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Assignment - 2
Unit 1 & 2. (Bhavya, 94).

A1). B) - All of the above.

A2). C) - An ~~disclaimer~~ adverse of opinion.

A3). C) - Chairman's report.

A4). D - I, II & III

A5) a) Realisation concept - 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 a 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.

Accruals concept - Expenses are recognised as & when ~~it is~~ they are incurred, regardless of whether the amount is paid or not. This also avoids random allocation of cost to periods depending on whether the bill has been paid or not.

b). The earned premium for the year is calculated by considering the total of written premium (portion that is earned) and unexpired risk premium. This is the utilisation of realisation concept. While the accrual concept is utilised as considering the total of claims paid during the year and outstanding claims reserves for known & unknown claims at end & start of the financial year.

A6) Different ways of manipulating accounts –

→ Inappropriate valuation of future liabilities
→ Omitting contingent liabilities
→ Inappropriate depreciation of tangible assets
→ Inappropriate ammortisation of intangible assets
→ Creating intangible assets of questionable true worth
→ Unwarrented revalutation of tangible assets
→ Pre-booking of anticipated sales revenue.
→ Inappropriate valuation of inventories.

A7) i) – No changes in either gross profit or cashflow
ii) Decrease in cashflow ~~(of ₹1000 cr)~~ but no change in gross profit.
iii) No changes in either gross profit or cashflow
iv) Decrease in gross profit but no change in ~~the~~ Cash flow.
v) No changes in either gross profit or cashflow.

A8) i) Main roles of financial regulation are –

→ Maintain international confidence
→ Protect investors
→ Maintain public & investors confidence.
→ Deter fraudulent behaviours
→ Promote stability of financial statement

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ii) The Reserve Bank of India (RBI), Securities & Exchange board of India (SEBI), Insurance regulatory & Development authority (IRDA) are some regulatory bodies which regulate the indian Financial system.

iii) a) Banks — RBI
b) — IRDA
c) — IRDA
d) — SEBI
e) — SEBI
f) — SEBI
g) — RBI
h) — RBI

A9) i) Under the cost concept, non-current assets generally appear in the statement of financial position at their original cost less ~~dep~~ depreciations to date, subject to a possible impairment write-down. The going concern concept acts as a justification for limitations imposed by the cost concept because there is little harm in reporting irrelevant figures for value if the assets concerned are unlikely to be sold in near future. It assumes that business will continue indefinitely in its present form.

ii) To select the appropriate accounting policy for the situation, the Board directors can follow the principles ~~of~~ as stated —

→ There is a general requirement that financial Statements give a true & fair value i.e. a realistic and representative treatment of transaction.

→ The guidance provided by accounting regulation Board in this regard should be considered.

→ To ensure the the logic behind the chosen treatment ~~was consistant~~ follows good accounting practice, directors might look at treatment laid down by standards for similar balances.

iii) ⇒ Most of the optimism in making accounting choices is quite visible to analysts. For eg, Companies publish their accounting policies. If shares are overpriced then there will be opportunities for astute market participants to make profits by identifying the overpriced companies and selling shares. This will push the shares down & draw attention to distortion. Markets usually reward companies with good corporate governance which is also reflected from the conservativeness of estimates and accounting policies.

A10), a) :- Investment Bank –

Role – ~~Advice~~ Help companies raise finance & help them

Sources of funds – Bill investments & loans provided.

Application of funds – Fees and commission, Eurobond dealing, issueing certification of deposit & fund management.

b) Pension scheme -

Role - Channel savings for retirement into long term capital markets.

Sources of funds - Investments in overseas securities, equites & loan & company debt.

Application of funds - Contribution from employer and employees only.

c) Life Insurance company -

Role - Pool mortality & investment risks by channelling savings into long term capital markets.

Sources - Investments & index-linked gilts.

Application of funds - Premium incurred from policyholde

A11. The possible limitations & challanges can be -

→ There may be subjectivity involved in few section of accounts.

→ There is inherent limitation in different ratio analysis

→ Difference in regulations that governs these companies on the same subject may bring difficulty in comparision.

→ Since, the bussiness is different, comparision could be difficult.

A12) (i) → The insurance contracts with policyholders fall due outside the accounting period & are uncertain in size.

~~→~~

→ Premature transfer of profit to shareholders may put the financial stability in danger.

ii) Major component of reserves for the company are-

→ Un-expired risk reserves (URR) - These are kept to cover the expense that is expected to emerge from unexpected portion of insurance cover in future period.

→ Outstanding claim reserves - These are kept to cover expenses for all outstanding claims that have not yet been settled.

A13) i) Compilance with international accounting standards-
Advantages-
→ They eliminate, or 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 laws.
→ They allow some degree of flexibility in a way that legislation often does not.

Disadvantages -
→ The set of rules contained in the standard 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 treatments which negatives the attempt to ensure conformity between companies.

→ Some standards are so general as to be meaningless, ~~sott~~ while others are far too detailed.

ii). Sources of regulations influencing the preparation of financial statements for companies are –

→ Principles, concepts & conventions of accounting
→ National company laws
→ Best practices in accounting
→ Stock exchange requirements.

iii). The additional information that cashflow statements provide ~~which is not available~~ are –

→ Information for evaluating changes in assets, liabilities, and equity, and also change in financial position since the previous year.

→ Net inflow or outflow from the business operations of the entity. This is important as even if a lot of profit is generated, it may not lead to any positive cash inflow which can be an early warning of the revenue accounts being manipulated.

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A1(4) i) ABC Ltd Income statement for year ended 31st March 2019.

Revenue	1,500,000
Cost of sales	(647,000)
Gross profit	853,000
Administrative staff wages	(3000)
Distribution cost	(266000)
	584,000
Interest	(10000)
Profit for the year	574,000

ii) ABC Ltd, Statement of changes in equity for the year ended 31st March 2019.

	Share Capital	Revaluation Reserve	Retained Earnings	Total
Opening Balance	200,000	180,000	250,000	630,000
Revaluation		540,000		540,000
Profit for the year			574,000	574,000
Dividend Paid			(45,000)	(45,000)
Closing Balance	200,000	720,000	779,000	1699000

iii) ABC Ltd, Statement of financial position as at 31st March 2019

Non Current Assets	
Property, Plant & Equipment	1,672,000
Current assets.	
Inventory	30,000
Trade Recievables	210,000
	240,000
Total Assets	1,912,000
Equities & Liabilities	
Equity	
Share Capital	200,000
Revaluation Reserve	720,000
Retained Earnings.	779,000
	1,699,000
Non-Current Liabilites	
Loan	145,000
Current Liability	
Trade payables	50,000
Bank	18,000
	68,000
Total Equity & Liabilities	1,912,000

Notes-

1). Property, Plant & Equipment.

Cost or Valuation	Land	Building	Machinery	Vehicles	Total
Opening Balance	600,000	400,000	150000	325,000	1,475,000
Revaluation	200,000	300,000			500,000
Closing Balance	800,000	700,000	150,000	325000	1,975,000

2). Depreciation -

Cost or Valuation	Land	Building	Machinery	Vehicles	Total
Opening Balance		40,000	80,000	170,000	290,000
Revaluation		(40,000)			(40,000)
Closing Balance		7000	15,000	31,000	53,000
		7000	95,000	201,000	303,000
Net Book Value	800,000	693000	55,000	1,24,000	1,672000

3) Cost of Sales -

Cost of Inventory Consumed	350,000
Factory running cost	100,000
Cost of manufacturing wages	175,000
Depreciation of Buildings	7,000
Depreciation of Machinery	15,000
	647,000

4) Cost of Distribution -

Cost of Advertising	55,000
Delivery vehicle running costs	60,000
Sales salaries	120,000
Depreciation of Vehicles	31,000
	266,000

A15). Profit & Loss account for the year ended December 31, 2019

~~Revenue~~ ~~Amount (INR)~~ ~~Amount~~

~~Cost of Sales~~

Revenue	Amount	Amount
Fee Revenue		58000
Investment income		200
Total		58200
Employees Salaries	(14000)	
Laptops	(3208)	
Office supplies	(1000)	
Office Electricity Bill	(9000)	
Mobile & Internet Bill	(583)	
Office equipement	(1,833)	
Office Building Rent	(14,207)	
Income tax	(3000)	
	(41,832)	
Total Profit		16,368

Notes -

1) Depreciation Calculation -

$$\text{Laptops} = 35{,}000\left(\frac{1}{10}\right)\times(1)\left(\frac{11}{12}\right) = 3{,}208$$

$$\text{Office Equipement} = 20{,}000\left(\frac{1}{10}\right)(1)\left(\frac{11}{12}\right) = 1{,}833$$

2) Unearned fees = 10,000 − 1,000 = 9,000

Statement of Retained Earnings Calculation -

Net profit for year =	16368
Dividend	(5000)
Net Retained	11368

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Balance Sheet as on 31 December 2017.

	Amount	Amount
Assets		
Laptops	35000	
Depreciation	3208	31,792
Office equipement	20,000	
Depreciation	1833	18,167
Office supplies		1,000
Trade Recievables		1,800
Cash		1,000
Bill Recievables		5,000
Revenue recievable		2,000
Interest recievable		200
Office Building Rent		1,710
Total Assets		62,368
Liabilities		
Trade Payables		3,000
Income tax payable		3,000
Unearned fees		9,000
Employees salaries		4,000
Share capital		32,000
Retained earnings		11,368
Total liabilities		62,368