classmate
Date
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Assignment - 2

1) B) All of the above

2) c) Adverse opinion

3) c) Chairman's report

4) B) II & III

5) a) Realisation Concept :- Revenue / income is recognized when it is earned / realised. It follows the same ~~cause~~ concept as accural basis accounting thus avoiding fluctuations arising out of cash basis of accounting However ~~it~~ It may fail to indicate the scaucity of cash in business.

Accrual Concept :- This concept states that expenses & income should be accounted when they are incurred / earned and not whether they have been paid

b) • Claims would be recorded when incurred irrespective of actual payment.
• Prepaid insurances premium would be accounted. similarly outstanding insurance premium would be on a current asset for the financial year.
• Commissions to be paid to agent / brokers will be recorded when incurred & not when they are paid.

... of Accounts is done to paint a ... regarding the financial position of the ...

In order to show higher profits, they may record ... prematurely or defer expenses incurred during the current financial year to a later period.

They may show inflated profits by reducing provisions, ... inflating sales etc.

Similarly, they may increase provision, suppress sales, inflate expenses to show lower profits.

Ans 2) i) Revaluation gains will increase profits.
It will not effect cash flow.
ii) It will be deducted as financial expense & accounted as a cash outflow from financial activities.
iii) It will increase the gross profits & no effect on cash flow.
iv) It will be deducted under cost of sales & in a non-cash expense. It will however be added back in cash flow statement
v) Reduce the profit.

Ans 3) I) The main role of regulation in the financial system
① It helps in maintaining confidence in the market and financial system.
② It enhance the stability of financial system.
③ These regulation ensure proper code of conduct by the various institutions functioning in the system.

ii) Regulatory bodies which regulate the Indian Financial System:

1) Reserve Bank of India (RBI):-
2) Security Exchange Board of India (SEBI)
3) Insurance Regulatory & Development Authority of India [IRDAI)
4) PFRDA.

iii) a) RBI
b) PFRDA
c) IRDAI
d) SEBI
e) SEBI
f) SEBI
g) RBI
h) RBI

Ans 9) i) Cost Concept: Cost Concept states that asset are recorded at their original value & depreciation over the year.

Going Concern Concept:- It is assumed that a business will continue indefinitely in its present form.

ii) The Board of ~~Dier~~ Directors can choose the method of stating the transaction as a 'disclosure' in the books & final statement.

iii) • Optimistic accounting policies may paint a false picture of the actual postion of the business
• Thus it may be misleading investors willing to invest in the company.

Ans 10) a) Investment Bank

Role :- They act as intermediaries between a corporation and the financial market by helping businesses with investing in financial markets, width management IPOS ; asset management etc.

Sources of funds :- Investment Banks help clients ie business & governments to manage their funds & assets , mergers & acquistions , proprietory trading etc Thus it helps its clients to manage their funds , wealth & assets & charges a ~~fed~~ fees / Commission for its services.

Application of funds :- They use the funds & provide various services such as propreitory trading ~~or~~ trading ~~ser~~ Securities for their own accounts, leveraged finance etc.

b) Pension Scheme.

Role :- Pension schemes help in providing guaranteed, monthly income for life to provide a sense of financial ~~Secu~~ Securities , maintain Standard of living & meet unforseen expenses.

Source of funds :- Both employees and employers contribute to the pension scheme as they pay a certain proportion of their salary.

Application of funds :- They use funds to invest in fixed income instrument ie bond & shares issued by local foreign government & Companies.

Ans 11) • Since both companies are from different countries, both firms will follow different accounting standards which cannot be compared ~~dm~~ directly.

• The regulations put forth by each regulator may be different owing to different in mortality rates, ~~econmic~~ economic conditions of the country etc.

• The different countries having different currencies could be unstable exchange rate thus increasing risk.

Ans 12) i) Insurance companies have to prepare two set of accounts: Techincal & non-Technical
ii) Moreover, liabilities of an insurance company cannot be measured with certainty.
iii) As per accounting standards, the activities of insurance companies have to be accounted for separately thus leading to complication.
iv) Premature transfer of profit to shareholders may effect financial stability.

n) Claims equalisation reserve is accounted in techincal accounts of a general Insurance Company.

Ans 13) Advantages:-
They eliminates variations between preparation of accounts between different companies.
They oblige companies to disclose more information
They allow some degree of flexibility
They attend on particular areas for debate about accounting.

Disadvantages:
- The sets of rules may not be applicable to all companies.
- Standard setting is not entirely objective.
- Some standards are too general while some are too detailed.

iii) • It provides sufficient insights into movements in cash balances which Statement of financial position fails to provide.
• It involves investing activities such as purchasing new equipment or building.

ii) • Principles, concepts & conventions
• National company laws.
• Good practice by leading companies
• Stock exchange requirements
• Other legislation.

Ans 14) Income Statement for the year 1st April 2018 - 31st March 2019

Particular	Note no	Amount
Revenue		15 00 000
- Cost of sales	1	6 47 000
Gross Profit		8 53000
- Admin expenses	9	(3,000)
- Distribution expenses	2	(2,66,000)
		5,84,000
Operating Profit		
- financial exp	5	10,000
Profit		5,74,000

Statement of financial Position

Particular	Note no.	Amount
Non - Current Assets	4	16 72 000
Current Assets	7	2 40 000
		19,12,000
Equity & Liabilities		
Equity Share Capital		2,00,000
Revaluation reserve		7,20,000
Retained Earnings		7,79,000
		16,99,000
Non Current Liabilities	6	1, 45, 000
Current Liabilities	3	6 80 000
		19 12 000

Statement of Changes in Equity

	Share Capital	Retained Earning	Revaluation Reserve
opening balance	2 00 000	2 50 000	1 80 000
Dividend paid		(45 000)	
Reval. gain			54 0 000
Profit		574 000	
Closing balance	200 000	779 000	780 000

Notes:-

1) Cost of Sales

Cost of inventory	3 50 000
~~factory overheads~~	
Manufacturing wages	175 000
Building depre.	87 000
Machinery depre	15 000
	647 000

2) Distribution expenses

Cost of marketing	55,000
Delivery vehicle running cost	60,000
Delivery vehicle depre.	31,000
Sales salaries	120,000
	266 000

3) Current Liabilities

Bank OD	18 000
Trade Payables	50 000
	68 000

4) Non - Current Asset

	Building	Delivery Vehicles	Land	Machinery
Asset	700 000	3 85 000	600 000	150 000
Acc. depre	40 000	170000	-	80 000
depre.	7000	31000	-	15 000
Final	693 000	124000	800000	55 000

5) Financial Expenses

Interest	10,000

6) Non Current liabilities
Loan 1 45000

7) Current Asset
Trade receivable 210000

a) Admin expenses
Admin Staff wages 3000

c(15) Profit & loss A/C

Particular		Note	Amount
Revenue	55000		58200
Fees Revenue	2000		
Unearned fees	1000		
Interest income	200		
Expenses			(41832)
Employee Salaries	(14000)		
Office supplies	(1000)		
office electricity	(4000)		
Mobile & Internet bill	(583)		
Laptop depre.	(3208)		
Office equipment depre.	(1833)		
Offic building rent	(14,207)		
Tax	(3000)		
Profit			16,368

(10)

~~Name:~~ [redacted]

Note:

Rent = 15917 − (1000 × (1.05)") = 14207

Depreciation on laptop = $\left(\frac{35000}{10}\right) \times \frac{11}{12}$ = 3268

Depreciation on Office Equipment = $\left(\frac{20000}{10}\right) \times \frac{11}{12}$ = 1833

Balance Sheet

Assets	
Laptop	31,792
Office Equipment	18,167
Office Supplies	1000
Trade receivable	1500
Cash	1000
Bills receivable	5000
Rents	1710
Revenue o/s	80000
Interest o/s	200
	62 368
Liabilities	
Trade Payables	3000
Unearned fees	9000
Employees salaries payable	4000
Income tax payable	3000
Share Capital	32000
Retained earnings	11365
	62 368