

Business Finance

Assignment - II

Ques 2 (A) disclaimer of opinion.

Ques 3 (C) chairman repent.

Ques 4 (4) (D) I, II and III

Ques 5 (A) Realization concept: Income is recognised as and when it's earned. It's not therefore necessary to wait until the customer settles his or her bill. This avoids the fluctuations in reported income which might arise if everything was reported for on cash basis.

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

(b) (i) Realisation concept in health insurance company is utilised in a way that maybe the premiums payments could be monthly, quarterly or half yearly depending upon

the type of insurance and hence still in their records its recorded as revenue on the basis of number of policies sold.

- (ii) whereas accrual concept of healthcare insurance company is utilised in the preparing of accounts of the company as, they would include underwriting, administrative expenses etc as and when the policy is sold. ~~even if i.e. these haven't been incurred yet~~ regardless the amount has been extracted from the premiums yet.

Ques (6) Different ways in which accounts can be manipulated are :

- (1) Choosing accounting policy : by choosing accounting policies which would help overstating the profits made by the company.
- (2) Creative accounting : it is the deliberate abuse of subjectivity inherent in accounting rules to select accounting policies or make assumptions which tends to bias the figure in direction chosen by the management, misleading the users of accounts.

for eg : the change of depreciation requires an estimate of the expected useful life of company fixed assets. By assuming a longer useful life than expected, depreciation is charged less

And thereby increasing Reported Profits.

Ques (7)

- (i) Gross Profit will increase and no change to cash flow.
- (ii) Gross Profit no change and cashflow will decrease.
- (iii) Gross Profit and cash flow no change.
- (iv) Gross Profit decrease and cashflow no change.
- (v) Gross Profit no change and cashflow decreases.

Ques (8) Main roles of financial regulations are:

- (i) market confidence: to maintain confidence in financial system.
- (ii) financial stability: contributing to the protection and enhancement of stability of financial system.
- (iii) Fair and Proper functioning: securing the appropriate degree of protection for consumers.
- (iv) 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 brokers (SEBI)

(e) Mutual funds (RBI)

(f) Market for listed securities (SEBI)

(g) Foreign Exchange dealers (RBI)

(h) Money changers (RBI)

Ques 9 (i)

Cost concept : It has been presented one of the cornerstones of accounting for a very long time. Under this concept, 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 off-down.

Going concern concept :

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 of assets concerned are unlikely to be sold in near future.

(ii) True over

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 information is both relevant & reliable.

Information is relevant if it informs decisions taken by users of financial statements and information is reliable if :

- (i) It provides a faithful representation of entity's financial position, performance & cashflows.
- (ii) It is free of bias.
- (iii) It is prudent.

If there are accounting standards that cover the treatment of similar items, the company could use those.

(iii) a) According to the Prudence concept, the Preparation of ~~and~~ financial statements should avoid presenting an unduly set of optimistic results.

b) If a company's records are showing unduly optimistic records, the shareholders and other users of financial statements may be of the view that the statements are not giving true & fair view hence will lose confidence in the company.

(c) They may ask for the exchange of Auditor and to reaudit the statements.

(d) If the audit report is not satisfactory, the shareholders ~~will~~ might start selling the shares, thereby lowering the share price.

Sol 10 (a) Investment Bank : The primary goal is to advise businesses & governments on how to meet their financial challenges.

The main sources of fundings are : retained earnings, equity financing and government loans.

Application of funds : help global & local businesses with capital financing. They also engage in trading.

(b) Pension funds : ~~There~~^{Their} role is to help in the development of financial markets through their replacement and complimentary role with other financial institutions, especially with commercial investment banks.

Sources of funds : They are funded by contributions from employers and occasionally from employees.

Applications : The Pension funds invest in private equity, real estate, infrastructure and securities and offer as lumpsum Payback to Investors.

(c) Life Insurance Company : -

Role : They collect contributions from many people who face the same risk to provide a safeguard in case of accident or death in income after retirement.

Sources of funds : collection of premiums from customers, retained earnings, debt capital, equity capital.

Applications

investing in market, they help pay for final expenses like cremation costs, ~~st~~ estate settlement cost, etc.

Ques (12) (i)

a) The underlying contracts (liabilities) fall due outside the accounting period and are uncertain in size.

b) Premature transfer of "profits" to shareholders may endanger the financial stability of the company & the ability to meet future liabilities.

(ii) Major components of reserves for a general insurance company's technical account are: Payments of premiums, reserves against outstanding claims and actuarial reserves against ~~the~~ outstanding risks in respect of life insurance policies including reserves for with profit policies which add value on maturity.

Sol (12)

Advantages

- They eliminate or reduce variations → The sets of rules contain blue companies.
- The discussion process leading up to a standard being issued & focus attention on particular areas of debate.

Disadvantages

→ The sets of rules contained in them may not be suitable for every company.

→ standard setting may be entirely objective.

Advantages

- They oblige companies to disclose more info than that of national law.
- They allow some degree of flexibility in a way that legislation often does not.

Disadvantages

- Standards often allow more than one alternative treatment which negates the attempt to ensure conformity b/w companies.
- Some standards are so general as to be meaningless while others are far too detailed.

(b) Various sources of regulations that influence the preparation of financial statements are:

- International Financial Reporting Standards.
- Principles, concepts and conventions.
- National company laws.
- Good practices by leading companies.
- Stock exchange requirements.
- Other legislations.

(c) The statement of P&L and statement of financial position do not provide a sufficient insight into movements in cash balance. This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid. Hence the cashflow statement is important.....

Sol (14) (i)

Statement of	Profit or Loss	Notes
	(000's)	
Revenue	1500	
- Cost of sales	(⁶⁴⁷ 473)	(i)
Gross Profit	⁸⁵³ 1028	
- Administrative expenses	(3)	(ii)
- Distributive cost	(266)	(iii)
Net Profit	754 584	
- Financial expense	(10)	
Profit before tax	⁵⁷⁴ 809 749	
Tax	()	
Profit for the year	809 749 574	

Notes :

(i) Cost of sales :

depreciation of building : '7'

Cost of inventory consumed : 350

depreciation of machinery : 15

factory running cost : 100

Manufacturing wages : ¹⁷⁵~~422~~

Net

(647)

(ii) Administrative expenses

Wages 3

(iii) Distribution cost:

Cost of marketing	55
Delivery vehicle Depreciation	31
Sales delivery salary running cost	120
Total	206

(ii) Statement of changes in equity

Share Capital	Retained earnings	Other Reserves
200	250	180
	711 574	
	809	340 + 200
	(45)	
Total	1000 779	720

(iii) Statement of financial position.

Assets.	(£000)
Non current Assets	1749
Current Assets	240
Total Assets	1989 1672 1912

1459

16. Equity and Liabilities

Equity

Share Capital 200

1699

Reserves 720

~~1105~~

Retained Earnings. ~~954~~ 779.

Total equity

~~1874~~

1699

Liabilities

Non current Liability :

Loan Payable 145

Current Liabilities

Bank overdraft 18.

Trade Payables 50.

Total Liability

213

Notes

(i) Non Current Assets :

→ Building	700	
depreciation	(7)	
→ Delivery vehicle	325	
depreciation	(220) (201)	
→ Land	800	
→ Machinery	150	
depreciation	(95)	

Total

~~1749~~
~~1712~~ 1667

1672

(ii) Current Assets

Trade Receivables	210
Inventory	30

Total

240