PAGE No.
DATE / /

Business Finance Assignment 2

~~Ans 1~~

Q.1 All the above

Q.2 C. Adverse Opinion

Q.3 C. Chairman's Report.

Q.4 Cost Concept.

Q.5 a.) Income is to be recognized as and when it is earned.

i) Not necessary to wait until customer settles the bill
Avoids fluctuations in reported income.
But may show business is performing well, although ~~to~~ running out of cash.

ii) ~~b~~) Expenses are recognized as when incurred, regardless of whether amount has been paid.
Avoids random allocation ~~of~~ of costs to periods.

b.) Income:
→ Inflow of premium is considered only when premium is actually recieved. If not recieved, it is shown as an asset / Outstanding Income.

→ Expense:
· Commission ~~paid~~ will be paid throughout the year
Adv expense for 3-5 years shall be recognized now, altho not incurred yet.

PAGE No.
DATE / /

Q.6
- Accounting methods can be used to enhance the image of firm, and make it better.
- Inflated Current Operating Income (Eg: Increase in sales at end of accounting period, Decrease in Expenses).
- Reducing Current Operating Income
- Inappropriate depreciation, amortization or valuation of assets
- Inappropriate valuation of future liabilities
- Omitting Contingent Liabilities.

Q.7
i) As valuation increases, value of sale of asset increases thus a +ve cashflow + gross profit. This will be seen only when there is sale of asset.

ii) Interest payment on bond is a negative cashflow
Gross Profit includes cost of trading act. so remains same.
In Cashflow, this is a part of financing activity so reduced from Total Cash.

iii. No effect on Cashflow
GP: No change, as last yr closing, this year opening.
Raw Material to finished goods.

iv. GP decreases as Deprn is a cost
Cashflow (Increase as Non Cash item).

v. No change in GP
Cashflow: Add to CF as no cash has gone out

PAGE No.
DATE / /

Q.8. i) Main Roles:

→ Maintain market Confidence: Confidence in financial system.

→ Financial Stability: Protect & Enhance stability of fin. system.

→ Consumer Protection: Securing Appropriate degree of protection for consumers.

ii) Reserve Bank of India IRDAI PFRDA
Securities & Exchange Board of India

iii) a) Banks: RBI c. IRDAI e. SEBI g. RBI
b.) PFRDA d. SEBI f. SEBI h. RBI

Q.9 i.) Under Cost Concept, all non current assets appear in BS at original cost, less depreciation till date, & possible impairment write-down. It is being gradually phased out, to provide scope for realism in Statements. (fair value)

ii.) Going Concern Concept: All accounts statements are made with an assumption that business will continue to run for an indefinite period of time in future. Supports Cost Concept.

ii.) If company enters in such case, then they can continue with working and state the same as a Note to Accounts below Fin. Statements.

iii.) Optimistic Accounting will show overstated profits. This figure may reflect on SE by increasing MVP of Share. But in reality, there can be actual problems in Company. If company hits a bad patch,

MV

the unwanted reality will show effects and share price will fall drastically, the company may not be ready for such an attack. Share Price will after a time will depend upon FCF, and thus change value."

Q.10

a.) Investment Bank: Deposits made by customers for savings. Investment by other banks. Commission from Client Companies.

→ Appln: Used to invest in startups, IPO, business or projects which will yield a good return

b.) Pension Scheme: Money deposited by customer/ policy holder over years. Govt Grants. Investment by Banks.

Appln: Used to give pension to people after retirement age as annuity - to their family.

c.) Life Ins. Comp: Premium from policyholder. Investment Returns. Commission from Reinsurance.

Appln: Claims given, prem to reinsurer, underwriting exp, adv exp, daily exp, comm to distributor. Invest for future reserves.

Q.11 Complicated features:

- Underlying contracts/ liab fall outside the acc period and are uncertain in size
- Giving away profit to shareholders may endanger financial stability of company & ability to meet future liab.
- Policy sold, we receive prem and incur exp. Into ar. If claim asked early, then that loss If after some yrs are prem are covered, then it's normal.

· ~~It is~~ PL Statement is in 2 separate parts
Technical: from insurance business related
Non Tech: Profit/Loss from non insur business.

Q.12 It is complicated as:
i) Profits cannot be realised at end of Acc Year
Receiving profits depend upon year in which claims are made.
ii) Any future liab. which can occur, in are uncertain about timing and size.
iii Profits cannot be given to sharehol as this may hamper reserves. at a time of claims there can be burden.

ii] Reserves: Kind of Liab (Technical)
· Long term business provision including actuarial estimation of company liab included bonus declared and after deducting future prem.
· Unexpired Risk Reserves: O/S Claim Reserves
↓ ↓
Claim occurring from unexpired cover : O/S Claim not yet settled.

→ Fund for future appropriations: (Life Insurer).

Q.13 Adv: Clarity, Comparability, Guidance, Uniformity.
· Disadv: Principle Driven, Rigid Rules,
Many options to choose which are very diff.

ii.) IFRS, GAAP, Ind-AS.
iii.) Financial Acc Standards Board
Int. Accounting Standards Board
Accounting Standard Board.

PAGE No.	
DATE	/ /

iii) P&L and BS donot provide sufficient insights about the movements of cash balances. Even profitable companies collapse, if they are not liquid.
Even causes of changes in Cash/Bank cannot be ascertained from BS
Shareholder need a more structured details of cashflow.
It answers the quest like:
· Is comp. generating enough cash as related to profit
What was done with any loan taken.
Why was Bank O/D increased despite profitable year.

8.15 Financial Position as on 31-12-19
I. Assets:

Non Current Assets	6.	49959
Current Assets.	7	21410
Total Assets		
Equity:		
Share Cap		32000
Retained Earnings.		9369
Non C. Liab	–	–
Current Liab	8	10000

Income Statement for yr ended 2019

	WN	Amt $
Revenue [CY]		56000
Cost of Sales	2	(6041)
Gross Profit	8	49959
Admin Exp	3	(32790)
Distribution Exp	-	-
Other Income	4	200
Operating Profit		17369
Finance Income	-	-
Finance Cost	-	-
~~PBT~~ PBT		17369
Tax	5	(3000)
Profit After Tax		14369

SCE: Changes in Equity

	Share Cap	Retained Earning
Opening	32000	0
Dividends	-	(5000)
CY Profit		14369
Closing:	32000	9369

PAGE No.
DATE / /

WN1: Rent Cal: 12M → 15917 } PL
CY: 11M → 14591
1M Extra: ~~1326~~ → CA
→ Feb: 1000

1000	1050	1102.5	1157.63	1215.5	1276.2	1340.1	1407
F	M	A	M	J	JL	AU	S

1477.5	1551.3	1628.9	$\boxed{1710.3}$
O	N	D	J

Rent Prepaid: 1710
→ WN2: COS:
→ Opening Supp: 2000
Closing Supp (−1000)
Depr^n Lap: 3208
Office: 1833
6041

Fee Revenue: 55000
Fee Earned: 1000
O/S 2000
Unearned: 9000 : CA
O/S Fee 2000
11,000

→ Salary of Employee: 10,000
O/S Salary 4000 − CL
14000

WN4
BR → 5000
Int Rec + 200
5200] CA

WN6:
	Laptop	Off Equip.
Cost	35000	20000
CY Dep	3500 × 11/12	2000 × 11/12
Dep	(3208)	(1833)
Closing	31792	18,167

Yr Depr^n → 3500
2000

CY Fee:
→ 55000
(−) 1000
(+) 2000
56000

CA: 10K
− 1K
+ 2K
11K

WN3 Admin Exp:
- Office Rent: 14207
- Salary: 14000
- Elect Bill 4000
- Internet Bill 583

32790

WN5. Tax Payable: 3000
60369

WN7: Current Asset:
- TR: 1500
- Cash: 1000
- BR: 5200
- Unearned fee: 11000
- Closing Sup 1000
- Prepaid Rent: 1710

21410

WN8: CL: TP: 3000
O/S Salary 4000
O/S tax 3000
10K

classmate
Date
Page

Q.14

Income Statement	WN	Amt $
Revenues		1500000
- Cost of Sales.	4	(625000)
Gross Profit		875000
Other Operating Income	-	-
Admin Expense	1	(3000)
Distribution Expense	2	(235000)
Operating Profit		6~~37~~000
Finance Expense	5	(10000)
~~Finance Income~~ Depreciation Charge	9	~~5[illegible]~~ 50,000
Profit Before Tax		~~461000~~ 577000
- Tax Expenses.	-	-
Profit After Tax		~~467000~~
Gain on Revaluation		500000
Total CI:		9~~0~~,07,000
Financ. Position		
Non Current Assets	7	167~~9~~000
Current Assets.	6	240000
Total Assets.		~~1875000~~ 1919000
Equity & Liab.		
Equity		
Share Capital.		200000
Retained Earning		~~6~~782000
Reserves.		7~~24~~0000
		1659000
Non Current Liab.	8	145000
Current Liab.	3.	68000
		1919000
Total Liabilities.		~~1875000~~

St. C.E.

	Share Cap.	Retained Earnings.	Other Reserves.
Opening Balance	200000	250000	180000
− Dividend Paid		(45000)	
+ Revaluation Reserve			5,44000
+ Current Profit Year.		577000 ~~4564000~~	
Closing Balance:	200000	782000	~~680000~~ 7,24,000
	266000	712,000	

WN1 Admin Expenses

· Administrative Expense	3000

WN2: Distribution Expense

· Marketing Cost	55000
· Delivery Running Cost	60000
· Sales Salary	120,000
	235000

WN3. Current Liabilities

· Bank Overdraft	18000
· Trade Payable.	50000
	68000

WN4: Cost of Sales:

· Cost of Inventory Consumed (Open – Closing)	350000
· Factory Running Cost:	100000
· Manufacturing Wage:	175000
	625000

WN5. Finance Expense

· Interest Paid	10000

WN6. Current Asset

· Closing Inventory	30,000
· Trade Recievable	210,000
	240000

WN8. Non Current Liab

· 2024 Loan Repayable	145000

WN9. Depr Expense on Asset

· Building CY	4000
· Machine CY	15000
· Delivery Vehicle CY	31000
	~~50000~~
	50,000

WN7. Non Current Assets:

	Building	Delivery Vehicle	Machinery ~~Factory~~	Land.
Cost:	400000	325000	150000	600000
Revaluate	344000 ~~-344000~~	—	—	200000
Amount	~~700000~~	325000	150000	800000
Acc. Depr				
Opening:	40000	170000	80000	-
+ New CY Dep	4000	31000	15000	-
T. Depr Clo:	(44000)	(201000)	(95000)	(0)
A.V	700000	124000	55000	800000