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Business Finance
Assignment 2.

1. ~~B~~ C
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5) The realization concept of accounting says that income should be recognized as and when it is earned. It is not necessary for the bill to be settled or cash to be received to record a transaction. It avoids the fluctuations that might arise in reported income if it is reported on a cash basis.

According to the accrual concept, expenses should be recognized as and when they are incurred even if the bill has not been settled. This avoids the problem of the cash being reallocated for alternate purpose.

6) The realization concept is utilised in the way that earned premium consists of premium earned this year and the ~~$~~ unexpired risk premium carried forward ~~from~~ for next year.

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6) Different ways of manipulating accounts are:

-> Not recording a purchase : A big capital purchase may not be recorded ~~to show big~~ and pushed to next year to show higher profit this year

-> Inappropriately depreciating or amortising assets : This can be done in a way to show higher profits.

-> Inappropriate valuation of inventories or future liabilities.

-> Ommiting contingent liabilitie.

7)
i) No change to gross profit or cash flow.
ii) No change to gross profit but decrease to cash flow.
iii) There is no change to gross profit or cash flow.
iv) Gross profit decreases but there is no change to cash flow.
v) There is no change to gross profit or cash flows.

8) Regulation is an essential part of any financial system. The main role of regulation in the financial system includes -:

→ Protect the interests of the investors
→ To maintain the confidence of the international community in the financial system
→ To maintain the confidence of the public or investors.
→ To protect and promote the stability of the financial system.
→ To deter or discourage and regulate any fraudulent behaviours.

ii) The regulatory bodies which supervise the financial system include -:

→ RBI or the Reserve Bank of India sets the monetary and fiscal policy and regulates the financial system.
→ SEBI or securities and exchange board of India, enforces laws relating to financial products or service. It also authorize brokers, underwriters, mutual funds etc.
→ IRDA or Insurance Regulation and Development Authority, functions like the supervisory authority for the insurance industry.

iii RBI
IRDA
IRDA
SEBI
SEBI
SEBI
RBI
RBI

9 i) The cost concept states that non current assets should be valued at book value or cost less depreciation.
The going concern concept state that it should be assumed that the business will continue indefinitely in its present form and accounts should be prepared accordingly.

ii) If an unusual accounting transaction has to be recorded, the company must first refer to the guidelines given by the Accounting Standards Board regarding clarity, comparability and reliability. Then the company must refer to any similar or closely related accounting policy already in practice

iii) Most optimistic policies used in accounting can be identified by careful examination by the market. Markets often tend to award conservative policies rather than optimistic ones as they build trust between the governance and the investors.

10) An investment bank is an institution that advises companies on ways to raise finance. It invests in bills and provides loans and leases to companies. It also receives fees for advice, underwriting commission and bill acceptance. They borrow money by running bankers account.

A pension scheme is one which channels savings for retirement into long term capital markets. It invests in equities and long term loan securities. It is funded by contribution from employers and employees.

A life insurance company pools mortality and investment risks by channelling savings into long-term capital markets. It invests in a mixture of equities and short and long term fixed interest securities. It is funded by premiums from policyholders

11) Since general and life insurance companies are regulated by different regulators they may follow different accounting policies making it difficult to interpret. They may also be prepared

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and meant to be interpreted in different ways.

12) Insurance company contracts fall due outside the accounting period and are uncertain in size. Also premature transfer of profit to shareholders may endanger the financial stability of the company. These are reasons why the accounts of insurance companies are more complicated to prepare.

ii) The major component of reserves are -:

-> Unexpired risk reserves
-> Outstanding claim reserves.

13 i) Four advantages of compliance with IAS are -:
-> They reduce variability between different company accounts
-> The allow more flexibility than legislation
-> They force debate on policies
-> They make uniform disclosures mandatory

Four disadvantages are -:
-> The rules may not apply to all companies
-> They may be vague and general causing confusion.

→ They may be too detailed causing unnecessary complication.
→ May be two or more treatment causing confusion.

ii) Various regulators are :-
→ Stock exchange requirements
→ Principles and standards of accounting such as IFRS
→ Company laws.

iii) Cash flow statements provide information about the inflow and outflow of cash. Even if the company generates a lot of profit it may not lead to positive cashflows. Inflow is important because a company always needs cash for regular operations.

14) Statement of Income

Revenue	1500000
Less: Cost of Sales	(647000)
Operating ~~Gross~~ Profit	853000
Less: Admin Expenses	(3000)
Distribution expense	(266000)
Gross Profit	584000
Less: Interest	(10000)
Net Profit	574000

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Statement of Changes in Equity

	Share Cap	Revaluation Res	Retained Earn	Total.
Opening Bal	200,000	180,000	250000	630000
Revaluation		540000		540000
Profit			574000	574000
Dividend Pay			(45000)	(45000)
Closing Bal	200000	720000	779000	1699000

Balance Sheet .

NON CURRENT ASSETS.	
Property plant and Equipment	1672000
CURRENT ASSETS	
Trade Receivables	210000
Inventory	30000
	240000
~~To~~ Total Assets	1912000

EQUITY AND LIABILITIES

EQUITY	
Share capital	200000
Revaluation Reserve	720000
Retained Earnings	779000
	1699000
NON CURRENT LIABILITIES	
Loan	145000
CURRENT LIABILITIES	
Trade Payables	50000
Bank	18000
	68000
TOTAL Equity and liabilities	1912000