

Q1) d - II & IV

Q2) c - adverse opinion

Q3) c - chairman's report

Q4) b - II & III

Q5) i) Realization Concept of Accounting states that revenue is only recognized when goods or services are delivered or rendered to the buyer. The company is reasonably certain that the payment against the same will be received from the customer. It is generally occurs used when the underlying goods are actually delivered, or risk and rewards are transferred, or income gets due, irrespective of the fact that amount is received or not. In the case of income, revenue is to be recognized when income is due. In case of a continuous service business like real estate business, revenue or income is to be recognized on percentage completion method. According to this concept, revenue is to be recognized only when it is earned, or it becomes reasonably certain that the company will receive the payment from its customer where this revenue is realized when risk and rewards are transferred, or income is due. Realization principle does not associate with receipt of cash, i.e., income is to be realized, or revenue is to be recognized even if the cash is not received.

Accrual concept is the most fundamental principle of accounting which requires recording revenues when they are earned and not when they are received in cash, and recording expenses when they are incurred and not when they are paid. This method allows the current cash inflows or outflows to be combined with future expected cash inflows or outflows to give a more accurate picture of a company's current financial position. The accrual method does provide a more accurate picture of the company's current condition, but its relative complexity makes it more expensive to implement. This method arose from the increasing complexity of business transactions and a desire for more accurate financial information. Selling on credit, and projects that provide revenue streams over a long period, affect a company's financial condition at the time of a transaction. Therefore, it makes sense that such events should also be reflected in the financial statements during the same reporting period that these transactions occur.

ii) The health insurance company will record the claims as expenses now itself under the accruals concept and which could reduce the present year's profitability and cash or just create a reserve in the liability section. The company will also record premium payments as an income as it is recognized in this year and further income this in the financial statements.

Q6) There are two general approaches to manipulating financial statements. The first is to exaggerate current period earnings on the income statement by artificially inflating revenue and gains, or by deflating current period expenses. This approach makes the financial condition of the company look better than it actually is in order to meet established expectations.

The second approach requires the exact opposite tactic, which is to minimize current period earnings on the income statement by deflating revenue or by inflating current period expenses. It may seem counterintuitive to make the financial condition of a company look worse than it actually is, but there are many reasons to do so: to dissuade potential acquirers; getting all of the bad news "out of the way" so that the company will look stronger going forward; dumping the grim numbers into a period when the poor performance can be attributed to the current macroeconomic environment; or to postpone good financial information to a future period when it is more likely to be recognized.

The seven primary ways in which corporate management manipulates the financial statements of a company are :

- Recording Revenue Prematurely or of Questionable Quality.
- Recording Fictitious Revenue i.e. Recording revenue for sales that did not take place, recording investment income as revenue, recording proceeds received through a loan as revenue.
- Increasing Income with One-Time Gains viz increasing profits by selling assets and recording the proceeds as revenue, increasing profits by classifying investment income or gains as revenue.
- Shifting Current Expenses to an Earlier or Later Period I.e. failing to record or Improperly Reducing Liabilities, failing to record expenses and liabilities when future services remain, changing accounting assumptions to foster manipulation.
- Shifting Future Expenses to the Current Period as a Special Charge like accelerating expenses into the current period, changing accounting standards to foster manipulation, particularly through provisions for depreciation, amortization, and depletion.

There are many cases of financial manipulation that date back over the centuries, and modern-day examples such as Enron, WorldCom, Tyco International, Adelphia, Global Crossing, Cendant, Freddie Mac, and AIG should remind investors of the potential landmines that they may encounter.

Item	Gross profit	Cash flow
Property that the company possess has been revalued upwards by Rs 100 crores by the Valuer	No change	No change
There has been an interest payment of Rs 1000 crores towards Masala bond issued by the company	No change	Decreases
There has been an increase in inventory of Rs 500 crores which were manufactured out of raw materials available in the previous year end, ignoring any man power and production cost	No change	No change
There was a depreciation of plant and machinery to the extent of Rs 250 crores	Decreases	No change
It was decided to write off Rs 200 crores due to EHFL defaulting	No change	No change

Q7)

Q8)i) Main roles of regulation in the financial system are:

- Maintain public/ investor confidence
- Promote stability of the financial system
- Protect investors
- Maintain international confidence

- Deter fraudulent behaviour

ii)

- The Reserve Bank supervises via prudential regulations all deposit taking activities as well controls foreign exchange market besides overall stability of the financial system and setting monetary policy and payments system.
- SEBI is responsible for financial market integrity, companies consumer protection in relation to financial products and services, and enforcement of law relating to financial products and services. It also licenses and supervises a number of financial market participants such as security brokers, underwriters, depositories, mutual funds etc.
- IRDA is responsible for insurance companies in a manner similar to RBI in the arena of banking. It licenses all insurance sector related intermediaries and prudentially supervised over them.

iii) Banks - RBI

Superannuation products - IRDA

General Insurance Companies - IRDA

Stock Brokers - SEBI

Mutual Funds - SEBI

The market for listed securities - SEBI

Foreign exchange dealers - RBI

Money Changers - RBI

Q9)i) According to the cost concept, non-current assets should be valued at cost less depreciation.

According to the going concern concept, accounts should be prepared on the assumption that the business will continue indefinitely in its present form.

ii) Key guiding principles for setting accounting policies for unusual transactions are -

a) There is a general requirement that the financial statements give a true and fair view.

Amongst other things, that any treatment gives a realistic and representative treatment of the transaction.

b) The guidance provided by Accounting Regulations Board in this regard should be considered. For example, the objectives of relevance, reliability, comparability and understandability should be applied.

c) The directors might consider looking at the treatment laid down by standards for similar balances, even though those standards might not be strictly applicable. That would ensure that the logic underlying the chosen treatment was consistent with good accounting practice.

iii) Most of the optimism in making accounting choices is quite visible to the analysts and market participants. For example, companies publish their accounting policies and so it is possible to tell whether a particular approach has been followed and accordingly opinions formed about the price.

The stock market examines information carefully to ensure that it does not misprice securities. If shares are overpriced then there will be opportunities for astute market participants to make profits by identifying the overpriced companies and selling shares. Market forces would push the shares down and these activities would also draw attention to the distortion. Markets usually reward companies with good corporate governance which is also reflected from the conservativeness of estimates and accounting policies. Conservative policies also provide ability to the company to present more smooth results in volatile times which can work in favour of its stock price.

Q10) INVESTMENT BANKS:

Role- Role as an Advisor: Raising capital funds is a tedious task for any organization, where the service of an investment bank comes into play. An investment firm can help sell the company's shares by determining a good price using sophisticated financial models. Financial analysts look after factors such as earning potential, the strength of the management team while selling shares. Investment banks offer advice at the time of merger and acquisition by advising the management on how worth the company is and helping in the restructuring of the company.

Underwriting Stocks and Bonds: Underwriting is the process wherein the investment banks take financial risk in exchange for a fee. It involves conducting research and assessing the degree of risk involved in insurers' business. An investment bank buys a certain number of bonds/stocks at a previously discussed price and resells them through an exchange. It is the job of the investment bank to prepare the documentation which must go to the Securities and Exchange Commission before the company can sell any share. Documentation will comprise of details such as financial statements, management information, current ownership, and future plans.

Other activities: Apart from advising and helping raise money for the companies, investment banks perform other functions as well such as research, trading and sales, asset management, wealth management, and securitized products.

Sources of funds- An investment bank, which includes the likes of Bank of America, JPMorgan Chase, and Goldman Sachs, finances or facilitates trades and investment on a large scale for institutional clients.

Brokerage and Underwriting Services: Like traditional intermediaries, large investment banks connect buyers and sellers in different markets. For this service, they charge a commission on trades. The trades range from simple stock trades for smaller investors to large trading blocks for big financial institutions. Investment banks also perform underwriting services when companies need to raise capital.

Mergers and Acquisitions: Investment banks charge fees to act as advisors for spinoffs and mergers and acquisitions (M&A). In a spinoff, the target company sells a piece of its operation to improve efficiency or to inject cash flow. On the other hand, acquisitions occur whenever one company buys another company. Mergers take place when two companies combine to form one entity. These are often complicated deals and require a lot of legal and financial help, especially for companies unfamiliar with the process.

Investment Research: Major investment banks can also sell direct research to financial specialists. Money managers often purchase research from large institutions, such as JPMorgan Chase and Goldman Sachs, to make better investment decisions.

Asset Management: In other cases, investment banks directly serve as asset managers to large clients. The bank might have internal fund departments, including internal hedge funds, which often come with attractive fee structures. Asset management can be quite lucrative because the client portfolios are large.

Application of funds- Investment banks work with governments to raise money, trade securities, and buy or sell crown corporations. Banks work with institutional investors who manage other people's money to help them trade securities and provide research.

PENSION SCHEMES:

Role- Receiving of Subscribers funds from Trustee Bank for investments as per subscriber preferences. Investing the funds in securities prescribed in the investment guidelines issued by Authority and Investment Policy approved by the Board of Pension Fund.

Sources of funds- Pension plans are funded by contributions from employers and occasionally from employees. Public employee pension plans tend to be more generous than ones from private employers. Private pension plans are subject to federal regulation and eligible for coverage by the Pension Benefit Guaranty Corporation.

Application of funds- The main investment style of a pension fund is diversification and prudence. Pension funds aim for portfolio diversification, allocating capital to different investment instruments (stocks, bonds, derivatives, alternative investments, etc.). Many pension funds have transferred from active stock portfolio management to passive investment instruments, investing in index funds and in exchange-traded funds that track stock indexes. Emerging trends are to allocate capital to alternative investments, specifically to commodities, high-yield bonds, hedge funds, and real estate.

LIFE INSURANCE COMPANY:

Role- Provide safety and security, Generates financial resources, Promotes economic growth & Medical support.

Sources of funds- The insurance company primarily makes money in two ways. One, from the profit it makes on premium payments. And two, from investing those premiums.

Applications of funds - Insurance companies tend to invest the most money in bonds, but they also invest in stocks, mortgages and liquid short-term investments.

Q11) •Since both the companies are different, there will be different kinds of regulations imposed on them.

- They would have to produce financial reports in different formats, various vivid disclosures may be expected.
- Treatment of various items imposed by both the regulators will be different.
- Either statistical basis or expert judgements for estimating future liabilities must be assessed.
- Different companies in similar circumstances were following completely different accounting policies, leading to different and incompatible results.
- As I want to invest in either of the one, but due to different regulators, an appropriate comparison is not possible.
- I cannot interpret the retained earnings calculations or the assets the companies are holding.

Q12) i) The reason of complication in preparing the insurance companies accounts as compared to normal company accounts are as follows –

- a) The insurance contracts with policyholders fall due outside the accounting period and are uncertain in size.
- b) Premature transfer of profit to shareholders may endanger the financial stability of the company and ability to meet the future liabilities.

ii) The major component of reserves for a general insurance company's technical accounts are as follows-

- a) URR (Unexpired risk reserves)
- b) Outstanding claim reserves
- c) URR (Unexpired risk reserves): This reserves is kept to cover the claims and expense that are expected to emerge from an unexpired portion of the insurance cover in future period
- d) Outstanding claim reserves: This reserves is kept to cover the claims and expense for all outstanding claims that have not yet been settled. These claims and expense may or may not be reported or known at the time of preparation of accounts.

Q13) i) **Advantages :**

- It would create a single set of accounting standards around the world.
- It would reduce the time, effort, and expense of preparing multiple reports.
- It would make it easier to monitor and control subsidiaries from foreign countries.
- It would offer more flexibility in the accounting practices.

Disadvantages :

- It would increase the cost of implementation for small businesses.
- It would lead to concerns with standards manipulation.
- It would require global consistency in auditing and enforcement.
- It would increase the amount of work placed on accountants.

ii)

- Income Statement
- Balance Sheet

- Statement of Change in Equity
- Statement of Cash Flow

iii) Cash Flows From Operations: This section reports cash flows and outflows that stem directly from a company's main business activities. These activities may include buying and selling inventory and supplies, along with paying its employees their salaries. Any other forms of in and outflows such as investments, debts, and dividends are not included.

Cash Flows From Investing: This is the second section of the cash flow statement looks at cash flows from investing (CFI) and is the result of investment gains and losses. This section also includes cash spent on property, plant, and equipment. This section is where analysts look to find changes in capital expenditures (capex). When capex increases, it generally means there is a reduction in cash flow. But that's not always a bad thing, as it may indicate that a company is making investment into its future operations. Companies with high capex tend to be those that are growing.

Cash Flows From Financing: Cash flows from financing (CFF) is the last section of the cash flow statement. The section provides an overview of cash used in business financing. It measures cash flow between a company and its owners and its creditors, and its source is normally from debt or equity. These figures are generally reported annually on a company's 10-K report to shareholders .

Q14) i) ABC Ltd. Income statement for the year ended 31st March 2019

Revenue 1,500,000

Cost of Sales (647,000)

Gross Profit 853,000

Administrative Staff wages (3,000)

Distribution Cost (266,000)

584,000

Interest (10,000)

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	1,699,00

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

Non-current Assets

Property, Plant and Equipment 1,672,000

Current Assets

Inventory 30,000

Trade Receivables 210,000

Total=240,000

Total Assets =1,912,000

Equity and Liabilities

Equity

Share Capital 200,000

Revaluation Reserve 720,000

Retained Earnings 779,000

Total=1,699,000

Non-current Liability

Loan 145,000

Current Liability

Trade Payables 50,000

Bank 18,000

Total=68,000

Total Equity and Liabilities =1,912,000

Notes:

1) Property, Plant and Equipment

Cost or Valuation	Land	Building	Machinery	Vehicles	Total
Opening Balance	600,000	400,000	150,000	325,000	1,475,000
Revaluation	200,000	300,000			500,000
Closing Balance	800,000	700,000	150,000	325,000	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		7,000	15,000	31,000	53,000
		7,000	95,000	201,000	303,000
Net book value	800,000	693,000	55,000	124,000	1,672,000

3) Cost of Sales

Cost of Inventory Consumed	350,000
Factory running costs	100,000
Manufacturing wages	175,000
Depreciation of buildings	7,000
Depreciation of Machinery	15,000
	647,000

4) Cost of Distribution

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

Q15) **Income statement**

Particulars

Revenue from operations- 66000

Other income- 200

Total - 66200

Expense

Purchase of stock in Trade- 1000

General and administration- 14121

Employers Benefit Expenses- 14000

Utility expenses- 4583

Depreciation- 8042

Total expenses- 38746

Profit before interest and tax- 27456

Less: Dividend - 5000

Taxable Income- 22454

Less: Tax Payable- 3000

Profit year ended 31 Dec 2019- 19454

Notes

1) Revenue from operations

 Fee revenue earned-55000

 Fee revenue unearned-10000

 Less: earned in Dec-1000

 Add: fee due- 2000

2) Other Income - 200

3) General

 Amount paid- 15919

Less:-1796

Total- 14123.

4) Depreciation $(3600+2000) \times 11/17=5042$

Balance Sheet for 31 Dec 2019

Particular

Non current Assets

a) Fixed assets

i)Tangible assets- 49958

Accused income

Current assets

(a) Indenture- 1000

(b) Trade Receivables- 1600

(c) cash- 6200

(d) other current asset- 1796

Total assets-71454

Liability

1)Shareholders fund

Share Capital- 32000

Reserve as surplus- 22484

2)Non current liability

Trade payable- 3000

Other non current liabilities-4000