Business Finance 2

Q1. (B) All of the above

Q2. (C) Adverse Option

Q3. (A) Cash flow Statement

Q4. (B) II AND III

Q5. Answer: Realization concept is when Income is recognized as and when it is 'earned'. It is 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 accounted for on a cash basis.

Accrual Concept is when Expenses are recognized as and when they are incurred, regardless of whether the amount has been paid.

Q6. Answer: Accelerating Revenues- One way to accelerate revenue is to book lump sum payments as current sales when services are actually provided over a number of years.

- Delaying Expenses - It is way in which the expenses are delayed or recorded at a time other than the expense is realized.
- Accelerating Pre-Merger Expenses - It may appear counterintuitive, but before a merger is completed, the company that is being acquired will pay—possibly prepay—as many expenses as possible. Then, after the merger, the earnings per share (EPS) growth rate of the combined entity will appear higher compared to past quarters. Furthermore, the company will have already booked the expenses in the previous period.
- Non-Recurring Expenses - By accounting for extraordinary events, non-recurring expenses are one- time charges designed to help investors better analyze ongoing operating results. Some companies, however, take advantage of these each year. Then, a few quarters later, they "discover" they reserved too much and put an amount back into income
- Other Income or Expense - Other income or expense is a category that can hide a multitude ofsins. Here companies' book any "excess "reserves from prior charges
- Pension Plans - If a company has a defined benefit plan, it can use the plan to its advantage. The company can improve earnings by reducing the plan's expenses. If the investments in the plan, then grow faster than the company's assumptions, the company could record these gains asrevenue.
- Off-Balance-Sheet Items - A company can create separate subsidiaries that can house liabilities or incur expenses that the parent company does not want to disclose. If these subsidiaries are set up as separate legal entities that are not wholly owned by the parent, they do not have to be recorded on the parent's financial statements and the company can hide them from investors.

Q.7 Answer:

CASE	GROSS PROFIT	CASH FLOW
1	INCREASES	NO CHANGE
2	NO CHANGE	OUTFLOW
3	INCREASE	NO CHANGE
4	DECREASE	NO CHANGE
5	DECREASE	NO CHANGE

Q8.

Answer:

- **The main role of regulation in the financial system is to guarantee fair and efficient markets and financial stability.**
- **India has two primary financial services regulators - the Reserve Bank of India (RBI) regulating India's banking industry and the Securities & Exchange Board of India (SEBI) regulating the capital markets industry.**
- **Banks -**
  - **Reserve Bank of India**
  - **Securities and Exchange Board of India**
  - **Insurance Regulatory and Development Authority of India**
  - **Pension Fund Regulatory and Development Authority**
  - **Forward Markets Commission**
- **Superannuation Products - Pension Fund Regulatory and Development Authority (PFRDA)**
- **General Insurance companies - Insurance Regulatory and Development Authority of India (IRDAI)**
- **Stock brokers - Securities Exchange Board of India (SEBI)**
- **Mutual Funds - Securities and Exchange Board of India (SEBI)**
- **Market for listed securities - Securities and Exchange Board of India (SEBI)**
- **Foreign exchange dealers - Securities and Exchange Board of India (SEBI)**
- **Money changers - Reserve Bank of India**

Q9.

Answer:

- **Cost Concept - Assets shall be recorded in the books of accounts at historical cost and not at fair price. Historical cost includes cost of acquisition and any other expenses including to bring the asset to its location and condition of use.**
  - **Going Concern Concept - It is known as the assumption of continuity. Accordingly, the business shall continue for a long foreseeable future. The owner does not have any intention to wind up the business.**

- **The board of directors should check if the unusual transaction is partially being covered by any of the accounting concept and then come up with a miscellaneous concept which stands true for the unusual transaction.**
- **Always applying accounting policy may not be a good idea because in business one should always expect worst. According to the prudence concept the organization provide expected losses but shouldn't recognize anticipated profits.**

Q10.

Answer:

- **Investment Banks – Their role includes underwriting new stock issues, handling mergers and acquisitions and acting as a financial advisor. Their core source of income include brokerage, underwriting fess during mergers and acquisitions and the creation of centralized products.**
- **Pension Scheme - In simple terms, a pension scheme is just a type of savings plan to help you save money for later life. It also has favorable tax treatment compared to other forms of savings. A pension scheme is issued by a company or a government to its employee or citizens. A part of employee's salary is taken and later when he or she retires it is paid in form of multiple payments or annuities called pension.**
- **Life insurance company - A life insurance company in shores the light of the person its main sources of funds are through the premiums paid the application of funds is in basically 2 ways the first one is to clear to clear the claims from the benefactress and the second one is investing in the market for further return.**

Q11. **Answer: Understanding what the regulatory requirements are that the two bodies demand, there would be a lot of similarities and differences in the regulatory requirements would be the most primal problem. So therefore, before investing one has to be thorough with not just one but two regulators. And with that comes the need to check the different accounting standards mandated by the two regulators.**

Q12. **Answer:**

- **It is hard to prepare an insurance companies account because of the unprecedented nature of the insurance business. No one can tell for certain when and how much claim the company has to pay in a financial year.**
- **The claims reserve is funds set aside for the future payment of incurred claims that have not yet been settled. The outstanding claims reserve is an actuarial estimate, as the amounts liable on any given claim is not known until settlement. Money for the claims reserve is taken from a portion of the premium payments made by policyholders over the course of their insurance contracts. An outstanding claims reserve is recorded as a liability on a company's balance sheet.**

Q13. **Answer:**

ADVANTAGES	DISADVANTAGES
IT WOULD CREATE A SINGLE SET OF ACCOUNTING STANDARDS AROUND THE WORLD.	IT WOULD LEAD TO CONCERNS WITH STANDARDS MANIPULATION.
IT WOULD REDUCE THE TIME, EFFORT, AND EXPENSE OF PREPARING MULTIPLE REPORTS.	IT WOULD REQUIRE GLOBAL CONSISTENCY IN AUDITING AND ENFORCEMENT.
IT WOULD MAKE IT EASIER TO MONITOR AND CONTROL SUBSIDIARIES FROM FOREIGN COUNTRIES.	IT WOULD INCREASE THE AMOUNT OF WORK PLACED ON ACCOUNTANTS.
IT WOULD IMPROVE THE RATES OF FOREIGN DIRECT INVESTMENT AROUND THE WORLD.	IT WOULD REQUIRE CHANGES AT THE EDUCATIONAL LEVEL AS WELL.

- **IFRS**
  - **National Company Laws.**
  - **Principles, concepts and conceptions.**
  - **Stock exchange requirements.**
  - **Good practice leading companies.**

- **A company's cash flow statement measures the flow of cash in and out of a business, while a company's balance sheet measures its assets, liabilities, and owners' equity. The statement of comprehensive income reports the change in net equity of a business enterprise over a given period.**

Q14.

1) Answer:

PARTICULARS	AMOUNT
REVENUE	1500000
COST OF SALES	-647000
GROSS PROFIT	853000
ADMINISTRATIVE STAFF WAGES	-3000
DISTRIBUTION COST	-266000
	584000
INTEREST	-10000
PROFIT FOR THE YEAR	547000

II) ABC LTD. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH 2019				
	SHARE CAPITAL	REVALUATION RESERVE	RETAINED	EARNINGS TOTAL
OPENING BALANCE	₹ 2,00,000.00	₹ 1,80,000.00	₹ 2,50,000.00	₹ 6,30,000.00
REVALUATION		₹ 5,40,000.00		₹ 5,40,000.00
PROFIT OR THE YEAR			₹ 5,74,000.00	₹ 5,74,000.00
DIVIDEND PAID			₹ -45,000.00	₹ -45,000.00
CLOSING BALANCE	₹ 2,00,000.00	₹ 7,20,000.00	₹ 7,79,000.00	₹ 16,99,000.00

PARTICULARS	AMOUNT
NON-CURRENT ASSETS	
PROPERTY, PLANT AND EQUIPMENT	16,72,000
CURRENT ASSETS	
INVENTORY	30,000
TRADE RECEIVABLES	2,10,000

Total Assets	**19,12,000**
Equity and Liabilities	
Equity	
Share Capital	**2,00,000**
Revaluation Reserve	**7,20,000**
Retained Earnings	**7,79,000**
	16,99,000
Non-current Liability	
Loan 145,000	
Current Liability	
Trade Payables	**50,000**
Bank	**18,000**
	68,000
Total Equity and Liabilities	**19,12,000**

Notes:

1) Property, Plant and Equipment

Cost or Valuation	**Land**	**Building**	**Machinery**	**Vehicles**	**Total**
Opening Balance	**6,00,000**	**4,00,000**	**1,50,000**	**3,25,000**	**14,75,000**
Revaluation	**2,00,000**	**3,00,000**			**5,00,000**
Closing Balance	**8,00,000**	**7,00,000**	**1,50,000**	**3,25,000**	**19,75,000**

2) Depreciation

Cost or Valuation	Land	Building	Machinery	Vehicles	Total
Opening Balance		40,000	80,000	1,70,000	2,90,000
Revaluation		-40,000			-40,000
Closing Balance		7,000	15,000	31,000	53,000
Net book value	8,00,000	6,93,000	55,000	1,24,000	16,72,000

3) Cost of Sales

Cost of Inventory Consumed	3,50,000
Factory running costs	1,00,000
Manufacturing wages	1,75,000
Depreciation of buildings	7,000
Depreciation of Machinery	15,000
	6,47,000

4) Cost of Distribution

Advertising Cost	55,000
Delivery Vehicle running costs	60,000
Sales Salaries	1,20,000
Depreciation of Vehicles	31,000
	2,66,000

Q15. Income Statement

PARTICULARS	AMOUNT
Revenue from Operations	66,000
Other Income	200
Total Revenue	66,200

EXPENSE	AMOUNT
Purchase of stock in trade	1,000
General & Administrative	14,121
Employee Benefit Expenses	14,000
Utility Expenses	4,583
Depreciation	8,042
Total Expenses	38,746

Profit before interest at tax	27,456
Dividend (Negative)	-5,000
Taxable Income	22,454
Tax Payable (Negative)	-3,000
Profit Year Ended 31st December 2019	19,454

Notes:

	REVENUE FROM OPERATIONS	
1.	Earned Fee Revenue	55,000
	Unearned Fee Revenue	10,000
	Earned in Dec (Negative)	-1,000
	Fee Due (Positive)	2,000
		66,000
2.	Other Incomes	
	Interest Income	200
3.	G&A	
	Office Building Rent	15,917
	Minus	-1,796
		14,121
	Depreciation (3,500+2,000) * (11/12)	5,042

Balance Sheet as at 31st December 2019

PARTICULARS	AMOUNT
<u>Assets</u>	
<u>Non-Current Assets</u>	
(a) Fixed Assets	
(i) Tangible Assets	49,958
(ii) Accrued Income	11,000
<u>Current Assets</u>	
(a) Inventories	1,000
(b) Trade Receivables	1,500
Cash	6,200
(c) Other Current Assets	1,796
Total Assets	71,454
<u>Liability</u>	
<u>Current Liabilities</u>	
1) Shareholder Fund	

Share Capital	**32,000**
Reserve at Surplus	**22,454**
<u>Non-Current Liability</u>	
1) Trade Payable	**3,000**
Other non-current	**4,000**