B.F.

Assignment - II

1) C

2) C

3) C

4) A

5) (i) According to realization concepts, income and profits should be recognized as and when it is earned. According to accural concepts, expenses should be recognized as and when they are incurred regardless of weather or not the amount has been paid.

(ii) The earned premium for the year is calculated by considering the earned portion of the total written premium in the year and carried forward unexpired risk premium is an application of realization concept. The incurred claims for a financial year considers the paid claim during the year, outstanding claim reserves for known and un-known claims at end and start of the financial year.

6) Diffrent way of manipulating accounts :-

- Unwarrented revaluation of tangible assets.
- Creating intangible assets of questionable true worth.
- Omitting contingent liabilities.
- 'Pre booking' of anticipated sales revenues.
- Inappropriate depereciation of tangible assets.
- Inappropriate amortisation of intangible assets.
- Inappropriate valuation of inventories.
- Inappropriate valuation of future liabilities.

7)

Item	Cash flow	Gross profit
i)	No change	No change
ii)	Decreases	No change
iii)	No change	No change
iv)	No change	Decreases
v)	No change	No change

8) (i) Main roles of regulations in the financial system are:-

(a) Maintain public / investor confidence.
(b) Promote stability of the financial system.
(c) Protect investors.
(d) Maintain international confidence.
(e) Deter fraudulent behaviours.

(ii) • The Reserve Bank supervises via prudential regulations all deposit taking activities as well controls ~~foreign~~ foreign exchange market beside overall stability of financial system and setting monetary policy and payments system.

• SEBI is responsible for financial market integrity, companies consumer protection in relation to financial products and services, and enforcement of law relating to financial products and services. It also licenses and supervises a number of financial market participants ~~sut~~ such as security brokers; under writers, depositories, mutual funds etc.

- IRDA is responsiblle of insurance companies in a manner ~~similar~~ similar to RBI in arena of banking. It licenses all insurancer sector related intermediaries and prudentially supervises over them.

(iii)

Entity	Regulator
Banks	RBI
Superannuation products	IRDA
Genral insurance companies	IRDA
Stock Brokers	SEBI
Mutual funds	SEBI
The market for listed securities	SEBI
Foreign exchange dealers	RBI
Money changers	RBI

g) (i) According to the cost concept, non-current assets should be valued at cost less depreciation. According to the going concern concept, accounts should be prepared on the assumption that the business will continue indefinitely in its present form.

(ii) Key guiding principles for setting accounting policies for ~~an~~ unusual transactions are -

a) There is a general requirnment that the financial statements give a true and fair view. Amongst other things, that any treatment gives a realistic and representative treatment of the transaction.

b) The guidance provided by Accounting Regulations Board in this regard should be considered. For example, the objectives of relevance, reliability, comparability and understandability should be applied.

c) The directors might consider looking at the treatment laid down by standards for similar balances, even though those standards might not be strictly applicable. That would ensure that the logic underlying the chosen treatment was consistent with good accounting practice.

(iii) Most of the optimism in making accounting choices is quite visible to the analyst and market participants. For example, companies publish their accounting policies and so it is possible to tell whether a particular approach has been followed and accordingly opinions formed about the price.

The stock market examines information carefully to ensure that it dose not misprice securities. If share are overpriced then there will be opportunities for astute market participants to make profits by identifying the overpriced companies and selling shares. Market forces would push the shares down and these activities would also draw attention to the distortion.

Markets usually reward companies with good corporate governance which is also reflected from the conservativeness of estimates and accounting policies. Conservative policies also provide ability to the company to present more smooth results in volatile times which can work in favour of its stock price.

10) (a) Invest Bank :-

Role :- Advice companies and help companise ~~help~~ raise finance.

Source of funds :- Receive fees for advice, underwriting commision, fund management, Eurobond, dealing, trusteeship, and bill acceptance.

Application of funds :- Invest in bills and provide loans & lease to companies.

(b) Pension Scheme :-

Role :- Channel savings for retirement into the long-term capital markets.

Source of funds :- Contributions from employers and employees only.

Applications of funds :- Typically funds are invested in equities, longer dated gilts, company debts, overseas securities, property, money market instruments & index linked gilts.

(c) Life insurance company :-

Role :- Pool mortality & investment risk by channeling savings into long term capital markets.

Source of funds :- Premium income from policyholders.

Applications of funds :- Typically funds are invested in mixture of equities & fixed interest securites. May have some investment in oversea securities, property, money market investments & index linked gilts.

11) The possible limitations and challanges are as follows :-

(i) Diffrent regulation will govern these companies on a same ~~sub~~ subject may bring difficulty in comparision e.g. solvency ratio.

(ii) There may be subjectivity involves in few ~~seconds~~ sections of accounts e.g. revaluation of assets; accounting of tangible assets.

(iii) There is be difference between these companies as their business is different which will ~~take~~ make comparison difficult e.g. Reserve utilization.

(iv) There is inherent limitations in diffrent ratio analysis e.g. ignore the size of business.

12) (i) The reason of complication in preparing the insurance companies accounts as compared to normal company accounts are as follows :-

(a) The insurance contracts with policyholders fall due outside the accounting period and are uncertain in size.

(b) Premature transfer of profit to shareholder may endanger the financial stability of the company and ability to meet the future liabilities.

(ii) The major component of reserves for a general insurance company's technical accounts are as follows :-

(a) URR (Un-expired risk reserves)

(b) Outstanding claim reserves

14) (i) ABC Ltd. Income statement for the year 31st Mar 2019

Revenue	1,500,000
Cost of sales	(647,000)
Gross Profit	853,000
Administrative staff wages	(3,000)
Distribution Cost	(266,000)
	584,000
Interest	(10,000)
Profit of the year	574,000

(ii)

	Share Capital	Revaluation Reserve	Retained Earning	Total
Opening balance	200,000	180,000	250008	630,000
Revaluation		540,000		540,000
Profit of the year			574,000	474000
Dividend paid			(45,000)	(45000)
Closing Balance	200,000	720,000	779,000	1699,00

(iii)

Non-Current Assets	
Property, Plant and Equipment	1,672,000
Current Assets	
Inventory	30,000
Trade Receivables	210,000
	240,000
Total assets	1912000
Equity and liab.	
Equity	
Share Cap.	200,000
Revaluation Reserve	720,000
Retained earn.	779,000
	1699000
Non-current liability	
Loan	145,000
Current Liability	
Trade payables	50,000
Bank	18,000
	68,000
Total equity and liab.	19,912,000