Business Finance.

Assignment – 11

Q2) (A) Disclaimer of opinion.

Q3) (C) Chairman report

Q4) (D) I, II and III

Q5) (a) Realization Concept – Income is recognised as and when its earned. It's not therefore necessary to wait until the customer settles her or his bills. This avoids the fluctuations in reported income which might arise if everything was reported for in cash basis

Accurals 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 bil happen's to have been paid or not.

(b)(i) Realisation Concept in health insurance company is utilised in a way that maybe the Premium 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 accurals concept of healthcare insurance company is utilised in the preparing of amounts of the company, they would include understanding, administrative expenses etc, as and when the policy is sold, regardless the amount has been extract from the Premiums etc.

Q6) Different ways in which account can be manipulated are:

i) Choosing Accounting Policy - by choosing accounting policies which would help overstating the profits made by the company.

ii) Creative Company - it is the delibrate abuse of subjectivity ~~inherin~~ inherent in accounting rules to select accounting policies. or make assumptions which tends to bias figures in direction choosen by the management, mislead the users of accounts.

for eg - the charge of depreciation requires a estimate of the expected useful life of company's fixed assets. By assumping a longer useful life than expected, depriciation is charged less and there by increasing reported profits.

Q7) i) Gross profit will increase and no change cash flow.

ii) Gross profit no change and cashflow will decrease.

iii.) Gross profit and cash flow no change.

iv.) Gross profit decrease and cash flow no change.

v.) Gross profit no change and cash flow decreases.

8.) (1) Main roles of financial regulations are:

i.) Market confidence – to maintain confidence in financial system.

ii.) Financial stability – contributing to the protect and ~~e~~ enchancement of stability of financial system.

iii.) Fair and proper functioning – securing the appropriate degree of protection for consumers.

iv.) Prevention of malpractices.

(2.) Financial Regulators of India:

i.) Reserve Bank of India (RBI).
ii.) Securities and exchange bank of India (SEBI).
iii.) Insurance Regulatory and Development Authority of India (IRDAI).
iv.) Pension Fund Regulatory and Development Authority (PFRDA).

(3) (a) Banks – (RBI)
(b) Superannuation Products – (PFRDA)
(c) General ~~I~~ Insurance Company – (IRDAI)
(d) [illegible]

Going concern indefinitely that a business will continue as a justification for 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 assets concerned are unlikely to be sold in near future.

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 and reliable.

Information is relevant if it informs decision taken by users of financial statements and

b) its ~~fer~~ free of bias.
c) it is Prudent.

iii) According to Prudence Concept, the preparers of 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 and fair view hence will loose confidence in the company.

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

d) If the audit reports is not satisfactory the shareholders might start selling the shares, thereby lowering the share price.

Q10) a) Investment Bank— The primary goal is to advice business and government on how to meet their financial challenges.

The main source of funding are:
Retained earning, Equity financing and Government loans.

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

b) Pension funds— Their role is to help in the development of financial markets through their replacement and complimentary role with other financial institutions, espeially with comercial investment banks.

Sources of funds:
Contributions from employers and ocasionally from employees.

Applications: The pension funds invest in private equity, real estate, infrastructure and securities and offer a lumpsome payback to investors.

Life Insurance Company -
Role - They collect contributions from many people who face the same risk to provide and safeguard in case of accident or drop in income after retirement.

Sources of fund:
Collection of Premium from customers, retained earnings, debt capital, equity capital.

Applications: Investing in markets, they help pay for final expenses like cremation costs, estate settlements cost etc.

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

Premature transfer of 'profits' to shareholders may endanger the financial stability of the company and the ability to meet future liabilities.

Major components of reserves for a general insurance company's technical account are: prepayment of premiums, reserves against outstanding claims and acturial reserves against outstanding risk in respect of life insurance policy including reserves for with ~~for~~ profit policies which add values on maturity.

a) Advantages	Disadvantages.
-) They eliminate or reduce variations btw companies	⇒ The sets of rules contain in them may not be suitable for every company
-) The discussion process leding up to a standard being issued and focussed attention on particulars areas of debate.	-) Standard setting may be entirely objective.
-) They oblidge companies to disclose more info than that of national law.	→ Standards often allow more than one alternative treatments which negoties the attempt to ensure confirmity btw companies.
-) They allow some degree of flexibility in a way that ~~legista~~ legislation often ~~dos~~ doesn't allow.	⇒ Some standars are ~~often~~ so general as to be meaningless while others are far too detailed.

b) Various sources influencing the preparation of financial statement are:

- International Financial Reporting statements.
- Principles, concepts and conventions.
- National companies 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 balances. This is unfortunate because even profitable companies will collapse if they are not sufficient liquid. Hence the cashflow statement is important.

Q14) i)

Statements of Profit or loss.

	(000's)	Notes.
Revenue	1500	
Cost of sale	647	(i)
Gross profit	853	
Administrative expenses	(3)	(ii)
Distributive cost	(266)	(iii)
Net profit	584	
Financial expenses	(10)	
Profit before tax	574	
Tax	( )	
Profit for the year	574	

Notes.

i) Cost of Sales
depriciation of building : '7'
Cost of inventory consumed : '350'
depriciation of ~~mach~~ machinery : '15'
Factory running cost : '100'
Manufacturing wages : 175 $\boxed{647}$

ii) Administrative Expenses
Wages
3

iii) Distribution law.
Cost of marketing : 55.
Delivery vehicle depriciation : 31
Sales Salary : 120
Delivery Running Cost : 60.
Total - 268.

ii) Statement of changes in equity.

Share Capital	Retained Earnings	Other reserves
200	250	180
	574	
		340+200
	(45)	
200	779	720

Statement of financial Position.

(1000's).

Assets

Non current assets		1749
Current assets		240
Total assets		1912
Equity & Liability		1459.
Equity		
Share Capital	200	
Reserves	720	
Retained earnings	779	
Total equity	1699	

Liabilities.

Non current Liability	145
Current liability	
Bank overdraft	18
Trade Payables	50
Total Liability	213

Notes.

i.) Non current assets:

→ Building	700
depriciation	(7)
→ Delivery vehicle	325
depriciation	(201)
→ Land	800
→ Machinery	150
depriciation	(95)
Total	$\boxed{1672}$

ii.) Current Assets.

Trade receivables	210
inventory	30
Total	$\boxed{240.}$