Sem II Assignment 1 · Business Finance

1. B - Cash paid to one of the suppliers recorded as being paid to buy a depreciable asset'.

2. C - an adverse opinion

3. C - Chairman's report

4. ~~D - The Accrual concept~~

~~5.~~

4. D. - I, II & III

5. (a) According to realization concepts, Income and profits should be recognized as and when it is earned.
According to accrual concepts, expenses should be recognized 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 ~~using~~ 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 - ~~also~~ for known and un-known claims at end and start of the financial year.

6. Different ways through which accounts can be manipulated -

- Inappropriate depreciation of tangible assets
- Inappropriate amortization of intangible assets
- Inappropriate valuation of inventories.
- Inappropriate valuation of future liabilities
- Unwarranted revaluation of tangible assets.
- Creating intangible assets of questionable worth

7.

Item	Gross Profit.	Cash flow
→ Property that the company posses has been revalued upwards by 100 crores by the valuer	No change	No change
→ there has been an interest payment of Rs 1000 crores towards Masala bond issued by the company.	No change	~~No change~~ Decreases.
→ There has been an increase in inventory of Rs 500 crores which were manufactured out of raw materials available in the previous year end, ignoring any man power & production cost.	No change	No change
→ There was a depreciation of plant & machinery to the extent of Rs 250 crores	~~No change~~ Decreases	No change
→ It was decided to write off Rs 200 crores due to EHFL defaulting	No change	No change.

8. i) Main roles of regulation in the financial system are:

→ Maintain public / investor confidence
→ Promote stability of the financial system.
→ Protect investors
→ Maintain international confidence
→ Deter fraudulent behaviour.

ii)
~~→ The Reserve Bank of India (RBI) supervises via prudential regulation, on all deposit taking activities as well as controls foreign exchange market outside~~

ii)
→ The Reserve Bank of India (RBI) supervises via prudential regulations on all deposits taking activities as well as controls 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 such as security ~~prot~~ brokers, underwriters, depositories, mutual funds etc.

→ IRDA is responsible for insurance companies in a manner similar to RBI in arena of banking.
It ~~has~~ licenses all insurance sector & related intermediaries and prudentially supervises them.

(ii)

Entity	Regulator
Banks	RBI
super annuation products	IRDA
General Insurance companies	IRDA
Stock brokers	SEBI
Mutual funds	SEBI
Market for listed securities	SEBI
foreign exchange dealers	RBI
Money changers	RBI

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 :-

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 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 ~~may~~ 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 logic underlying the chosen treatment was consistent with good accounting practice.

10.

Institution	Investment Banks	Pension Schemes	Life Insurance Companies
① Role	Advice companies and help them raise finance.	Channel savings for retirement into the long-term capital markets	Pool morality & investment risks by channeling savings into long-term capital markets.
② Sources of funds.	Recieve fees for advice, underwriting commission, fund management, Eurobond, dealing trusteeship & bill acceptance.	Contributions from employers & employees only.	Premium income from policy holders
③ Application of funds	Invest in bills and provide loans & lease to companies.	Typically funds are invested in equities longer dated gilts, Company debts, ~~et etc~~ overseas securities, properties etc	Typically funds are invested in mixture of equities & fixed interest securities. May have some investment in overseas securities

11. → Since both the companies, general insurance as well as life insurance, there will be different kinds of regulations imposed on them.

→ They would have to produce financial reports in different formats, various vivid disclosures may be expected.

→ Treatment of various items imposed by both the regulators will be different. Either statistical basis or expert judgements for estimating future liabilities must be assessed.

→ Different companies in similar circumstances were following completely different and incompatible results.

I want to invest in either of the one. But due to different regulators, an appropriate comparison is not possible.

One cannot interpret the retained earnings calculation or assets that the companies are holding.

12 i) The reason for 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 component of reserves for a general insurance company's technical a/cs are :-

a) URR (Unexpired risk - reserve) : kept to cover the claims and
~~b) Outstanding claim reserves~~ expense that are expected
~~c) UPR~~ to emerge from an unexpired portion in future.

b) Outstanding claim reserves : kept to cover claims & expenses for all outstanding claims that haven't been settled.

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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 upto a standard being issued forces attention on particular areas for debate about accounting practice.

→ They oblige companies to disclose more information than that required by national laws.

→ They allow some degree of flexibility in a way that legislation often does not.

ii) Disadvantages of international accounting standards.

→ The sets of rules contained in the standards may not be appropriate to all companies in all circumstances.

→ Standard - setting may not be entirely objective (some standards in the past have been the subject of government pressure or industry lobbying)

→ 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

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 followed by leading companies from time to time

iii) Additional information available from cashflow statements:

- Whether the core business operations of the entity have led to a net cashflow / 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 recievable and inventory. If an entity is regularly demonstrating profits every year for the last few years but is not generating cashflows, it could be an early warning sign that revenues are being manipulated

- It is the single statement that summarises the change in the financial position since the previous year. It shows what is the entity's investment in various assets, how these ~~assets~~ have been funded, what are the cash flows generated from core activities after removing the impact of subjective decisions on depreciation, valuation of inventory etc in the current financial period.

14. i) ABC Ltd. Income statement for the year ended 31st March 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	(19,000)
Profit for the year	574,000

ii) ABC Ltd. Statement of changes in equity for the year ended 31st March 2019.

	Share Capital	Revaluation Reserve	Retained Earnings	Total
Opening Balance	200,000	1,80,000	250,000	630,000
Revaluation		5,40,000		540,000
Profit for the year			574,000	574000
Dividend Paid			(45,000)	(45,000)
Closing Balance	200,000	7,20,000	779,000	1,699000

iii)

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iii) ABC Ltd. Statement of financial position as at 31st March 20..

Non-current Assets	
Property, Plant and Equipment	1,672,000
Current Assets	
Inventory	30,000
Trade Recievables	210,000
	240,000
Total Assets	1,912,000
Equity and Liabilities	
Equity	
Share Capital	200,000
Revaluation Reserve	720,000
Retained Earnings	779,000
	1,699,000
Non-current Liability	
Loan	145,000
Current Liability	
Trade Payable	50,000
Bank	18,000
	68,000
Total Equity and Liabilities	1,912,000

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Notes:

1) Property, Plant and Equipment

Cost or Valuation	Land	Building	Machinery	Vehicles	Total
Opening Balance	600,000	400,000	150,000	325000	1,475,000
Revaluation	200,000	300,000			500,000
Closing Balance	800,000	700,000	150,000	325,000	1,975,000

2) Depreciation

Cost or Valuation	Land	Building	Machinery	Vehicles	Total
Opening Balance		40000	80000	170,000	290000
Revaluation		(40,000)			(40000)
Closing Balance		7000	15,000	31000	53,000
		7000	95000	201,000	303,000
Net book value	800,000	693,000	55000	124,000	1672000

3) Cost of Sales

Cost of Inventory Consumed	350,000
Factory running costs	100000
Manufacturing wages	175,000
Depreciation of buildings	7,000
Depreciation of Machinery	15,000
	647,000

4) Cost of Distribution

Advertising cost	55000
Delivery Vehicle running costs	60,000
Sales Salaries	120,000
Depreciation of Vehicles	31,000
	266,000

~~15 P~~

15. Profit and Loss Account for the year ended December 31.

Revenue		Amount (INR)
Fee Revenue Earned		58,000
Investment Income.		200
Total		58,200
Employee's Salaries	(14000)	
Office Supplies	(1,000)	
Office Electricity	(4000)	
Mobile and Internet Bill	(583)	
Depreciation		
laptops	(3208)	
Office Equipment	(1833)	
Office Building Rent	(14,207)	
Income Tax	(3000)	
Total	(41852)	
Total Profit		$16,368

Calculation Details

Fee Revenue Earned = 55,000 + 2000 + 1000 = 58,000
Employees' Salaries = 10,000 + 4000 = 14,000
Office Supplies = 2000 − 1000 = 1000
Office building rent = 15917 − 1000 × 1.05 = 14,207

Depreciation

Laptops : 35000 × 1/10 × 11/12 = 3,208
Office equipment = 20000 × 1/10 × 1 (11/12) = 1833

Balance Sheet as on Dec 31.

Asset		
Laptops	35,000	
(−) Dep^n	3208	31792
Office Equipment	20,000	
(−) Dep^n	1833	18,167
Office Supplies		1000
Trade Recievables		1500
Cash		1000
Bills Recievables		5000
Office Building Rent		1710
Revenue Recievable		2000
Interest Recievable		200
Total Assets		62,368

Liabilities		
Trade Payables		3,000
Unearned Fees *		9,000
Employees' Salaries Payable		4,000
Income Tax payable		3,000
Share Capital		32,000
Retained Earnings		11,368
Total liabilities		62,368

* Unearned fees = 10,000 − 1000 = 9,000

Statement of Retained Earnings:

Retained Earnings Calculation

Net profit for the year : 16,368

less Dividend = (5000)

Net Retained = 11,368.