BF - Assignment - 2

1. A

2. C

3. C

4. A

5. a)

i) Realisation Concept:

- Income is recognised as and when it is 'earned'. It is not necessary to wait untill the ~~to~~ customer settles the bill.

- It avoids fluctuations in reported income which might arrise if everything was accounted for on a cash basis.

ii) ~~Accru~~ Accrual Concept.

- Expenses are recognised as and when they are incurred, regarless whether the amount has been paid.

b. The specific ways in which relization and accrual accounting concept are used are as follows:

i. The earned premium for the year is calculated by the earned portion of the total written premium in the year and carried forward unpaired premism is an application of religation concept.

ii. The incurred claim in financial year ~~conc~~ coincides the paid claim during the year, outstanding claim reserves for known and unknowne claims at the end & start of finoncial year.

6. Different ways in which accaunts can be maniupulated are as follows:

i. Minimizing current earning period on the income statment by depreciating the revenue.

ii. Overstate current earnings period on the income statment by expanding/inflating revenue.

iii. Overstating current earnings period on the income statment by depreciating the revenue.

7. i. No change in gross-profit nor cash-flow as increase in the value of asset which does not affect the Gross Profit as there is no inflow or outflow of cash in this case, there will be no effect on cash flow.

ii. No change in gross-profit because does not include Tax & interest. In terms of cash-flow outflow of ₹1000 Crores of interest, so there is 1000 crores decrease in cash flow financing activity.

iii. Outflow of cash as there is increase in inventory as well as increase in gross-profit as increase in inventory.

iv. Gross profit of ~~are~~ the company will ~~until~~ decrease whereas ~~ea~~ no change in cash-flow as no inflow or outflow.

8\. i. The main roles of regulations in the financial system are:

- Protects investors.
- Promotes economic stability.
- Mitigats the effect of failure on the real economy
- Prevents market failure.

ii. Regulatory bodies are:

- IRDAI : Insurance regulatory development authority of India.
- RBI : Reserve Bank of India.
- SEBI : Securities Exchange Board of India.

- PFRDA → Pension Fund Regulatory & Development Authority.

iii. a. Banks → RBI.
b. Superannuation Products → PFRDA.
c. General Insurance Companies → IRDAI.
d. Stock brokers → SEBI
e. Mutual Funds → SEBI
f. Market for listed Securities → SEBI.
g. Foreign Exchange dealers → RBI.
h. Money changers → RBI

10. a) Investment Bank.

Role:

- They act as bridge between large enterprise and investors.

Investment bank help their clients with.
→ Research.
→ IPO's
→ Wealth managment.

Source of Funds

→ Equity financing
→ Specialist fioncing

b. Pension Scheme.

Role:

Pension funds are typically managed by companies, The main goal of a pension scheme is to ensure that there will enough money to cover the pension of employees after their retirement in the future.

Sources of funds:

→ Employers
→ Employee

Application of funds:

Under this funds are ~~un~~ used for primary payment of pension.

c) Life insurance Company.

Roles:

- It protect family & let's you leave them covered for any loss.

Sources of Funds:

- Charging premiums by selling insurance cover.

Application of funds:

→ Mortage.
→ Bonds.