BF Assignment 2

15. Comprehensive Income Statement

PARTICULARS	WN	Amount (£)
Revenue	7	58,200
- cost of sales	8	(4,041)
Gross profit		54,159
- Admin expenses	3	(34,790)
- Distribution expenses		-
operating profit		19,369
- financial expenses		-
+ financial income		-
Profit before tax		19,369
- tax expense	5	(3,000)
Profit After tax		16369

Statement of changes in equity

PARTICULARS	SH. CAPITAL	RETAINED EARNINGS
opening balance	32,000	
- Dividends		(5000)
+ current year profit		16,369
closing balance	32,000	11,369

Statement of financial position
as on 31 Dec, 2019

PARTICULARS	WN	Amount (₹)
Assets		~~[illegible]~~
Non current Assets	2	49,959
current assets	4	12,410
		62,369
Equity & Liability		
Equity		
share capital		32,000
Retained earnings		11,369
Liability		
Non-current liability		
current liabilities	5	19,000
		62,369

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Notes to Accounts

(1) Calculation of Rent

Rent for 11 month = $1000 + 1000 \left[\frac{(1.05^{10} - 1)1.05}{1.05 - 1} \right]$

= ₹ 14,207

(2) Non current asset

	Laptops	Equipments
Cost	35,000	20,000
-		
- CY dep	(3208)	(1833)
Net book value	31792	18167

(3) Administrative expenses

office supplies	2,000
office bldg rent	14,207
electricity bill	10,000
mobile & internet bill	4,000
Employee's salaries	583
o/s salaries	4,000
	34,790

(4) current Assets

Trade receivables	1,500
Cash	1000
Bills rec	5,000
closing inventory	1000
fee revenue	2000
Bill interest	200
12th month rent	1,710
	12,410

(5) current Liability

Trade payables	3000
Unearned fea	10,000
Unearned fee (earned)	(1000)
o/s salaries	4000
tax expense	3000
	19,000

(7) Revenue

Fee revenue	55,000
Fee revenue due	2000
Unearned fee (earned)	1000
Bill interest income	200
	58,200

(8) Cost of sales

closing inventory	(1000)
Dep of laptops	3208
Dep of equipment	1833
	4041

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14. Comprehensive Income statement
for the year 2018-19

PARTICULARS	WN	Amount ₹
Revenue	5	15,00,000
- Cost of sales		(6,48,000)
Gross Profit		52,000
- Admin expenses	1	(3000)
- Dist. expenses	2	(2,35,000)
Operating profit		6,14,000
- Fin expense	6	(10,000)
Profit before tax		6,04,000
- tax expense		-
Profit After tax		6,04,000

Statement of changes in equity

PARTICULARS	SH CAPITAL	RET. EARNINGS	REVALUATION RESERVE
opening balance	2,00,000	2,50,000	1,80,000
- div paid		(45,000)	
- bldg revaluation			3,00,000
- land rev			2,00,000
+ cy profit		(6,04,000)	
closing balance	2,00,000	8,09,000	6,80,000

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Statement of financial position
as on 31 march 2019

PARTICULARS	WN	Amount(₹)
Assets		
Non-current Assets	4	16,32,000
Current Assets	8	2,40,000
Equity & liabilities		
Equity		
Share capital		2,00,000
Retained earnings		8,09,000
Reserves		6,80,000
Liability		
Non-current liability	7	1,45,000
current liability	3	68,000
		18,72,000

Note to Accounts

① Administrative expense

Admin staff wages	3000
	3000

② Distribution expense

Marketing cost	55000
Delivery vehicle cost	60,000
Sales salary	1,20,000
	2,35,000

3. Current liabilities

Bank overdraft	18,000
trade payables	50,000
	68,000

4. Non current asset

	Bldg	Del. Vehicle	Land	Machinery
Cost	4,00,000	5,25,000	6,00,000	1,50,000
+ ~~Bldg~~ land reval			2,00,000	
Bldg reval	3,00,000			
Accrued dep	~~[illegible]~~ 40,000	1,70,000		80,000
+ CY dep	7000	31,000		15,000
Net Book value	6,53,000	1,24,000	8,00,000	55,000

5. Cost of sales

Inventory cost	3,50,000
factory cost	1,00,000
manufacturing wages	1,17,000
CY bldg dep	7,000
CY del. veh. dep	31,000
CY machinery dep	15,000
	6,78,000

(6) Financial expense

Interest	10,000
	10,000

(7) Non current liability

Loan	1,45,000
	1,45,000

(8) Current Asset

Trade rec	2,10,000
Closing inv.	30,000
	2,40,000

13. i) Advantages:

→ the decision process leading upto a standard being issued focuses on particular areas for debate about accounting practice

→ some degree of flexibility is allowed

→ companies are obligated to disclose more information than required by national laws.

Disadvantages:

→ these allow more than one treatment which negate ensuring confirmity between companies.

→ rules set by them may not be appropriate to all companies in all circumstances.

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(ii) Sources of regulation:
→ principles, concepts & conventions
→ national company laws
→ stock exchange requirements
→ other legislation

(iii) Additional information that cash flow statement provides which is not available in the balance sheet or statement of comprehensive income are:

→ The P&L statement or balance sheet do not provide a sufficient insight into movements in cash balances because even profitable companies can collapse if they are not sufficiently liquid.

→ An entity needs cash to survive & hence cash flow need to be monitored & for:
→ an expansion of the business should not force it into a cash deficit.
→ if the company ~~losses~~ has excess of cash, the money should be invested in productive assets or loan can be repaid.

12. It is more complicated to prepare insurance companies accounts as compared to normal ones as:
→ the underlying contracts are uncertain in size and fall outside the accounting period.
→ premature transfer of profit to shareholders may endager the financial stability & its ability to meet future liabilities.

11. ~~word~~ Limitations:

→ Creative Accounting

Firms could deliberately chose those policies that maximise profits

→ Formats

Different accounting formats can also be chosen making comparisons difficult.

→ Comparability

Different companies use different methods to create their accounts making comparison difficult.

10. (a) Investment Banks

Role:

Advise businesses & governments on how to meet their financial challenges, asset management, hedging

Source of funds

raise money by selling securities such as shares and bonds to investors

Application of fund

help government's raise money, trade securities and buy or sell tower corporations.

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(b) Pension Schemes
Role:
Investment of contributions as per investment guidelines prescribed by the Authority

(c) Life Insurance company
Insurance facilitates spreading risk from the insured to the insurer. Premiums, investment returns from debt funds and equities

9. The cost principle has been viewed as one of the pillars of accounting.
Non current assets are normally reported in the statement of financial condition as their original expense less depreciation to date, subject to a potential impairment write down under that concept.

The going concern principle entails the assumption that a company can remain in its current form forever. This concept serves as justification of the cost concept's weaknesses since there is no risk in disclosing historical figures for value if the assets involved are unlikely to be sold in the near future.

(ii) Financial statements should give fair an true view.
→ Any treatment of the said unusual transaction must be realistic & a representative treatment of the same.
→ The objectives of relevance, comparability & reliability should be applied.

(iii) The optimistic accounting policies is quite visible to analysts. It is possible to infer whether a particular approach has been followed which further derives the opinions about the company's share price.

Market examination of information available is key such that any overpriced company that is identifiable will be subject to its shares being sold in order to make profits.

8. (i) Main role of regulation:

→ consumer protection -
securing the appropriate degree of protection of consumer

→ financial stability
contributing to the protection & enhancement of stability of the financial system.

(ii) The regulatory bodies are:
→ Reserve Bank of India (RBI)
→ Insurance Regulatory & Development Authority of India (IRDA)
→ Securities Exchange Board of India (SEBI)
→ Pension Fund Regulatory & Development Authority (PFRDA)

(iii) (a) Banks - RBI
(b) superannuation production - PFRDA
(c) general Ins. comp - IRDAI
(d) Stock Brockers - SEBI
(e) Mutual funds - SEBI
(f) market for listed securities SEBI
(g) Foreign exchange dealer - RBI
(h) money changer - RBI

5.30 wake up

7. (i) No change in both

(ii) Cash flow decreases, no change in gross profit

(iii) No change

(iv) gross profit decreases, no change in cashflow

(v) No change

6. Different ways of manipulation are:
Inflating current operating income by increasing booked Sales or decrease in expenses.
These can be done:
(i) Wrong amortization of intangibles
(ii) wrong valuation of inventories or future liabilities
(iii) wrong depreciation of tangible assets.

5. Realization concept
(a) Income is recognised as & when it is earned and hence is not necessary to wait until the actual bill is settled

Accrual concept
Expenses are recognized as & when it is incurred regardless of whether it has been paid.

(b) As parts of realization concept in preparing the accounts of the company, the earned premium of the year is calculated by considering the earned portion of the premium & unexpired risk premium.

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As part of the accrual concept, the claims paid during the year & reserves created for the expected claims are considered.

4. (c) all of the above

3. (c) chairman's report

2. (c) an adverse opinion

1. ~~(a)~~ (b) all of the above