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Business finance
Assignment - 2

Question 1 → (B) All of the Above

Question 2 → (C) Adverse Option

Question 3 → (C) Chairman's report

Question 4 → (B) II & III

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Question 5. (A):

Realisation concept

Income is not recognized as and when it is 'earned'. It is not therefore, necessary to wait until the customer settles his or her bill. This avoids the fluctuations in reported income which might arise if everything was accounted for on a cash basis.

May also create the impression that the business is performing well when, in fact, it is in danger of running out of cash

Accrual Concept
Expenses are recognized as and when they are incurred, regardless of whether the amount has been paid.

Again this avoids the random allocation of costs to periods depending on whether the bill happens to have been paid or not.

uestion 7.

	Cash flow	Gross Profit
(i)	Increase	No effect
(ii)	Decrease	No effect
(iii)	decrease ~~No change~~	decrease
(iv)	No change	decrease
(v)	decrease	~~decrease~~

Question 8.

financial Regulation

The objectives of financial regulators are usually :-

1) market confidence - to maintain confidence in the financial system.

2) financial stability - contributing to the protection and enhancement of stability of the financial system

3) consumer protection

Answer 12:

(i) The preparation of insurance company accounts is complicated by two Special features:-

The underlying contracts fall due outside the accounting period and are uncertain in size.

Premature transfer of 'profit' to shareholders may endanger the financial stability of the company and the ability to meet future liabilities

(ii) General Insurance business provision, including unexpired risk reserves and outstanding claims reserves

- ~~Shareholders funds~~
- ~~The insurance~~

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Question 13.

(i) Advantages of International Accounting standards

1.) Unifourmity

2.) Realidability

3.) Reducing fraud

4.) Clarity

Disadvantages

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

2. Some standards are so general as to be meaningless while others are far too detailed

i) The various regulations that influence are:

IRDAI
SEBI
RBI
PFRDA

ii) The statement of P&L and statement of financial position do not provide a sufficient insight into movement in cash balances. This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid.

Working Notes

① Administrative Expenses

Wages → 30000

② Distribution Expenses

Cost of Marketing → 55000
D.V running cost → 60000
Sales Salaries → 120000
235000

③ Current Liabilities

Bank Overdraft → 18000
Trade Payables → 50000
68000

④ Non Current Assets

Particulars	Building	Delivery V.	Machinery	Land
Opening	400,000	323000	150000	600000
Depreciation	(40,000)	(1,70,000)	(80000)	
- Depreciation	(4000)	(31000)	(15000)	
+ Revaluation	256000			200000
closing	700000	124000	55000	800000

⑤ Cost of Sales

Cost of Inventory consumed - 3,50,000
Factory running cost - 100000
Manufacturing wages - 175000
Depreciation: Building - 4000
Deli. Vehicles - 31000
Machinery - 15000

~~360000~~
675000

(6) Distribution financial cost

Interest - 10000

(7) Current Assets

Closing Inventory - 30000
Trade Recicvables - 210000
240000

(8) Non Current Liabilities

Loan - 145000

(9) Revaluation

	Land	Building
Valuation	800000	700000
Cost	600000	400000
Acc. depreciation	-	40000
Depreciation		4000
Reval.	2,00,000	2,56,000

Statement of comprehensive Income

S.No.	Particulars	Amount
	Revenue	108000
-	Cost of sales	(62010)
	Gross Profit	45990
-	Distribution cost	(12387)
-	Admin Exp	(10267)
	Operating Profit	23336
-	Finance cost	(3480)
	PBT	19856
	Tax expense	(4190)
	Profit for the year	15666

Statement of financial Position

Note		Amt.	Amt.
	Assets		
	Non current Assets	127862	403~~99~~920
	Current Assets		21097
	Bank		~~113440~~
			~~21097~~
	Total	1,48,959	
	Equity & Liability		
	Equity		
	Share cap.		60480
	Retained Earnings		36186
	Total Equity		43470
	NCL		
	~~Total~~ Long Factory		79424
	Man. Eq.		48438
	CL		8823
	Total	1,48,959	

Statement of changes in Equity

Share capital
\+ Retained Earnings

2)

	Share capital	Retained Earnings
Opening	60480	23760
- Dividend paid		3240
+ C.Y N.P		15666
Closing	60480	27000
		~~4 2 6666~~
		36186