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1. B. All of the above

2. C. An adverse opinion

3. B. Statement of change in equity

4. A.

5. a) • Realization concept
- Income is recognised as and when it is 'earned' (when goods are sold, not when payment is recieved), and therefore, it is not necessary to wait until customer's bill is settled.
- This avoids fluctuations in reported income which might arise if everything was accounted for on a cash basis.

• Accruals concept
- Expenses are recognised as and when they are incurred, regardless of whether the amount has been paid.
- This avoids random allocation of costs of periods depending on whether the bill happens to have been paid or not.

b) Realization concept -

- The insurance company would record premium payments of its ~~custom~~ customers as & when they ~~i~~ earn them ie. monthly, quaterly, yearly etc. and not on the date when they actually recieve the premiums.

Accruals concept -

- If a policy commences in January for a year then it would be justified in allocating only (3/12) one fourth of the premium payment in the period to the end of March.

6.

- Inappropriate depreciation of tangible assets
- Overstating / understating profits to manipulate ratios or to save taxes respectively.
- Inappropriate amortisation of intangible assets.
- Inappropriate valuation of inventories
- Inappropriate valuation of future liabilities
- unwarranted revaluation of tangible assets.

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- creating intangible assets of questionable true worth.
- omitting contingent liabilities.

7. (i) Gross profit : no change
Cash flow : no change

(ii) Gross profit : no change
Cash flow : decreases

(iii) Gross profit : no change
Cash flow : no change

(iv) Gross profit : decreases
Cash flow : no change

(v) Gross profit : no change
Cash flow : no change

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8. i) Roles of regulation in the financial system:

- Market confidence → to maintain confidence in financial system.
- Financial stability → contributing to the protection & enhancement of stability of the financial system.
- Consumer protection → securing the appropriate degree of protection for consumers.

ii) - RBI → Reserve Bank of India
- SEBI → Security & Exchange Board of India
- PFRDA → Pension Fund Regulation of India
- IRDAI → Insurance regulatory & Development Authority of India

iii) a) Banks - RBI
b) Superannuation products - PFRDA
c) General insurance co. - IRDAI
d) Stock brokers - SEBI
e) Mutual funds - SEBI
f) Market for listed securities - SEBI
g) Forex dealers - RBI
h) Money changers - RBI

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9 (i) • Cost concept
- Non-current assets generally appear in statement of financial position at their original cost less depreciation to date, subject to a possible impairment write down.

• Going concern concept
- Usually assumed that a business will continue indefinitely in its present form.
- It acts as a justification for limitations of cost concept because it is less harm in reporting past figures for value of assets concerned are unlikely to be sold in immediate future.

ii) Key guiding principles for setting accounting policies for unusual transactions are:-
① Financial statements ~~give~~ must give a true and fair value. It should reflect realistic the representation of transaction.

② For the unusual transaction recorded in this case, guidance provided by Accounting Regulations Board must be considered. Objectives of relevance, reliability etc. should be applied.

③ Directors might consider looking at the treatment laid down by standards for similar balances, even though these standards might not be strictly applicable.

(iii) Optimistic accounting choices are quite visible to analysts & market participants. Stock market examines information carefully to ensure that securities are not mispriced or overpriced mostly. If shares are overpriced, then there will be opportunities for astute market participants to make profits by identifying & selling overpriced shares. Market forces pushes the shares down and these activities draws attention to the distortion.
Therefore, market does not reward optimistic policies being used consistently.
~~10. a) Investment Bank~~

10. (a) Investment Bank

- Role : Advices and helps companies raise finance
- ~~Application~~ Sources of funds: receives fees for advice, underwriting commission, fund management, eurobond dealing, trusteeship, & bill acceptance. Borrows money by running banking accounts & issuing certificates of deposit
- ~~Sources~~ Application of funds : Invest in bills & provide loans & leases to companies.

(b) Pension scheme

- Role: Channel savings for retirement into long term capital markets.
- ~~Applications~~ Sources of funds: contributions from employers & employees. No borrowing.
- ~~Sources~~ Application of funds: Typical funds invested in equities, longer dated loan securities & company debt and also overseas securities. Small proportion of assets invested in property, money market.

(c) Life Insurance company

- Role: Insure policyholders against the risk of mortality or investment.
- Sources of funds: Premiums received from ~~poly~~ policyholders.
- Application of funds: Investment in a mixture of equities & short & long fixed interest securities. May have some investments in property, money market investments & index-linked gilts.

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11. Limitations & challenges are as follows:

① Different regulation will govern these companies on a same subject may bring ~~difference~~ difficulty in interpretation and comparison.

② Subjectivity issues in revaluation of assets, accounting of intangible assets, inventory valuation.

③ The choice of accounting formats can mean that different firms can produce sets of accounts which are difficult to compare.

④ Level of aggregation: some firms show more detailed splits of items than other firms.

12. i) The preparation of insurance company accounts is complicated by the two special features:

1) The underlying contracts (liabilities) fall due outside the accounting period & are uncertain in size.

2) Premature transfer of 'profit' to shareholders may endanger the financial liability of the company & ability to meet future liabilities.

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(ii) • Unexpired risk reserves : to cover the claims & expenses that are expected to emerge from an unexpired period of cover.

• Outstanding claims reserve : to cover claims & expenses for all outstanding claims that have not yet been settled .

13. (i) • Advantages

→ They eliminate, or at least reduce, variations between companies in the way they prepare accounts.

→ The discussion processes 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.

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• 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 the 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) Sources of regulations influencing the preparation of financial statements for companies

→ Principles, concepts and convention of accounting

→ National company laws

→ Stock exchange requirements

→ Best practices in accounting followed by leading companies from time to time.

(iii) The statement of comprehensive income & statement of financial position do not provide a sufficient insight into movements in cash balances. This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid. Hence the cashflow statement is important to supplement the statement of profit or loss & statement of financial position.

14.

1) Statement of comprehensive income / Income statement for 31 March 2019

	WN	$
Revenue		1,500,000
- COS	5	(647,000)
Gross Profit		853,000
- Administrative expenses	1	(3,000)
- Distbn expenses	2	(266,000)
Operating profit		584,000
- financial expenses	6	(10,000)
PBT		574,000
- Tax		-
PAT		574,000

2) Statement of changes in equity

	Share capital	Revaluation reserve	Retained earnings
Opening	200,000	180,000	250,000
+/- dividend paid			(45,000)
Revaluation		540,000 ~~(500,000)~~	
CY ~~loss~~ Profit			574,000
Closing	200,000	720,000	779,000

inventory

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Statement of Financial position as at 31st March 2019

	WN	$
NCA	~~[illegible]~~	~~$~~
~~PPE~~		~~1,672,000~~
~~CA~~		
~~Inventory~~		
~~Trade recici~~		

	WN	$
NCA	4	
PPE		1672,000
CA	8	240,000
Total Asset		1,912,000
Equity & liabi		
Equity		
Share capital		200,000
Revaluation Reserve		720,000
Retained earnings		779,000
		1699,000
NCL	7	145,000
CL	3	62 000
Total liability & equity		1,912,000

Working Notes

1) Administration expenses

Admin. staff wages	3000
	3000

2) Distribution expenses

cost of Marketing	55,000
Delivery vehicle runn. cost	60,000
Repair vehicles	31,000
Sales salaries	120,000
	266,000

3) Current liabilities

Bank OD	18,000
Trade payables	50,000
	68,000

4) Non current Asset

	Property	Vehicles	Machinery	land
cost	4,00,000	~~38,120~~ 325,000	150,000	600,000
accumulate depri	(40,000)	(170,000)	(80,000)	
	~~(7,000)~~ + 40,000	(~~68,000~~)	(15000)	
	(7,000)	(31,000)		
Revaluation	300,000			200,000
	693,000	124,000	55000	800,000
BV =	1,672,000			

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5) Cost of Sales

cost of inventory	350,000
Factory running cost	100,000
Manufacturing wages	175,000
~~closing inventory~~	~~(30,000)~~
+ depri building	7000
+ ~~depri vehicles~~ + clan ma	15,000
	647,000

6) Financial expenses

loan Interest	10,000

7) Non current liabilites

Loan repayable	145,000

8) Current Asset

Trade receivables	210,000
closing inventory	30,000
	240,000

15. WN

1) COS

Rent	15917
Prepaid	(1710)
	14207
Office supplies	1000
Salary	10,000
O/S	4000
	14000
Office electricity bill	4000
Mobile bill	503
Depri	5041
	38831

2) CA

Prepaid exp	1710	Cash	1000
Inventory of supp.	1000	BR	5000
Trade receivable	1500	Int.	(700)
due	2000		
	3500		12410

3) NCA

	Laptop	Office equip.
	35000	20,000
Depri	(3208)	(1833)
	31792	181567

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4) Revenue

Revenue earned	55000
Due	2000
Fees earned	1000
	58000

Statement of Profit & Loss

	WN	$
Revenue	4	58000
− COS	1	(38831)
op profit		19169
+ finance income	6	200
PBT		19369
− tax		(3000)
PAT		16369

WN

5) CL

Unearned fees	13000	→ 10000 + 3000
− earned	(1000)	
o/s salaries	4000	
	19000	

6) finance income
interest 200.

Statement of financial position

	WN	$
NCA	3	49959
CA	2	12410
Total Assets		62369
Equity		
Share cap.		32000
Retained earnings		11369
		43369
NCL		$ –
CL		19000
Total equity + liability		62369