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73

1

Business Finance
Assignment II

1) C

2) A

3) C

4) D

5) a) Realization input : Income is recognised as and when its earned. Its not therefore necessary to wait until the customer settles ~~in~~ ~~to~~ theirs bill. This avoids the fluctuations in related income which might arise if everything was reported for on cash basis.

accruals concept : Expenses are ~~the~~ recognised as and when they are incurred, regardless of whether the amount has been paid. Again this avoids the random allocation costs to periods depending on whether the bill happens to have been paid or not.

b) i) Realisation concept in health insurance company is ~~un~~ utilised in a way that maybe the premium payments could be monthly, quarterly or half yearly depending upon the type of insurance and hence still in their words its recorded as revenue on the basis of number of policies sold.

ii) whereas accrual concepts of health care insurance company is utilised in the preparing of accounts of the company, they would include underwriting, administrative expenses etc. as and when the policy is sold. regardless the amount has been paid the premiums yet.

6) Diffrent ways in which accounts can be manipulated are:

1) choosing accounting policy; by choosing accounting policies which would help overstating the profits made by the company.

2) creative accounting: it is the deliberate abuse of subjectivity inherent in accounting rules to select accounting policies or make assumptions which tends to bias the figure in direction choosen by the management, misleading the users of accounts.

2

For eg: the charge of detraication requires an estimate of the expected useful life of fixed assets. By assuming a longer useful life than expected, depreciation is charged less and thereby increasing reported profits.

7) i) Gross profit ~~on~~ will increase and no change to cash flow.

ii) Gross profit no change and cashflow will decrease

iii) Gross profit and cash flow no change

iv) Gross profit decrease and cashflow no change

v) Gross profit no change and cashflow decrease.

8) i) Main roles of financial regulations are:

1) market confidence: to maintain confidence in financial system

2) financial stability: contributing to the protection and enchancement of stability of financial system.

3) Fair and proper functioning : securing the degree of protection for consumers

4) Prevention of malpractices

ii) Financial regulators of India :
- Reserve bank of India (RBI)
- securities and exchange board of India (SEBI)
- Insurance Regulatory and Development Authority of India (IRDAI)
- 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 - RBI
f) market for listed securities - SEBI
g) Foreign exchange dealers - RBI
h) Money changers ~~st~~ - RBI

(3)

9) i) Cost concept : It has been presented one of the cornerstones of accounting for a very long time. Under this concept, non current assets generally appear in the statement of financial position at their original cost less depreciation to date, subject to a possible impairment write down.

Going concern concept :
It is usually assumed that a business will continue indefinitely in its present form. This concept acts as a justification for the limitation imposed by the cost concept because there is little harm in reporting historical figures for values if assets concerned are unlikely to be sold in near future.

ii) SAS 8 states that in the absence of a specific rule to specify an appropriate accounting policy, the company should select policies on the basis that information is both relevant & reliable.

Information is relevant if it informs decisions taken by users of financial statements. and information is reliable if :

i) It provids of faithfull represtation of entity's financial position, performance cashflows
ii) It is free of bias
iii) It is ~~a~~ prudent

If there are accounting standards that cover the treatment of similar items, the company could use those.

iii) a) According to the Prudence concept, the financial statements should avoid presenting an unduly set of optimistic results.

b) If a company's records are showing unduly optimistic records, the shareholders and other users of financial statements may be of the view that the statements are ~~not~~ not giving true fair view hence will ~~lo~~ loose confidence in the company.

c) They may be also for the exchange of auditors and to reaudit the statements.

d) If the audit report is not satisfactory, the shareholders might start selling the shares thereby lowering the share price.

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10)a) Investment Bank : The primary goal is to advice business & government on how to meet their financial challenges.

The main source of fundings are : retained earning , equity financing and government loans.

Application of funds : keep global & local business with capital financing . They also engage in trading.

b) Pension funds : Their role is to help in the development of financial markets though their replacement and complimentary role with other financial institution , especially with commercial investments banks.

sources of funds : They are funded by contribution from employees and ocasionally from employees :

applications : The pensions funds invest in private equity , real estate , infrastructure and securities and offer lumpsome payback to investors

c) Life insurance company :-
Role : They collect contribution from many people who face the same risk to provid & safegaurd in case of accident or dual in income after retirement

source of funds : collection of premiums from customers ; retained earning, debt ~~cof~~ capital equity capital.

Applications :-
investing in market, they help pay for final expenses like cremation costs, estate settelment cost etc.

12) i)
a) The underlying contracts fall due outside the accounting period and are uncertain in size.

b) Premature Transfer of "profits" to shareholders may endanger the financial stability of the company & the ability to meet future liabilities.

(5)

ii) Major components of reserves for a general insurance company's technical ~~acc~~ account are:
Prepayments of premiums, reserves against outstanding claims and actuarial reserves against outstanding risks in respect of life insurance policies including reserves for with profit policies which values on maturity

13) a)

Advantages	Disadvantages
- They eliminate or reduce variations b/w companies	- The rules may not be suitable for every company
- The discussion process leading & focusses attention particular area of debate.	- standard setting may be entirely objective.
- They oblige companies ~~of~~ to disclose more info than that of national law.	- standards often allow more than one alternative.
- They allow some degree of flexibility in a way that legislation often does not.	- some standards are so general as to be meaningless while others are far too detailed.

b) Various ~~so~~ sources of regulations that influence the preparation of financial statements are:

- International finaincial reporting standards
- Principles, concepts & conventions
- National company laws
- good practices by leading companies
- stock exchange requirements
- ~~others b~~

c) The statement of P&L and statement of financial position donot provide a sufficent insight into movement ~~to~~ in cash balance. This is unfortunate because even profitable companies will collapse if they are not sufficiently liquid hence the cashflows statements is important.

14) i)

Statement of Profit or loss

	(1000's)	notes
Revenue	1500	
cost of sales	(647)	(i)
gross profits	853	
Adm. Exp.	(3)	(ii)
dist. cost	(266)	(iii)
net profit	584	
Financial exp.	(10)	
profit before Tax	574	
Tax	( )	
Profit ~~of~~ for the year	574	

(6)

Notes :-

i) cost of sales
depreciation of building : 7
cost of inventory consumed : 350
depri. of machinery : 15
Factory running cost : 100
manufacturing expenses : 175
Total : 647

ii) Administrative expense
wages : 3

iii) Distribution cost :
cost of marketing : 55
delivery vehicle depri. : 31
sales salary : 120
delivery running cost : 60
Total : 206

ii) Statement of changes in equity

	share capital	Retained earning	other expenses
	200	250	180
		574	340+200
		(45)	
Total	200	779	720

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iii) statement of financial position

Assets

non current assets	1749	
current assets	240	
Total :	1912	
equity & liabilities		1459

share capital	200
Reserves	720
Retained earning	779
~~Tate~~ Total	1699

loan payable	145
current liabilities	
bank overdrafts	18
trade payables	50
Total	213

7

Notes :-

i) Non current assets :

Building	700 + (7)
Vehicle	325 + (201)
land	800
Machinery	150 + (95)
Total	1672

ii) Current assets

Trade receivables	210
inventory	30
Total	240