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) a) Accruals concept :
→ It states that the item must be recorded when earned or incurred, not when paid or recieved.

b) Realization concept :
→ It states that the income and expenses should be recorded when recieved and paid, not when earned or incurred

b) In realization concept, the insurance company will record the transaction when the premium is recieved whereas
In accruals concept, the insurance company will record it on the date of selling the policy.

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

1) Depriciation : It can be manipulated if the company charges more depriciation, company can reduce its income

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

| 7) | Gross Profit | cashflow. |
|---|---|---|
| i) | ~~No effect~~ Increase | Increase |
| ii) | ~~No effect~~ Decrease | Decrease |
| iii) | Decrease | Decrease |
| iv) | Decrease | Increase |
| v) | Decrease | Decrease |

8) i) The main roles ~~is~~ of regulation in financial system are:
→ Market confidence (to maintain confidence level in the financial system)
→ Financial stability
→ Consumer Protection

ii) The regulatory bodies are :
→ SEBI (Securities & Exchange bond 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 orignal cost less depriciation to date, subject to a possible impairment write-down.

② The going concern concept :

→ It is usually assumed that a business will continue indefinately 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.

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

iii) 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 recieved in order to give claims.

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

→ Subjectivity : Both of them are regulated by diffrent regulators. So, they may have diffrence in approach of making accounts.

→ Comparison : one is a genral insurance company and other is life insurance company so they are incomparable.

12) i) Reasons for complication are :

→ The underlying contracts (liablities) 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 liablities.

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 flexiblity 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 genral 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
→ Principals, concepts & conventions
→ National company laws
→ Good practice by leading companies
→ Stock exchange requirements
→ other legislation

Q14) Notes :

1) Admin expenses
→ Administrative staff expense = 3000
Building depri + 7000

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

3) current liablities
→ Bank overdraft = 18000
→ Trade payables = 50,000
68,000

4) Non current assets :

| | Buildings | Delivery vehicles | Land | Machinery |
|---|---|---|---|---|
| | | cost | | cost |
| valuation | 400,000 | 325,000 | 600000 | 150000 |
| | + 300,000 | | + 200,000 | |
| Depriciation | (40,000) | (170,000) | | (80,000) |
| Added Depri | (7,000) | (31,000) | | (15000) |
| | 653,000 | 124,000 | 800,000 | 55,000 |

1,632,000

5) Cost of sales
→ Cost of inventory consumed = 350,000
→ Factory running costs = 100,000
→ ~~Trade~~ 450,000
→ Machineary depri 15000

6) Financial cost
→ Intrest = 10,000

7) Current Assets
→ closing inventory = 30,000
→ Trade reicievables = 210,000
~~510,000~~ 240,00

8) Non current liablity
→ Loan = 145000

Statement of changes in Equity

| | Share capital | Retained Earnings | Revaluation reserve |
|---|---|---|---|
| opening balance | 200,000 | 250,000<br>+ 574,000 | 180,000 |
| Divident paid | | (45000) | + 500,000 |
| | 200,000 | 205,000 | 680,000 |

1,085,000

## 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

Depriciation amount

## Statement of financial position

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

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

→ Actual cashflow movements

→ Actual cash profits of the company

→ The cashflow for diffrent activities of the company.