NAME : SALONI TAYSHETE

papergrid

Date: /1/

Business Finance - Assignment 2

Q1. C

Q2. A

Q3. C

Q4. ~~A~~ D

Q5.

(a) Realization concept:
Income is recognized as and when it is actually 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 reported for on cash basis.

Accruals concept:
Expenses are recognized as and when they are incurred, regardless of whether the amount has been paid. Again, this avoids the random allocation of costs to periods depending on whether ~~we~~ the bill happens to be paid or not.

(b) Realization concept in health insurance company is utilized in a way that may be the premium payment, could be monthly, quarterly or half-yearly depending upon the type of insurance and hence still in ~~records~~ their records, it's recorded as ~~rev~~ revenue on the basis of number of policies sold.

Whereas accrual concept of health insurance company is utilized in the preparing of accounts of the company, they would include underwriting, administrative expenses etc as and when the policy is sold, regardless if the amount has been extracted from the premiums or not.

Q6. Different ways in which accounts can be manipulated are:

(i) Choosing accounting policy -
By choosing accounting policies which would help in overstating the profits made by the company.

(ii) Creative accounting -
It is the deliberate abuse of subjectivity inherent in accounting rules to select accounting policies or make assumptions which tends to bias the figure in the direction chosen by the management; misleading the users of accounts.

~~(iii)~~ Eg: The charge of depreciation requires an estimate of the expected useful life of company's fixed assets. By assuming a longer useful life than expected, depreciation is charged less, thereby increasing reported profits

Q7.
(i) Gross Profit - no effect
Cash flow - no effect

(ii) Gross Profit - no effect
Cash flow - decrease

(iii) Gross Profit - no effect
Cash flow - no effect

(iv) Gross Profit - decrease
Cash flow - no effect

(v) Gross Profit - no effect
Cash flow - decrease

Q8.

(i) Main roles of financial regulations are:

① Market confidence-
to maintain confidence in financial system

② Financial stability -
contributing to the protection and enhancement of stability of financial system;

③ Fair and proper functioning-
securing the appropriate degree of protection for consumers

④ Prevention of malpractices

(ii) Regulatory bodies which regulate the Indian Financial System are:

① Reserve Bank of India (RBI)
② Securities and Exchange Board of India (SEBI)
③ Insurance Regulatory and Development Authority of India (IRDAI)
④ Pension Fund Regulatory and Development Authority ~~PFA~~ (PFRDA)

(iii)

a) RBI
b) PMRDA
c) IRDAI
d) SEBI
e) RBI
f) SEBI
g) RBI
h) RBI

Q9.

(i) Cost Concept:
Under this concept, non-current assets generally appear in the statement of financial position at their original cost less depreciation to date, subject to a possible impairment write-down.

Going Concern Concept:
It is usually assumed that a business will continue indefinitely in its present form. This concept acts as a justification for the limitations imposed by the cost concept because there is little harm in reporting historical figures for value if assets concerned are unlikely to be sold in the near future.

(ii) IAS 8 states that in the absence of a specific rule to specify an appropriate accounting policy, the company should select policies on the basis of the information being relevant and reliable.

Q10.

(a) Investment Bank:
The primary goal is to advise the businesses & the governments on how to overcome their financial challenges.
The main source of fundings are retained earnings, equity financing and government loans.
Application of funds- help global and local businesses with capital financing. They also engage in trading.

(b) Pension Funds:
Their role is to help in the development of the financial markets through their replacement and complimentary role with other financial institutions, especially with commercial investment banks.
Sources of funds are contribution from employers and, occassionally, from employees.
Application of funds- they invest in private equity, real estate, infrastructure and securities and offer a lumpsum payback to investors.

(c) Life Insurance Company:
Role - They collect contributions from many people who face the same risk (~~risk o~~ mortality risk) to provide safeguard in case of accident or drop in income after retirement.
Sources of funds are collection of premiums from customers, retained earnings, debt capital, equity capital.
Application of funds - investing in market, they help pay for final expenses ~~&~~ like cremation costs, estate settlement cost etc.

Q14.

(i) Statement of Profit or loss

		(in 1000's)	
	Revenue	1500	
-	Cost of Sales	(647)	i
	Gross Profit	853	
-	Administrative expenses	(3)	ii
-	Distribution cost	(266)	iii
	Net Profit	584	
-	Financial expenses	(10)	
	Profit before tax	574	
	Tax	( )	
	Profit for the year	574	

NOTES:

i Cost of sales:

Depreciation of building	= 7000
Cost of inventory consumed	= 350000
Depreciation of machinery	= 15000
Factory running costs	= 100000
Manufacturing wages	= 175000
Total	= 647000

ii Administrative expenses:

Wages	= 3000

iii Distribution cost:

Cost of marketing	= 55000
Delivery vehicle depreciation	= 31000
Sales salary	= 120000
Delivery running costs	= 60000
Total	= 266000