Business Finance

Assignment - 11

Ques 2 (A) disclaimer of opinion.

Ques (3) (C) chairman report.

Ques (4) (D) I, II and III

Ques (5) (A) Realization concept : Income is recognised as and when it's earned. It's 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 recognised 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 the bill happens to have been paid or not.

(b) (i) Realisation concept in health insurance company is utilised in a way that maybe the premiums payments could be monthly, quaterly or half yearly depending upon the type of insurance and hence still in their records its recorded as revenue On the basis of number of Policies sold.

(ii) Whereas accrual concepts of healthcare insurance company is utilised in the preparing of accounts of the company ~~as~~, they would include underwriting, administrative expenses etc as and when the policy is sold. ~~even if it those haven't been incurred yet~~ regardless the amount has been extracted from the premiums yet.

Ans (6) Different ways in which accounts can be manipulated are:

(1) Choosing accounting policy: by choosing accounting policies which would help overstating the profits made by the company.

(2) 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 direction choosen by the management, misleading the users of accounts.

for eg: the charge of depreciation requires an estimate of the expected useful life of company fixed assets. By assuming a longer useful life than expected, depreciation is charged less and thereby increasing reported profits.

Ans (7)

(i) Gross profit will increase and no change to cash flow.

(ii) Gross profit no change and cashflow will decrease.

(iii) Gross profit and cash flow no change.

(iv) Gross profit decrease and cash flow no change.

(v) Gross profit no change and cashflow decreases.

Ans (8) Main roles of financial regulations are:

(i) market confidence: to maintain confidence in financial system.

(ii) financial stability: contributing to the protection and enchacement of stability of financial system.

(iii) Fair and proper functioning: securing the appropriate degree of protection for consumers.

(iv) Prevention of malpractices.

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(ii) Financial regulators of India :

- Reserve Bank of India. (RBI)
- Securities and exchange board of India. (SEBI)
- Insurance Regulatory and Development Authority of India (IRDAI)
- Pension fund Regulatory and Development Authority (PFRDA).

(iii) (a) Banks – RBI
(b) Superannuation Products (PFRDA)
(c) General Insurance companies (IRDAI)
(d) stock brokers (SEBI)
(e) Mutual funds (RBI)
(f) Market for listed securities. (SEBI)
(g) Foreign Exchange dealers (RBI)
(h) Money changers (RBI)

Ques 9 (i)

Cost concept : It has been presented one of the cornerstones of accounting for a very long time. 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 impairement write ~~off~~-down.

Going concern concept :
It is usually assumed that a business will continue indefinitely in it's 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 near future.

(ii) ~~Tree over~~
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 that information is both relevant & reliable.

Information is relevant if it informs decisions taken by users of financial statements and information is reliable if :
(i) It provides a faithfull representation of entity's financial position, performance & cashflows.
(ii) it is free of bias
(iii) It is prudent

If there are accounting standards that cover the treatment of similar items, the company could use those.

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(iii) a) According to the Prudence concept, the preparers of ~~are~~ financial statements should avoid presenting an unduly set of optimistic results.

b) If a company's records are showing unduly optimistic records, the shareholders and other users of financial statements may be of the view that the statements are not giving true & fair view hence will loose confindence in the company.

(c) They may ask for the exchange of auditor and to reaudit the statements.

(d) If the audit report is not satisfactory, the shareholders ~~will~~ might start selling the shares, thereby lowering the share price.

Sol (10) (a) Investment Bank : The primary goal is to advice businesses & governments on how to meet their financial challenges

The main sources of fundings are : retained earnings, equity financing and government loans.

Application of funds : help global & local businesses with capital financing. They also engage in trading.

(b) Pension funds : ~~These~~ Their role is to help in the development of financial markets through their replacement and complimentary role with other financial institutions, especially with commercial investment banks

Sources of funds : They are funded by contribution's from employers and occasionally from employees.

Applications : The pension funds invest in private equity, real estate, infrastructure and securities and offer as lumpsome payback to investors.

(C) Life Insurance Company :-
Role : They collect contributions from many people who face the same risk to provide a safeguard in case of accident or drop in income after retirement.

Sources of funds : collection of premiums from customers, retained earnings, debt capital, equity capital.

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Applications

investing for market, they help pay for final expenses like cremation costs, ~~SA~~ estate settle cost, etc.

Ques (12) (i)

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

b) Premature transfer of "profits" to shareholders may endanger the financial stability of the company & the ability to meet future liabilities.

(ii) Major components of reserves for a general insurance company's technical account are: Prepayments of premiums, reserves against outstanding claims and actuarial reserves against outstanding risks in respect of life insurance policies including reserves for with profit polices which add values on maturity.

Sol (13)

Advantages	Disadvantages
→ They eliminate or reduce variations b/w companies.	→ The sets of rules contain in them may not be suitable for every company.
→ The discussion process leading up to a standard being issued focusses attention on particular areas of debate.	→ standard setting may be entirely Objective.

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Advantages	Disadvantages.
→ They oblige companies to disclose more info than that of national law.	→ Standards often allow more than one alternative treatment which negates the attempt to ensure conformity b/w companies
→ They allow some degree of flexibility in a way that legislation often does not.	→ Some standards are so general as to be meaningless while others are far too detailed.

(b) Various sources of regulations that influence the preparation of financial statements are :

→ International Financial Reporting Standards.
→ Principles, concepts and conventions.
→ National company laws.
→ Good practices by leading companies.
→ stock exchange requirements
→ other legislations.

(c) The statement of P&L and statement of financial position donot 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......

Sol (14) (i)

Statement of ~~Profit~~ Profit or loss

	(000's)	Notes
Revenue	1500	
− Cost of sales	(~~477~~ 647)	(i)
Gross profit	~~1028~~ 853	
− Administrative expenses	(3)	(ii)
− Distributive cost	(266)	(iii)
Net profit	~~819~~ ~~759~~ 584	
− Financial expense	(10)	
Profit before tax	~~809~~ ~~749~~ 574	
Tax	( )	
Profit for the year	~~809~~ ~~749~~ 574	

Notes :

(i) Cost of sales :

depreciation of building : 7

Cost of inventory consumed : 350

depreciation of machinery : 15

factory running cost : 100

Manufacturing wages : 175

Total : ~~472~~ $\boxed{647}$

(ii) Administrative expenses

Wages ~~200~~ 3

(iii) Distribution cost:

cost of marketing :	55
Delivery vehicle depreciation :	31
sales salary	120
delivery running cost	60
Total	266

(ii) Statement of changes in equity

	Share capital	Retained earnings	other reserves.
	200	250	180
		~~749~~ 574	
+		~~809~~	340 + 200
		(45)	
Total	200	~~1044~~ ~~1049~~ ~~954~~ 779	720.

(iii) Statement of financial position.

	($000)
Assets.	
Non current Assets	1749
current Assets	240
Total Assets	~~1989~~ ~~1672~~ $\boxed{1912}$

1459

~~16~~. Equity and Liabilites.

Equity.

Share Capital	200
Reserves	720
Retained Earnings.	~~954~~ 779.
Total equity	~~1874~~ 1699

1699

~~1409~~

Liabilities

Non current Liability :

Loan Payable	145

Current Liabilities

Bank overdraft	18.
Trade Payables	50.
Total Liability	213

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Notes

(i) Non current Assets :

→ Building	700	
depreciation	(7)	
→ Delivery vehicle	325 ~~60~~	
depreciation	~~(124)~~ ~~(200)~~ (201)	
→ land	800	
→ Machinery	150	
depreciation	(95)	
Total	~~1749~~ ~~1712~~ ~~1667~~	$\boxed{1672}$

(ii) Current Assets.

Trade receivables	210
inventory	30
Total	$\boxed{240}$

Ans (15) Statement of Profit & Loss

	(1000's)
Revenue	58
− cos	(19.04)
Gross Profit	38.96
− Administrive expenses	(19.789)
Operating Profit	19.171
+ Finance Income	0.2
Profit Before Tax	19.371
− Tax expense	3
Profit for year	16.371

Notes

(i) COS

laptop delriciation	3.21
office equipment delricpation	1.83
employ's salary	10
accured salary	4
Total	19.04

(ii) Administrative expense

office supplies	1
office building rent	14.206
office electricity bill	4
Mobile & internet bill	0.583
Total:	19.789.

Statement of changes in equity

share capital	Retained earnings	other reserves
32	16.371	9
	(5)	
32.	11.371	9

Statement of financial Position

Assets	
Non current Assets	
Laptop	31.79
Office equipments	18.17
Total	49.96
Current Assets.	
Rent	1.7[illegible]
Trade Receivables	1.5
Interest income	0.2
Cash	1
Bills receivables	5
inventory	1
Fee revenue (accrued)	2
Total	12.21
Total assets	$\boxed{62.371}$
Equity & Liability	
Share Capital	32
Other reserves	9
Retained earnings	11.371
Total equity	52.371

Liabilities

~~Non~~ Current Liabilities

Trade Payables	3
Accrued Salary	4
Tax	3
Total	10

Total equity & Liability 62.371