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Business Finance Assignment 2

Q1] D

Q2] C

Q3] C

Q4] A

Q5] a) Realization concept states that revenue can only be recognized when the goods or services changes hand or is rendered.
Accruals concept states expenses should be recorded when incurred ~~rather~~ and not be held until actual payment is made.

b) The realization concept is applicable by including only the earned premium rather than the entire premium amount in profit and loss statement. Accrual concept is included by showing claims in the year incurred rather than when amount is actually transferred

Q6] Accounts can be manipulated by the way of non-cash items, example depreciation can be heavily charged initially using written down method and then later maybe change method using justification to adjust for years with higher loss and profits
Another way of manipulation is by

overstating income than it is example selling asset in a year and showing proceeds as sale to increase revenue or by prebooking of anticipated sales revenue.

Q7] i) There is no effect on both of these. Unless depreciation is charged on revalued amount which will show depreciation higher than usual.

ii) The cash flow will reduce by the amount due to the outgoing of money. The interest payment will be charged as expense in P&L. but no effect on GP.

iii) No apparent effect in either as cash flow already would have recorded and the inventory value is already shown as addition to purchases in cost of sales.

iv) Only decrease in ~~gr~~ gross profit

v) No effect on either GP or ~~for~~ Cashflow.

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Q8] i) Regulations in financial system :

1) To ~~as~~ stop any malpractices like insider trading etc

2) To increase investor confidence in financial market

3) To facilitate growth and stability in the financial system

ii) 1] SEBI 3] RBI
2] IRDAI 4] PFRDA

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

Q9] i) The cost concept states that all non current assets should be recorded at their cost and not market value.
The going concern concept states accounts should be prepared in a way assuming that the business will continue operations in the forseeable future.

ii) The Board should first understand the effect of transaction and discuss its treatment with auditor, so that accounts should show the true and fair value of the business. An accompanying note and mention in directors report would be key to justify the route taken.

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iii) As optimistic accounting policy would result in overstating income or profit which means a single bad year would significantly impact investor confidence. Also accounting method used are disclosed and have to be justified if shareholders feel that company is failing to apply prudence concept and not giving true picture it could significantly impact share prices and investor confidence.

Q10] a) Role of Investment bank is to help companies with mergers and acquizitions help company get listed and provide loans etc. Their source of funds are investors, shareholders, lenders. Their application is in day-to-day costs, salaries, takeover fees, ~~a~~ underwriting costs etc.

b) Role is to provide pension to retiers after certain age. Source of fund is retained earing, investment income, shareholders and investors. Application of funds is in policy design, paying pension, investments, reserving etc.

Q11] Limitations of interpreting accounts of company in different lines of business include issues with comparing as both could you use separate treatment of various transactions and adopt different accounting policy. Separate regulatory means the required reserving and other covenants would be different which would adversely affect ratios of comparing the companies. Also problems of creative accounting, problem of accuracy might persist

Q12] i) As insurance company sell policy all year round and an average policy lasts for a year, hence application of realization principle becomes quite difficult. Hence due to contracts lying outside one period and size there is issues. Also early transfer of profit to shareholders could lead to financial stress later.

ii) The major component of reserve for general insurance include the

- unexpired risk reserve to cover claims and expenses that are expected to emerge from unexpired period of cover
- ~~general insurance~~ outstanding claim reserve is money set aside for claims yet to be settled.

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Q13] i) Advantages :
1) Easier comparability and uniformity for all global companies and local companies to set up. and for investors to gain information
2) Readily available standards developed with years of experience to limit scandals.
3) Allows more flexibility to companies
4) Requires disclosure of more information.

Disadvantages :
1) IAS standards are sometimes meaningless due to being generalized.
2) These standards are not applicable to all industries
3) They are not made as per governments requirement or need
4) Increased cost of adoption especially small business as standards require extensive reporting.

Cost of Sales

1] ~~Administrative Expense~~

~~Staff Wages~~	~~3000~~
Inventory Consumed	350000
Factory Running Cost	100 000
Manufactoring Wages	175 000
Depriciation: Bldg	4000
Delivery Vehical	31000
Machinery	15000 ~~1500~~
	~~668500~~ ~~665500~~ 675 000

2] Distribution Expense

Cost of Marketing	55000
Delhivery Vehical Running	60 000
Sales Salaries	120 000
	235000

3] Current Liabilities

O.D	18000
Trade Payable	50 000
	68 000

34] Non Current Asset

Land		~~Land~~	Buildings	Delhivery.V	Machine
600 000	Opening Cost	~~600 000~~	400,000	325000	150 000
	(−) Agg Dep		(40,000)	(170 000)	(80 000)
	(−) CY depriciation		(4,000)	(31000)	15 000 (~~1500~~)
200 000	(+) Revaluation	~~200 000~~	344,000		
800 000	Closing Balance	~~800 000~~	700,000	124000	~~68500~~ 55 000

~~1692500~~ 1679000

5] Finance Expense

Interest	10000
	10000

6] Current Asset

Inventory	30000
Trade Receivable	210000
	240000

7] Non Current Liabilities

Loan	145000

8] Admin Expenses

Staff	3000

Statement of Financial Position

Assets	WN		£
Non Current Assets	4	1679000	~~[illegible]~~
Current Asset	6		240000
		1919000	~~[illegible]~~

Equity & Liabilities	WN		£
Equity: Shareholder Fund			200000
Retained Earnings		782000	~~791500~~ ~~724000~~
Revaluation Reserve			724000
		1706000	~~1715500~~
Non Current Liabilities	7		145000
Current Liabilities	3		68000
		1919000	~~1928500~~

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Statement of Profit & Loss

Particulars	WN	£
Revenue		1500 000
(−) Cost of Sales	1	(675 000) ~~(665 500)~~
Gross Profit		~~834 500~~ 825 000
(−) Administrative Expense	8	(3 000)
(−) Distribution Expense	2	(225 000)
Operating Profit		~~594 500~~ 587 000
(−) Finance Expense	5	(10 000)
Profit Before tax		~~585 500~~ 577 000

Statement of Changes in Equity

	Revaluation	Share Capital	Retained Earning
Opening	180 000	200 000	250 000
(−) Dividend paid			(45 000)
(+) Revaluation Profit	544 000		
(+) Profit			~~586 500~~ 577 000
	724 000	200 0000	782 000

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Q15

1] Cost of Sales

Rent	15917	
(−) Prepaid	(1710)	
	14207	
Office supplies (2000 − 1000)	1000	
Salaries	10 000	
(+) O/S	4000	
	14000	
Office Electricity Bill	4000	
Mobile ~~Electr~~ " Bill	583	
Depriciation	5041	38,831

2] Current Asset

Prepaid Exp.	1710	Cash	1000
Inventory of supplies	1000	B.R	5000
Trade Receivable	1500	~~Interest~~	[illegible]
(+) Due	2000		[illegible]
~~Cash~~	3500	12410	[illegible]

3] Non Current Asset

	Laptop	Office Equipment ~~Machinery~~
	35000	20 000
(−) Depriciation	(3208)	(1833)
$\frac{35000}{10} \times \frac{11}{12}$		
	31792	18 167

4] Revenue

Revenue Earned	55000
(+) Due	2000
(+) Fees earned	1000
	58000

Statement of Profit and Loss

	WN	£
Revenue	4	58 000
(−) Admin and Selling Costs	1	(38 831)
Operating ~~Gross~~ Profit		19 169
(+) Finance Income	6	200
Profit before tax		19 369
(−) Income tax		(3 000)
Profit After tax		16 369

Statement of Changes in Equity

	Share Capital	Retained Earnings
Opening	32 000	
(−) Dividend		~~(5000)~~
(+) Profit		(5000)
		16369
	32 000	11 369

5] Current Liabilities

Unearned fees		10,000	+ tax 3000
(-) Earned		(1000)	
O/s salaries		4000	
Trade payable	3000	~~13000~~	~~[illegible]~~ 19000

6] Finance Income

Interest	200

Statement of Financial Position

	WN		£
Non Current Asset	3		49 959
Current Asset	2		12 410 ~~12 010~~
		62369	~~61969~~
Equity:			
Share Capital			32000
Retained Earnings			11 369
			43369
Non Current Liabilities			
Current Liabilities		19 000	~~16000~~
			62369