Business finance

Ques 2 (A) Disclaimer of opinion

Ques 3 (C) Chairman report:-

Que 4 (D) I, II and III

Ques 5 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 premium payments could be monthly, quaterly or half yearly depending upon the type on insurance and hence still in their rewards its recorded as revenue on the basis of number of policies sold.

(ii) whereas accrual concepts of healthcare insurance Company is utilised in the preparing of amounts of the company they would include underwriting, administrative expense etc as and when the policy is sold. Regardless the amount has been extracted from the premiums.

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

i) 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 Subjectively inherent in accounting rules to select accounting policies or make assumptions which tends to bias the figure in direction choosen by the management misleading the users of accounts.

for eg: The charge of depreciation requires an estimate of 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 decrease

Ques (8) Main roles of financial regulations are:

(1) Market Confidence: To maintain Confidence in financial systems

ii) financial Stability: Contributing to the protect and enhancement of Stability of financial System

(iii) Faire and Proper functioning: Securing the appropriate degree of protection for consumer.

(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

(iii) (a) Banks - RBI
(b) Superannuation Products (PFRDA)
(C) General Insurance Companies (IRDAI)
(d) Stock brokers (SEBI)
(e) Mutual Funds (RBI)

Ques 9 (i)

Cost Concepts: It has been Presented one of the Cornerstones of accounting for a very long time. Under this Concepts non current assets generally appear in the statement of financial position at their original cost less depreciation to date, subject to a possible impairement write down.

Going Concern Concept:
It is usually assumed that a business will continue indefinitely in it's 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 values if assests concerned are unlikely to be sold in near future.

(ii) 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 informations is reliable if:

(i) It provides a faithful representations of entity's financial position, performance and 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) According to the 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 fair view hence will loose confidence in the company.

(c) They may ask for the exchange of auditor and to re audit the statements.

(d) If the audit report is not satisfactory the shareholders might start selling the shares, thereby lowering the shareprice.

Sol 10 (a) Investment Bank: The primary goal is the advice business governments on how to meet their financial challenges.

The main Sources of funding are:
retained earnings . equity financing and government loans.

Applications of funds: Their role is to help in the development with captial 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 others financial institutions especially with Commercial investment banks.

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

Applications: The pension funds invest in private equity real estate infrastructure and securities and offer on lumpsome 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 drop 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, estate settle 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 reserve for a general insurance company's technical account are:
Prepayments of premiums, reserves against outstanding claims. and actuarial reserves against outstanding risks in respect of life insurance policies including reserves for with profit policies which values on maturity

Sol (13)

Advantages	Disadvantages
→ They eliminate or reduce variations b/w companies	→ The sets of rules contain in them may not be suitable for every company.
→ The discussion process leading up to a standard being issued & focusses attention on particular areas of debate	→ Standard setting may be entirely objective.
→ They oblige companies to disclose more info than the of natural law	Standards often allow many ~~The sets of rules contain in them may not~~ than one be alternative treatment which negotiates the attempt to ensure conformity
→ They allow some degree of flexibility in a way that legislation often does not	→ Some standards are so general as to be meaningless while others are far too detailed.

ii) 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 movement 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

	(000's)	Notes
Revenue	1500	
- Cost of Sales	647	(i)
Gross profit	853	
- Administrative expenses	~~85~~(3)	(ii)
- Distributive Cost	(266)	(iii)
Net profit	584	
- Financial expense	(10)	
profit before tax	574	
profit for the year	574.	

Notes :

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

(ii) Administrative expenses
wages 3

(iii) Distribution cost:
Cost of Marketing : 55
Delivery vehicle Depriciation : 31
Sales Salary 120
Delivery running cost 60
Total 266

(iii) Statement of changes in Equity

Share Capital	Retained Earning	other reserves
200	250	180
	574	
+	(45)	340+20
	779	
Total 200	779	720

(iii) Statement of financial Position

Assets

Non Current Assets 1749

Current Assets 240

Total Assets 1912

Equity of Liabilites 1459

Equity

Share Capital	200
Reserves	720
Retained Earnings	779
Total Equity	1699

Liabilities

Non Current Liability :

Loan Payable :	145
Current Liabilities	
Bank overdraft	18.
Trade Payable	50
Total Liability	213

Notes

(i) Non Current Assets :

→ Building	700
Depreciation	(7)
→ Delivery vehicle	325
Depreciation	(201)
→ land	800
- Machinery	150
depreciation	(95)
Total	$\boxed{1672}$

(ii) Current Assets

Trade recievables	210		
inventory	30	Total	$\boxed{240}$