Business Finance Assignment - 2

1] c) I, II & IV only

2] c) an adverse opinion

3] c) chairman's report

4] a) II only

5] a) Realisation concept - In this concept, income is recognised as & when it is earned rather than money being received by the customer.

Accrual concept - Expenses & are recorded as & when they are incurred & not when they are originally paid. Avoiding random allocation of costs.

b) The earned premium for the year is calculated by considering the earned portion of the total written premium in the year & carried forward unexpired risk premium is an application of realisation concept.

The incurred claims for a financial year considers the paid claim during the year & outstanding claim ~~reserves~~ reserves for known & unknown claims for the mostly next financial year.

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6] Different ways through which accounts can be manipulated are:-

(i) inappropriate depreciation of tangible assets.
(ii) inappropriate ammortisation of intangible assets.
(iii) inappropriate valuation of inventories.
(iv) inappropriate valuation of future liabilities
(v) unwarranted revaluation of tangible assets
(vi) omitting contingent liabilities
(vii) prebooking of anticipated sales revenues

7]

	Gross Profit	Cashflow
(i)	No change	No change
(ii)	No change	Decrease
(iii)	No change	No change
(iv)	Decreases	No change
(v)	No change	No change

8] (i) Main roles of financial regulators are as follows:-
a) To establish market confidence in the financial system.
b) To contribute in the protection & enhancement of stability of the financial statement.
c) To secure the appropriate degree of consumer protection

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(ii) Regulatory bodies that regulate the Indian financial system are as follows -
a) Reserve Bank of India
b) Securities Exchange Board of India
c) Pensions Fund Regulatory & Development authority
d) Insurance Regulatory & Development Authority of India

(iii) a) RBI
b) FRDA
c) IRDAI
d) SEBI
e) AMFI
f) SEBI
g) FEDAI - foreign exchange dealers association of India
h) RBI

9] (i) Cost Concept - Under this concept, non-current assets generally appear in the statement of the financial position at the original cost less depreciation.

(ii) Going Concern Concept - Under this concept, it is assumed that business will continue indefinitely.
Going Concern acts as justification for cost concept as it considers the assets to be sold in the ~~year~~ near future.
So, its a bit irrelevant figures of assets in the books won't matter.

(iii) The Prudence concept tells the preparers of financial statements to avoid presenting an unduly optimistic set of results. Lowest value of profits realistic realisable & the highest value of liabilities incurring should be taken into account. This leaves very little room for fake sense of security by overstating company's strengths.

10] a) Investment Bank →

Role - to create wealth for the people depositing their money in the banks.

Source of funds - The money deposited by the customers in the look for good returns.

Application of funds - investing the money received from the customers in equities, bonds in the market judiciously to get better returns.

b) Pension Scheme -

Roles - to provide annuity products to people after retirement as income support.

Source of funds - premiums collected from customers during their time of employment.

Application of funds - investing & growing the premiums received & to provide annuities to customers.

c) Life Insurance Company-
Role- to provide lumpsum amount to the policyholder's family in case of death of the policyholder.
Source of funds- premiums collected from the policyholder
Application of funds- to provide the said amount to the family of the policyholder at his/her death.

11] Challenges to interpret accounts will be as follows-
(i) Different treatment of incomes
(ii) Different treatment of depreciation
(iii) Non-uniformity
(iv) Uncomparable

12] (i) The preparation of insurance company is complicated due to following reasons-
a) the underlying contracts fall due outside the accounting period & are uncertain in size.
b) Premature transfer of profit to shareholders may endanger the financial stability of the company & the ability to meet future liabilities.

(ii) Technical account includes every income & expense from the insurance business

Earned Premiums
(+) Investment gain
(+) Realised capital gains
(-) Claims incurred
(-) Operating expenses

Balance

13] (i) Advantage →

a) They reduce variations between companies
b) The discussion process leading to standard being issued focusses attention on particular areas for debate.
c) They oblige companies to disclose more information than required by laws.
d) They allow some degree of flexibility that legislation does not.

Disadvantages →

a) The set of standarised rules may not be appropriate for all companies in all circumstances.
b) Standard-setting may be brought by govt. pressure.
c) Standards often allow more than one treatment, negating the conformity between companies.
d) Some standards are very general whereas some are far too detailed.

(ii) Success of regulations influencing the preparation of financial statement of companies.

a) Principles, concepts & conventions of accounting
b) National company laws
c) Stock exchange requirements
d) Best practices in accounting followed by leading companies from time to time.

(iii) Additional information available from cashflow statement
- whether the core business operations of the entity have led to a net cash inflow or outflow. This is important because even ~~t~~ if the entity generates a lot of profit, it may not lead to any positive cash inflow.
- It is the single statement that summarises the change ~~n~~ in the financial position since the previous year.

14] (i) A.B.C Ltd. Income Statement
for year ended 31st March 2019

Revenue	1500000
(-) Cost of sales	(647000)
Gross profits	853000
(-) Administrative staff wages	(3000)
(-) Distribution cost	(266000)
	584000
Interest	(10000)
Profit for the year	574000

(ii) ABC Ltd. statement of changes in Equity
for year ended 31st March 2019

	Share capital	Revaluation reserve	Retained earning	Total
Opening balance	200000	180000	250000	630000
Revaluation		540000		540000
Profit for the year			574000	574000
Dividend paid			(45000)	(45000)
Closing balance	200000	720000	779000	1699000

(iii) ABC Ltd. Statement of financial position as at 31st March 2019

Non-Current Assets	
Property, Plant & equipment	1672000
Current Assets	
Inventory	30000
Trade receivables	210100
Total Assets	1912000
Equity	
Share capital	200000
Revaluation reserve	720000
Retained earnings	779000
Total Equity	1699000
Non-Current Liability	
Loan	145000
Current Liability	
Trade payables	50000
Bank	18000
Total Equity & Liabilities	1912000

Working Notes ->

(1) Property, Plant & Equipment

Cost of variation	Land	Building	Machinery	Vehicles	Total
opening balance	600000	400000	150000	325000	1475000
Revaluation	200000	300000			500000
Closing balance	800000	700000	150000	325000	1975000

(2) Depreciation

Cost of variation	Land	Building	Machinery	Vehicles	Total
opening balance		40000	80000	170000	290000
Revaluation		(40000)			(40000)
Closing balance		7000	15000	31000	53000
		7000	95000	201000	303000
Net book value	800000		55000	124000	1672000

(3) Cost of Sales

Cost of Inventory consumed	350000
Factory running costs	100000
Manufacturing wages	175000
Depreciation of buildings	7000
Depreciation of machinery	15000
	647000

(4) Cost of Distribution

advertising costs	55000
Delivery vehicle running cost	60000
Sales salaries	120000
Depreciation of vehicles	31000
	266000

15] Profit & Loss Accounts for the year ended 31st December 2019

		Amt (INR)
Revenue		
Fee revenue earned		58000
Investment Income		200
Total		58200
Employee's salaries	(14000)	
Office supplies	(1000)	
Office electricity	(4000)	
Mobile & Internet bill	(533)	
Depreciation		
Laptops	(3208)	
Office equipments	(1833)	
Office building rents	(14207)	
Income tax	(3000)	
Total	(41832)	
Total Profit		16368

Calculation Details →

1) Fee receipt = 55000 + 2000 + 1000 = 58000
2) Employee's salaries = 10000 + 4000 = 14000
3) Office supplies = 2000 - 1000 = 1000
4) Office building rents = $15917 - (1000 \times 1.05^{11}) = 14207$

Depriciation - 4

1) Laptops $= 35000 \times \frac{1}{10} \times 1\left(\frac{11}{12}\right) = 3208$

2) Office equipments $= 20000 \times \frac{1}{10} \times 1\left(\frac{11}{12}\right) = 1833$

Balance Sheet as on 31st December 2019

Assets (In INR)		
Laptops	35000	
(-) Depreciation	(3208)	31792
Office equipments	20000	
(-) Depreciation	(1833)	18167
Office supplies		1000
Trade receivables		15000
Cash		1000
Bills receivables		5000
Office building rent		1710
Revenue receivable		2000
Interest receivable		200
Total Assets		62368

Liabilities (in INR)		
Trade ~~##~~ payables		8000
Unearned fees		9000
Employee's salaries payable		4000
Income tax payable		3000
Share capital		32000
Retained earnings		11368
Total liabilities		62368

* Unearned earnings = 10000 - 1000 = 9000

Statement of Retained earnings

Retained earnings calculations →
Net profit for the year = 16368
(less) Dividend = (5000)

Net retained = 11368