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Roll no - 17

Business Finance - 2
Assignment - 2

Q1] (C) I, II, IV

Q2] (C) Adverse opinion.

Q3] (C) chairman's report

Q4] (A) ~~cost ...~~ II only.

Q5] a) Realization concept :-
In this concept, income is accounted for when it is earned [not received].

Accruals concept -
To avoid random cost allocation, this method is used. In this concept, expenses are not recorded when they are paid, but insted when they are incurred.

b) Through the use of realization concept, earned premium is calculated, by taking the earned premium out of the total written premium, into consideration.
The incurred claims are used to calculate the known/unknown claims for the next year.

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Q6] (1) Tangible assets - by showing inacurate amount of depreciation.

(2) Intangible assets - by showing inappropriate ammortisation.

(3) Inventory - by increasing or decreasing the valuation.

(4) Pure Liability - by increasing or decreasing its valuation.

(5) Contingent Liabilities - May be omitted to reduce liability.

(6) Revenue - Prebooking the ~~anticipated~~ expected sales, to show when wanted.

Q7.]

(I) Gross profit - Increases
Cashflow - No change

(II) Gross profit - No change
Cashflow - Decreases (Negative cashflow)

(III) Gross profit - Increases
Cashflow - No change

(IV) Gross profit - Decreases
Cashflow - No change

(V) Gross profit - No change
Cashflow - Decreases.

Q8.] (i) Main Roles of regulation –

→ To protect and enhance stability of market
→ To produce market confidence
→ To protect the consumer

(ii) Regulatory bodies regulating Indian Financial System –

→ Reserve Bank of India (RBI)
→ Insurance regulatory and development authority of India (IRDAI)
→ Securities Exchange Board of India (SEBI)
→ Pension Fund Regulatory & Developing Authority (PFRDA)

(iii)
a) RBI
b) PFRDA
c) IRDAI
d) SEBI
e) AMFI
f) SEBI
g) FEDAI
h) RBI

Q9] (1) Cost concept – Under this concept, non-current assets are shown in statement of financial position at original cost.

Going concern concept :– It is assumed that the business will go on indefinitely. It acts as a justification for cost concept as it considers assets to be sold in near future.

(iii) The prudence concept tells us to avoid presenting untrue optimistic set of results in financial statements. Highest liability and lowest realisation of profit is to be considered. This will leave little possibility for untrue optimism.

Q10]

a) Investment Bank –

→ Role – To create wealth for investors investing in their bank.

→ Source of funds – Money invested by investors looking for good returns

→ Application of funds – Investing the money received in equities or bonds in the market.

b) Pension scheme -

→ Role - To provide annuity products.

→ Source of funds - Premiums collected from customers during their working years; before retirement.

→ Application of funds - Investing the premiums ~~received~~ into the market.

c) Life Insurance company -

→ Role - To provide a sum to policy holder as per policy.

→ Source of funds - Premiums paid by policyholder till a certain fixed period or death.

→ Application of funds - To provide said amount to policyholders.

Q11.] Challanges faced

→ Income will ~~may~~ be used differently

→ Non uniform

→ Depreciation and ~~iflat~~ inflation may be different.

Q12.]

(1) Reasons for preparation of insurance accounts to be complicated

→ Premature sharing of profits to shareholders may leave the company vulnerable for future liabilities.

→ Payment of policy may lie outside the accounting period.

→ There may be ~~vast~~ sudden large outflows at any given time which may be over the estimated range.