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Business Finance-2
Unit 1 and 2
Assignment

1. D. II and IV

2. C. an adverse opinion

3. C. Chairman's report

4. A. II only

5. a) According to realisation concepts, Income and profits should be recognised as and when it is earned.
According to accrual concepts, expenses should be realised as and when they are incurred regardless of whether or not the amount has been paid.

b) 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 realisation concept. The incurred claims for a financial year considers the paid claim during the year, outstanding claim reserves for known and unknown claims at end and start of the financial year.

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6. Different ways of manipulating accounts :

- Inappropriate Depreciation of tangible assets.
- Inappropriate Amortisation of intangible assets.
- Inappropriate valuation of inventories.
- Inappropriate valuation of future liabilities.
- Unwarranted revaluation of tangible assets.
- Creating intangible assets of questionable true worth.
- Omitting contingent liabilities.
- 'pre booking' of anticipated sales revenues.

7.

	Item	Gross Profit	Cash Flow
i)	Property that the company possess has been revalued upwards by Rs. 100 cr by Valuer	No change	No change
ii)	There has been an interest payment of 1000 cr towards Masala bond issued by the company	No change	Decreases
iii)	There has been an increase in Inventory of Rs. 500 crores which were manuf. out of raw materials available in the previous year end, Ignoring manpower and production cost	No change	No change
iv)	There was a depreciation of plant and machinery to the extent of Rs. 250 Cr.	Decreases	No change
v)	It was decided to write off 200 Cr. due to EHFL defaulting.	No change	No change

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8. i) The main roles of regulation in the financial System are:-
- market confidence - to maintain confidence in the financial system.
- financial stability - contributing to the protection and enhancement of stability of the financial system.
- consumer protection - securing the appropriate degree of protection for consumers.

ii) The regulatory bodies which regulate the financial system:
- Reserve Bank of India (RBI)
- SEBI - Securities and Exchange board of India
- PFRDA - Pension fund regulatory and Development Authority
- IRDAI - Insurance regulatory and Department Authority of India.

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

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9\. 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 unusual transactions are÷

a) There is a general requirement 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 analysts 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.

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The stock market examines information carefully to ensure that it does not misprice securities. If shares 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.

10.

Institution	Investment Bank	Pension Scheme	Life Insurance Company
Role	Advice Companies and help companies raise finance	Channel savings for retirement into long term capital markets	Pool mortality and Inv. Risks by channeling savings into long term capital markets.
Application of Funds	Receive fees for advice, underwriting commission, fund management, Eurobond dealing, trusteeship, and bill acceptance. Borrow money by running banking accounts and issuing certificates of deposit.	Contributions from employers and employees only. No borrowings.	Premium income from policy holders. Do not usually borrow money.

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Sources of Funds	Invest in bills and provide loans and leases to companies.	Typical fund invests in equities and longer-dated loan securities and company debt. Also some investment in overseas securities. Small proportion of the assets invested in property, money market investments and index linked gilts and other classes, such as commodities and infrastructure, are becoming more common.	Typical fund invests in a mixture of equities and short and long Fixed interest securities. May have some investment in overseas securities, property, money market investments and index-linked gilts.

11. limitations of interpretation of accounts÷

- subjectivity - whether the numbers are correct
- appropriateness - whether the numbers are 'correct' for their purpose.
- comparison between firms
- some limitations of ratio analysis.
- accuracy of figures

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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 shareholders may endanger the financial stability of the company and ability to meet the future liabilities.

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

a] URR (Un-expired risk reserves)

b] Outstanding Claim Reserves

c] URR (Unexpired risk reserves) → This reserves is kept to cover the claims and expense that are expected to emerge from an unexpired portion of the insurance cover in future period.

d] Outstanding Claim reserves → This reserves is kept to cover the claims and expense for all outstanding claims that have not ~~yet~~ yet been settled. These claims and expense may or may not be reported or known at the time of preparation of accounts.

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13. i) Advantages of compliance with international accounting standards :-

- They eliminate, or at least reduce, variations between companies in the way they prepare accounts. This improves the ability to compare the financial statements across various entities operating in the country.
- 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 flexibility in such a way that legislation often does not. This is even more crucial for a newly formed country.

Disadvantages of international accounting standards :-

- The set of rules contained in the standards may not be appropriate to all companies in all circumstances
- Standard-setting may not be entirely objective
- Standards often allow more than one alternative treatment, which negates the attempt to ensure conformity between companies.
- Some standards are so general as to be meaningless while others are far too detailed.

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ii) Sources of regulations influencing the preparation of financial statements for companies ÷

- Principles, concepts and conventions of accounting
- National Company laws
- Stock exchange requirements
- Best practices in accounting fallowed 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 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 accounts receivable and inventory. If an ~~inventory~~ entity is regularly demonstrating profits every year for the last few years but is not generating positive cash flows, it could be an early warning that the revenue accounts are being manipulated.
- It is the single statement that summarises the changes in financial position since the previous year.

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14.

Statement of Comprehensive Income for the year ended 31 march '2019

Particulars	W.N.	Amt.
Revenue		1500,000
- Cost of Sales	5	(647,000)
Gross Profit		853,000
- Administrative Expenses	1	(3,000)
- Distribution costs	3	(266,000)
Operating Profit		584,000
- Finance Costs	6	(10,000)
Profit for the year.		574000

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Statement of Financial Position
as at 31 march, 2019

	WN	Amt
ASSETS		
Non Current Assets	4	1672,000
Property Plant and Equipment		
Current Assets	8	240,000
Total ASSETS		1912,000
EQUITIES AND LIABILITIES		
Share Capital	7	200,000
Revaluation Reserve	7	720,000
Retained Earnings	7	779,000
Total Equity		1699,000
Non Current Liability	9	145,000
Current liability	2	68,000
Total Equity and Liabilities		1912,000

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(1) Administrative expenses

Admin Staff wages	3000

(2) Current Liability

Bank Overdraft	18000
Trade payables	50,000
	68000

(8) Current Assets

Closing Inventory	30,000
Trade Recievables	210,000
	240,000

(3) Distribution Costs

Cost of marketing	55,000
Depreciation (delivery vehicle)	31,000
Deliv. Vehicle Running Costs	60,000
Sales Salaries	120000
	266,000

(4) Non Current Assets

Total = 1672,000

	Land	Buildings	Delivery vehicles	Machinery
Cost			325,000	150,000
Acc. Dep.		40000	170,000	80,000
Dp. Valuation	800,000	700,000	155,000	70,000
Current yr. Dep.		7000	31,000	15,000
Net book value		693,000	124,000	55,000

(9) Non Current Liab.

Loan	145000

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(5) Cost of ~~Goods~~ Sales

Depreciation (Building)	7,000
Depreciation (Machinery)	15,000
Cost of Inv. consumed	350,000
Factory Running costs	100,000
Manufacturing wages	175,000
	647,000

(6) Finance Costs

Interest	10000

(7) Statement of Changes in Equity

	Share Cap.	Retained Earnings	Revaluation Reserve
Op. Bal.	200,000	250000	180,000
Revaluation			540,000
Dividend paid		(45000)	
Profit for the year		574,000	
Closing Balance	200,000	~~250,000~~ 779,000	720,000