Business Finance-2 Assignment -2

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4. A

5a) Accruals concept – The ~~journal~~ accounting entry that is used to recognize revenues and expenses that have been earned or consumed respectively and for which the related cash amounts have not yet been received or paid out is called accruals concept.

Realizations concept – It is the concept where revenue can only be ~~rea~~ recognized once the underlying goods or services associated with the revenue have been rendered. Revenue can be recognized after it has been earned.

b) Accrual concept → Claims paid during the year & reserves created for expected claims.

Realization concept → Earned premium of the year is calculated with the help of earned portion of premium & unexpired risk premium

6. The ways through which accounts can be manipulated are:–

- inappropiate amortization of intangible,
- inappropiate valuation of inventories or future liabilities
- prebooking of anticipated sales revenue,
- inappropiat depreciation of tangible assets
- omitting contingent liabilities

7.

i Cash flow → no change
Gross profit → no change

ii Cash flow → decreases
gross profit → no change

iii Cash flow → no change
gross profit → no change

iv cash flow → no change
gross profit → decreases

v cash flow → no change
gross profit → no change.

8. The main roles of regulations in financial system are:–
→ To contribute for the ~~[illegible]~~ protection and enhancement of stability of the financial contribution
→ To maintain market confidence
→ To secure the appropriate degree of protection of consumer.

(ii) The authorities which regulate the Indian Financial System are:–
→ Securities and Exchange Board of India (SEBI)
→ Reserve Bank of India (RBI)
→ Pension Fund Regulatory and Development Authority. (PFRDA)
→ Insurance Regulatory and Development Authority of India (IRDAI)

(iii) a) Reserve Bank of India
b) Superannuation product → Pension Fund Regulatory and Development Authority.
c) General Insurance Companies → Insurance Regulatory and Development Authority of Ind.
d) Stock Broker → Securities Exchange Board of India
e) Mutual Fund → Securities Exchange Board of India
f) Foreign Exchange Dealer → Reserve Bank of India.

h) Money changers → Reserve Bank of India.

9 (i) The cost concept → The cost concept states that all non current asset appear in the statement of the financial position at the original cost less depreciation.

ii Going Concern Concept → It states that the business will continue till perpetuity. ~~the~~ ~~just~~ ~~the~~

(ii) The directors con opt for financial statements wherein all the transaction and its treatment should have a realistic impact on the accounts. All accounting standards should be taken into consideration. The notes and working notes should be shown clearly with all the information so that it is easier for the board of directors to look into the accounts even in a short span of time.

(iii)

10. a) Investment Bank

Role → To increase wealth of their customers who use their services and invest.

Source of Funds → ~~To~~ The money deposited by their customers while investing

Application of Funds → The money received from the customers as is then invested further in equities, bonds, loans for higher returns.

b) Pension Scheme

Role → To offer annuity related products which in turn will act as a protection for the customers.

Source of Funds → Money collected from the employer and employee.

Application of Funds → Money is ~~used by the government for various purposes~~ further invested get higher returns so that they can give pensions.

c) Life Insurance Company

Role → To provide a lumpsum amount to the beneficiary after the death of the policyholder

Source of Funds → Premiums collected from policy holder

Application of Funds → The premiums collected is invested further for getting high returns.

11. The challenges and limitation ~~faced~~ which are possible are:–

→ Different authorities and companies ~~do~~ use different formats for preparing accounts.

→ Depreciation charged on assets can be done by different ways.

→ There is non-uniformity due to different standards.

12. i] It is complicated to prepare accounts for insurance companies because:–

→ premature transfer of profit to shareholders may endanger the financial stability and its ability to meet future liabilities

→ People tend to lapse their policies in future which results in a loss for the ~~as~~ insurance companies
→ The main income sources are the premiums collected but there are also administrative expenses which are to be carried out.

ii] The components of reserves for insurance companies' technical account are;
→ ~~Outstanding claim reserve~~ Un-expired risk reserve. → It is kept to cover the claims and expenses that are expected ~~Un-expired risk reserves~~ to emerge from an unexpired portion ~~un-expired risk~~ of the insurance cover.
→ ~~Outst.~~ ~~Un-expired risk reserve~~ Outstanding claim reserve → It is kept to cover claim & expense for all outstanding claim that have not yet been settled.

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(i) Four advantages are ;—
- Companies are obliged to disclose more information than required by national laws
- There is less of variation between companies while preparing accounts as they follow the same set of rule.
- Some degree of flexibility is allowed.

(ii) Disadvantages are :—
- It may not be always appropriate for every company.
- Few standards are very much into depth and few are general ones
- More than one treatment is possible in some cases.
- The capital market are not same in all the countries it differs

(ii) Sources of regulation that influence the preparation of financial statement for companies are :—

- Domestic / National laws
- International laws
- Stock exchange

(iii) The additional information that cash flow statement provides are :-

- All cash inflows a company receives from its ongoing operations and external investment sources.
- Provides information on a company's liquidity and solvency.
- Helps in comparability of different firms operating ~~perform~~ performances and to indicate the amount, timing and probability of future cash flows.
- Cash is necessary for the survival of the business and therefore cashflows should be observed closely.

14. Comprehensive Income Statement for 2018-19.

Particulars	WN.	Amount (₹)
Revenue		1,500,000
(−) Cost of Sales	(iv)	(6,48,000)
Gross Profit		552,000
(−) Admin expenses		(3,000)
(−) Distribution expenses	(i)	(2,35,000)
		~~6,1,4,000~~
Operating Profit		6,14,000
(−) Financial ~~cost~~ expense		(10,000)
		6,04,000
Profit before tax		(0)
(−) Tax expense		
Profit After Tax		60,400

Statement of Changes in equity

	Share Capital	Retained Earnings	Revaluation reserve
Opening Balance	2,00,000	2,50,000	1,80,000
(−) Dividend Paid.		(45,000)	
(−) Building reserve			3,00,000
(−) Land revaluation			2,00,000
(+) current year profit.		6,04,000	
Closing Balance			

Statement of Financial Position

Particulars	W.N.	Amount (₹)
Assets		
Non current Assets	iii	1632000
Current Assets.	V	240000
		1872000
Equity & Liabilities		
Equity		
Share Capital		2,00,000
Retained Earning		809,000
Reserves.		680,000
Non Current Liabilities		145,000
Current liabilities.	ii	68,000
		18,72000

Working Note

(1) Distribution expenses

Cost of mark.	55,000
delivery vehicle cost.	60,000
Sales salary.	1,20,000
	2,35,000

(2) Current liabilities

Bank overdraft	18,000
Trade payable	50,000
	68,000

(iii) Non Current ~~liabilities~~ assets

	Building	Delivery vehicle	Land	Machinery
Cost	4,00,000	5,25,000	6,00,000	1,50,000
+ Land revaluation			2,00,000	
+ Building revaluation	3,00,000			
Accrued depr.	(40,000)	(1,70,000)		(80,000)
(+) Current dep.	(7,000)	(31,000)		(15,000)
Net Book value	6,53,000	1,24,000	8,00,000	55,000

(iv) Cost of Sales

Cost of inventory consumed.	3,50,000
factory running cost	1,00,000
manufacturing wages	1,75,000
C.Y. building dep.	7,000
C.Y. delivery vehicle	31,000
C.Y. machinery.	15,000
	6,78,000

(v) Current Asset

Trade receivable	2,10,000
Closing inv.	30,000
	2,40,000

15. Comprehensive statement of income

Particulars	W.N.	Amount (₹)
Revenue		58,200
(−) Cost of sales	6	(4,041)
Gross Profit		54,159
(−) Admin expenses	2	(34,790)
(−) Distribution exp.		(0)
Operating profit.		19,369
(−) Financial exp.		0
(+) Financial inc.		0
(−) Tax expense.		(3000)
Profit after tax		16,369

Statement of financial position

Particulars	W.N.	Amount (₹)
Assets		
Non Current Asset	1	49,959
Current Assets	3	12,410
		62,369
Equity & Liabilities		
Share Capital		32,000
Retained earning		11,369
Liabilities		
Non Current		0
Current	4	19,000
		62,369

Statement of Changes in equity

	Share capital	Retained earny
Opening Balance	32,000	
(−) dividends.		(5000)
(+) Profit.		16,369
Closing balance.	32000	11,369

Working note

(1) Non current asset

	Laptops	equipm
Cost	35,000	20,000
(−) depreciation	(3,208)	(1833)
Book value	31792	18,167

(2) admin exp. ~~Current asset~~

Office supp.	2,000
Office building rent	14,207
employees salary	10,000
Electricity bill	4,000
Mobile bill	583
O/s salaries	4000
	34,790

(3) Current assets ~~Admin exp~~

Trade receivables	1500
Cash	1000
Bills receivables	5000
Closing inventory	1000
fee revenue due	2,000
bill interest	200
Rent	1710
	12,410

(4) Current liability

Trade payable	3000
Unearned fee	10,000
earned fee	(1,000)
O/s salaries	4,000
tax	3,000
	19,000

(5) Revenue

fee revenue	55000
fee revenue due	2,000
Unearned fee	1,000
Bill interest income	200
	58,200

(6) Cost of sales

Closing inv.	(1,000)
Dep. laptop	3201
Dep. equipment	1833
	4041