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BF - Assignment 2.

1. B. ~~all~~ ~~only of~~ the above

2. C. Adverse opinion

3. C. Chairman's report

4. A II only

5. a) Realization and accruals concepts of accounting:

→ Realisation Concept.

Income is recognised 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.

It may also create the impression that the business is performing well when, in fact it is in danger of running out of cash.

→ Accrual Concept

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

Again, this avoids the random allocation of costs to periods depending on whether the bill happens to have been paid or not.

b.) A Health Insurance Company sells one year medi[illegible]
plans throughout the year.
The earned premium for the year is accounted
for by taking into consideration the written premi[illegible]
and the carried forward unexpired risk
premium. This can be an application of The
realization concept.
Whereas, when we calculate / determine the
incurred claims for the year, i.e. considering
the Outstanding claim reserves and unknown
claims reserves and certain unknown claims at
the end of year is when accrual concept is
applied by a health Insurance Company.

6. Ways through which accounts can be manipulated:

- Recording Revenue Prematurely or of Questionable Quality: i) Recording revenue prior to all services comp[illegible]
  ii) Recording revenue prior to shipment of produ[illegible]
  iii) Recording revenue for products that are not reqd. to be purchased.
- Recording Fictious Revenue:
  i) Recoding revenue for sales that didnot take place
  ii) Recording investment income at revenue.
  iii) Recording revenue through a loan as revenue.
- Increasing Income with one-time gains
  i) Increasing profits by selling assets & recording

disc proceeds as revenue.

- Shifting Current Expenses to a Later or Earlier Period:

i) Amortizing costs too slowly
ii) Changing accounting standards to foster manipulation.
iii) Capitalizing normal operation costs in order to reduce expenses by moving them from the income statement to the balance sheet.
iv) Failing to write down or write off impaired assets.

- Failing to Record or Improperly Reducing liabilities

i) Failing to Record expenses or liabilities when future services remain.
ii) Changing accounting services to foster manipulation.

- Shifting future expenses to current period as a special charge.
- Shifting current revenue to later period.

7. Accounting methods can be used to enhance the image of a firm and make it look better than it is. Such practice can make a current reported profitability a poor indicator of future profitability. The manipulation may include:

- Inflating current operating income
- Reducing current operating income

The latter may be encouraged by the use of executive linked ~~bonds~~ to future performance.

Other practises may include:

i) Inappropriate depriciation of tangible assets
ii) Inappropriate amortisation of intangible assets
iii) Inappropriate valuation of inventories
iv) Inappropriate valuation of future liabilities (including pension provisions)

v) unwarranted revaluation of tangible assets
vi) creating intangible assets of questionable worth
vii) omitting contingent liabilities
viii) 'prebooking' of anticipating sales revenues.
Scrutiny of such trends shown by items in accounts may assist to identify manipulation, as will consideration of the status of the company. Such manipulation can be illegal, would be contrary to the professional standards expected of accountants & auditors.

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

8).

8. i) Main roles of regulators in the financial system are:

- Market confidence - to maintain confidence in the financial system.
- Financial Stability - Contributing to the protection & enhancement of the stability of the financial system.
- Consumer Protection - Securing the appropriate degree of protection for consumers.

ii) Regulatory bodies which regulate the Indian Financial System are:

UK: i) The International Accounting Standards Board (IASB)
ii) The Financial Reporting Council (FRC)

For India:

i) Reserve Bank of India
ii) PFRDA
iii) SEBI
iv) IRDAI

iii) a) Banks: Reserve Bank of India.

b) Superannuation Products : PFRDA

c) General Insurance Companies : IRDAI

d) Stock Brokers : Securities & Exchange Board of India

e) Mutual Funds: Securities & Exchange Board of India.

f) Market for listed securities: Securities & Exchange Board of India.

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g) Foreign exchange dealers: Securities & Exchange Board of India.

h) Money changers: Reserve Bank of India

9. i) Under the cost concept, non-current assets generally appear in the statement of financial position at its original cost less depreciation to (till) date, subject to a possible impairment write down.
Going concern outlines that a business will continue to identify in its present form and assume that an enterprise will continue in operational existance for forseeable future.

ii) The key principles for accounting of 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 the 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 be strictly applicable.

(iii) Analysts and market participants can easily make out the confidence put in marketing & making company accounts. The stock market carefully examines information to ensure that the company's shares are correctly valued. If shares ~~p~~ are overp

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then it will give rise to opportunities for market participants to make profits by identifying the overpriced companies and selling shares. Market forces would push the shares down and activities would draw attention to the distortion.

II) Following are limitations / challanges while comparing accounts of the companies:

i) Comparibility:
Many of the problems above are worrying not just because the figure may be wrong, but also different firms use different methods of accounting. This creates difficulty in reliable comparision.

ii) Creative Accounting:
A few firms may deliberately set out to mislead by choosing the accounting policies that will examine and maximize reported profits.

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 detialed split of items than other firms. When making comparisions bet. firms, the least disaggregated items across all firms will be the lowest level at which accounts can be analysed.

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12. i) The preparation of insurance company is more complicated than normal as:

a) The 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 its ability to meet future liabilities.

ii) Major component of reserves for a GIC's technical account:

a) The amount set aside to settle claims.

b) The amount set out for updating the database and also the improvement of their artificial Intelligence for better reach to their costumers.

c) The amount can be used for research and developement of better technology to improve effeciency or speed in their work.

13) * Advantage 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 in particular areas for debate about accounting practice.
- Companies are obliged to disclose more information than required by national laws.
- Some degree of flexibility is allowed.

* Disadvantages of compliance with IAS:

- Rules set out by them might not be appropriate to all companies under all companies' circumstances.

- Standard setting may not entirely be the objective. Some standards in the past have been subject to government pressure or industry lobbying too.
- Some standards are far too detailed, which others are 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 dividends or buyback the 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 immidiete impact on profit.

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14(i) → Income Statement for the year 1.4.18 – 31.3.19

Particulars	W/N	$ (₹)
Revenue / Sales		1,500,000
– Cost of sales		(678,000)
Gross Profit		822,000
– Administrative Expenses		(3,000)
– Distribution Expenses		(235,000)
Operating Profit		584,000
– Financial Expenses		(10,000)
Profit Before Tax		574,000
– Tax Expenses		–
Profit After Tax (NI)		574,000

→ Statement of Changes of Equity

Particulars	Share Cap.	Retained Earnings	Revaluation Reserves
Opening bal.	2,00,000	2,50,000	1,80,000
– div. paid.		(45000)	
+ Rev. of assets.			500,000
+ current yr profit.		5,74,000	
closing bal.	2,00,000	779,000	6,80,000

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Statement of Financial Position on 31.3.19

Particulars	W/N	$ (₹)
Assets		
Non current Assets	4	1,632,000
Current Assets	8	2,40,000
		1,872,000
Equity and Liability		
Equity		
Share Capital		200,000
Retained Earnings		779,000
Revaluation Reserves		680,000
Liabilities		
Non current Liabilities	4	145,000
Current Liabilities	3	68,000
		1,872,000

Working Notes.

1. Administrative Expenses:

Administrative Staff wages : 3000

2. Distribution Expenses:

Cost of marketing	55,000
Delivery vehicle running cost	60,000
Sales salaries	1,20,000
	2,35,000

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(3) ~~[illegible]~~ Current Liability.

Bank overdraft	18000
Trade payables	50,000
	68,000

(4) Non- Current Assets

	Buildings	Delivery vehicle	Land	Machinery
cost	4,00,000	3,25,000	6,00,000	150,000
+ Revalua-tion	3,00,000		2,00,000	
	7,00,000		8,00,000	
Acc depri	40,000	1,70,000		80,000
current yr depri.	7,000	31,000		15,000
Net Book val.	6,53,000	1,24,000	8,00,000	55,000

(5) Cost of Sales

Inventory Consumed	3,50,000
Factory Running costs	1,00,000
Manufacturing wages	1,75,000
Depri on : buildings	7,000
deliv. vehicle	31,000
Machinery	15,000
	6,78,000

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(6) Non- current Liab.

Loan	1,45,000

(7) Financial Expense:

Interest: 10,000

(8) Current Assets:

Closing Inventory	30,000
Trade Receivables	2,10,000
	2,40,000