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B.F Assignment - 2

1) D.
2) C
3) C
4) B

5) A) Realization concept:
⇒ Income is acknowledged when it is recieved.
⇒ As a result, there is no need to wait until the customer settles his or her bill
⇒ This eliminates the volatility in recorded income that could occur if all was paid for in cash.
⇒ It can also give the impression that the comp is doing well when in reality it is about to run out of cash

B) Accrual concepts:
⇒ Expenses are recorded when they are incurred regardless of whether they are charged
⇒ Again, this prevents arbitrary distribution of costs to times based on whether or not bill was paid.

B) ⇒ The premiums which are paid to the company will be put under the accounts recievable found in CA section of balance sheet & the claims under will be put under A/c recievable found in the liabilies
⇒ In realization the sum of all premium will be a liab as they are unearned revenue & on each date the premium are expected value of the premium will be deducted from the liabilities & will be moved into revenue.

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Q.6.

⇒ Accounting tech? may be used to improve a company's reputation to make it seem greater than it is

⇒ Manipulating can include inflating an current operating income (↑ Book revenue or ↓ expenses) or decreasing current operating income (in order to increase future earnings)

⇒ The latter may be facilitated through the use of executive bonuses linked to future results. In principle one of the explanations for the audit process is to avoid such manipulation from happening.

⇒ Acc procedure that may contribute to such misstatements include:

- Incorrect depreciation of tangible assets
- Incorrect amortization of intangible assets.
- Incorrect inventory valuation
- Inappropriate valuation of future liabilities
- Unwarranted revaluation of tangible assets of questionable true worth omitting contingent liabilities 'pre booking' of anticipated sales revenue.

Q.7

⇒ (i) Gross profit and cash flow wont be affected

(ii) Gross profit won't be affected & cash flow will decrease

(iii) G.P will increase & CF wont be affected

(iv) G.P & C.F wont be affected

(v) G.P & C.F wont be affected.

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Q. 8

(i) The IASB's role:

✓ International Acc standards board is an organisation that creates, publishes & revises accounting standards

✓ The IASB's principles are known as IFRS

✓ The Int. accounting principles apply to corporations & other types of organisations that prepare accounts in order to provide truthful & fair image.

✓ The IASB does not have the power to compel compliance with its accounting principles

✓ Many countries, require publically traded comp. financial statements to be prepared in compliance to IFRS with its accounting principles &

✓ For example:

Beginning on Jan 1 2005, all publically trade UK ltd comp were required to use International Accounting standards for consolidated A/c

Many UK business have chosen to use Int. standards rather than UK stand because these are the ones likely to be followed in practice

✓ The rest of this section follows the terminology & structure of International standards

✓ The IASB works with national accounting standards setters in a variety of countries to ensure that its standards are implemented in accordance with International & national developments.

✓ International accounting principles have aided in the improvement & standardization of financial statements around the world

(ii) SEBI, RBI, IRDAI

(iii) a) ~~RBI~~ ~~c) IRDAI~~

b) ASIC

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(iii) a) RBI
b) ASIC
c) IRDAI
d) SEBI
e) SEBI, govt
f) SEBI
g) FINRA
h) govt

Q.9
→ (i) For a long time, cost principle has been viewed as one of the pillars of accounting.
Non-current asset are normally reported in the statement of financial condition at their original expenses less depreciation to date subject to potential impairment write down under the concept. The ~~going co~~.
The going concern concept entails the assumption that a company can remain in its current form forever.
This concept serves as justification for the cost concepts weaknesses since there is no risk in disclosing historical figures for value if the assets involved are unlikely to be sold in the near future.

(ii) If the transaction isn't covered in any accounting concept then the BOD can decide to chose the most consistent method that has close proximity to other concepts.

(iii) Most of the optimism in mainly acc choice is quite visible to analysts & market participants.
The stock market examines info carefully to ensure that it does not misprice securities. If shares are overpriced there will be opp for astute market particip to make profit by identifying overpriced comp & selling shares. Market forces would push shares down & these act would draw attention to distortion

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Q. 10)

a) Investment Bank :

Investment banks serve as a connection b/w large corp. & investors. The role is to advise companies & government on how to deal with financial difficulties. Financing, analysis, trading & sales, wealth management, asset management, IPOs, mergers, securitized products, hedging and other services are provided by investment banks to their clients, equity financing, mezzanine financing & specialist financing. To invest in companies, IPOs, currencies etc.

b) Pension scheme:-

Investment of contributions as per investment guidelines prescribed by the Authority.

Scheme portfolio construction. Maintain books & records of its operations.

Reporting to the Authority at periodical intervals

Public disclosure. Premiums, investment returns from debt funds & equities.

Distribution of pensions, investing in other funds, investment in r &d.

c) Life Insurance company:

Insurance facilitates spending risk from the insured to the insurer.

Premiums, investment returns from debt funds & equities.

Q.11

* General & life insurance comp operat in a country each of which is gove & regulated by a diff regulator.

Limitations :

* The underlying contracts fall out acc per & are uncertain in size

* Premature transfer of profit to shareholders may endanger the financial stabl. of the comp & the ability to meet its future liability

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Q.12

(i) Insurance companies are subject to the same reporting requirements as other types of limited companies. In case of other businesses, a statement of profit or loss are required
Benefit is a relatively simple idea for most businesses
A business makes profit when it sells an item of stock for more than it costs to produce
Benefit is a difficult term to grasp for an insurance firm. When a policy is sold, the policyholder pays a premium to the company & the company incurs distribution & administration costs.
However the company doesn't know how much profit it can make at this stage because the policy will continue for several years during which time the company may have to pay claims, incur costs & pay additional premium
To account for these potential cash flows, the corp will establish an estimated liability in its balance sheet.
To avoid making too much profit at the start of the policy, a cautious approach to estimating this can be used

(ii) Reserves of a general insurance comp. technical A/c.
The unexpired risk reserve is to cover claims & expens that are expected to emerge from an unexpired period of cover
The outstanding claim reserve is to cover the claims & expenses for all outstanding claims that have not yet been settled.

13)

(i) The advantages of International standards:

⇒ such requirement, minimise or remove difference in how buisnesses manufacturing accounts, allowing for cross company comparison.

⇒ When developing the criteria, specific attention is paid to specific area of accounts & the ensuing discussion will help ensure an acceptable approach

⇒ International standards should force companies to disclose more information than they would otherwise

⇒ Flexibility can be provided by standards in ways that legislation doesn't

The disadvantages of International standards:

⇒ the requirements are most likely based on typical company & may not be applicable to all buisnesses in all cases.

⇒ The standard might not be objective for example: If some buisness associations lobbies for the standards to be written in a certain way

⇒ the standards may allow for flexibility in approach which makes comparing company accounts more difficult

⇒ the level of detail in the standards might be insufficient either too high or too low

(ii) IASB, IFRS.

(iii) The profit and loss statement & the statement of financial conditions do not include enough information about cash flow movements. This is bad because even successful businesses can fail if they don't have enough liquid assets. As a result, the cashflow statement is essential to complement the profit & loss statement & the statement of financial conditions

The bank balance is disclosed in the statement of financial status. It is simple to determine if the balance has improved since previous years end.

It is however difficult to identify the major causes of such changes.

Shareholders & other readers require a more structure description of the cashflows.

The cashflow is intended to answer the foll types of Ques

⇒ Why has the companys bank overdraft risen after a successful year

⇒ Is the organisation able to generate cash rather than benefit from its trading activities?

⇒ What happened to the loan that was taken out during the year?

⇒ Cashflow statements indicate where money came from & where it went

they disregard principle of accruals.

14)

i) Income Statement

Particulars	W.N	Amt	Total
Revenue		150000	
Cost of good sold	14	(647000)	
Gross Profit		853000	
Distribution cost	2	(266000)	
administrative staff wages	7	(3000)	
			584000
			(10000)
Interest			574000
Profit for the year			

(ii) Statement of changes in equity

Particulars	W.N	Share cap	Revaluation Res	Retained	Total
Opening Bal.		200000	180000	250000	630k
Revaluation			540000		540k
Profit for the year	6			574000	574k
Dividend paid				(45000)	(45k)
closing balance		200000	720000	779000	1699000

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(iii)

Statement of financial position as on 31 Mar '19

Particulars	Amt
Non - cu Assets :	
Non current Asset	
Property, Plant equip.	1672000
current Assets :	
Inventory	30000
Trade Recievables	210000.
Total Assets	1912000.
Equity & Liabilities.	
Equity	
Share cap	200000
Revaluation Reserve	720000
Retained earning	779000
Non - current liability	
Loan	145000
current liabil	
Trade payable	50000
Bank.	18000
Total Equity & Liabilites.	1912000

Working Notes:

1) Cost of sales.

Cost of inventory consum	350k
Factory running cost	100k
Manufacturing wages	175k
Depⁿ of building	7k
Depⁿ of Machinery	15k
	647000

2) Cost of Dist

Advertising cost	55k
Delivery vehicle	60k
Sale sal	120k
Depⁿ	31k
	266000

3) Property plant Equip.

Cost of valuat	Land	Building	Mach	Vehicles	Total
O.B	600k	400k	150k	325k	1475k
Revaluation	200k	300k			500k
C.B	800k	700k	150k	325k	1975k

4) Depⁿ

Cost of valuation	Land	Building	Machine	Vehicles	Tot
O.B	40k	40k	80k	70k	290k
Revaluation		(40k)			(40k)
C.B		7k	15k	31k	53k
		7k	95k	201k	303k
Net book value	800k	693k	55k	124k	1672k

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Q.15

(i) P/L statement for year ended Dec 31, 19

Particulars	Amt	Total
~~Reserve~~ Revenue.	57000	
Revenue due	2000	
Revenu ean in Dec	1000	
Less Manuf act exp.	(40417)	
		53959
Less: Administrat exp	(34790)	
Other income	200	
		(34590)
Tax		(3000)
		16369

(ii) Statement of changes in equity

Particulars	Share cap	Retained earn
Opening	32000	
Dividen paid	(5000)	
Adjusted prof		16369
	27000	16369

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(iii) Statement of Financial Position.

Particulars	Amt
Assets.	
Non current Asset	44959
current Asset	12410
	62369
Equity & Liabilit	
Equity	
Share cap	27000
retained ean	16369
Liability	
non-current	~~190~~
current	19000
	62369

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Working note :

1) current Assets :

Trade Recievable	1500
cash	1000
Bills Recievab	5000
Inventory	1000
Revenue due	2000
Bill Interest	1710
Paltic	200
	12410

2) current Liabilit

Trade payable	3000
unearned fee	10000
salaries	4000
Tax payables	3000
	19000

3) Administrative exp :

office supplies	2000
office rent	14207
salaries	10000
electricity bill	4000
mobile & elec bill	583
Aad on salary	4000
	34790

4

4) Manufact exp .

closing Inr	1000
Deprn	5041
	5041

7) Non-current Asset

	Laptop	Equipment	Total
Cost	25000	20000	
Dep^n	3208	1833	
	31792	18167	49959

6) Calculation of Dep^n

a) Laptop = $\frac{35000 - 0}{10} = 3500$

b) 11 months Dep $= \frac{3500 \times 11}{12} = 3208$

Equipment = $\frac{11}{12}\left(\frac{20000 - 0}{10}\right) = 1833$

b) Rent

11 Month = $1000 + 1000 \frac{(1.05^{10} - 1)\,105}{1.05}$

$= 14207$