Suhani Kulkarni
Roll no - 42

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BUSINESS FINANCE - 2

Assignment 2.

1. Which of the following errors in recording transactions has an impact on profitability?
B. All of the above.

2. The auditor believes that the financial statement do not give a true and fair view and the effect is so material that a disclosure is required to the extent that the financial statement may be misleading or incomplete, the auditor should issue -

C. an adverse opinion

3. Which of the following is NOT required as part of a listed company's accounting statement.
A. Cashflow Statement

4. Which of the following accounting concepts are likely to distort the true economic value of an entity as reflected by its statement of financial position?
A. II only

5.
a) i) Realization Concept
Income is recognised as ~~a~~ and when it is 'earned', regardless ~~if~~ if the payment is ~~done~~ received or not.

ii) Accrual Concept.
Expenses are recognised as and when they are earned, regardless of whether the amount has been paid or not

b) The insurance premium which is earned for that period from the net written premium will be recorded.
The claims which are paid and the reserves for the claims which may occur make up the incurred claims for that year

6. ~~Explait~~

1) The revenues can be accelerated.
Ex. At the end of the financial years Sales can be made to show increase profits and after accounts are made the goods are returned by the distributor.

2) Depreciation charged can be incorrect.
If a fixed asset is impaired it may be not recorded properly.

3) The Contingent liabilities may not be recorded in the note
Ex. A Workmen's Compensation may not be written as contingent liability at all.

4). Inappropriate valuation of Inventory
The Inventory may be valued at a higher value than its actual Value

5) Inappropriate valuation of future liabilities
Instead of estimating the liabilities by the conservatism principles, optimistic accounting principles may be used.

7.

i. Property that the company possess has been revalued upwards by RS 100 crores by the valuer

→

Revaluation of the Property will not have any effect on the company's Gross profit.
And as their is no cashflow in this case, the cashflow statement will not be affected.

ii. There has been an interest payment of RS. 1000 crores towards Masala Bonds issued by the company.

→

As this is a financial expense, it will be given affect after the Gross profit has been calculated. ∴ There will be no change in the Gross profit.
The interest payment signifies that there is a cash outflow and there will be a decrease in the Cash flow.

iii. There has been an increase in Inventory of ₹ 500 cr which were manufactured out of raw materials available in the previous year end, ignoring any manpower & production cost.
→ ~~No effect on Income statement as this would reflect in the previous~~ Decrease in Gross profit, as Inventory increases
No effect on Cashflow

iv. There was depreciation of plant & machinery to the extent of ₹ 250 crores.
→ The Gross profit will decrease, as Depreciation gets added in COS
No change in Cash flow as it is a non-cash item.

v. It was decided to write off ₹ 200 crores due to EHFL defaulting

No change in ~~equ~~ Cashflows as no cash transaction is taking place

8. i) The main roles of regulation in the financial system.

→ The main roles are as follows:-

1) To maintain confidence ~~in the~~ of the market in the financial system.

2) Financial Stability

Contributing to the protection and enhancement of stability of the financial system.

3) Consumer protection.

Securing the appropriate degree of protection for consumers

ii) The regulatory bodies which regulate the Indian Financial System are as follows:-

1) Reserve Bank of India

2) Insurance Regulatory and Development Authority of India (IRDAI)

3) Competition Commission of India

4) Pension fund Regulatory and Development Authority

5) Securities and Exchange Board of India

iii)

a) Banks - RBI - Reserve Bank of India

b) Superannuation products - ~~IRDAI~~ PFRDA

c) General Insurance Companies - IRDAI
d) Stock Brokers - SEBI
e) Mutual Funds
~~d)~~ f) Market for listed securities - SEBI
~~3~~ g) Foreign Exchange dealers - RBI
h) Money Changers - RBI.

Q.9] i) a) Cost Concept
Under this concept, the Non-Current Assets of a company appear in the statement of financial position at their orignal cost less depreciation to date, subject to a possible impairment.

b) Going Concern Concept
It is ~~a~~ assumed that the business will continue indefinitely in its present form.

2) This unusual transaction can be posted as an exceptional item in the Income Statement after all the regular entries. Moreover, a note should be provided to inform shareholders and stakeholders i.e it is an exceptional item,

3)
i) Company's accounts should ~~not~~ show a true and fair picture of the company's financial position. Applying optimistic policies consistently may not work towards the aim of increasing share price as market participants understand such policies and may not prefer them.
Instead of optimism, conservatism is preferred by the shareholders & market participants as it. Good Governance is appreciated by the Market and Conservative estimates of assets & liabilities works in favour of the stock price.

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10:

a) Investment Bank.

11: 1) As the General Insurance Company and Life Insurance Company governed by different regulators, they may ask the companies to create their accounts based on different accounting standards.
It may not be possible to directly compare the two companies.

2) These two companies have two different businesses ∴ It ~~~~ makes the comparision difficult. Moreover different business risks are faced by them.

3). There is a limitation in ratio analysis. It may not potray an accurate picture of the company's performance.

4) Different regulation on both the companies, makes it more difficult to compare them.

5) There may be subjectivity involved in the accounts.

12. i) The preparation of insurance companies accounts is complicated as compared to normal companies account on the following grounds:-

1/12 → a) The underlying contracts (liabilities) fall due outside the accounting period and are uncertain in size.
b) Premature transfer of 'profit' to shareholders may endanger the financial stability of the company and the ability to meet future liabilities.

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ii) The major component of reserves for a general insurance company's technical accounts are Unexpired Risk reserve, and Outstanding claim reserves.

1) URR, this reserve is kept to cover the unexpired ~~risk~~ portion of the insurance period

2) Outstanding Claim Reserve is kept to cover the claims and expenses for all outstanding claims that are yet to be settled.

Q.13.] Advantages of compliance with international accounting standards
1) By complying with the international accounting standards, the accounts of the companies are prepared in a systematic and standard manner. This makes comparision with other companies easy
2) To oblige companies to disclose more information than that required by national laws.
3) They allow a certain level of flexibility

Disadvantages of compliance with international accounting Standards.
1) Certain standards may not be completely objective
2) As these standards allow flexibility, it provides more than one way of treating a transaction. Due to this variation is created.
3) Some standards can be so detailed, it makes them complicated to perform. On the Contrary, certain standards are far too general.
4) These standards may not be applicable to all types of Companies.

ii) Sources of Regulations influencing the preparation of financial statements for companies are as follows:

1) The Accounting Standard for the company
Ex. GAAP, IFRS, Ind-AS

2) ~~Princi~~ Accounting principles, conventions and concepts.

3) Country's Law for Companies.

iii).
1) Cashflow Statement can be very useful to see if the Company is actually earning any cash for the stakeholders.
For ex. A Company may be profit-making, but still won't have any cash profit. A Cashflow Statement helps us to understand that.
2) Cashflow Statement can be used to check whether the Company is earning any free cash flow to Equity. Stable & Increasing free cashflow to equity are indicators of a Company's healthy financial position.
3) Cashflow Statement helps us to understand the Cashflows of the Company through its operating activities, excluding the impact of non-cash items.

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Q.14]

In the books of ABC Ltd,
Income Statement for the year ended on 31 March 2019

	Working Note	Amount
Revenue		1,500,000
- Cost of Sales	5	(647,000)
Gross Profit		853,000
- Admin Expenses		(3000)
- Distribution Expenses		(2,66,000)
Operating Profit		584,000
- Financial Expense		(10,000)
Profit for the year		574,000

Statement of Changes in Equity

	Share Capital	Revaluation Reserve	Retained Earnings
Opening	200,000	180,000	250,000
Revaluation		500,000	
Profit for the year			574,000
Dividend paid			(45000)
Closing Balance	200,000	680,000	779,000

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Statement of Financial Position as on 31st March 2019

	Working Note	Amount
Non-Current Assets.	4	16,32,000
Current Assets	7	240,000
Total Assets		1872000
Equity & Liabilities		
Equity		
Share Capital		200,000
Revaluation Reserve		680,000
Retained Earning		779,000
Non-Current Liabilities	8	145,000
Current Liabilities.	3	68000
Total Equity & Liabilities		1872000

Working Notes:-

1) Admin Expenses.

Administrative Staff Wages	3000
	3000

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2) Distribution Expenses

Cost of Marketing	55000
Delivery vehicle running costs.	60,000
Depreciation of Delivery vehicle	31,000
Sales Salaries	120,000
	266,000

3) Current Liabilities

Bank Overdraft	18,000.
Trade Payables	50,000
	68,000

4) Non-Current Assets.

	Building	Delivery vehicle.	Land	Machinery
Cost	400,000	325,000	600,000	150,000
Revaluation	300,000		200,000	
Closing balance	700,000	325,000	800,000	150,000
Accumulated Depreciation.	40,000	170,000	-	80,000
+ This year Depreciation	7000	31,000.	-	15,000
	(47000)	(201,000)	-	(95,000)
Closing Balance	653,000	124,000	800,000	55,000

Total
16,32,000

5) Cost of Goods Sold / Cost of Sales

Cost of Inventory Consumed	350,000
Factory running costs	100,000
Manufacturing Wages	175,000
Depreciation on Building	7000
Depreciation on Machinery	15,000
	641,000

6) Financial Expenses

Interest	10,000	
		10,000

7) Current Assets

Inventory as on 31st March 2019	30,000
Trade Receivables	210,000
	240,000

8) Non-Current Liabilities

Long-Term Loan	145,000
	145,000