Assignment - 2

Ans 1. (B) All of the above

Ans 2. (C) Adverse option

Ans 3. (C) Chairman's report

Ans 4. (B) II & III

Ans 5. a) Realisation Concept -

Revenuel income is recognized when it is earned / realised. It follows the same concept as accrual basis accounting thus ~~arising~~ avoiding fluctuation arising out of cash ~~begins~~ basis of accounting. However it may fail to indicate the cash in business.

Accrual Concept

This concept states that expenses & incomes should be accounted when they are incurred / earned and not whether they have been paid / settled.

Eg - Outstanding rent & prepaid salaries are recorded

b) ◦ Claims would be recorded when incurred.

◦ Prepaid insurance premium would be accounted.

◦ Comissions to be paid to agents brokers will be recorded when incurred & not when they are paid.

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Ans 6 Manipulation of accounts (window dressing) is done to paint a false piture regarding the financial position of the business.

→ In order to show higher profits, they may record revenue prematury or defer expenses incurred during the current financial year to a later period.

→ They may show inflated profits by reducing provisions, inflating sales etc.

→ Similarly, they may increase provision, supress sales, inflate expenses to show lower profits

Ans 7 i) Revaluation gain will increase profit. It will not affect cash flow.

ii) It will be deducted as financial expense & accounted as a cash outflow from financing activities

iii) It will increase the gross profit & no effect on cash flow.

(iv) Reduce the profit.

(v) It will be deducted under cost of sales & is a non cash expense.

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Ans 8 i) The main role of regulation in the financial system -

1) It helps in maintaining confidence in the market & financial system.
2) It enhances the stability of financial system.
3) It secures the interest of the consumer & protects their rights.
4) These regulation ensures proper code of conduct by the various institutions functioning in the system.

ii) Regulatory bodies which regulate the Indian financial system:

1) Reserve Bank of India (RBI):
Supervises banking system of India.
2) Securities & Exchange board of India:
• Protect the interest of investors in securities market.
3) Insurance regulatory & development Authority of India:
It regulates insurance industry in India.
4) PFRDA - Regulates pension scheme in India.

iii) a) RBI
b) PFRDA
c) IRDAI
d) SEBI
e) SEBI

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f) SEBI
g) RBI
h) RBI

Ans 9 i) Cost Concept - The cost concept states that assets are recorded at their origunal value & depreciatiated over the years.

Going concern concept - It is assumed that a business will continue indefinitely in its present form.

ii) The Board of Directors can choose the method of stating the transaction as a disclosure in the books & final statements.

iii) Optimistic accounting policies may paint a false picture of the actual position of the business.

- Thus it may be misleading investors willing to invest in the company.
- Creative accounting techniques can lead to higher expectation 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.

Ans 10(a) Investment Bank

Role - They act as intermediaries between a corporation and financial markets by helping business with investing in financial markets, wealth management, IPOS, asset management etc.

Sources of funds : Investment banks help clients i.e. businesses & governments to manage their funds & assets, mergers & acquistions, proprietery trading etc. Thus it helps its clients to manage their funds, wealth & assets & charges a fees / comission for its services.

Application of funds : They use the funds & provide various services such as proprietry trading are trading securities for their own accounts, leveraged finance etc.

b) Pension scheme

Role : Pension scheme help in providing gauranteed, monthly income for life to provide a sense of financial security, maintain standard of living & meet unforseen expenses.

Sources of funds : Both employees & employers contribute to the pension scheme as they pay a certain proportion of their salary.

Application of funds : They use funds to invest in fixed income instruments, e bonds & shares issued by local & foreign govt & companies.

c) Life insurance company

Role - It provides insurance i.e financial compensation against risk of life i.e death.

Sources of funds : The main source of funds is premiums received from the policyholder. along with equity share capital raised, loans etc.

Application of funds : The company invests in various kinds of investments & financial instrument.

Ans11. • Since both companies are from different countries, both firms will follow different accounting standards which cannot be compared directly.

• The regulations put forth by each regulator may be different owing to differentiate in mortality rates, economic conditions of the country etc.

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- The different countries having different currencies could have unstable exchange rate thus increasing risk.

Ans 12 (i) (i) Insurance companies have to prepare two sets of accounts: technical & non-technical.
(ii) Moreover, liabilities of an insurance company cannot be measured with certainity.
(iii) As per accounting standards, the activities of insurance companies have to be accounted for separately thus leading to complication.
(iv) Premature transfer of 'profit' to shareholders may affect financial stability.

(ii) Claims equalisation reserve is accounted in technical accounts of a general insurance company.

Ans B. Advantages -

- They eliminate/reduce variations between preparation of accounts between different companies.
- They oblige companies to disclose more information.
- They allow some degree of flexibility.
- The attention on particular areas for debate about accounting practice.

Disadvantages -

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1) The sets of rules may not be applicable to all companies.
2) Standard setting is not entirely objective.
3) Standards allow more than one alternative treatment which negates attempt to ensure
4) Some standards are too general while some are too detailed.

(ii) • Principles, concepts & conventions
• National company laws
• Good practice by leading companies
• Stock exchange requirements
• Other legislation.

(iii) • It provides sufficient insight into movements in cash balances which statement of financial position fails to provide.
• It involves investing activities such as purchasing new equipment or buildings.

Ans 14.) Income statement for the year 1st April 2018 - 31 Mar 2019

Particulars	W.N No	Amount
Revenue		1500000
- Cost of sales	1	647000
Gross profit		853000
- Admin expenses	9	(3000)
- Distribution expenses	2	(266000)
		584000
Operating profit		
- financial exp.	5	10000
Profit		574000

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Statement of financial position

Particulars		Note No	Amount
Assets			
Non-current Assets		4	1672000
Current Assets		7	240000
			1912000
Equity & liability			
Equity			
Share capital	200000		1699000
Revaluation reserve	720000		
Retained earnings	779000		
Non-current liabilities		6	145000
Current liabilities		3	68000
			1912000

Statement of changes in equity

	Share capital	Retained earning	Revaluation Reserve
Opening balance	200000	250000	180000
Adj: Div paid		(45000)	
Reval. gain			540000
profit		574000	
Closing balance	200000	779000	780000

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1) Notes -

(i) Cost of sales

Cost of inventory consumed	350 000
Factory running cost	100000
Manufacturing wages	175000
Building dep	78000
Machinery dep	15000
	647000

Distribution expenses

Cost of marketing	55000
Delivery vehicle running cost	60000
Delivery vehicle dep.	31000
Sales salaries	120000
	266000

3) Current liabilities

Bank OD	18000
Trade payables	50000
	68000

4) Non current asset

Asset	Buildings	Delivery vehicles	Land	machinery
	700000	325000	600000	150000
Acc. dep	40000	170000	-	80000
Dep.	7000	31000	-	15000
Final	693000	124000	200000	55000

5) Financial expenses
Interest 10000

6) Non current liability
Loan 145000

7) Current Asset
Trade Receiveable 210000

8. Admin exps.
Admin staff wages 3000

Q. 15. P & L Account

Particulars		Note No	Amount
Revenue	55000		58200
Fees revenue	2000		
Unearned fees	1000		
Int. Income	200		
Expenses			
Employee salaries	(14000)		(41832)
office supplies	(1000)		
office electricity	(4000)		
Mob. & internet bill	(583)		
Laptop depre	(3208)		
office equipment dep	(1833)		
office building rent	(14203)		
Tax	(3000)		
Profit			16368

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Note

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

Depreciation on laptop = $\frac{35000}{10} \times \frac{11}{12}$ = Rs 3208

Dep. on office equipment = $\frac{20000}{10} \times \frac{11}{12}$ = Rs1809

Balance Sheet

Assets	
Laptop	31792
office equipment	18167
office supplies	1000
Trade receiveables	1500
Cash	1000
Bill receivable	5000
Rent	1710
Revenue O/S	2000
Interest O/S	200
	62368
Liabilities	
Trade payables	3000
Unearned fees	9000
Employees salaries payable	4000
Income tax payable	3000
Share cap	32000
Retained earnings.	11368
	62368