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Subject : Business Finance
Assignment 2 (Unit 1 & 2)

1. Option C I. II and IV

2. Option C an adverse opinion

3. Option C Chairman's report

4. Option C All the above

5.
a) Realisation concept :
Income is recognised as and when it is earned. It is not necessary to wait till the customer settles his/her bill. This avoids flucuations in the reporting of income.
Accrual concept :
Expenses are recognised as and when they are incurred regardless of, the amount been paid. It avoids random allocation of costs to periods depending on whether the bill happens to have been paid or not.

b) For the Health Insurance Company
The income has to be recognised as and when the policy is bought and not when premiums are collected.
Thereby using the concept of realisation.
The expense has to be recognised as and when the claims arise and not when the claims are paid.
Thereby using the concept of accruals

6. Different ways through which accounts can be manipulated are:
1) Recording Revenue Prematurely or of Questionable Quality.
Eg. Recording revenue before completing all services.
2) Recording Fictitious Revenue
Eg. Revenue for sales that did not take place at all.
Eg. Recording Investment income as revenue.
3) Increasing Income with One-Time Gains.
Eg. Increasing profits by selling assets and recording the proceeds as revenue.
4) Shifting Current Expenses to an Earlier or later Period
Eg. Amortizing Costs too slowing.
5) Failing to record or improperly reducing liabilities:
Eg. Changing accounting assumptions

7.

i) Gross Profit increases
Cash flow of the Company decrease unaffected

ii) Gross Profit decreases
Cash flow of the Company decreases

iii) Gross Profit increases
Cash flow decreases

iv) Gross Profit decreases
cash flow unaffected

v) Gross Profit decreases
cash flow decreases.

8.

i) Main roles of regulation in the financial system :

1) Market confidence : Regulations in financial system maintain confidence in the financial system.

2) Financial stability : Contributing to the protection & enhancement of stability of the financial system.

3) Consumer protection : Securing the appropriate degree of protection for consumer

ii) Regulatory bodies which regulate the Indian Financial system :

1) Reserve Bank of India
2) Securities and Exchange Board of India
3) Insurance Regulatory & Development Authority of India
4) Pension Fund Regulatory and Development Authority

iii) a) Banks - Reserve Bank of India
b) Superannuation Product - PFRDA
c) General Insurance Companies - IRDAI
d) Stock brokers - ~~RBI~~ SEBI
e) Mutual Funds - SEBI
f) Market for listed securities - SEBI
g) Foreign Exchange dealers - RBI
h) Money changers - RBI

9.

i) Cost concept

Non-Current assets generally appear in the statement of financial position at their orignal cost less depreciation to date.

Going Concern Concept

Assumed that a business will continue indefinitely in its present form.

ii) Ways the Board of Directors can go about selecting the appropriate accounting policy for this situation:

In the absence of IFRS Standard that specifically applies to a transaction, preparers use judgement in developing & applying an accounting policy that results in relevant and reliable information. The preparers need to use their judgement in applying all aspects of the Standard that are ~~applying~~ applicable to an issue. In the income statement we would mention as exceptional.
[We would also do a disclosure]

iii) This may not be true because

10.

a) Investment Bank

i) Role – advise businesses and governments on how to meet their financial challenges

ii) Sources of Funds – retained earnings, debt capital and equity capital

iii) Application of Funds – assist in large, complicated financial transaction. They may provide advice on how much a company is worth & how best to structure a deal.

b) Pension Scheme

i) Role – To provide financial aid to the retirees.

ii) Sources of Funds – collect funds from employers and employees to fund employee retirement obligation

iii) Application of Funds – These funds ~~f~~ are used to meet retirement obligation.

c) Life Insurance Company

i) Role – Insure Life of policyholders

ii) Sources of Funds – retained earnings, Mutual Funds, equity capital.

iii) Application Of Funds – Create Reserve to pay in ~~cla~~ case of claims arising from active policies.

11. General insurance is governed and regulated by Reserve Bank of India and Life Insurance Company is governed and regulated by Insurance Regulatory and Development Authority of India.
Limitations in the interpretation of accounts would be in context ~~context~~ to reserves, retained earnings requirements. Also, comparision between the two is difficult because the risks associated between them is widely ~~difficult~~ different.

12. It is more complicated to prepare insurance companies accounts as compared to normal company accounts.
1) The underlying contracts (liabilities) fall due outside the accounting period and are uncertain in size.
2) Prepare transfer of profit to shareholders may endanger the financial stability of the company and the ability to meet future liabilities

~~13.~~

12ii) Major component of reserves for a general ~~c~~ insurance company's technical accounts:

Earned premiums (net of reinsurance)
Investment Income
Realised capital gains
Claims incurred or benefits payable
Net Operating expenses incurred

13. 4 Advantages & 4 Disadvantages of compliance with International Accounting Standards:

1) An increased comparability between firms, which reduces investor risk and facilities cross-border financing and investment.
2) Reduction in the cost of preparing consolidated financial statements for multi-national firms
3) Improved reliability & credibility of financial reports
4) Uniformity of reporting

Disadvantages

1) They are not globally accepted in every country.
2) They can be easily manipulated
3) It increases cost of reporting
4) There are issues of certain transaction ~~to~~ not follow any guidelines of IFRS.

14. Statement of Comprehensive Income for the year 01.04.2018 to 31.03.2019

Particular	Working Note	Statement
Revenue	8	2,180,000
- Cost of Sales	5	(648,000)
Gross Profit		1,532,000
- Administrative Expense	1	(123,000)
- Sales and Distribution Expense	2	(115,000)
Operating Profit		1,294,000
- Financial Expense	-	-
Profit		1,294,000

Statement of Changes in Equity

	Share Capital	Retained Earnings
Opening Balance	200,000	250,000
Adjustment		
+ Current Year Profit		1,294,000
- Dividend Paid		(45,000)
Closing Balance	200,000	1,499,000
		= 1,699,000

Statement of Financial Position for the year ended on 31-03.2019

Particulars	Working Note	Statement
Assets		
Current Assets	6	240,000
Non-Current Assets	4	1,6~~3~~72,000
		~~1,842,000~~
		1,912,000
Equity & liability		
Equity		1,699,000
Reserves / profit		1.
Current liability	3	68,000
Non-Current liability		145,000
		~~29,000~~
		1,912,000

Working Note

① Administrative Expenses

Administrative staff wages	3,000
Sales salary	120,000
	123,000

② Sales and Distribution Expenses

Cost of Marketing	55,000
Delivery vehicle Running cost	60,000
	115,000

③ Current liability

Bank Overdraft	18,000
Trade payables	50,000
Interest	10,000
	78,000

④ Non-Current Assets

	Building	Delivery Vehicle	Machinery	Land
cost	4,00,000	3,25,000	1,50,000	6,00,000
(Revalued)	7,00,000	—		8,00,000
Cumulative Depreciation	(40,000)	(1,70,000)	(80,000)	
Depreciation	1%	20% Reducing Balance	10%	
Calculated Depreciation	(7000)	(31,000)	(15,000)	
	6,53,000	1,24,000	55,000	8,00,000

= 1632000

Total Depreciation = 53,000

⑤ Cost of Sales

cost of inventory consumed	3,50,000
Factory running costs	1,00,000
Closing Inventory	(30,000)
Manufacturing Wages	1,75,000
Depreciation	53,000
	648,000

(6) Current Assets

Trade Receivable	210,000

(7) Non-Current liability

Loan	145,000

(8) Revenue

Revenue	1,500,000
Revaluation Reserve	180,000
Revaluation	500,000
	2,180,000

15. Comprehensive Income Statement of ABC Ltd for the Year 1.1.19 to 31.12.19

Particular	Working Note	Statement
Revenue	5	56,200
- Cost of sales	7	(-1000)
Gross Profit		57200
- Admin. Expenses	3	(10,000)
- Sales & Dist. Expenses	-	-
Operating Profit		47200
- Financial Expense	4	(16490)
Profit before Tax		30710
Tax	~~3000~~ -	3000
Profit after Tax		27710

Statement of Changes in Equity

	Share capital		
Opening Balance	32,000		
Current +Year Profit		27710	
-Dividend		(5,000)	
	32,000	22710	= 54710

Statement of Financial Position for the Year ended on 31.12.19

Particular	Working Note	Statement
Asset		
Current Asset	2	2500
Non-Current Asset	1	49959
		52459
Equity & Liability		
Equity		
Profit/Reserves		27710
Current liability	6	20710.2
Non-Current liability		–
		48420.2

Working Note

① Non- Current Asset

	Laptop	Office Equipment	
Cost	35,000	20,000	
depreciation Calculated	3208	1833	= 5041
	31792	18167	= 49959

② Current Asset

Trade ~~tre~~ Receivables	1500
Cash	1000
	2500

③ Administrative Expense

Employees Salaries	10,000
Outstanding Employees Salaries	(4,000)
Office Electricity Bill	4000
	10,000

4 Financial Expenses

Office Biulding Rent	14206.8
Office Building Rent Prepaid	1710.2
	15917
Mobile and Internet Bill	583
	16490

5 Revenue

Fee Revenue Earned	55,000
Unearned Fees (Dec)	1,000
Interest on Bills Receivables	200
	56,200

6 Current liability

Provision for Tax	3000
Trade Payable	3,000
Outstanding Salaries	4,000
Office Biulding Rent Prepaid	1710.2
Unearned Fees (Dec)	9000
	~~17710.2~~
	20710.2

7 Cost of sales

Closing inventory of supplies.	(1000)