

Business Finance : Assignment :

1) b) all of the above

2) c) an adverse opinion

3) c) Chairman's report

4) a) II only (cost concept).

5) a) Accruals concept :

→ It states that the item must be recorded when earned or incurred, not when paid or received.

b) Realization concept :

→ It states that the income and expenses should be recorded when received and paid, not when earned or incurred.

b) In realization concept, the insurance company will record the transaction when the premium is received whereas

In accruals concept, the insurance company will record it on the date of selling the policy.

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

1) Depreciation : It can be manipulated if the company charges more depreciation, company can reduce its income.

2) Historical costs : It can be manipulated if the land is recorded on the original costs but its actual value is a lot in real terms

	Gross Profit	Cashflow
1)		
i)	No effect	Increase
ii)	No effect	Decrease
iii)	Decrease	Decrease
iv)	Decrease	Increase
v)	Decrease	Decrease

8) i) The main roles ^{are} of regulation in financial system.

- Market confidence (to maintain confidence level in the financial system)
- Financial stability
- Consumer Protection

ii) The regulatory bodies are :

- SEBI (Securities & Exchange Board of INDIA)
- RBI (Reserve Bank of INDIA)
- IRDAI (Insurance Regulatory and Development authority of INDIA)
- PFRDA (Pension Fund Regulatory & Development authority)

iii) a) Banks - RBI

b) Superannuation Products - PFRDA

c) General Insurance Products - IRDAI

d) Stock Brokers - SEBI

e) Mutual Funds - SEBI

f) Markets for listed Securities - SEBI

g) Foreign Exchange dealers - RBI

h) Money changers - RBI

9) i) The cost concept :

→ ~~It says that~~ 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.

ii) The 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 ~~the~~ little harm in reporting irrelevant figures for value if the assets concerned are unlikely to be sold in immediate future.

iii) The board of directors can select the effect which is somewhat similar to the transaction that has been occurred and mention a note stating the accurate accounting standard covers this transaction.

iv) This may not be true as the concept of prudence states that there should be everything recorded at market price or cost price, whichever is lower.

10) a) Investment Bank

→ They are the financial institution that carry out the investment activities like mutual funds, etc.

→ They get ~~their~~ funds from their clients who have asked them to manage their money.

b) Pension scheme :

- They give annuity to the retired persons
- They get money in form of a lump sum or monthly premium which is received till the retirement of the person.
- They invest the premium amount in order to give annuity to them.

c) Life Insurance company :

- They protect the risk of family member of insured by giving them claims when insured dies
- They get premiums for the insured
- They invest the premium received in order to give claims.

ii) Limitation in interpretation of accounts of these companies are :

- Subjectivity : Both of them are regulated by different regulators so, they may have difference in approach of making accounts.
- Comparison : one is a general insurance company and other is life insurance company so they are incomparable.

12) i) Reasons for complication are :

- The underlying contracts (liabilities) fall outside the accounting period and are uncertain in size.
- Premature transfer of profit to shareholders may endanger the financial stability of the company & the ability to meet future liabilities.

ii) Major components :

- Premiums
- Investment income
- Realized capital gains

13) i) Arguments for :

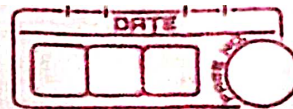
- They eliminate or atleast reduce variations between companies in the way they prepare accounts
- They oblige companies to disclose more information than that required by national laws.
- They allow some degree of flexibility in a way that legislation often does not.

ii) Arguments against :

- The set of rules may not be apt to all companies in all circumstances.
- Some standards are so general as to be meaningless, while others are far too detailed
- Standards often allow more than one alternative treatment, which negates the attempt to ensure conformity between companies.

ii) Sources of Regulation

- International Financial Reporting Standards
- Principles, concepts & conventions
- National company laws
- Good practice by leading companies
- Stock exchange requirements
- Other legislation



8/14) Notes :

1) Admin expenses

→ Administrative staff expense = 3000
Building depreciation = 7000

2) Distribution cost

→ cost of marketing = 55,000
→ Running delivery vehicles = 60,000
→ ~~Manufacturing~~ wages = 175,000
→ Sales Salaries = 120,000
410,000

3) current liabilities

→ Bank overdraft = 18,000
→ Trade payables = 50,000
68,000

4) Non current assets :

	Buildings	Delivery vehicles	Land	Machinery
		cost		cost
valuation	400,000	325,000	600,000	150,000
	+ 300,000		+ 200,000	
depreciation	(40,000)	(170,000)		(80,000)
Added depreciation	(7,000)	(31,000)		(15,000)
	<u>653,000</u>	<u>124,000</u>	<u>800,000</u>	<u>55,000</u>
	<u>1,632,000</u>			

5) Cost of sales

→ Cost of inventory consumed	=	350,000
→ Factory running costs	=	100,000
→ Trade		<u>450,000</u>
→ Machinery depri	15000	<u>1</u>

6) Financial cost

→ Interest	=	10,000
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7) Current Assets

→ closing inventory	=	30,000
→ Trade receivables	=	210,000
		<u>510,000</u>
		240,000

8) Non current liability

→ loan	=	145000
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Statement of changes in Equity

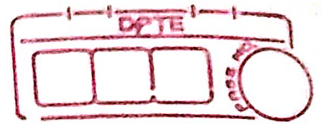
	Share capital	Retained Earnings	Revaluation reserve
opening balance	200,000	250,000	180,000
		+ 574,000	
Divident paid		(45000)	+ 500,000
	<u>200,000</u>	<u>205,000</u>	<u>680,000</u>
		<u>1,085,000</u>	

Income statement

Particulars	W.N	Amount
Revenue		1,500,000
- Cost of sales	5	(450,000)
Gross Profit		1,050,000
- Admin expense	1	(3,000)
- Distribution cost	2	(410,000)
- Financial expense	6	(10,000)
Net profit		627,000
		- (15K - 3K - 31K)
		= 574,000 ^{depreciation amount}

Statement of financial position

Particulars	W.N	Amount
Assets		
- current	7	²⁴⁰ 510 ,000
Non-current	4	1,632,000
		<u>2,142,000</u> 1,872,000
Equity & Liabilities		
Share capital		200,000
Retained earnings		205,000 + 574,000
Revaluation reserve		680,000
Current liabilities	3	68,000
Non-current liabilities	8	145,000
		<u>1298,000 + 574,00 = 1872,000</u>



Q13) iii) The additional information provided by the cashflow statements are :

- Actual cashflow movements
- Actual cash profits of the company
- The cashflow for different activities of the company