

MGT401

(Financial Accounting – II)

Important subjective

Lec 1 - Types of Business Entities

1. **What are the advantages of a sole proprietorship?** Answer: Advantages of a sole proprietorship include ease of formation, direct control by the owner, and simplified taxation.
2. **What are the disadvantages of a partnership?** Answer: Disadvantages of a partnership include unlimited personal liability and potential for disputes between partners.
3. **What are the advantages of an LLC?** Answer: Advantages of an LLC include limited personal liability, pass-through taxation, and flexibility in management structure.
4. **What is double taxation, and how does it affect corporations?** Answer: Double taxation refers to the taxation of corporate profits at both the corporate level and the individual level. It affects corporations by reducing profits available for distribution to shareholders.
5. **What is a cooperative, and how does it differ from other types of business entities?** Answer: A cooperative is a type of business entity that is owned and operated by its members, who share in the profits and decision-making. It differs from other types of business entities in that it prioritizes the well-being of its members over profit.
6. **What is a limited liability partnership (LLP)?** Answer: A limited liability partnership is a type of partnership where partners have limited personal liability for the actions of other partners.
7. **What are the advantages of a corporation?** Answer: Advantages of a corporation include limited personal liability, the ability to raise capital through stock offerings, and a more complex management structure.
8. **What are the disadvantages of a sole proprietorship?** Answer: Disadvantages of a sole proprietorship include unlimited personal liability and difficulty in raising capital.
9. **What is the difference between a general partnership and a limited partnership?** Answer: In a general partnership, all partners have unlimited personal liability and share in decision-making and profits. In a limited partnership, there are both general partners with unlimited personal liability and limited partners with limited personal liability who do not participate in decision-making.
10. **What are the advantages of a cooperative?** Answer: Advantages of a cooperative include shared decision-making and profits among members and a focus on the well-being of members rather than profit.

Lec 2 - Formation of Companies and Meetings

1. **What are the steps involved in the formation of a company?**

Answer: The steps involved in the formation of a company include choosing a name, drafting the Memorandum of Association and Articles of Association, registering the company with the Registrar of Companies, and obtaining a certificate of incorporation.

2. **What is the difference between a private limited company and a public limited company?**

Answer: A private limited company is a type of company that has a limited number of shareholders and cannot offer shares to the general public. A public limited company, on the other hand, can offer shares to the public and has no limit on the number of shareholders.

3. **What is the role of a company secretary in a company?**

Answer: The company secretary is responsible for ensuring that the company complies with legal and regulatory requirements. This includes maintaining records, organizing meetings, and ensuring that decisions taken at meetings are implemented.

4. **What is an annual general meeting (AGM)?**

Answer: An annual general meeting (AGM) is a type of general meeting that is held once a year to conduct the company's business. This includes approving the annual report and accounts, electing directors, and appointing auditors.

5. **What is a board meeting?**

Answer: A board meeting is a meeting of the directors of a company to discuss and make decisions about the company's business. This includes strategic planning, financial management, and compliance issues.

6. **What is a resolution in a company?**

Answer: A resolution is a decision taken by the members or directors of a company at a meeting. This can be an ordinary resolution, which requires a simple majority, or a special resolution, which requires a two-thirds majority.

7. **What is the purpose of the Memorandum of Association?**

Answer: The Memorandum of Association is a legal document that sets out the company's objectives and powers. It also defines the relationship between the company and its shareholders.

8. **What is the purpose of the Articles of Association?**

Answer: The Articles of Association are a legal document that sets out the internal rules and regulations of the company. This includes the rights and responsibilities of shareholders, the procedures for holding meetings, and the appointment of directors.

9. **What is the quorum for a general meeting?**

Answer: The quorum for a general meeting is the minimum number of members or shareholders required to be present for the meeting to be valid. This is usually specified in the company's Articles of Association.

10. **What are the requirements for calling a general meeting?**

Answer: A general meeting must be called by giving notice to all members or shareholders. The notice must include the date, time, and location of the meeting, and the agenda for the meeting. The notice period must also comply with the requirements set out in the company's Articles of Association.

Lec 3 - Relationships between Companies

1. **What is a strategic alliance?**

A: A strategic alliance is a partnership between two or more companies to pursue a specific project or goal while retaining their independence.

2. **What is a joint venture?**

A: A joint venture is a partnership between two or more companies to create a new business entity with shared ownership and control.

3. **What is a merger?**

A: A merger is a combination of two or more companies into a single entity, typically resulting in the disappearance of one or more of the original companies.

4. **What is an acquisition?**

A: An acquisition is the process of one company acquiring another company, often through the purchase of a majority or all of its shares.

5. **What is a horizontal merger?**

A: A horizontal merger is a merger between two companies operating in the same industry or sector.

6. **What is a vertical merger?**

A: A vertical merger is a merger between two companies operating in different stages of the same industry's supply chain.

7. **What is a conglomerate merger?**

A: A conglomerate merger is a merger between two companies operating in unrelated industries.

8. **What are some potential benefits of a strategic alliance?**

A: Potential benefits of a strategic alliance include access to new markets, shared expertise and resources, and reduced costs and risks.

9. **What are some potential risks of a merger or acquisition?**

A: Potential risks of a merger or acquisition include integration challenges, cultural differences, and conflicts of interest.

10. **What is a hostile takeover?**

A: A hostile takeover is a takeover that is opposed by the target company's management and often involves the acquiring company purchasing shares on the open market without the target company's approval.

Lec 4 - Preparation and Presentation of Financial statements

1. **What is the purpose of a balance sheet, and what information does it provide about a company's financial position?**

Answer: The purpose of a balance sheet is to report a company's financial position at a specific point in time. It provides information about a company's assets, liabilities, and equity, which can be used to assess its solvency, liquidity, and financial health.

2. **What is the difference between revenue and net income on an income statement?**

Answer: Revenue is the total amount of money a company earns from the sale of goods or services, while net income is the profit or loss the company earns after deducting all expenses, including taxes.

3. **How is the statement of cash flows useful for investors and creditors?**

Answer: The statement of cash flows provides information about a company's sources and uses of cash, including its operating, investing, and financing activities. This information can be used by investors and creditors to assess a company's liquidity and cash flow position.

4. **What are the components of the statement of changes in equity, and how do they relate to a company's financial performance?**

Answer: The components of the statement of changes in equity include the opening balance of equity, net income or loss, dividends, and other equity transactions. These components reflect a company's financial performance, as net income or loss affects retained earnings and dividends reduce equity.

5. **What is the purpose of the notes to financial statements, and what kind of information do they provide?**

Answer: The purpose of the notes to financial statements is to provide additional information and explanations about the numbers presented in the financial statements. They can include details about accounting policies, contingencies, and significant events that may impact a company's financial position or performance.

6. **What is the difference between current assets and non-current assets on a balance sheet?**

Answer: Current assets are assets that can be converted to cash or used within one year, while non-current assets are assets that will not be used or converted to cash within one year. Examples of current assets include cash, accounts receivable, and inventory, while non-current assets include property, plant, and equipment.

7. **How does the matching principle impact the presentation of expenses on an income statement?**

Answer: The matching principle requires that expenses be recognized in the same period as the revenue they help generate. This means that expenses must be matched to the revenue they contribute to, which can affect the timing and amount of expenses reported on an income statement.

8. **What is the purpose of the cash flow statement, and how is it different from the income statement and balance sheet?**

Answer: The purpose of the cash flow statement is to provide information about a company's sources and uses of cash, including its operating, investing, and financing activities. It differs from the income statement, which reports a company's revenues and expenses over a period, and the balance sheet, which reports a company's financial position at a specific point in time.

9. **What is the difference between a liability and equity on a balance sheet?**

Answer: A liability is an obligation or debt owed by a company to another party, while equity represents the residual interest in the assets of a company after deducting liabilities. Liabilities can include accounts payable, loans, and taxes owed, while equity can include common stock and retained earnings.

10. **How does the statement of changes in equity relate to the balance sheet and income statement?**

Answer: The statement of changes in equity shows the changes in a company's equity over a specific period and is linked to the balance sheet and income statement. Net income or loss reported on the income statement affects retained earnings, which is a component of equity reported on the balance sheet. Dividends paid or other equity transactions reported on the statement of changes in equity also impact equity reported on the balance sheet.

Lec 5 - Property, Plant and Equipment

1. **What is Property, Plant, and Equipment (PP&E)?**

Answer: PP&E refers to tangible, long-term assets used in a company's operations, including land, buildings, machinery, equipment, vehicles, and other assets that have a useful life of more than one year.

2. **What is the purpose of depreciating PP&E?**

Answer: Depreciating PP&E reduces the asset's carrying value over time, which reflects the asset's decreased value due to wear and tear or obsolescence.

3. **What is the difference between salvage value and residual value?**

Answer: Salvage value refers to the estimated amount a company will receive when it sells an asset, while residual value refers to the estimated value of an asset at the end of its useful life.

4. **What is the difference between straight-line depreciation and accelerated depreciation methods?**

Answer: Straight-line depreciation charges the same amount of depreciation each year, while accelerated depreciation methods charge higher depreciation in the early years of an asset's useful life.

5. **How does the disposal of PP&E affect a company's financial statements?**

Answer: The disposal of PP&E can result in a gain or loss, which is recognized on the income statement. The asset's carrying value is removed from the balance sheet, and the cash received or paid is reflected on the cash flow statement.

6. **How is the cost of PP&E determined?**

Answer: The cost of PP&E includes all expenses necessary to acquire and prepare the asset for its intended use, such as purchase price, transportation costs, installation costs, and legal fees.

7. **What is a useful life, and how is it determined?**

Answer: Useful life refers to the length of time an asset is expected to be used in a company's operations. It is determined based on factors such as the asset's physical life, economic life, and technological obsolescence.

8. **How is depreciation expense calculated?**

Answer: Depreciation expense is calculated by dividing the cost of the asset by its useful life and applying the appropriate depreciation method.

9. **What is an impairment loss, and when is it recognized?**

Answer: An impairment loss occurs when the carrying value of an asset exceeds its recoverable amount. It is recognized on the income statement and reduces the asset's carrying value on the balance sheet.

10. **How do major improvements to PP&E affect a company's financial statements?**

Answer: Major improvements to PP&E are capitalized and added to the asset's carrying value, which increases the asset's book value and extends its useful life.

Lec 6 - Revaluation of Assets

1. **What is revaluation of assets and why is it necessary?**

Answer: Revaluation of assets is the process of updating the value of assets to reflect their current market value. It is necessary to ensure that a company's financial statements reflect the true value of its assets.

2. **How is the revalued amount of an asset determined?**

Answer: The revalued amount of an asset is determined by assessing the current market value of the asset.

3. **What are the accounting entries required for revaluation of assets?**

Answer: The accounting entries required for revaluation of assets include recording any revaluation gains or losses on the balance sheet and creating a revaluation reserve account to track changes in the value of revalued assets.

4. **What is the difference between revaluation and impairment?**

Answer: Revaluation involves updating the value of assets to reflect their current market value, while impairment involves writing down the value of assets that are no longer expected to generate economic benefits.

5. **How does revaluation impact a company's financial ratios?**

Answer: Revaluation can impact a company's financial ratios, such as debt-to-equity and return on assets, by changing the carrying value of assets and equity.

6. **What are some potential risks of revaluation of assets?**

Answer: Potential risks of revaluation of assets include inaccuracies in determining the current market value of assets and manipulation of financial statements by companies.

7. **How does revaluation impact depreciation expense?**

Answer: Revaluation can impact depreciation expense by changing the carrying value of assets and accumulated depreciation.

8. **Can a company revalue its assets every year?**

Answer: Yes, a company can revalue its assets every year, although it is not common practice.

9. **What are the factors that can influence the market value of an asset?**

Answer: The factors that can influence the market value of an asset include supply and demand, economic conditions, and changes in technology or regulations.

10. **How does revaluation of assets impact a company's income tax liabilities?**

Answer: Revaluation of assets can impact a company's income tax liabilities by changing the carrying value of assets and resulting in a gain or loss that may be taxable.

Lec 7 - Property, Plant & Equipment and Borrowing Cost

1. What is the difference between Property, Plant & Equipment (PP&E) and intangible assets?

Answer: PP&E are tangible assets that a company owns and uses in its operations, such as buildings, machinery, and vehicles, while intangible assets are non-physical assets, such as patents, trademarks, and goodwill.

2. What are the three criteria that an asset must meet to qualify for capitalization of borrowing costs?

Answer: An asset must meet the following criteria to qualify for capitalization of borrowing costs:

- a) It takes a substantial period of time to get ready for its intended use or sale;
- b) Activities that are necessary to prepare the asset for its intended use or sale are in progress; and
- c) The borrowing costs are directly attributable to the asset.

3. What is the difference between straight-line depreciation and accelerated depreciation?

Answer: Straight-line depreciation allocates an equal amount of an asset's cost over its useful life, while accelerated depreciation methods allocate more of the asset's cost to the early years of its life and less in the later years.

4. What is the difference between the cost model and revaluation model for measuring Property, Plant & Equipment?

Answer: The cost model measures PP&E at their historical cost less accumulated depreciation, while the revaluation model measures PP&E at their fair value less accumulated depreciation.

5. What is the purpose of impairment testing for PP&E assets?

Answer: Impairment testing determines whether the carrying amount of a PP&E asset exceeds its recoverable amount and, if so, the company must recognize an impairment loss.

6. What are some examples of borrowing costs that can be capitalized?

Answer: Examples of borrowing costs that can be capitalized include interest on loans used to finance the construction of a new factory, fees paid to arrange a loan for the acquisition of PP&E, and interest on a loan used to purchase a building that will be leased out to tenants.

7. What is the difference between tangible and intangible assets in relation to depreciation?

Answer: Tangible assets, such as PP&E, are depreciated over their useful lives based on wear and tear or obsolescence, while intangible assets, such as patents or copyrights, are amortized over their useful lives based on the expected future benefits from the asset.

8. What is the purpose of the impairment loss reversal test for PP&E assets?

Answer: The impairment loss reversal test determines whether an impairment loss recognized in a previous period for a PP&E asset can be reversed if there has been a change in circumstances or an improvement in the asset's recoverable amount.

9. What are some factors that can affect the useful life of a PP&E asset?

Answer: Factors that can affect the useful life of a PP&E asset include physical wear and tear, technological obsolescence, changes in legal or regulatory requirements, and changes in the way the asset is used in the company's operations.

10. What is the difference between tangible and intangible assets in relation to borrowing costs?

Answer: Tangible assets, such as PP&E, are eligible for the capitalization of borrowing costs if they meet certain criteria, while intangible assets are generally not eligible for the capitalization of borrowing costs.

Lec 8 - Intangible Assets – Companies Ordinance 1984

1. What are intangible assets, and how are they defined under the Companies Ordinance 1984?

Answer: Intangible assets are non-physical assets that lack physical substance but have value to a company. They are defined under the Companies Ordinance 1984 as assets that do not have a physical existence but can be measured reliably.

2. Why is it important to properly account for intangible assets in a company's financial statements?

Answer: Proper accounting for intangible assets is important because it helps investors make informed decisions about a company's financial health and potential for future growth.

3. What is the process for impairment testing of intangible assets, and why is it necessary?

Answer: The process for impairment testing of intangible assets involves comparing the carrying amount of the asset to its recoverable amount. This is necessary to ensure that the carrying amount of the asset is not overstated and that any impairment loss is recognized in the financial statements.

4. Can acquired goodwill be amortized for a period longer than 10 years? If so, under what circumstances?

Answer: Acquired goodwill can be amortized for a period longer than 10 years if the company can justify the longer period based on a change in business strategy.

5. What are some examples of intangible assets that are commonly found on a company's balance sheet?

Answer: Examples of intangible assets include patents, trademarks, copyrights, and goodwill.

6. How is acquired goodwill accounted for under the Companies Ordinance 1984?

Answer: Acquired goodwill must be amortized over a maximum period of 10 years, unless a longer period can be justified based on a change in business strategy.

7. Can intangible assets be revalued under the Companies Ordinance 1984?

Answer: No, intangible assets cannot be revalued under the Companies Ordinance 1984.

8. What is the difference between an intangible asset and a tangible asset?

Answer: A tangible asset has a physical existence, while an intangible asset does not.

9. How are intangible assets measured under the Companies Ordinance 1984?

Answer: Intangible assets are measured at cost less any accumulated amortization and impairment losses.

10. **How does the proper accounting of intangible assets benefit a company's stakeholders?**

Answer: Proper accounting of intangible assets benefits a company's stakeholders by providing transparency and clarity about the value of the company's assets and potential for future growth.

Lec 9 - Intangible Assets – IAS 38 & Investment in Associates

1. **What is an intangible asset, and how is it different from a tangible asset?**

Answer: An intangible asset is an asset that lacks physical substance, such as patents or trademarks, while a tangible asset has physical substance, such as machinery or buildings.

2. **Under IAS 38, what are the criteria for recognizing an intangible asset?**

Answer: The criteria for recognizing an intangible asset include that it is probable that future economic benefits will flow to the company and the cost of the asset can be reliably measured.

3. **How should internally generated intangible assets be accounted for under IAS 38?**

Answer: Internally generated intangible assets should only be recognized if certain criteria are met, including that the cost can be reliably measured and the future economic benefits are probable.

4. **How is goodwill accounted for under IAS 38?**

Answer: Goodwill is recognized as an intangible asset and amortized over its useful life, which is generally no longer than 10 years.

5. **What is an investment in associates, and how is it accounted for under IAS 28?**

Answer: An investment in associates is an equity investment in a company in which the investor has significant influence but not control. It is accounted for using the equity method.

6. **How is the investor's share of the associate's profits or losses accounted for under the equity method?**

Answer: The investor's share of the associate's profits or losses is recorded as a single line item on the investor's income statement.

7. **Can goodwill arise from an investment in an associate?**

Answer: Yes, goodwill can arise from an investment in an associate if the investor pays more than the share of the associate's net assets it acquires.

8. **What is impairment, and how is it determined for intangible assets and investments in associates?**

Answer: Impairment is the reduction in the value of an asset due to a decline in its future economic benefits. It is determined by comparing the asset's carrying value to its recoverable amount.

9. **What is the difference between the cost model and the revaluation model for intangible assets?**

Answer: The cost model records intangible assets at cost less any accumulated amortization or impairment losses, while the revaluation model records intangible assets at fair value less any accumulated amortization or impairment losses.

10. **How should an intangible asset with an indefinite useful life be accounted for under IAS 38?**

Answer: An intangible asset with an indefinite useful life should not be amortized but should be tested for impairment annually.

Lec 10 - Other Non Current Assets

1. **What are other non-current assets?**

Answer: Other non-current assets are long-term assets that are not classified as property, plant, and equipment, intangible assets, or investments in associates.

2. **What are long-term prepaid expenses?**

Answer: Long-term prepaid expenses are expenses that have been paid in advance and are expected to provide future economic benefits beyond one year.

3. **How are deferred tax assets created?**

Answer: Deferred tax assets are created due to temporary differences between accounting and tax rules, which result in lower taxes paid in the current year and higher taxes paid in future years.

4. **What is an impairment test?**

Answer: An impairment test is a test performed on assets to determine if their carrying value exceeds their recoverable amount. If so, the asset is considered impaired and the carrying value is reduced accordingly.

5. **How are intangible other non-current assets amortized?**

Answer: Intangible other non-current assets, such as patents and trademarks, are typically amortized over their useful lives.

6. **What is the difference between long-term receivables and short-term receivables?**

Answer: Long-term receivables are amounts owed by customers that will be collected beyond one year, while short-term receivables are amounts owed by customers that will be collected within one year.

7. **What is the purpose of testing other non-current assets for impairment?**

Answer: The purpose of testing other non-current assets for impairment is to ensure that they are carried at no more than their recoverable amount.

8. **How are other non-current assets reported on the balance sheet?**

Answer: Other non-current assets are reported on the balance sheet under the non-current assets section.

9. **What is the role of other non-current assets in financial reporting?**

Answer: Other non-current assets play an important role in financial reporting as they provide information about a company's long-term investments and commitments.

10. **What are some examples of other non-current assets?**

Answer: Examples of other non-current assets include long-term prepaid expenses, deferred tax assets, long-term receivables, and investments in non-consolidated subsidiaries.

Lec 11 - Inventories

- 1. What is the difference between perpetual and periodic inventory systems?**
Answer: Perpetual inventory systems continuously track inventory levels in real-time, while periodic inventory systems count inventory at regular intervals, such as weekly or monthly.
- 2. Why is inventory turnover ratio an important measure of inventory management efficiency?**
Answer: Inventory turnover ratio measures how efficiently a company is managing its inventory. A high inventory turnover ratio indicates that inventory is selling quickly, while a low ratio indicates that inventory is not selling as quickly as it should.
- 3. What are the benefits of using a Just-In-Time (JIT) inventory control system?**
Answer: Just-In-Time (JIT) inventory control systems can reduce inventory holding costs, improve cash flow, increase production efficiency, and reduce the risk of inventory obsolescence.
- 4. How do inventory costs impact a company's financial statements?**
Answer: Inventory costs, including the cost of goods sold and inventory holding costs, are deducted from a company's revenue to calculate gross profit. Inventory levels are also reported on the balance sheet as assets.
- 5. What is the role of safety stock in inventory management?**
Answer: Safety stock is the amount of inventory held to mitigate the risk of stockouts. It acts as a buffer to ensure that inventory is available when demand exceeds forecasted levels.
- 6. How do lead times impact inventory management?**
Answer: Lead times are the amount of time it takes to receive inventory after placing an order. Longer lead times require a higher safety stock to mitigate the risk of stockouts and can increase inventory holding costs.
- 7. What is ABC analysis, and how is it used in inventory management?**
Answer: ABC analysis is a method of classifying inventory based on its relative importance. It is used to identify which items should be closely monitored and which can be managed with less attention.
- 8. What is the difference between FIFO and LIFO inventory costing methods?**
Answer: FIFO (First-In-First-Out) assumes that the first items purchased are the first ones sold, while LIFO (Last-In-First-Out) assumes that the most recently purchased items are the first ones sold.
- 9. What is the economic order quantity (EOQ), and how is it calculated?**
Answer: The economic order quantity (EOQ) is the optimal order quantity that minimizes inventory holding costs and ordering costs. It is calculated by finding the quantity that minimizes the total cost of inventory.
- 10. How can technology improve inventory management?**
Answer: Technology can improve inventory management by providing real-time inventory tracking, automated ordering and receiving, and data analytics to identify trends and optimize inventory levels.

Lec 12 - Valuation of Inventories

1. **What is the purpose of inventory valuation?**

Answer: The purpose of inventory valuation is to assign a monetary value to a company's inventory for financial reporting purposes.

2. **What are the three most commonly used inventory valuation methods?**

Answer: The three most commonly used inventory valuation methods are FIFO, LIFO, and weighted average cost.

3. **How does the choice of inventory valuation method impact a company's financial statements?**

Answer: The choice of inventory valuation method can impact the cost of goods sold and net income reported on the income statement, as well as the inventory levels reported on the balance sheet.

4. **What is the difference between the FIFO and LIFO inventory valuation methods?**

Answer: The FIFO method assumes that the first items purchased are the first ones sold, while the LIFO method assumes that the last items purchased are the first ones sold.

5. **How does the specific identification inventory valuation method work?**

Answer: The specific identification method allows for the use of specific costs for specific units of inventory, rather than using an averaged cost.

6. **Which inventory valuation method is most commonly used for tax purposes in the United States?**

Answer: The LIFO method is most commonly used for tax purposes in the United States.

7. **What is the impact of rising prices on the cost of goods sold under the FIFO and LIFO inventory valuation methods?**

Answer: Under the FIFO method, the cost of goods sold is lower during times of rising prices, while under the LIFO method, the cost of goods sold is higher.

8. **How is the weighted average cost inventory valuation method calculated?**

Answer: The weighted average cost is calculated by dividing the total cost of inventory by the total number of units.

9. **How does the ABC analysis method relate to inventory valuation?**

Answer: The ABC analysis method is a method of classifying inventory based on its relative importance, which can impact the valuation of inventory.

10. **What is the importance of proper inventory valuation for businesses?**

Answer: Proper inventory valuation is important for accurate financial reporting, which can impact a company's profitability and cash flow.

Lec 13 - Current Assets, Fourth Schedule - Companies Ordinance 1984

1. **What is the definition of current assets as per the Fourth Schedule of the Companies Ordinance 1984?**

Answer: Current assets are assets that are expected to be converted into cash within one year or the normal operating cycle of the business, whichever is longer.

2. **Why is it important for companies to present current assets separately on the balance sheet?**

Answer: Presenting current assets separately on the balance sheet allows for easier analysis and decision-making regarding a company's short-term liquidity and ability to meet its obligations.

3. **How are current assets classified on the balance sheet according to the Fourth Schedule of the Companies Ordinance 1984?**

Answer: Current assets are classified on the balance sheet in order of liquidity, with the most liquid assets presented first.

4. **What are examples of cash equivalents as per the Fourth Schedule of the Companies Ordinance 1984?**

Answer: Examples of cash equivalents include money market funds, treasury bills, and commercial paper.

5. **What is the purpose of disclosing significant estimates or judgments made in determining the value of current assets?**

Answer: Disclosing significant estimates or judgments helps to ensure the accuracy and reliability of a company's financial statements.

6. **How does the classification of assets as current or non-current impact a company's financial statements?**

Answer: The classification of assets as current or non-current impacts a company's liquidity ratios, working capital, and financial stability.

7. **What are the limitations of using the Fourth Schedule of the Companies Ordinance 1984 to classify current assets?**

Answer: The Fourth Schedule of the Companies Ordinance 1984 provides a general guideline for classifying current assets, but may not be suitable for all industries or business models.

8. **What is the impact of inventory valuation methods on the value of current assets?**

Answer: Different inventory valuation methods can result in different values for inventory, which can impact the total value of current assets.

9. **Why is it important for companies to accurately report their current assets on their financial statements?**

Answer: Accurate reporting of current assets is necessary for investors, creditors, and other stakeholders to make informed decisions about a company's financial health and future prospects.

10. **How can a company improve its management of current assets?**

Answer: A company can improve its management of current assets by implementing effective inventory management systems, improving cash flow management, and reducing the average collection period for accounts receivable.

Lec 14 - Presentation and Disclosure of Assets in Balance Sheet

1. **What is the purpose of presenting assets in order of liquidity?**

Answer: The purpose of presenting assets in order of liquidity is to provide users of financial statements with an idea of the company's ability to meet its short-term obligations.

2. **What should be disclosed in the balance sheet about significant estimates or judgments made in determining the value of assets?**

Answer: The balance sheet should disclose the nature of the estimates or judgments made and the impact they have on the value of the assets.

3. **How does the presentation and disclosure of assets in the balance sheet help stakeholders?**

Answer: Proper presentation and disclosure of assets in the balance sheet provides transparency and helps stakeholders make informed decisions.

4. **Why is it important to properly classify assets into current and non-current categories?**

Answer: Proper classification of assets into current and non-current categories helps users of financial statements understand the company's liquidity position and its ability to meet its short-term obligations.

5. **What should be disclosed in the balance sheet about any restrictions on the use of assets?**

Answer: The balance sheet should disclose the nature and extent of any restrictions on the use of assets, such as pledges or liens.

6. **How do non-current assets differ from current assets?**

Answer: Non-current assets are assets that are not expected to be converted into cash within one year or the normal operating cycle of the business, while current assets are expected to be converted into cash within one year or the normal operating cycle of the business.

7. **What is the significance of disclosing the method used to determine the value of assets in the balance sheet?**

Answer: Disclosing the method used to determine the value of assets in the balance sheet helps stakeholders understand the reliability and accuracy of the reported values.

8. **What is the purpose of disclosing any significant estimates or judgments made in determining the value of assets?**

Answer: The purpose of disclosing any significant estimates or judgments made in determining the value of assets is to provide users of financial statements with an understanding of the level of subjectivity involved in determining the value of assets.

9. **How does the proper presentation and disclosure of assets in the balance sheet benefit the company?**

Answer: Proper presentation and disclosure of assets in the balance sheet enhances the company's credibility and transparency, which can improve investor confidence and help attract financing.

10. **Why is it important to disclose any restrictions on the use of assets in the balance sheet?**

Answer: Disclosing any restrictions on the use of assets in the balance sheet is important because it can affect the company's ability to use those assets to generate revenue or obtain

financing.

Lec 15 - Long Term Investments, Presentation and Disclosure

- 1. What is the definition of long-term investments?**
Answer: Long-term investments are assets held by a company for a period exceeding one year.
- 2. How are marketable securities categorized?**
Answer: Marketable securities are categorized as long-term investments.
- 3. What are non-marketable securities?**
Answer: Non-marketable securities include loans to other companies or affiliates.
- 4. Where should long-term investments be presented in the balance sheet?**
Answer: Long-term investments should be presented in the non-current assets section of the balance sheet.
- 5. What should be disclosed regarding the value of long-term investments?**
Answer: The value of long-term investments should be disclosed in the balance sheet, along with any significant estimates or judgments made in determining their value.
- 6. What should be disclosed regarding the use of long-term investments?**
Answer: Any restrictions on the use of long-term investments should be disclosed in the notes to the financial statements.
- 7. Why is it important to include the purpose and risks associated with long-term investments in the notes to the financial statements?**
Answer: It is important to include the purpose and risks associated with long-term investments in the notes to the financial statements to provide stakeholders with a better understanding of the company's investment strategy and potential risks.
- 8. What is the difference between marketable and non-marketable securities?**
Answer: Marketable securities can be easily sold or traded, while non-marketable securities cannot.
- 9. What is the significance of disclosing significant estimates or judgments made in determining the value of long-term investments?**
Answer: Disclosing significant estimates or judgments made in determining the value of long-term investments is important to provide transparency to stakeholders.
- 10. Why is proper presentation and disclosure of long-term investments important for a company?**
Answer: Proper presentation and disclosure of long-term investments is important for a company to improve investor confidence and attract financing.

Lec 16 - Long Term Investments

1. What are some common examples of long-term investments?

Answer: Common examples of long-term investments include stocks, mutual funds, real estate, and bonds.

2. Why is diversification important in long-term investments?

Answer: Diversification is important in long-term investments to minimize risk and increase the likelihood of generating returns. By spreading investments across different asset classes, industries, and geographic regions, investors can protect themselves against market fluctuations and reduce exposure to any one specific risk.

3. How does compound interest benefit long-term investments?

Answer: Compound interest benefits long-term investments by allowing returns to be reinvested and earn even more returns over time. As the investment grows, the amount of compound interest generated also increases, creating a powerful wealth-building effect over the long term.

4. How does a buy-and-hold strategy work in long-term investments?

Answer: A buy-and-hold strategy involves purchasing an investment and holding it for an extended period, typically 10 years or more. This approach is designed to take advantage of long-term market trends and minimize the impact of short-term fluctuations. By holding investments for the long term, investors can potentially benefit from the power of compound interest and generate greater returns.

5. What are some common risks associated with long-term investments?

Answer: Common risks associated with long-term investments include market risk, inflation risk, interest rate risk, and liquidity risk. Market risk refers to the possibility of losses due to changes in the value of investments, while inflation risk refers to the impact of rising prices on the purchasing power of returns. Interest rate risk refers to changes in the cost of borrowing, which can affect the value of fixed-income investments. Liquidity risk refers to the possibility of not being able to sell an investment when needed.

6. What are some strategies for managing risk in long-term investments?

Answer: Strategies for managing risk in long-term investments include diversification, asset allocation, and regular portfolio rebalancing. By diversifying across different asset classes and sectors, investors can minimize exposure to any one specific risk. Asset allocation involves spreading investments across different types of assets, such as stocks, bonds, and real estate. Regular portfolio rebalancing involves adjusting investments to maintain a desired asset allocation and minimize risk.

7. How can investors determine their long-term investment goals?

Answer: Investors can determine their long-term investment goals by considering factors such as their age, income, financial situation, and risk tolerance. Some common long-term investment goals

include saving for retirement, funding a child's education, and building wealth over time.

8. What are some benefits of investing for the long term?

Answer: Benefits of investing for the long term include the potential for higher returns, the power of compound interest, and greater financial stability over time. By taking a long-term approach, investors can avoid the temptation to make short-term trades based on market fluctuations, which can lead to losses and missed opportunities.

9. How can investors stay informed about their long-term investments?

Answer: Investors can stay informed about their long-term investments by regularly reviewing their portfolio and monitoring market trends. They can also consult with a financial advisor, who can provide guidance on investment strategy and risk management.

10. What are some potential drawbacks of long-term investments?

Answer: Potential drawbacks of long-term investments include the possibility of market losses and the lack of liquidity in certain types of investments. Additionally, long-term investments may not be suitable for investors who need access to their funds in the near term, as they often require a significant commitment of time and capital.

Lec 17 - Risks & Disclosure under IAS 32 and 39 & Long Term Loans and

1. **What is the difference between credit risk and liquidity risk?**

Answer: Credit risk refers to the risk that a borrower will default on a loan, while liquidity risk refers to the risk that an investment cannot be sold quickly enough to meet cash needs.

2. **Why is it important for companies to disclose information about risks associated with long-term loans?**

Answer: Disclosures provide transparency and accountability to investors, allowing them to make informed decisions about investing in the company.

3. **What is fair value and why is it important to disclose it under IAS 32 and 39?**

Answer: Fair value is the amount of cash that can be obtained by selling a financial instrument in the market. It is important to disclose fair value to provide investors with an accurate understanding of the value of the company's assets.

4. **How can companies reduce credit risk associated with long-term loans?**

Answer: Companies can reduce credit risk by conducting thorough credit analysis, requiring collateral, or obtaining a guarantee from a third party.

5. **What are the consequences of not disclosing information about risks associated with long-term loans?**

Answer: Failure to disclose information about risks can lead to legal liability and loss of investor trust.

6. **What are the three types of risks associated with long-term loans?**

Answer: The three types of risks are credit risk, interest rate risk, and liquidity risk.

7. **What is interest rate risk and how can it impact long-term loans?**

Answer: Interest rate risk refers to the risk that interest rates will increase, leading to higher borrowing costs and potentially impacting the company's ability to repay the loan.

8. **How can companies manage liquidity risk associated with long-term loans?**

Answer: Companies can manage liquidity risk by maintaining adequate cash reserves or diversifying their investments.

9. **Why is it important for companies to provide clear and concise information in their disclosures?**

Answer: Clear and concise information allows investors to make informed decisions about investing in the company, reducing the risk of misunderstandings or legal liability.

10. **What is market risk and how can it impact long-term loans?**

Answer: Market risk refers to the risk that the market value of an investment will decrease. This can impact the company's ability to sell the investment or use it as collateral for the loan.

Lec 18 - Long Term Deposits and Prepayments & Current Assets

- 1. What is the difference between a long-term deposit and a current asset?**
Answer: Long-term deposits are assets that are held for more than one year, while current assets are expected to be used or sold within one year.
- 2. What is an example of a prepayment?**
Answer: An example of a prepayment is rent paid in advance.
- 3. Why are current assets important for a company?**
Answer: Current assets are important for a company because they help to support ongoing operations.
- 4. What is the difference between a current asset and a non-current asset?**
Answer: Current assets are expected to be used or sold within one year, while non-current assets are held for more than one year.
- 5. What is an example of a long-term deposit?**
Answer: An example of a long-term deposit is a payment made for a loan.
- 6. What is an example of a non-current asset?**
Answer: An example of a non-current asset is land held for investment purposes.
- 7. What is the purpose of prepayments?**
Answer: Prepayments are made to ensure that an expense will be covered in advance of its actual occurrence.
- 8. How are long-term deposits reported on the balance sheet?**
Answer: Long-term deposits are reported as a long-term asset on the balance sheet.
- 9. What is the purpose of current assets?**
Answer: Current assets are used to support ongoing operations of a company.
- 10. What is an example of a current asset?**
Answer: An example of a current asset is inventory held for sale.

Lec 19 - IASB's Framework

1. **What is the purpose of the IASB's Framework?**

Answer: The IASB's Framework provides guidance on the preparation and presentation of financial statements.

2. **What are the key concepts and principles in the IASB's Framework?**

Answer: The key concepts and principles in the IASB's Framework are reliability, relevance, comparability, and understandability.

3. **What is the importance of comparability in the IASB's Framework?**

Answer: Comparability is important in the IASB's Framework because it allows users to compare financial statements across different periods and entities.

4. **What is the relationship between the IASB's Framework and accounting standards?**

Answer: The Framework provides a basis for the development of accounting standards.

5. **What is the purpose of the recognition and measurement criteria in the IASB's Framework?**

Answer: The recognition and measurement criteria in the IASB's Framework ensure that financial statement elements are recognized when they meet the definition of an asset, liability, income, or expense.

6. **What is the purpose of the disclosure requirements in the IASB's Framework?**

Answer: The disclosure requirements in the IASB's Framework provide additional information that is relevant to the users of financial statements.

7. **What is the importance of reliability in the IASB's Framework?**

Answer: Reliability is important in the IASB's Framework because it ensures that financial statements are free from material errors and omissions.

8. **How does the IASB's Framework promote transparency and accountability?**

Answer: The IASB's Framework promotes transparency and accountability by requiring companies to provide relevant and reliable information to their stakeholders.

9. **What is the role of the International Accounting Standards Board (IASB) in the development of the Framework?**

Answer: The IASB is responsible for developing and updating the Framework.

10. **Why is it important for financial statements to be understandable to users?**

Answer: Financial statements must be understandable to users so that they can make informed decisions based on the information provided.

Lec 20 - IASB's Framework (Contd.)

1. **What is the purpose of the IASB's Framework?**

Answer: The purpose of the IASB's Framework is to provide guidance on how to prepare and present financial statements that provide relevant, reliable, and comparable information to the stakeholders.

2. **What is the key concept of the IASB's Framework?**

Answer: The key concept of the IASB's Framework is that financial statements should provide relevant, reliable, and comparable information about the company's financial position, performance, and cash flows.

3. **What is the importance of consistency in financial reporting according to the IASB's Framework?**

Answer: Consistency is important because it ensures that the financial statements are comparable over time and across different companies, which helps stakeholders make informed decisions.

4. **How does the IASB's Framework define an asset?**

Answer: An asset is defined as a resource controlled by the entity as a result of past events, which is expected to generate future economic benefits.

5. **What is the role of the IASB in the development and update of the Framework?**

Answer: The IASB is responsible for developing and updating the Framework to reflect changes in business practices and financial reporting requirements.

6. **What is the difference between relevance and reliability in financial reporting according to the IASB's Framework?**

Answer: Relevance refers to information that is important for the stakeholders in making decisions, while reliability refers to information that is accurate and can be trusted.

7. **How does the IASB's Framework define a liability?**

Answer: A liability is defined as a present obligation of the entity as a result of past events, which is expected to result in an outflow of economic resources.

8. **Why is comparability important in financial reporting according to the IASB's Framework?**

Answer: Comparability is important because it allows stakeholders to compare the financial performance and position of different companies, which helps them make informed decisions.

9. **What is the difference between an expense and a loss in financial reporting according to the IASB's Framework?**

Answer: An expense is a decrease in economic resources as a result of the company's ongoing operations, while a loss is a decrease in economic resources that is not a result of the company's ongoing operations.

10. **How does the IASB's Framework define equity?**

Answer: Equity is defined as the residual interest in the assets of the entity after deducting liabilities.

Lec 21 - Presentation of Liabilities in Balance Sheet

1. **What is the purpose of presenting liabilities in the balance sheet?**

Answer: The purpose of presenting liabilities in the balance sheet is to provide information about a company's solvency and liquidity. It allows stakeholders to understand the company's financial obligations and the timing of their repayment.

2. **What is the difference between a current liability and a long-term liability?**

Answer: A current liability is a financial obligation that is due within one year, while a long-term liability is a financial obligation that is due after one year. Current liabilities are typically paid using current assets, while long-term liabilities are paid using long-term assets.

3. **How are liabilities presented in the balance sheet?**

Answer: Liabilities are typically presented in the balance sheet in descending order of maturity dates, with the earliest maturing liabilities presented first.

4. **What is a contingent liability?**

Answer: A contingent liability is a potential obligation that may arise in the future, depending on the outcome of a specific event. It is disclosed in the financial statements if it is reasonably possible that the obligation will arise.

5. **What is the debt-to-equity ratio?**

Answer: The debt-to-equity ratio is a financial metric that measures a company's leverage by comparing its total debt to its total equity. It is calculated by dividing total debt by total equity.

6. **How does the presentation of liabilities in the balance sheet affect a company's credit rating?**

Answer: The presentation of liabilities in the balance sheet can affect a company's credit rating, as it provides important information about the company's ability to meet its financial obligations. Companies with a high proportion of long-term liabilities may be viewed as less risky by credit rating agencies.

7. **What is the current ratio?**

Answer: The current ratio is a financial metric that measures a company's ability to meet its short-term financial obligations. It is calculated by dividing current assets by current liabilities.

8. **Why is it important for companies to disclose their contingent liabilities?**

Answer: Companies are required to disclose their contingent liabilities in the financial statements to provide stakeholders with information about potential financial obligations that may arise in the future. This allows stakeholders to make informed decisions about the company's financial position and future prospects.

9. **How do companies account for accrued expenses in the balance sheet?**

Answer: Accrued expenses are recorded as current liabilities in the balance sheet. They represent expenses that have been incurred but not yet paid, and are typically paid using current assets.

10. **What is the purpose of presenting liabilities separately in the balance sheet?**

Answer: Presenting liabilities separately in the balance sheet allows stakeholders to understand the company's financial obligations in more detail. It allows them to see the timing of the company's financial obligations and the different types of liabilities that the company has.

Lec 22 - Liabilities side area of Balance Sheet (Share Capital and Reserves)

1. **What is share capital, and how is it different from reserves?**

Answer: Share capital refers to the amount of money that a company receives by issuing its shares to the public. Reserves, on the other hand, are the profits that the company has earned but not distributed as dividends. The key difference between the two is that share capital represents the amount of money that the company has raised through the sale of its shares, whereas reserves represent the company's retained earnings.

2. **How are share premiums treated in the balance sheet?**

Answer: Share premiums are treated as a part of share capital in the balance sheet. Share premiums are the amount of money that a company receives from investors in excess of the par value of its shares. This amount is considered to be a part of the share capital and is reflected accordingly in the balance sheet.

3. **What is the purpose of the share capital in a company?**

Answer: The share capital represents the funds that a company has raised by issuing shares to the public. This capital can be used by the company to finance its operations, investments, and growth. The share capital is also an important indicator of a company's financial strength and is closely monitored by investors and analysts.

4. **What are reserves, and how are they classified in the balance sheet?**

Answer: Reserves are the accumulated profits that a company has earned but not distributed as dividends. These profits are kept in reserve to be used for future investments or to cover any unexpected losses. Reserves are classified in the balance sheet as either distributable reserves or non-distributable reserves, depending on whether they can be distributed as dividends to shareholders or not.

5. **How are dividends treated in the balance sheet?**

Answer: Dividends are not recorded as liabilities in the balance sheet since they represent the distribution of profits to the shareholders. Dividends are recorded as a reduction in the retained earnings or distributable reserves of the company.

6. **What is the difference between authorized capital and issued capital?**

Answer: Authorized capital is the maximum amount of share capital that a company can issue as per its Memorandum of Association. Issued capital, on the other hand, is the actual amount of share capital that has been issued by the company and is available for trading in the stock market.

7. **What is the impact of issuing bonus shares on the balance sheet?**

Answer: Issuing bonus shares does not impact the total share capital of the company but increases the number of shares outstanding. This results in a reduction in the earnings per share but does not impact the overall financial position of the company.

8. **How are share buybacks reflected in the balance sheet?**

Answer: Share buybacks are reflected as a reduction in the share capital of the company and increase in the reserves. This is because the company is effectively buying back its own shares, reducing the number of shares outstanding, and increasing the ownership percentage of the remaining shareholders.

9. **What is the significance of reserves for a company?**

Answer: Reserves represent the retained earnings of a company, which can be used for future

investments or to cover any unexpected losses. The amount of reserves that a company has accumulated over time is an important indicator of its financial strength and ability to withstand any adverse market conditions.

10. **What is the impact of a share split on the balance sheet?**

Answer: A share split results in an increase in the number of shares outstanding but does not impact the total share capital of the company. The par value of the shares is also reduced proportionately, resulting in a decrease in the share price.

