Roll-89; section B

Date: 10/5/22

BF2 Assignment

1. B) All of the above.

2. C) An adverse opinion.

3. C) Chairman's Report

4. B) II and III

5. a) Realization concept:- is that the revenue is recognized and recorded in the period in which they are realized.
Avoids the fluctuations in reported income which might arise if everything was accounted for on a cash basis.

Accruals:- Is a journal entry that is used to recognize revenues and expenses that have been earned or consumed, respectively, and for which the related cash amounts haven't yet been paid out or received.

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.

6. Following are the different ways through which accounts can be manipulated:

1) Recording Revenue prematurely or of questionable quality:-
- for eg:- prior to completing all services, prior to product shipment, for products that are not required to be purchased.

2) Recording Fictitious Revenue
- for eg:- sales that did not take place recording investment income as revenue.

3) Increasing income with one-time gains.
- for eg:- selling assets and recording the proceeds as revenue

4) Shifting current expence to an earlier or later period.
- Amortizing costs too slowly
- changing accounting standards to foster manipulation.

5) Failing to record or improperly reducing liabilities.
- failure in expences and liabilities' recording when future services remain.

6) Shifting current Revenue to a later period.
- Holding back revenue.

7) Shifting future expenses to the current period as a special charge.
- Accelerating expences to the current period.

7. i) Increase
ii) Decrease
iii) Increase
iv) Decrease
v) Decrease

8. i) - 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) Regulatory bodies of Indian Financial system:-
a) SEBI
b) IRDAI
c) RBI
d) PFRDA

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

9. cost concept :- Non-current assets generally
i) appear in the statement of financial position at their original cost - depreciation to date), subject to a possible impairment write-down.

Going concern concept :- An entity is assumed to be a going concern in the absence of significant information to the contrary. Assumed that the business will continue indefinitely in its present form.

ii) If the company has entered into an unusual transaction that isn't directly covered by any accounting standard then it will be shown as a disclosure hence shown seperately.

iii) - Optimistic accounting policies may point a false picture of the actual position of the business. so maybe misleading investors willing to invest in the company.
- Creative accounting techniques can lead to higher expectations and thus the business suffers from reputational risk.
- If the investors understand manipulations they will lose out on their investments which will harm the company.

10. a) Investment Bank:-

Role:- To advise businesses and governments on how to meet their financial challenges and to help them procure financing.

Sources of fund:- Equity financing
Mezzanine financing
Specialist financing
Government Loans.

Application of funds:- Proprietory Trading

b) Pension Scheme:-

Role:- Receiving of subscribers funds from Trustee Bank for investments as per subscriber preferences.
Investing them in securities that are approved.

Sources of fund:- From employers and occassionally from employees.

Application of funds:- Investing funds in securities prescribed in the investment guidelines issued by Authority and Investment Policy approved by Board of Pension Fund.

c) Life Insurance Company:-

Role:- Assures an individual against the risk of financial loss in case of death.

Sources of funds:- Retained Earnings, Debt capital. Equity capital, Premiums-

Application of funds:- Mainly claim settlement May include funeral or cremation costs.

medical bills not covered by health insurance, estate settlement costs and other unpaid obligations.

11. Following are the limitations and challenges we'll face if want to interpret the accounts of these companies for investment decisions:-

(1) Since there will be many countries to compare accounts from, they'll be having respectively different accounting standards.

(2) Thus we might have to either translate and transcribe them according to our chosen standard or if possible follow the same accounting standard.

12. (i) - The underlying contracts (liabilities) 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) - Claims reserve = is a reserve of money that is set aside by an insurance company in order to pay policyholders who have filed or are expected to file legitimate claims on their policies.

Q13) i) Advantages of IAS:-

- Eliminate or atleast reduce variations between companies in the way they prepare accounts.
- 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 doesnot.
- The discussion process leading upto a standard being issued focuses attention on particular areas for debate about accounting practice.

Disadvantages of IAS:-

- A set 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)

(1) International Financial Reporting standards
(2) Principles concepts and conventions
(3) National Company laws
(4) Good Practice by leading companies
(5) Stock Exchange Requirements
(6) Other legislation.

iii)
(1) The operations section shows the cashflow from the company's core business operations. Unlike the figures on the income statement, the cashflow statement ignores non-cash income such as depreciation.
(2) Investing section contains a company's expenses related to purchasing new equipment or buildings, as well as buying securities and other types of investments that involve cash leaving the company's accounts.
(3) the financing section shows changes in a company's debt, loan, or dividends. For eg:- when a company receives cash as a result from issuing debt, this adds to cash coming in. Later when the company makes payments to debtholders, cash is reduced.

Q14) Income statement for the year 1st April 2018 – 31st March 2019.
⇒

Particulars	Note	$
Revenue		15,00,000
– COS		647000
Gross Profit		853000
– Administrative expenses		(3000)
– Distribution cost		(266000)
		584000
Operating Profit		
– Financial Expense		10000
Profit before Tax		574000

~~Less Tax expenses~~

⇒ Statement of changes in Equity

Particulars	Revaluation	Share capital	Retained Earnings
Opening Balance (TB)	180000	200000	250000
Revaluation Gain, Profit	540,000		574,000
- Dividend Paid			(45000)
Closing Balance (FP)	720000	200000	779000

⇒ Statement of Financial Position

Assets		Note	$
NCA			1672000
CA			240000
			1912000
Equity & Liability			
Equity → Sh. Cap		200000	1699000
	Revaluatn reserve	720000	
	Retained Earnings	779000	
NCL			145000
CL			68000
			1912000

Notes:-

1) Adm. Expenses

-Adm. staff wages : 3000

2) CA

Trade receivables : 210000

3) NCL

Loan : 145000

4) Financial costs

Interest : 10000

5) NCA

Assets →	Buildings	Delivery Vehicles	Land	Machinery
Asset cost	700000 ~~400000~~	325000	800000 ~~600000~~	150000
-Accumulated Depreciation	(40000)	(170000)		(80000)
+ current yr depri	(7000)	(31000)	800000	(15000)
Clsng Bal. Net	693000	124000	800000	55000

6) COS

+Cost of inventory consumed	350000
Building Depri	7000
+ Machinery Depri	15000
+Manufacturing wages	175000
	647,000

7] C.L

Bank O.D	18000
Trade payables	50000
	68000

8] Distribution Expenses

Cost of Marketing	55000
Delivery Vehicle ~~Sales Salaries~~	60,000
Delivery vehicle depre	31000
sales salaries	120,000
	266000

Q15) Profit and Loss account

Particulars		ON Amount
Revenue	55000	58200
Fees Revenue	2000	
Unearned fees	1000	
Interest income	200	
Expenses		
Employees salaries	(14000)	(41832)
Office supplies	(1000)	
Office electricity	(4000)	
Mobile & Internet Bill	(583)	
Laptop depre.	(3208)	
Office equipment depre	(1833)	
Office building rent	(14207)	
Tax	(3000)	
Profit		16368

Note Rent = $15917 - (1000 - (1.05)^{11}) = 14207$

Depre. on laptop $= \left(\frac{35000}{10}\right) \times \frac{11}{12} =$ ₹3,208

Depre. on office equipment $= \left(\frac{20000}{10}\right) \times \frac{11}{12} =$ ₹1,833

⇒ Balance sheet

Assets

Laptop	31792
office Equipment	18167
office supplies	1000
Trade receivable	1500
Cash	1000
Bills receivable	5000
Rent	1710
Revenue o/s	2000
Interest o/s	200
	62,368

Liabilities

Trade Payables	3000
Unearned fees	9000
Employees salaries payable	4000
Income tax payable	3000
share capital	32000
Retained Earnings	11368
	62368

—X—O—X—