BUSINESS FINANCE - 2
ASSIGNMENT - 2.

1. B. All of the above

2. C. Adverse opinion.

3. C. Chairman's Report.

4. C. All of the above

5. (a) Realization Concept.
This concept states that income should be recorded when it is 'earned' and not when a customer settles their bill. However, one drawback of this concept is that it gives the impression that the business is performing well when it is actually in danger of running out of cash.

(b) Accrual concepts.
Expenses should be recorded as and when they are accrued and not when they are actually paid. This avoids random allocation of costs to periods depending on whether the bill happens to be paid or not.

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(b) The earned premium for the year is accounted for by taking into consideration the written premium and the carried forward unexpired risk premium. This is an application of the realization concept. Accrual concepts is followed in determining the incurred claims for the year i.e., considering the outstanding claim reserves and unknown claims at the end of the year.

Q.7. (i) Gross Profit - No Change
Cash Flow - No Change.

(ii) Gross Profit - Decreases
Cash Flow - Decreases

(iii) Gross Profit - No change
Cash Flow - No change.

(iv) Gross Profit - Decreases
Cash Flow - No change.

(v) Gross Profit - No change
Cash Flow - No change.

6. Different ways of manipulating accounts are as follows —

(i) Inappropriate depreciation on tangible assets.

(ii) Inflated expenses to claim excess returns on taxes.

(iii) Inappropriate amortisation on intangible assets

(iv) Inappropriate valuation of inventories and future liabilities.

(v) Omitting contingent liabilities.

(vi) Creating intangible assets of questionable true worth.

(vii) 'pre-booking' of anticipated sales revenue.

8. (i) Main roles of financial regulators in India are —

A. Market confidence - to maintain confidence in the financial market

B. Financial stability - contributing to the protection ~~and~~ ~~&~~ of stability of the financial system.

C. Consumer protection - securing appropriate degree of protection for consumers.

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(iii) (a) Banks
- Reserve Bank of India.

~~(b) Superannuation Products~~
~~- Insurance Regulatory and Development Authority of India.~~

(c) General Insurance Companies
- Insurance Regulatory and Development Authority of India.

(b) Superannuation Products
- Pension Fund Regulatory and Development Authority.

(d) Stock Brokers
- Securities and Exchange Board of India.

(e) Mutual Funds
- Securities and Exchange Board of India.

(f) Market for listed securities
- Securities and Exchange Board of India.

(g) Foreign exchange dealers
- Securities and Exchange Board of India.

(h) Money changers
- Reserve Bank of India.

7. (i) Under cost concept, non-current ~~items~~ assets generally appear in the statement of ~~profit and loss~~ financial position at their original cost less depreciation to date, subject to a possible impairment write-down.

Going concern ~~ott~~ outlines that a business will continue indefinitely ~~it~~ in its present form.

(ii) The key principles for ~~inne~~ accounting of ~~unusua~~ unusual transactions are as follows —

(a) It is generally required for financial statements to give a true and fair view. Amongst other things, that any treatment gives a realistic and representative treatment of the transaction.

(b) The guidance provided by Accounting Regulation Board in this regard should be considered.

(c) The directors might consider looking at the treatment laid down by standards for similar balances, even though standards might not be strictly applicable.

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(iii) Analysts and market participants can easily make out the confidence put in in making company ~~accor~~ accounts: The stock market examines information carefully to ensure that the shares of a company are correctly valued. If shares are overpriced, then it will give rise to opportunities for astute market participants to make profits by identifying the overpriced companies and selling shares. Market forces would push the shares down and these activities would draw attention to the distortion.

~~11. Two accounts can be compared on the following~~

11. Following are limitations / challenges while comparing ~~ex~~ accounts of two companies -

(i) Comparability

Many of the problems above are worrying not just because the figures may be wrong, but also different firms use different methods of accounting. This creates difficulty in reliable comparison

(ii) Creative Accounting

A few firms may deliberately set out to mislead by choosing the accounting policies that will maximise reported profits.

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(iii) Formats
The choice of accounting formats can mean that different firms can produce sets of accounts which are difficult to compare

(iv) level of aggregation
Some firms show more detailed splits of items than other firms. When making comparisons between firms, the least disaggregated item across all firms will be the lowest level at which accounts can be analyzed.

12. (i) The preparation of insurance company is complicated by 2 features -
(a) Their underlying contracts (liabilities) fall due outside the accounting period and are uncertain in size.
(b) Premature transfer of 'profit' to shareholders may endanger the financial stability of the company and the ability to meet future liabilities.

~~(ii)~~

13. (i) Advantages of compliance with IAS.

- They reduce variation between companies in the way they prepare accounts.
- The discussion process leading upto a standard being issued focuses on particular areas for debate about accounting practice.
- Companies are obligated to disclose more information than required by national laws
- Some degree of flexibility is allowed.

Disadvantages of compliance with IAS-

- rules set by them may not be appropriate to all companies under all circumstances.
- Standard setting may not be entirely objective. Some standards in the past have been subject to government pressure or industry lobbying.
- These allow more than one treatment which negates ensuring conformity between companies.
- Some standards are far-too detailed, while others are so general as to be meaningless.

(ii) Sources of regulation include—

(a) national company laws
(b) principles, concepts and conventions
(c) good practice by leading companies.
(d) Stock exchange requirements.
(e) other legislation.

(iii) Additional information provided by cashflows –

- Cash movement is depicted in the cashflow statement.
- An entity needs cash and cash needs to be monitored in the following cases –
  - expansion of business should not force it into a cash deficit
  - If the company has excess cash, the money should be invested in productive assets or loan can be repaid, or pay it back to the shareholders as dividend or repurchase of shares.
- Profit figures are not indicative of cash of the company's bank balances or working capital for that period.
- Many receipts and payments like proceeds of share issues and loan repayment have no immediate impact on profit.

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10. (a) Investment Bank.

ROLE

It advises businesses and governments on how to meet their financial challenges, asset management, hedging, etc.

SOURCE OF FUNDS

Raise money by selling ~~shares~~ securities such as shares and bonds to investors.

APPLICATION OF FUNDS

Help government raise money, trade securities, and buy or sell corporations.

(b) Pension Scheme.

ROLE:

Provides protection in the form of lump sums to dependents or to maintain standard of living in retirement.

SOURCE OF FUNDS

Collect money from employees & employers.

APPLICATION OF FUNDS

They split their funds & assets among bonds stocks and commercial real estate.

(c) Life Insurance company.

ROLE

It insurers an individuals dependents against the risk of financial loss in case of death.

SOURCE OF FUNDS

Insurance company's major source of income is from the premium it charges from its customers upon selling of a policy.

APPLICATION OF FUNDS

They invest their earned premium in securities such as stocks, bonds, etc & use their gains from them to pay out claims.

14. (i) Income statement for the year 1.4.18 - 31.3.19.

PARTICULARS	WN	'₹'
Revenue / sales.		1,500,000
- cost of sales	6	(678,000)
Gross Profit		822,000
- Administration Expenses	1	(3,000)
- Distribution expenses.	2	(235000)
operating profit		584,000
- Financial Expenses.	7	(10,000)
profit before Tax		574,000
- Tax Expenses.		-
profit after Tax		574,000

(iii) statement of changes in equity.

	Share capital	Retained Earnings	Revaluation Reserves
opening balance	200,000	250,000	180,000
- dividend paid		(45,000)	
+ Revaluation of assets			500,000
+ current year profit		574,000	
closing balance.	200,000	779,000	680,000

(ii)

PARTICULARS	WN	₹
Assets		
Non-Current Assets	5	1,632,000
Current Assets	8	240,000
		1,872,000
Equity & Liabilities		
Equity		
Share capital		200,000
Retained Earnings		779,000
Revaluation Reserves.		680,000
Liabilities		
Non current Liabilities	3	145,000
Current liabilities.	4	68,000
		1,872,000

* working notes.

1. Administration Expenses
Administrative staff wages 3000

3000

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2. Distribution expenses

cost of marketing	55,000
Delivery vehicle running cost	60,000
sales salaries	120,000
	235000

3. ~~Current~~ Non current liability.

loan	145000
	145000

4. Current liability

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

5. Non Current Assets.

	Buildings	Delivery vehicle.	Land	Machinery
cost	400,000	325,000	600,000	150.000
+ Revaluation	~~3~~00,000		200,000	
	700,000		800,000	
- Accumulated depreciation	40,000	140,000		80000
current year depreciation	7,000	31,000		15000
Net Book value	653,000	124,000	800,000	55000

6. Cost of sales.

Inventory consumed	350,000
Factory running cost	100000
Manufacturing wages	175,000
Depreciation on buildings	7,000
Depreciation on ~~b~~ delivery vehicle	31000
Depreciation on Machinery	15,000
	678,000

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7. Financial expense.

Interest	10,000
	10,000

8. Current Assets.

Closing inventory	30,000
Trade Receivables	210,000
	240,000

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15. Statement of profit and loss for the year. 1.1.2019 - 31.12.2019.

PARTICULARS.	WN	'₹₹'
Sales / Revenue	6	58000
– cost of sales	4	(4041)
Gross Profit		53959
– Administration Expenses	1	(30790)
– Distribution Expenses.		0
operating profit.		23169
– Financial Expenses		0
+ Financial Income	7	200
Profit before Tax		23369
– Tax expenses.		(3000)
Profit after tax		20369

~~Statement of Changes in Equity.~~
Statement of Retained Earnings.

	Retained Earnings.
opening balance.	
– dividend paid	(5000)
+ current year profit	20369
closing balance.	15369

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Statement of Financial Position as on 31st December 2019.

PARTICULARS	WN	₹
Assets		
Non Current Assets	3	49959
Current Assets	2	12410
		62369
Equity & Liabilities		
Equity Share capital		32000
Retained Earnings		15369
Other Reserves		0
Non current liabilities		0
Current liabilities	5	15000
		62369

Working notes.

1. Administration expenses.

Rent	15917
− prepaid	(1710)
	14207
Office supplies	2000
Employees salaries	10000
Office Electricity bill	4000
Mobile & Internet bill	583
	30790

2. Current Assets.

Prepaid office rent	1710.
Trade receivables	1500
Cash	1000
Bills Receivable	5000
Closing stock	1000
Outstanding fee revenue	2000
~~Earned fee~~	~~1000~~
Interest	200
	~~[illegible]~~ 12410

3. Non Current Assets.

	Laptop	Office Equipment.
Cost.	35,000	20,000
- Acc. depreciation current year depreciation	3208	1833
	31792	18167

4. Financial Income.

Interest on Bills Receivable	200
	200

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4. Cost of sales.

~~Employees' salaries*~~	~~10000~~
closing stock	(1000)
Depreciation on laptop	3208
Depreciation ~~of~~ on office equipment	1833
	4041

5. Current liability.

Unearned fees	10000
Trade payables	3000
Earned fee	(1000)
Tax provision	3000
	15000

6. Revenue.

Fee Revenue Earned.	55000
Add: outstanding	2000
Earned fee	1000
	58000