Business Finance - 2

Assignment - 2

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1) (B) All of the above

2) (c) an adverse opinion

3) ~~(B)~~ (c) Chairman's report

4) (A) II only

5) a) Realization concept - Income is 'realised' as and when it is ~~realised~~ 'earned'. It is not, therefore, necessary to wait until the customer settles his or her bill. This avoids fluctuations in reported income which might arise if everything is accounted on a cash basis.

Accrual concept - Expenses are recognised as and when they are incurred, regardless of whether the amount has been paid.

b) Realization concept - In case they sold a policy in the middle of the year and received premium for the whole term of the policy, only half the premiums will be realised as income for this year. The other half will be realised the next year.

Accrual concept - In case there is a claim that is yet to be paid at the end of the year. It will be incurred in this year even if it paid in the next year.

7) b) i) Gross Profit - No change
Cash flow - No change

ii) Gross Profit - No change
Cash flow - Decrease

iii) Gross Profit - No change
Cash flow - No change

iv) Gross Profit - Decrease
Cash flow - No change

v) Gross Profit - No change
Cash flow - ~~No cha~~ Decrease.

8) i) The main roles of regulation in the financial system are:

a) Market confidence
b) Financial stability
c) Consumer protection

ii) The regulatory bodies which regulate the Indian Financial System are:
a) Reserve Bank of India (RBI)
b) Securities and Exchange Board of India (SEBI)
c) Insurance Regulatory and Development Authority of India (IRDAI)

d) Pension Fund Regulatory and Development Authority (PFRDA)

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~~ RBI

9) i) Cost concept – Under the cost ~~concep~~ concept, non-current assets generally appear in the statement of financial position at their original cost less depreciation to date, subject to possible impairment ~~or~~ write-down.

Going concern concept – It is assumed that a business will continue indefinitely in its present form.

ii) As the unusual transaction is not directly covered by any accounting standards, the Board of Directors should stick to the current standards followed by the company and they should try to use the closest possible method related to the transaction in the standards.
The Board of Directors also need to report this to the shareholders when releasing the company's annual reports so as to not ~~sho~~ show them a misleading picture of the company's accounts.

iii) Applying optimistic accounting policies consistently is not helpful in the long run. While initially, the stock market might reward the company for such optimistic accounts, as time passes, it will increase the shareholders expectations. So, in the long run fulfilling the shareholder expectations will get tougher and this will also affect their share price bringing it down. Hence it is not true.

~~10)~~ a) ~~Investment~~

10)	Financial Institution	Role	Sources of Funds	Application of Funds
a)	Investment Bank	To advise businesses and governments on how to meet their financial challenges	Equity financing, mezzanine financing, specialist financing (e.g. government loans).	Give loans to businesses and governments.
b)	Pension scheme	To help people through pension payments after their retirement.	Collect money from employers and employees.	Paid to retired employees.
c)	Life Insurance Companies.	To help maintain financial stability after the death of the policy holder to his nominee.	Retained earnings, debt capital, equity capital, investment returns on premiums.	Paid to nominees upon arising of claims.

11) The possible limitations and challenges are:

Based on the different accounting standards used by the companies, there could be a difference in values such as depreciation which could change the profits of the company.

It could lead to wrong comparisons as the different results would be because of differences in the accounting practices and not because a company is ~~be~~ doing better than the other one.

12) i) Preparing insurance companies accounts is more complicated as compared to a normal ~~com~~ company accounts because:

a) The underlying contracts (liabilities) fall due outside the accounting period and are certain in size.

b) Premature transfer of 'profit' to shareholders may endager the financial stability of the company and the ability to meet future liabilities.

ii) The major components of reserves for a general insurance company's technical accounts are:

a)

(3) i) Four advantages of ~~B~~ compliance with IFRS are:

a) Easier comparability of accounts
b) Standardization of accounting and financial reporting
c) Improved consistency and transparency of financial reporting
d) Better access to foreign capital markets and investments

Four disadvantages of compliance with IFRS are

a) Increased cost of implementation for small businesses.
b) Requires global consistency in auditing and enforcement.
c) Increased amounts of work placed on accountants.
d) Companies can manipulate the standards for fradulent benefits.

ii) List of various sources of regulations that influence preparation of financial statements for companies in addition to the accounting standards are:

a) Central Bank (RBI in India)
b) Stock market regulatory body (SEBI in India)

iii) A company may be profitable, but still be at a risk of bankruptcy if they are not able to manage their ~~ass~~ cashflows properly. While the comprehensive Income Statement and Statement of Financial Position tell us about how profitable a company is and how many assets they own, the cashflow statement tells us how they manage their cash. This is very important as incase a company, inspite of being profitable, a lacks cashflow, they can go bankrupt due to not being able to pay their liabilities. This information is provided by only the cashflow statement.

14) Comprehensive Income Statement of ABC Ltd. for the year ended 31/03/19

Particulars	W.N. No.	Amount
Revenue		1,500,000
– Cost of sales	5	(648,000)
Gross Profit		852,000
– Administration costs	1	(3,000)
– Distribution costs	2	(235,000)
Operating Profit		614,000
– Finance costs	6	(10,000)
Profit Before Tax		604,000
– Tax		(0)
Net Income		604,000
+ Gain on revaluation	9	
Total Comprehensive Income		

Statement of Changes in Equity as on 31/03/19

	Share Capital	Revaluation Reserve	Retained Earnings
Opening Balance	200,000	1,80,000	250,000
Dividend paid			(45,000)
Reval. Gain			
Profit for the year			604,000
Closing Balance	200,000		809,000

Statement of Financial Position as on 31/03/19

Particulars	W.N. No.	Amount
ASSETS :		
Non-current Assets	4	1,672,000
Current Assets	8	210,000
Total Assets		1,882,000
EQUITY & LIABILITIES:		~~200,000~~
Share Capital		209000
Revaluation Reserve		9
Retained earnings		809,000
Non-current liabilities	7	145,000
Current liabilities	3	68,000
Total Equity & Liabilities		

Working notes:

1) Administration costs -
Admin. staff wages 3,000

1275000
602000
507000
660,000
860
528
340
180
+540
720
1385000
1222000
163000

2) Distribution costs -

Marketing	55,000
Delivery vehicle	60,000
Sales sal.	120,000
	235,000

3) Current liabilities -

Bank o/D	18,000
Trade payabl.	50,000
	68,000

(4)

4) Non-current Assets -

	Buildings	Delivery Vehicles	Land	Machinery
Op. Bal.	~~400,000~~	3,25,000	800,000	150,000
Acc. Dep.	40,000	1,70,000		80,000
~~Dep (Acc)~~ ~~Reval.~~ Val.	700,000	~~4,72,000~~	800,000	~~80,000~~
Dep.	7,000	31,000		15,000
Clos. Bal.	693,000	1 24,000	800,000	55,000

Total NCA = 693,000 + 124,000 + 800,000 + 55,000 = 1,672,000

5) Cost of sales -

Inv. cons.	350,000
Factory	100,000
- Cls Inv.	(30,000)
Manuf. wages	175,000
* Dep. on Build	~~5,000~~ 7,000
Del. Veh.	31,000
Mach.	15,000
	648,000

6) Financing costs -

Interest 10,000

7) Non-current Liabilities -

Loan 145,000

8) Current Assets -

Trade receivables 210,000

9) Revaluation Gain -

Gain on Building = 700,000 − (400,000 − 40,000) =

\+ Gain on Land = 800,000 − 600,000 =

Total Gain =

340000

540000

(507,000)

33,000

15) Statement of Profit and Loss for the year ended 31/12/19

Particulars	W.N. No.	Amount
Revenue	5	56,000
- Cost of sales	6	(4,041)
Gross Profit		51,959
- Administration Expenses	3	(32,790)
+ ~~Distribution Expenses~~ Operating Income		8000
Operating Profit		20,769
- Finance Expenses		(0)
Profit Before Tax		20,769
- Tax Expense		(3,000)
Net Income		17,769

Statement of Retained Earnings as on 31/12/19

Particulars	Amount
Opening Balance	0
- Dividends	(5,000)
+ Profits for the year	17,769
Closing Balance	12,769

Statement of Financial Position as on 31/~~08~~ 12/19

Particulars	WN No.	Amount
ASSETS:		
Non-current assets	1	49,959
Current assets	2	1~~4~~3,210
TOTAL		63,169
EQUITY & LIABILITIES:		
Share Capital		32,000
Retained earnings		1~~4~~2,769
Non-current ~~assets~~ liabilities		
Current liabilities	4	19,000
TOTAL		63,169

Working notes:-

1) Non-current assets -

~~Laptops~~ ~~35,000~~

	Laptops	Office Equip.	~~Off. sup.~~
Op. Bal.	35,000	20,000	~~2,000~~
Dep.	(3,208)	(1,833)	
Clos. Bal.	31,792	18,167	

Total NCA = 31,792 + 18,167 = 49,959

2) Current assets -

Trade rec.	1,500
Cash	1,000
Off. supp.	2,000
~~Bills rec.~~	~~5000~~
Prepaid Rent	1,710

~~Total~~ Bills rec.	5000
Fee due	2000

Total CA = 1~~3~~3210

3) Admin. Exp. –

Off. Build. Rent	15,917
Emp. sal.	10,000
Off. Electr. Bill	4,000
Mob. & Int. bill	583
Unpaid sal.	4,000
– Prepaid Rent	(1,710)
	32,790

4) Current liability –

Unearned fee	10,000
Trade payables	3,000
– earned fee	(1,000)
Unpaid ~~tab~~ sal.	4,000
Tax Exp.	~~[illegible]~~ 3,000
	19,000

5) Earned revenue –

Earned	55,000
+ Unearned	1,000
	56,000

6) Cost of sales –

– Clos. Bal.	(1,000)
Dep. Lapt.	3,208
Off. Equip.	1,833
	4,041