Business Finance

1. c) I, II, IV

2. A) Disclaimer of opinion

3. c) Chairman's report

4. D) I, II, III

5. a) Realization concept:
Income and profit should be recognized as and when it is earned.
· Accrual concept:
Expenses are recognized as and when it is incurred.

b) The premium of the no. of policies sold is considered regardless of the actual premium earned in the year. → Realization concept.
The claims incurred during the financial year are considered paid regardless of the paid claims ~~and~~
→ Accrual concept.

6. Different ways through which accounts can be manipulated:-
1) unwanted depreciation of tangible assets
2) unwanted ammortization of intangible assets
3) Improper valuation of inventories
4) unwarranted revaluation of tangible assets
5) creating intangible assets of questionable true worth
6) omitting contingent liabilities

7.	Gross Profit	cashflow
1)	No change	No change
2)	No change	Decreases
3)	No change	No change
4)	Decreases	No change
5)	No change	No change

8. i) Main roles of regulation in the financial system:
1) Maintain public ~~in~~ confidence
2) Promote stability of the financial system
3) Protect investors
4) Maintain international confidence
5) ~~Pr~~ Prevent fraudulent behaviour

ii) The Reserve Bank of India ~~supervisor~~
1) It is monetory authority
2) ~~Reg~~ Regulator and supervisor of Financial system
3) Foreign exchange manager
4) Issuer of currency
5) Regulator & supervisor of the financial system, Payment and settlement system
6) Banker ~~of~~ to Government & bank

Securities and Exchange Board of India
1) Formulate code of conduct & guidelines for proper functioning of intermediataries and businesses.
2) Regulates business in stock and other ~~reg~~ security markets
3) Protects the interest of security market participants
4) Formulates, implements & monitors ~~exersing~~ exercising powers
5) Regulates credit ~~ratas~~ rating ~~ag~~ agencies
6) Prohibits insider trading and unfair trade practices

IRDAI

1) Issue certificate of registration, manage registration
2) Protect interest of policyholders
3) Specifies code of conduct for insurance intermediaries, agents, surveyors, loss assessors
4) Promotes and regulates firms that deal in insurance and reinsurance.

Pension Fund Regulatory and Development Authority (PFRDA).

1) creates investment standard for pension funds
2) ~~Resolves~~ Protects interests of pension fund subscriber
3) Investigating intermediaries and other participants for ~~other~~ malpractices.

iii) a) Banks — RBI
b) Superannuation products — ~~PFRDA~~ IRDAI.
c) General Insurance — IRDAI
d) Stock Brokers — SEBI
e) Mutual Funds — SEBI
f) Market for listed securities — SEBI
g) Foreign exchange dealers — RBI
h) Money changers — RBI

i) Cost concept
The noncurrent assets should be valued at cost less depreciation
Going concern concept
The accounts should be prepared under 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.
b) The guidance provided by Accounting Regulations Board should be considered.
c) The director might consider looking at the treatment laid down by standards for similar balances.

iii) The stock market examines information carefully to ensure that it doesn't misprice securities.
If shares are overpriced, then there will be misuse of overprice companies to gain profit by selling shares.
∴ Market will push down these shares.

10. Investment Bank

Role :- Advice companies and help them raise finance

Application of funds :- Receive fees for advice, underwriting commission, fund management, etc

Borrow money by running bank accounts and issuing certificates of deposit

Source of funds :- Invest in bills and provide loans and leases to companies

b. Pension scheme

Role : channel savings for retirement into long term capital markets

A.O.F. : contribution from employers, employees

S.O.F. :- Typical funds invests in ~~equity~~ equity, longer dated loan, securities, real estate, etc.

Life Insurance company :-

Role :- Pool mortality and investment risks into long term capital market by chanelling savings

A.O.F. :- Premium income from policy holders

S.O.F. :- Typical funds in mixture of equities and short and long fixed interest securities, also securities and property.

12. ~~expens~~ i) the insurance companies have accounts complicated than normal companies due to
1) insurance contracts with policyholders fall ~~outside~~ due outside accounting period and are uncertain in size
2) premature transfer of profit to shareholders may endanger the financial stability of company and ability to meet future liabilities

ii) unexpired risk reserves
Reserves kept to cover claims and expenses expected to emerge from an unexpired portion of the insurance cover in ~~fu~~ future period.
outstanding claim reserves
Reserves kept to cover claim & expenses for all outstanding claims not settled.

13. Advantages of compliance with International accounting standards:-
1) Reduce variation and improve ability to compare financial statements across companies
~~2) the discussion process leading up~~
2) they ~~are~~ oblige companies to disclose more information than required by national laws.
3) Allow some degree of flexibility
Disadvantages of International accounting standards:- 1) Set of rules may not be appropriate to all companies in all situation
Standard setting might not be entirely object. some standards are general while some are too detailed

ii) Sources of regulations influencing the preparation of financial statements for companies :-
1) Principles in ~~acco~~ accounting
2) National company laws
3) Practices followed by leading companies
4) National companies laws.

iii) Additional information available from cashflow statements :
1) It business operations have let to net cash inflow or outflow
2) It summarizes ~~change in financial~~ change in financial position since last year.