ASSIGNMENT - 2

BUSINESS FINANCE

1.) A IV only

2) C. an adverse opinion.

3) C. Chairman's report

4) A. II

5)

(a) Realization concept -

The income is recognised 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 cash basis. It can also create the impression that the business is performing well, when, in fact, it is in danger of running out of cash.

B Accruals concept -

Expenses are recognised 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.

(b) The ways in which the realisation and accrual concepts will be utilized are:

- The realization concept would be used in constructing the Income statement of the ~~acco~~ year.
- The accrual concept will be used for the cashflow statement construction.

(c)

7)

(i)

(ii) It will be considered as a financi expense and will affect the cash flow of the year i.e. it will increase

(iii) Inventory is increased.
→ Gross profit → No change
→ Cash flow statement → No change

(iv) Depreciation Rs 250 crores.
→ Gross profit → Decrease
→ cash flow of the year → decrease

(v) Write off Rs 200 cr due to EHFL defau
→ Gross Profit → Decrease
Cash flow of the year → Decrease

8.) (i)

ii) The regulatory bodies which regulate the Indian Financial System are:-

SEBI

IRDAI

RBI

PFRDA

FMC

iii) (a) Banks → RBI

(b) Superannuation products → PFRDA

(c) General Insurance comp. → IRDAI

(d) Stock brokers → SEBI

(e) Mutual Funds → ~~RBI~~ AMFI

(f) Market for listed securities → SEBI

(g) Foreign exchange dealers → RBI

(h) Money changers → RBI

(i) (i) <u>The</u> cost <u>concept</u>

It is often called the historical cost. Under this concept, non- current assets generally appear in the statement of financial position at their original cost less depriciation to date, subject to a possible impairment write-down.

<u>The going</u> concern <u>concept</u>.

It is usually asummed that a business will continue indefinitely in its present form This concept acts as a justification for the limitations imposed by the cost concept because there is little harm in reporting historical figures for value if the assets concerned are unlikely to be sold in the immediate future.

(ii) If the buard is uncertain or unable to express an unqualified opinion about the financial transaction then,
There are various degrees of qualification:

→ emphasis of matter paragraphs
→ qualified opinion
→ disclaimer of opinion
→ adverse opinion.

(iii) By doing so the company is not
projecting the fair and actual ~~pos~~ valu
thereby presenting an improvised im
of the company which indicates high
profitability related to its actual sa
This can be considered a wrong
accounting practice by the external a
and there could be severe consequences

For most companies, the concept of profit is relatively intuitive. If a company sells an item of stock for more than it costs to make, it makes a profit. For an insurance company, the concept of profit is not clear-cut. When a policy is sold, the policy holder pays the company a premium and the company incurs sales and admin expenses. However, at this point the company does not know how much profit it will make as the policy may last for many years, during which time the company will have to pay claims and incur expenses and further premiums may be paid.

→ For the allowance of these future cashflows, the company will prepare the insurance company accounts which can be complicated due to two special features:

- The underlying contracts (liabilities) fall due outside the accounting period 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

Date

12) (i) The reason ~~for~~ ~~p~~ that it is more complicated to prepare insurance companies accounton as compared to normal accounts are as follows:

- 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) The major component of reserve of a general insurance technical account will be the ~~p~~ reserves of earned premiums (investment income + realised capital are those earned on the investements held to cover insurance liabilities)

13) (i) The four advantages o

- They eliminate, or atleast reduce variations between companies in the way they prepare accounts.
- 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 that required by national law
- They allow some degree of flexibility in way that legislation often does not.

- The four disadvantages

- 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 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) The other sources of regulations that influence the preparation of financial statements are:-
The numbers are signed off by an 'independent' professional.
- The auditors are appointed by the shareholders and report to them, so the auditors are completely independent of the directors.

(iii) The additional information that a cashflow statement provides is:-

→ The importance of cash and liquidity of the company to survive.

→ It will differ in terms of company's cash holdings from the accounting profits shown in the statement of profit ~~and~~ or loss.
→ The reason for this difference is the application of accruals principle

14) Income statement for year 2018 - 2019

	WN	
Revenue		1,500,000
Cost of Sales	(5)	(641,000)
Gross profit		853,000
- Admin Expenses		(3000)
- Distribution Expenses		(2,66,000)
- Operating profit		584,000
+ Finance income		
- Financial expenses		(10,000)
Profit before tax		
- Tax expense		
Net income		574000

Statement for changes in equity for 2018-201

	Share capital	Retained earning	Revaluat Reserve
Opening balance	200 000	18 0000	250 000
Dividend paid		500,000	
			(45000)
Closing balance	200000	680000	574,000 779000

Statement of financial position as at 31st March, 2019

	WN	Amount
Non-current Assets	4	16,32,000
Current assets	7	240,000
Total assets		1872000
Equity:		
Share capital		200000
Retained earings		779000
Relav reserve		680000
Non current liabilities	8	145000
Current liabilities	3	68000
		1872000

Working Notes :-

1) Admin Expenses

Administrative staff wages	3,000

2) Distribution expenses

Cost of marketing	55000
Delivery vehicle running costs	60000
Depreciation of Delivery vehicle	31000
Sales salaries	120000
	266000

3) Current Liabilities

Bank overdraft	18,000
Trade payables	50,000
	68000

4) Non- current Assets

	Building	Delivery vehicle	land	Machines
Cost	400,000	325,000	600,000	150000
Revaluation	300,000		200,000	
Clsg balance	700,000	325000	800,000	150000
Accumulated Depriciation	40,000	170,000		80,000
+ C.Y Depri.	7000	31,000		15,000
	(47000)	(201,000)		(95,000)
Closing Balance.	653,000	124,000	800,000	55,000

Total assets :- 16,32000

5) Cost of sales

cost of Inventory consumed.	350000
Factory running costs	100 000
Manufacturing wages	175 000
Depriciation on Building	7000
Depriciation on Machinery	15 000
	641,000

6) Financial Expenses

Interest 10000

7) Current Assets.

Inventory as on 31st March 2019	30,000
Trade Recievables	210,000
	240000

8) Non-current liabilities.

long term loan 145000