(d) Accounting standards have somewhere reduced the aspect that the financial report can be misreported just because there is no standard principles.
(e) Accounting standards have increased the credibility of company's financial statements to give a true and fair view
(f) It has also made audits by the auditors more convenient and easier to compare
(g) Since, it is the national government who decides upon the mandatory use of which accounting standards, thus taxation and financial reporting to the regulators have become more transparent.

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Ans (a) We say that the accounting information is relevant if it helps the user groups to make informed decisions

(b) And the accounting information is said to be ~~relev~~ reliable if:

(i) it provides true and fair view

(ii) There is no misreporting or mishandling of financial statements

(iii) if all accounting principles, concepts, conventions and laws are being followed

(c) It may not be the case all time that the accounting information is both relevant and reliable.

(d) It may be the case that the accounting information that is relevant may not be reliable or the accounting information that is reliable may not be relevant

(e) For instance let us consider an example where a company has performed valuation for it's non current assets. The company then records these assets at the price after valuation, thus breaching the cost concept. Here, the accounting information is relevant but not reliable.

(f) On the other hand, if the assets are recorded at cost less depreciation till date, then the accounting information is reliable but not relevant as the investors won't be able to make informed decisions from the historic costs of the assets.

13.
Ans (a) International Accounting Standards Board (IASB) is a body that develops, issues and withdraws accounting standards. The standards issued by them are referred to as International financial reporting standards (IFRSs).

(b) IASB works in accordance with the respective country's accounting standard setters and authorities.

(c) Since, it issues international standards, it has to keep in mind the different laws and regulations of each country. There might be cases where certain IFRS would be appropriate for a particular country and for others, they might not be appropriate.

(d) IASB has to keep in mind that for credible accounting standards, the standards must be developed such that they are appropriate to all companies in all circumstances.

(e) As known, accountancy profession is still under improvements. For instance, the movement of historic cost ~~cop~~ concept to realisable fair value concept. Thus, IASB would also have to take note the scope of improvement in their accounting standards which might arise later and not at the time of issue of those standards.

(f) Also, the Standard setting might also not be entirely objective. IASB could face political pressure or a certain lobby against a particular standard. Also, IASB has no authority to require compliance with it's standards

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Ans (a) Travel insurance is a type of general insurance policy in which the exposure period to the coverage is very different

(b) For instance, the risk period for trip cancellation would begin from the date of purchase of insurance until the beginning of the trip. Whereas, emergency ~~risk~~ medical would have a risk period from the beginning till the end of the trip

(c) The basic problem in this case is when can we recognise the earned premium as profit

(d) Realisation concept would state that the premiums should be considered as profits at the time of sale of insurance policy. But that would not be ideal, since the liability duration is yet to occur

(e) Accruals concept would mean that we need to account for expenses at the time of the sale of the insurance policy

(f) Matching concept would be ideal if the estimated expenses is fairly accurate

(g) A major problem in this case would be with the prudence concept when understood together with accruals and realisation concept. Prudence concept would state that don't account for the premium as profit until the maturity of the insurance policy. But account for the expenses (estimate) at the time of issue of travel insurance policy.

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Ans (a) International Accounting Standards Board (IASB) is a body that develops, issues and withdraws accounting standards.

(b) The accounting standards issued by IASB are known as International Financial Reporting Standards (IFRSs)

(c) The standards issued by IASB has brought solutions to a lot of accounting problems.

(d) For instance, before IASB there were no international accounting standards, thus making it difficult to ensure consistency among the company's accounting records.

(e) IASB ~~compt~~ compels companies to disclose more information than they otherwise would. It is important to note that IASB can act only on those companies who have adopted IFRSs or are mandated by the respective country to do so.

(f) IASB offers some degree of flexibility that legislation often does not.

(g) With the presence of IASB, accountancy professionals from over the globe can come together and discuss over the development of accounting standards and debate over areas of ambiguity. This in turns help the accounting standards and policies over the globe to be more relevant and reliable.

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Ans (a) Going concern concept is an accounting concept which refers that the financial statements should be prepared with a view that the business would continue indefinitely in it's present form ~~wit~~ until there are evidences to counterpart this

(b) If understood, going concern concept is practically not relevant. Any business can't continue indefinitely.

(c) since, going concern concept backs cost concept, it does not help the investors in making or interpreting true value of the business.

(d) For example, since going concern concept backs historic cost concept, the non current assets would still be recorded at their historic costs rather than the actual value of the assets.

(e) Going Concern concept would somewhere give a wrong message of the financial position of the ~~co~~ business.

(f) For example, when realisation concept is understood together with going concern concept, investors might be under the light that the business ~~has~~ is in a good state ~~of~~ financially, but which might not be the case.

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Ans (a) International Accounting Standards Board (IASB) is a body that develops, issues and withdraws accounting standards.

(b) The standards issued by IASB are known as International Financial Reporting Standards (IFRSs)
(c) IFRSs ~~are~~ ensures consistency between the accounts of different companies
(d) IFRSs offers a degree of flexibility that legislation often does not
(e) IFRSs compels companies to disclose more information than they otherwise would be able to.
(f) IFRSs ~~hq~~ helps the stakeholders and particularly investors to easily compare the financials of the business with it's past data as well as with other businesses.
(g) Interpreting financial statements ~~would~~ has also became easier because of the standards ~~t~~ issued by IASB.
(h) Though, there are scope of improvements in IFRSs, but the fact that the accountancy profession has drastically improved because of IASB can't be ignored.