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Assignment-2

BF
Unit 1, 2

Q1 Which of the following errors in recording transactions has an impact on ~~prof~~ profitability?

Ans D) II and IV

Q2 The auditor believes that the financial statement do not give a true and fair view and the effect is so material that a disclosure is required to the extent that financial statement may be misleading or incomplete in nature, the auditor should issue-

Ans C) an adverse opinion.

3 Which of the following is NOT required as a part of a listed company.

Ans C - doubt

4 Which of the following accounting concepts are likely to distort the ~~to~~ true economic value of an entity as reflected by its statment of financial position.

Ans C|D

5a) Briefly explain the realization and accural concept of accounting

Ans ① **Realization concept**- Incomes are recognised when they are 'earned' and not when the money is received. Therefore it is not necessary to wait unit customer settle his or her bill To avoid fluctuations the reported income might arise and everything is accounted for cash basis. This might create an impression that business is performing well, infact it is in danger of runnig out of cash.

② **Accural Concept**. Expenses recognised as and when incurred, regardless whether amount is paid or not. This avoids random allocation of costs to period depending whether bill happens to been paid or not.

b A Health insurance company sells one year medical plans through out the year. Describe the specific ways the realization and accural concept is utilized in preparing the accounts of the company.

The company can record the expenses when they are incurred and income when they are earned rather than waiting for the cash to come. So all the ~~finan~~ policies sold and the expenses incurred for the same will be in that financial year only. The money may be recieved late so this can help the company to show that there is no bancrupcy. If the expenses are to be paid later. They can be recorded as an when they are incurred. This helps in showing that ~~they~~ there are no excess profits.

In this way realization and accural concept is utilized in preparing the accounts of the company.

6 Explain the different ways through which accounts can be manipulated along with examples of each.

Accounting methods can be used to enhance the image of a firm and make it look better than it is. Such practice will make the current reported profitability a poor indicator of future profitability. Accounting practice that can lead to such misstaments include:-

1. Inappropriate depreciation of tangible assets:- The tangible assets like plant and machinery or buildings whose value are increasing can be depreciated. Mainly because being recorded by the value at which they are bought.
2. Inappropriate amortisation of intangible asset - If the company change ~~in~~ the rules of ~~depri~~ amortising intangible asset. The asset may be over or under valued.
3. Inappropriate valuation of inventories. The inventory is ~~noted~~ recorded at selling price or market price which ever is lower. But a company

can estimate lower or higher selling price. Thus manupilating the accounts.

(4) Inappropriate valuation of future liabilites (eg pension provision over or underualued).

(5) unwarranted revaluation of tangible assets.

(6) Omiting contingent liabiuty - contingent liability are not be mentioned in the final Books of accounts but to be mentioned as a note. ~~TA~~ By skiping on mentioning the notes the accounts can be manupilated.

(7) "pre booking" future sales revenue - According to consevatism. we anticipate future losses but we do not anticipitate future revenues (profit). But the company while making the accounts anticipates sales revenue.

Thus these are the few ways in which accounts can be manupilated.

(7) What happens to the Gross Profit and cash flow of the company for a particular financial year (whether there is an increase / decrease) in the following cases.

i) Property that company posses has revalued upwards by Rs 100 crore by the valuer. Cash flow - There will be no change in the cash flow. ~~Gross Profit - No change~~ Gross Profit - No change. Net Profit - Increases.

ii) There has been an interest payment of Rs 1000 crore toward Masala bond issued by the company. Cash flow - outflow. ~~Gross Profit~~ (Net Profit) - Decreases. Gross Profit - No change

iii) There has been an increase in inventory of Rs 500 crore which were manufactured out of raw material available in the previous year end, ignoring any manpower and cost of production. Cash flow - No change. Net Gross Profit - Increases.

iv) There was a depriciation of plant and machinery to the extent of Rs 250 crores.

Cash flow - No change. Net profit - Decreases.

v) It was decided to write off Rs 200 crore due to EHFL defaulting. Cash flow - ~~Out flow~~. No change
Gross/ Net Profit - Decrease.

(8) i) Briefly list the main roles of regulations in the financial system.

The main role of regulations in the financial system are as follows:-
1) market confidence - to maintain confidence in financial system.
2) financial stability - contributing to the protection and enhancement of stability of financial system.
3) consumer protection - Securing the appropriate degree of protection for consumers.

ii Identify the bodies which regulate the Indian financial system.

In India, the financial system is regulated by independent regulators, incorporated with various different fields. Some of the bodies that regulate the financial system - banking (RBI), securities market (SEBI), Insurance (IRDAI), pension fund (PFRDA) etc.

iii Identify the regulatory authorities currently responsible for supervising each of the following:-

a) Banks - Reserve Bank of India (RBI)
b) Superannuation Products - SEBI (Securities and Exchange Board of India)
c) General Insurance company - (IRDAI) Insurance Regulatory and Development Authority of India.
d) Stock brokers (SEBI) Security and Exchange Board of India.
e) Mutal funds (SEBI) Security and Exchange Board of India
f) Market for listed securities. SEBI
g) Foreign exchange dealers RBI (Reserve Bank of India)
h) Money changers - RBI (Reserve Bank of India).

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9. i) A company's accounts should comply various accounting concepts. Outline the cost concept and going concern concept.

Cost concept → • Under cost concept, non-current asset generally appear in the statement of financial position at their original cost less depriciation to date, subject to a possible impairment writedown.
• It is being gradually phased out to provide more scope for realism in financial statements.

Going concern concept → Assumed a business will continue indefinitely in its present form. (To support the cost concept of accounting).

ii) A company has entered into an unusual transaction that is not directly covered by any accounting standard. Explain how the Board Director can go about selecting the appropriate accounting policy for this situation.

The board of director can select the effect which is somewhat similar to the transaction that has been accured and mention a note stating the accurate accounting standard coveres this transaction.

iii) The directors of listed company believe that if optimistic accounting policies are applied consistenly, the stock market will reward the company by increasing its share price. Explain why this may not be true.

This may not be true cause there are many othel factors that will influence the prices in the stock market. (share price). ~~And~~ [If ~~optimistic accounting policies are applied consistenly and the market does not see a reward for them~~]
Thus it is not always true that market will reward the company by increasing its share price. [All the items should be recordered at market or cost price whichever is lower] (conservatism)

10 Discuss the role, sources of fund and application of funds for the following financial Institutions:-

a) Investment Bank- :- Role:- To advice business and goverment on how to meet their financial challenges. Help the clients with financing, reasearch, trading and sales, wealth management, asset management, IPOs, mergers, securitized products, hedging.

Source of ~~finance~~ fund - The companies and the goverment.

b) Pension scheme - Role:- They are established by employers to facilitate and to organize the employees retirement funds.

Source of funds - Employers. Application of funds - To provide a return to the employees at their retirement

c) Life Insurance company. Role:- Life Insurance company sells insurance policy to the people source of funds - customer.

Application of funds - Framing policies, providing return in case of a claim.

11 There are general insurance and life insurance ~~company~~ companies operating in a country, each of which is governed and regulated by a different regulator. If you want to interpret the accounts of these companies for your investment, decision, what limitations and challenges are possible?

General Insurance and life insurance company accounts are difficult to interpret because of the different regulations that regulate them. There are many things that have to be taken into consideration while evaluating them. They have a different risk that not other companies have. The regulator has a lot of power in controlling the companies.

12i) Breifly describle why it is more complicated to prepare insurance companies accounts as compared to company accounts.

It is more complicated to prepare insurance companies account as compared to company accounts because they are regulated by different authorites and insura company accounts are much more complex because of the risk they involve. liabilites have an uncertain time peri

ii) List and define the major component of reserves for a general insurance company's technical account.

1) Reserves
2) Investment income
3) Realized capital gain.

Q13i) List 4 advantages and disadvantages of complaince with International accounting standara

Advantages.

→1) eliminate or reduce variation between companies
2) Makes comparing accounts of companies easy.
3) Oblige companies to give all information.
4) allows some degree of flexibility to the companies.

Disadvantages

1) Set rules ~~apo~~ apt to all companies
2) Some rules are meaningless and some too detailed
3) Some neglet some things =

ii) List the various sources of regulation that influence the preparation of financial statements for companies in addition to accounti
International Financial Reporting Standard
Principals, concepts & conventions
National company laws
Good practice by leading companies
Stock exchange requirement.
Other legislation

iii) Actual cash flow moment
Actual cash profit of the company
The cash flow for different activities of the company.

Question 14

Comprehensive Income Statement for the year 1-4-2018 to 31-

Particulars	W/N	$
Revenue		1500000
- Cost of Goods Sold / Cost of sales		676000
Gross Profit		824000
- Administrative Expenses		(266000)
- Distribution Expense		(3000)
Operating Profit		555,000
- Financial cost		(10000)
Profit before tax		545000
- Tax		-
Net Profit / Profit After Tax.		545000

Statement of Changes in Equity

	Share Capital	Retained earings	Revaluation reserve
Opening Balance	200,000	250,000	180,000
(-) Divident paid		(45000)	
+ Building } Revalue + Land			2,00000 200,000
+ Net Profit		545000	
Closing Balance	200000	750000	580,000

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~~to~~ Financial Statement as
Balance sheet ~~for~~ on 31st March 2019

	Working Note	$
Asset		
Non-current Asset		1533,000
Current Asset		2,10,000
		17,43,000
Equity and liability		
Equity		
Share capital		200,000
Retained Earning		750000
Revaluation Reserve		580000
Non- current liability		145000
Current liability		68000
		1743,000

Working Notes

① Administrative Expenses

Administration staff salary	3000
	3000

② Distribution Expenses

	55000
Cost of Marketing	120000
Sales salary	60000
Delivery running cost	31000
Delivery vehicle Depreciation	266000

③ Current liability

Bank overdraft	18000
Trade payables	50000
	68 000

④ Fixed Asset / Non-current Asset.

	Buildings	Delivery vehicles	Land	Machinery
Cost	400,000	325 000	600,000	150,000
Accumulated depreciation	(40000)	(170 000) 155 000		(80000)
Add Revaluation	600,000		200,000	
Less Depreciation	$\left(\frac{2}{100} \times 600,000\right)$ (6000)	$\left(\frac{20}{100} \times 155000\right)$ (31000)		$\left(\frac{10}{100} \times 150000\right)$ (15000)
Net Closing Value	554,000	124000	800,000	55000

⑤ Cost of Sales

Purchases (Cost of Inventory consumed	350,000
Factory Running Costs	100000
Opening Stock	30 000
Manufacturing Wages	175000
Depreciation (Building)	6 000
Depreciation (Machinery)	15 000
	676000

⑤ Distribution Expenses

Delivery running cost	60000

⑥ ~~⑦~~ Financial Expense

Interest +	10000
	100,000

⑦ ~~⑧~~ Non current - liabilities

Loan	145000

⑧ ~~⑨~~ Current Asset ~~Current liab~~

Trade receivable	210,000
	2,10,000

Question 15

Comprehensive Income statement for the year ended 31st Dec 20

Particulars	Working Note	$
Revenue		58000
- Administrative Expenses	3	(38830)
- Distribution Expenses		-
Operating Profit		19 170
+ Financial ~~Cost~~ Income	8	200
Profit before Tax		19370 ~~18970~~
(-) Tax		3000.
Profit after Tax.		16$\overset{2}{9}$70

Statement of Changes in Equity

	Share Capital	Retained Earning.
Opening Balance.	32 000	
(-) Dividends		(5 000)
+ Gross Profit		16 370
Closing Balance	32000.	~~16970~~ 11370.

Balance sheet as on 31st December 2019

	Working Note	$
Assets		
Non-Current Asset	2	51959
Current Asset.	4	9411
		61370
Equity and Liability		
Equity		
Share Capital		32000
Retained Earning.		~~10970~~ 11370
Non Current Liability.		–
Current Liability.	5	18000
		~~60970~~ 61370

Working Note

1) (Working Note for Rent).

Rent = $\underbrace{1000}_{\text{first month rent}}$ × SPA @ 5%

= ~~1000 × 7.7217~~ 1000× 14.2068

= ~~7 7217~~ = 14 206.

② Fixed Asset / Non-Current Asset.

	Laptop	~~office supplies~~	Office Equipment
Opening stock	35,000	1000	20,000
- Depriciation	(3208)		(1833)
(+) Purchase		1000	
Closing Stock	~~38208~~ 31792	2000	~~2183~~ 1867

Questions

③ Administrative Expenses. | Cost of goods sold:-

Office Supplies	12000.	£15917 - 14206 = (1711)	
Office Building Rent	15917 - Prepaid Rent = (1711)		
Employee's salaries	10000	Depriciation :-	
Office Electricity Bill	4000	Laptop	3208
Mobile and Internet Bill	583	Office Equipment	1833
O/s Salaries ~~(a) Office Supp~~	4000		38830

④ Current Asset.

Trade Receivables	1500
Cash	1000
Bills Receivables	5000
Prepaid Rent	1711
O/s Interest	200
	9411

⑤ Current Liabilities

Unearned Fees	10000	
Trade Payable	3000	
Fee due	2000,	
(-) Earned	(1000)	
O/s Salaries	4000	18000

⑥ Revenue Earned

Fees Earned	55000.
Fee due	2000
Earned	1000
	58000

⑦ Depriciation Calculation

Laptop $= \frac{35000 - 0}{10} = 3500$ $n = 10$

Office Equipment $= \frac{20000 - 0}{10} = 2000$

Depriciation $= \frac{11}{12} \times 3500$

$= 3208$

Depriciation $\frac{11}{12} \times 2000$

(8) Financial Expenses

~~Rent~~ Interest 200