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Assignment

1) D
2) C
3) C
4) A

5) a) Income and profit should be recognized as and when it is earned (Realisation concept).

Expenses should be realised as and when they are incurred regardless of whether or not the amount has been paid (Accrual concept).

b) Premium earned 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 realisation concept.

Incurred claims considers the paid claim during the year, outstanding claim reserves at end of the financial year.

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6)
- Inappropriate valuation of inventories
- Unwarranted revaluation of tangible assets
- Inappropriate valuation of future liabilities.
- Creating intangible assets of questionable true worth.
- Inappropriate depreciation of tangible assets.
- Inappropriate amortisation of intangible assets.

7)

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

8) i)
- Market confidence - Maintain confidence in the financial system.
- Financial stability - Contributing to the protection and enhancement of stability of financial system

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- Consumer protection - Achieving degree of protection for consumers

ii) RBI, SEBI, PFRDA, IRDAI

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

9) i) Cost concept states non current assets should be valued at cost less depreciation.

Going concern concept states, accounts should be prepared on the assumption that the business will continue indefinitely in its present form.

ii) Key guiding principles :

a) There is a general requirement that the financial statements give a

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true and fair view.

b) The guidance provided by accounting regulations / board in this regard should be considered.

c) The directors might consider looking at the treatment laid down by standards for similar balances, even though these standards might not be strictly applicable.

iii) It is possible to comment whether a particular approach by a company is followed or not as companies publish their accounting policies.
Most of the optimism in making accounting choices is quite visible to the analysts and market participants.

10) a) Role → Advise companies and help them raise finance.

Application of Funds → Advise fees, underwriting commission, dividend dealing, Bill acceptance, Fund management.

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Source of Funds → Invest in bills and provide loans and leases to companies.

b) Pension scheme

Role → Channel savings for retirement into long term capital market.

Application of Funds → contribution from employers & employees.

Source of Funds → Investment in equities and long term loans, securities, Overseas ~~xxxx~~ securities, money market, property.

c) Life Insurance Company

Role → Pool mortality and Investment risks by channeling savings into long term capital markets.

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Application of Funds -> Premium income from policy holders.

Source of Fund -> Mixture of equities & short and long fixed interest securities. Overseas securities, property, money etc.

11)

a) Comparison b/w Firms
b) Some limitation of ratio analysis
c) Accuracy of figures
d) Subjectivity - whether the numbers are correct
e) Appropriateness - whether the numbers are 'correct' for their purpose.

12)

i) a) Insurance companies contracts are long term contracts.

b) Uncertain in size.

c) Premature transfer of profit to shareholders may endanger the financial

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stability of the company and ability to meet the future liabilities.

11)

a) URR

b) Outstanding Claim Reserves

a) URR - This reserve is kept to cover the claims and expense that are expected to emerge from an unexpired portion of the insurance cover in future period.

Outstanding Claim Reserves - This reserve covers the claims and expenses for all outstanding claims that have not yet been settled.

13) i) ADVANTAGES

- They eliminate variations between companies in the way they prepare accounts. This improves the ability to compare the financial statements.

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- The discussion process leading up to a standard being issued focuses attention on particular areas for debate about accounting practice.
- They oblige companies to disclose more information than required by national laws.
- They allow some degree of freedom as compared to legislation.

DISADVANTAGES

- The set of rules contained in the standards may not be appropriate to all companies.
- Standard setting may not be entirely objective.
- Some standards are so general as to be meaningless while others are too detailed.

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ii) Sources of regulation:

- Principles, concepts and conventions of accounting,
- National company laws
- Stock exchange requirements
- Best practices in accounting followed by leading companies.
- International Accounting Standards
- Other legislation

iii) Additional information:

- Net cash inflow outflow details
- Even if the entity generates a lot of profit it may not lead to any positive cash inflow as the profits may get locked up in current assets like account receivable and inventory.
- It is the single statement that summarizes the changes in financial position since the previous year.

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14)

INCOME STATEMENT
for the year ended 31 Mar 19

Revenue	1500000
Cost of sales	(647.000)
Gross profit	853,000
Administrative expenses	(3000)
Distribution costs	(266000)
Operating profit	584,000
Finance cost	(10000)
Net profit before Tax	574000

Cost of Sales

Cost of Inv. Consumed	350,000
Factory Running cost	100000
Manufacturing wages	175000
Depreciation	22000
	(647000)

Distribution Cost

Cost of marketing	55000	
Delivery vehicle (Dep)	31000	
" Running cost	60000	
Sales salaries	120000	= 266000

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BALANCE SHEET
AS ON 31 Mar 19

ASSETS	Amount
Non Current Assets	1672000
Current Assets	240000
Total Assets	1912000

EQUITIES AND LIABILITIES

Revaluation reserve	720000
Retained earnings	779000
Share Capital	200000
Total equity	1699000
Non current liability	145000
Current liability	68000
Total equity & liabilities	1912000

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Non current Assets

	Land	Building	Del. Vehicle	Machi
Cost			325000	150000
Acc. Dep.		40000	170000	8000
Op valuation	800000	700000	155000	7000
Current year Dep.		7000	31000	15000
Book value	800000	693000	124000	55000

Total - 1672000

Current Assets - Trade receivable 210000
Closing Inventories 30000
240000

Current Liability - Bank overdraft 18000
Trade payable 50000
68000

Statement of changes in Equity

	Share Cap.	Retained	Rev. Reserve
Op. Balance	200000	250000	180000
Revaluation			540000
Dividend paid		(45000)	
Profit for year		574000	
Closing Balance	200000	779000	720000

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