

# 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.

## Lec 23 - Share Capital

1. **What is share capital?**

Answer: Share capital refers to the funds raised by a company through the sale of shares to investors. It represents the ownership interest of shareholders in the company and is an important source of long-term financing.

2. **What is authorized share capital?**

Answer: Authorized share capital is the maximum amount of share capital that a company is authorized to issue. This amount is specified in the company's articles of association.

3. **What is issued share capital?**

Answer: Issued share capital is the amount of share capital that a company has already issued to its shareholders.

4. **What is paid-up share capital?**

Answer: Paid-up share capital is the amount of share capital that shareholders have actually paid for. It represents the amount of capital that the company has received from its shareholders.

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

Answer: Authorized share capital is the maximum amount of share capital that a company is authorized to issue, while issued share capital is the amount of share capital that the company has actually issued to its shareholders.

6. **What is the par value of a share?**

Answer: The par value of a share is the value that is stated on the share certificate. It represents the minimum price at which the share can be issued or sold.

7. **What is a stock split?**

Answer: A stock split is the process of increasing the number of a company's shares outstanding by dividing each existing share into multiple shares. This is usually done to make the shares more affordable and increase their liquidity.

8. **What is a rights issue?**

Answer: A rights issue is the process of allowing existing shareholders to purchase additional shares in the company at a discounted price. This is usually done to raise additional capital for the company.

9. **What is the difference between common shares and preferred shares?**

Answer: Common shares represent the ownership interest of shareholders in a company and typically come with voting rights. Preferred shares, on the other hand, usually do not come with voting rights but have a higher claim on the company's assets and earnings.

10. **What is a share buyback?**

Answer: A share buyback is the process of a company repurchasing its own shares from the market. This is usually done to return capital to shareholders, boost earnings per share, or prevent hostile takeovers.

## Lec 24 - Repurchase of Shares – Section 95 A

- 1. What is a share buyback and why do companies repurchase their own shares?**  
Answer: A share buyback is the process of a company buying back its own shares from the market. Companies may repurchase their own shares for a variety of reasons, such as returning capital to shareholders, improving the return on equity, or preventing hostile takeovers.
- 2. What are the restrictions on the amount of shares that can be repurchased under Section 95A?**  
Answer: Under Section 95A, a company can repurchase up to 20% of its total paid-up share capital and free reserves. Additionally, the company must have the necessary funds available for the buyback and cannot exceed its borrowing limits.
- 3. Who can approve a share buyback under Section 95A?**  
Answer: A share buyback under Section 95A must be approved by the board of directors and shareholders of the company.
- 4. What are the penalties for non-compliance with the provisions of Section 95A?**  
Answer: Non-compliance with the provisions of Section 95A can result in penalties for the company and its officers, including fines and imprisonment.
- 5. Can a company purchase shares through private placement under Section 95A?**  
Answer: No, a company cannot purchase shares through private placement under Section 95A.
- 6. What is the process for a company to repurchase its own shares under Section 95A?**  
Answer: The company must pass a special resolution approving the buyback, file a declaration of solvency with the Registrar of Companies, and make the necessary disclosures to shareholders and the stock exchange.
- 7. What are the tax implications of a share buyback for the company and its shareholders?**  
Answer: The tax implications of a share buyback can vary depending on the specific circumstances. However, in general, the buyback may be subject to capital gains tax for the company and shareholders.
- 8. Can a company purchase shares from a specific shareholder under Section 95A?**  
Answer: No, a company cannot purchase shares from a specific shareholder under Section 95A. The buyback must be made from the open market or **through a tender offer to all shareholders.**
- 9. How long must a company wait between two share buybacks under Section 95A?**  
Answer: A company must wait at least one year between two share buybacks under Section 95A.
- 10. What is the difference between a share buyback and a dividend distribution?**  
Answer: A share buyback involves a company purchasing its own shares from the market, while a dividend distribution involves a company paying out a portion of its profits to shareholders. A share buyback can provide a tax advantage for shareholders, while a dividend distribution is taxed as income.



## Lec 25 - Prospectus & Non-Current Liabilities – 4th Schedule

### 1. What is the purpose of a prospectus, and why is it important for potential investors?

Answer: The purpose of a prospectus is to provide information to potential investors about the securities a company is offering. It is important for potential investors because it helps them make an informed decision about whether or not to invest in a company. The prospectus provides details about the company's financial health, its business model, and its potential risks and rewards.

### 2. What are non-current liabilities, and why are they important for a company's financial health?

Answer: Non-current liabilities are obligations that a company is expected to fulfill over a period of more than one year. They are important for a company's financial health because they represent long-term financial commitments that must be met in the future. Non-current liabilities include things like long-term loans, bonds, and leases, and they can have a significant impact on a company's cash flow and ability to invest in future growth.

### 3. What information is typically included in the 4th schedule of a prospectus?

Answer: The 4th schedule of a prospectus typically includes details about a company's non-current liabilities. This might include information about long-term loans, leases, or other obligations that extend beyond the current fiscal year. The schedule may also include details about the terms of these liabilities, such as interest rates or repayment schedules.

### 4. Why is it important for investors to understand a company's non-current liabilities?

Answer: Investors need to understand a company's non-current liabilities in order to assess its long-term financial health. Non-current liabilities represent financial obligations that extend beyond the current fiscal year, and they can have a significant impact on a company's cash flow and ability to invest in future growth. Understanding a company's non-current liabilities can help investors make informed decisions about whether or not to invest in the company.

### 5. What are some examples of non-current liabilities that might be included in the 4th schedule of a prospectus?

Answer: Examples of non-current liabilities that might be included in the 4th schedule of a prospectus include long-term loans, bonds, leases, and other financial obligations that extend beyond the current fiscal year. These liabilities may be secured or unsecured, and they may have varying interest rates or repayment schedules.

### 6. How do non-current liabilities differ from current liabilities, and why is this distinction important?

Answer: Non-current liabilities are obligations that a company is expected to fulfill over a period of more than one year, while current liabilities are obligations that are due within one year. This distinction is important because it helps investors understand a company's short-term and long-term financial health. Current liabilities can have a more immediate impact on a company's cash flow, while non-current liabilities represent longer-term commitments that may impact a company's ability to invest in future growth.

## **7. How can a company manage its non-current liabilities?**

Answer: A company can manage its non-current liabilities by carefully monitoring its debt levels and repayment schedules. This might involve negotiating favorable interest rates or repayment terms with lenders, or refinancing existing debt to reduce interest costs. Companies can also explore alternative financing options, such as issuing equity or selling assets, to raise funds and pay down their long-term liabilities.

## **8. What risks are associated with non-current liabilities?**

Answer: Non-current liabilities can pose a number of risks for companies, particularly if they are unable to meet their repayment obligations. If a company defaults on a long-term loan or lease, it may face legal action or damage to its credit rating. Additionally, high levels of non-current liabilities can limit a company's ability to invest in future growth or respond to changes in the market.

## **9. What factors might impact a company's non-current liabilities?**

Answer: A company's non-current liabilities may be impacted by a variety of

## Lec 26 - Leasing – IAS 17

1. **What is a lease under IAS 17?**

Answer: A lease is an agreement where one party (lessor) grants the use of an asset to another party (lessee) for a specified period in exchange for lease payments.

2. **What are the two types of leases under IAS 17?**

Answer: The two types of leases under IAS 17 are finance leases and operating leases.

3. **How are lease payments accounted for under a finance lease?**

Answer: Under a finance lease, lease payments are allocated between interest expense and reduction of the lease liability.

4. **What is the lease term under IAS 17?**

Answer: The lease term is the non-cancellable period for which the lessee has agreed to lease the asset, together with any further periods for which the lessee has the option to continue to lease the asset.

5. **What is the criterion for a lease to be classified as a finance lease?**

Answer: A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee.

6. **How are lease incentives treated under IAS 17?**

Answer: Lease incentives are treated as a reduction in lease payments and recognized as a liability on the balance sheet.

7. **What is the treatment for a sale and leaseback transaction under IAS 17?**

Answer: In a sale and leaseback transaction, the leased asset is recognized as a finance lease for the lessee.

8. **What are the disclosure requirements under IAS 17 for finance leases?**

Answer: The future minimum lease payments under finance leases must be disclosed in the financial statements.

9. **Can an operating lease be accounted for as a finance lease?**

Answer: No, an operating lease cannot be accounted for as a finance lease.

10. **How are contingent rent payments accounted for under IAS 17?**

Answer: Contingent rent payments are recognized as an expense in the period incurred.

## Lec 27 - Leasing – IAS 17 (Contd.)

- 1. What is the difference between a finance lease and an operating lease under IAS 17?**  
Answer: The key difference between a finance lease and an operating lease is whether the risks and rewards of ownership are transferred to the lessee. In a finance lease, the lessee bears most of the risks and rewards of ownership, while in an operating lease, the lessor retains most of these risks and rewards.
- 2. How are lease incentives treated under IAS 17?**  
Answer: Lease incentives are recognized as a reduction in lease payments and amortized over the lease term.
- 3. What is the journal entry to record a lease payment under a finance lease?**  
Answer: Debit lease liability and interest expense, credit cash.
- 4. How is the lease term determined under IAS 17?**  
Answer: The lease term is the non-cancellable period for which the lessee has the right to use the leased asset, plus any periods covered by a lessee's option to extend the lease if it is reasonably certain to be exercised.
- 5. What is the accounting treatment for subleases under IAS 17?**  
Answer: Subleases are accounted for in the same way as the original lease, with the sublessor acting as the lessor and the sublessee acting as the lessee.
- 6. Can an entity recognize a gain on a sale and leaseback transaction under IAS 17?**  
Answer: Yes, an entity can recognize a gain on a sale and leaseback transaction only if the sale is at fair value and the lease is an operating lease.
- 7. What are the disclosure requirements for finance leases under IAS 17?**  
Answer: The disclosure requirements for finance leases include the future minimum lease payments, the contingent rent payments, and a general description of the lease terms.
- 8. How are lease payments allocated under an operating lease?**  
Answer: Lease payments under an operating lease are recognized as an expense on the income statement over the lease term.
- 9. Can a finance lease be accounted for as an operating lease under IAS 17?**  
Answer: No, a finance lease cannot be accounted for as an operating lease under IAS 17.
- 10. How are impairment losses on leased assets recognized under IAS 17?**  
Answer: Impairment losses on leased assets are recognized as a decrease in the carrying amount of the leased asset and charged to the income statement.

## Lec 28 - Leasing – IAS 17 (Contd.)

1. What is the difference between a finance lease and an operating lease under IAS 17?  
Answer: The key difference between a finance lease and an operating lease is whether the risks and rewards of ownership are transferred to the lessee. In a finance lease, the lessee bears most of the risks and rewards of ownership, while in an operating lease, the lessor retains most of these risks and rewards.
2. How are lease incentives treated under IAS 17?  
Answer: Lease incentives are recognized as a reduction in lease payments and amortized over the lease term.
3. What is the journal entry to record a lease payment under a finance lease?  
Answer: Debit lease liability and interest expense, credit cash.
4. How is the lease term determined under IAS 17?  
Answer: The lease term is the non-cancellable period for which the lessee has the right to use the leased asset, plus any periods covered by a lessee's option to extend the lease if it is reasonably certain to be exercised.
5. What is the accounting treatment for subleases under IAS 17?  
Answer: Subleases are accounted for in the same way as the original lease, with the sublessor acting as the lessor and the sublessee acting as the lessee.
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Answer: Yes, an entity can recognize a gain on a sale and leaseback transaction only if the sale is at fair value and the lease is an operating lease.
7. What are the disclosure requirements for finance leases under IAS 17?  
Answer: The disclosure requirements for finance leases include the future minimum lease payments, the contingent rent payments, and a general description of the lease terms.
8. How are lease payments allocated under an operating lease?  
Answer: Lease payments under an operating lease are recognized as an expense on the income statement over the lease term.
9. Can a finance lease be accounted for as an operating lease under IAS 17?  
Answer: No, a finance lease cannot be accounted for as an operating lease under IAS 17.
10. How are impairment losses on leased assets recognized under IAS 17?  
Answer: Impairment losses on leased assets are recognized as a decrease in the carrying amount of the leased asset and charged to the income statement.

## Lec 29 - Leasing – IAS 17 (Contd.)

1. What is the difference between a finance lease and an operating lease under IAS 17?  
Answer: The key difference between a finance lease and an operating lease is whether the risks and rewards of ownership are transferred to the lessee. In a finance lease, the lessee bears most of the risks and rewards of ownership, while in an operating lease, the lessor retains most of these risks and rewards.
2. How are lease incentives treated under IAS 17?  
Answer: Lease incentives are recognized as a reduction in lease payments and amortized over the lease term.
3. What is the journal entry to record a lease payment under a finance lease?  
Answer: Debit lease liability and interest expense, credit cash.
4. How is the lease term determined under IAS 17?  
Answer: The lease term is the non-cancellable period for which the lessee has the right to use the leased asset, plus any periods covered by a lessee's option to extend the lease if it is reasonably certain to be exercised.
5. What is the accounting treatment for subleases under IAS 17?  
Answer: Subleases are accounted for in the same way as the original lease, with the sublessor acting as the lessor and the sublessee acting as the lessee.
6. Can an entity recognize a gain on a sale and leaseback transaction under IAS 17?  
Answer: Yes, an entity can recognize a gain on a sale and leaseback transaction only if the sale is at fair value and the lease is an operating lease.
7. What are the disclosure requirements for finance leases under IAS 17?  
Answer: The disclosure requirements for finance leases include the future minimum lease payments, the contingent rent payments, and a general description of the lease terms.
8. How are lease payments allocated under an operating lease?  
Answer: Lease payments under an operating lease are recognized as an expense on the income statement over the lease term.
9. Can a finance lease be accounted for as an operating lease under IAS 17?  
Answer: No, a finance lease cannot be accounted for as an operating lease under IAS 17.
10. How are impairment losses on leased assets recognized under IAS 17?  
Answer: Impairment losses on leased assets are recognized as a decrease in the carrying amount of the leased asset and charged to the income statement.

## **Lec 30 - Leasing – IAS 17 (Contd.) & Provisions, Contingent assets and Contingent Liabilities IAS 37**

1. **What is the difference between a finance lease and an operating lease?**

Answer: A finance lease transfers the risks and rewards of ownership to the lessee, while an operating lease does not.

2. **What are the criteria for classifying a lease as a finance lease?**

Answer: A lease is classified as a finance lease if it transfers the risks and rewards of ownership to the lessee, and if it meets one or more of the following criteria: (1) the lease term is for the majority of the asset's useful life, (2) the present value of the lease payments is substantially all of the fair value of the asset, or (3) the asset is of a specialized nature that only the lessee can use.

3. **How are lease payments allocated between the lease liability and the interest expense under a finance lease?**

Answer: Lease payments are allocated between the lease liability and the interest expense based on the effective interest rate of the lease.

4. **What is the difference between a provision and a contingent liability?**

Answer: A provision is a present obligation arising from a past event, while a contingent liability is a possible obligation that depends on the occurrence of a future event.

5. **How are provisions measured under IAS 37?**

Answer: Provisions are measured at the best estimate of the expenditure required to settle the obligation, taking into account any risks and uncertainties.

6. **What is the difference between a contingent asset and a provision?**

Answer: A contingent asset is a possible asset that depends on the occurrence of a future event, while a provision is a present obligation arising from a past event.

7. **How are contingent liabilities disclosed in the financial statements?**

Answer: Contingent liabilities are disclosed in the notes to the financial statements, including a description of the nature of the contingency, an estimate of the financial effect, and the probability of the contingency occurring.

8. **What is the difference between a firm commitment and a contingent liability?**

Answer: A firm commitment is a binding agreement to purchase or sell goods or services, while a contingent liability is a possible obligation that depends on the occurrence of a future event.

9. **How are contingent assets recognized in the financial statements?**

Answer: Contingent assets are recognized in the financial statements only when the inflow of economic benefits is virtually certain.

10. **What is the difference between a warranty provision and a restructuring provision?**

Answer: A warranty provision is a provision for future warranty claims, while a restructuring provision is a provision for the costs of restructuring the business.

## Lec 31 - Provisions, Contingent Assets & Contingent Liabilities (Contd)

- 1. What is a provision? Provide examples of situations where provisions might be created.**  
Answer: A provision is a liability of uncertain timing or amount that a company expects to incur in the future. Examples of situations where provisions might be created include warranty claims, legal settlements, environmental cleanup costs, restructuring costs, and employee benefits.
- 2. What is the difference between a provision and a contingent liability?**  
Answer: A provision is a liability of uncertain timing or amount that a company expects to incur in the future, while a contingent liability is a possible obligation that arises from past events but whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- 3. How are provisions measured and recognized in financial statements?**  
Answer: Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and recognized as a liability in the statement of financial position, with a corresponding charge to the statement of comprehensive income.
- 4. What is the difference between a restructuring provision and an onerous contract provision?**  
Answer: A restructuring provision is created when a company decides to restructure its operations, such as closing down a plant or laying off employees. An onerous contract provision is created when a company has a contract that is no longer profitable and is expected to result in a future net cash outflow.
- 5. What is a contingent asset? Provide examples of situations where a contingent asset might arise.**  
Answer: A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Examples of situations where a contingent asset might arise include legal claims against third parties, insurance claims, and tax refunds.
- 6. What is the accounting treatment for a contingent asset?**  
Answer: A contingent asset is not recognized in the financial statements because its existence is uncertain. However, if it is virtually certain that the asset will be received, then it may be disclosed in the notes to the financial statements.
- 7. How are contingent liabilities disclosed in the financial statements?**  
Answer: Contingent liabilities are disclosed in the notes to the financial statements unless the possibility of an outflow of resources is remote.
- 8. What is the difference between a legal claim and a constructive obligation?**  
Answer: A legal claim arises when a third party makes a claim against the company that is legally enforceable. A constructive obligation arises from past events that give rise to a moral obligation to pay or perform but where there is no legal obligation.
- 9. How is the likelihood of a contingent liability assessed?**  
Answer: The likelihood of a contingent liability is assessed by considering the available evidence and the possibility of future events.



10. **What is the difference between a provision and a reserve?**

Answer: A provision is a liability of uncertain timing or amount that a company expects to incur in the future, while a reserve is a portion of retained earnings that has been set aside for a specific purpose, such as future expansion or dividend payments. Reserves are not recognized as liabilities in the statement of financial position.

## Lec 32 - Provisions, Contingent Assets & Contingent Liabilities (Contd) and Income Statement

1. **What is a provision in accounting, and what is its purpose?**

Answer: A provision is an amount set aside to cover anticipated future expenses or losses. Its purpose is to ensure that a company has enough funds to cover expected future costs.

2. **What is a contingent liability, and how is it recognized on the balance sheet?**

Answer: A contingent liability is a potential obligation that depends on the occurrence or non-occurrence of one or more uncertain future events. It is recognized on the balance sheet when it is probable that the obligation will result in an outflow of resources, and the amount can be reliably estimated.

3. **How are provisions and contingent liabilities different from each other?**

Answer: Provisions are amounts set aside for anticipated future expenses or losses, while contingent liabilities are potential obligations that depend on the occurrence or non-occurrence of one or more uncertain future events.

4. **What is a contingent asset, and how is it recognized on the balance sheet?**

Answer: A contingent asset is a potential asset that depends on the occurrence or non-occurrence of one or more uncertain future events. It is not recognized on the balance sheet unless it is virtually certain that the asset will be realized.

5. **What is the income statement, and what information does it provide?**

Answer: The income statement is a financial statement that shows a company's revenues, expenses, gains, and losses over a specific period, such as a quarter or a year. It provides information about a company's profitability and potential for growth.

6. **How are gains and losses recognized on the income statement?**

Answer: Gains are recognized as revenue, and losses are recognized as expenses on the income statement.

7. **How does recognizing a provision affect a company's financial statements?**

Answer: Recognizing a provision reduces a company's net income and shareholders' equity while increasing its liabilities.

8. **What is the difference between a contingent liability and a guarantee?**

Answer: A contingent liability is a potential obligation that depends on the occurrence or non-occurrence of one or more uncertain future events, while a guarantee is a legal promise to make good on a debt or obligation if the debtor or obligor fails to do so.

9. **What are some examples of contingent assets?**

Answer: Examples of contingent assets include lawsuits that the company is likely to win, insurance claims that the company has filed, and potential tax refunds.

10. **Why is it important for companies to recognize both contingent assets and liabilities?**

Answer: Recognizing contingent assets and liabilities provides investors and analysts with additional information about a company's potential gains and losses, which can help them make more informed investment decisions.

## Lec 33 - Income statement IAS-01

- 1. What is a provision? Provide examples of situations where provisions might be created.**  
Answer: A provision is a liability of uncertain timing or amount that a company expects to incur in the future. Examples of situations where provisions might be created include warranty claims, legal settlements, environmental cleanup costs, restructuring costs, and employee benefits.
- 2. What is the difference between a provision and a contingent liability?**  
Answer: A provision is a liability of uncertain timing or amount that a company expects to incur in the future, while a contingent liability is a possible obligation that arises from past events but whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- 3. How are provisions measured and recognized in financial statements?**  
Answer: Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and recognized as a liability in the statement of financial position, with a corresponding charge to the statement of comprehensive income.
- 4. What is the difference between a restructuring provision and an onerous contract provision?**  
Answer: A restructuring provision is created when a company decides to restructure its operations, such as closing down a plant or laying off employees. An onerous contract provision is created when a company has a contract that is no longer profitable and is expected to result in a future net cash outflow.
- 5. What is a contingent asset? Provide examples of situations where a contingent asset might arise.**  
Answer: A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Examples of situations where a contingent asset might arise include legal claims against third parties, insurance claims, and tax refunds.
- 6. What is the accounting treatment for a contingent asset?**  
Answer: A contingent asset is not recognized in the financial statements because its existence is uncertain. However, if it is virtually certain that the asset will be received, then it may be disclosed in the notes to the financial statements.
- 7. How are contingent liabilities disclosed in the financial statements?**  
Answer: Contingent liabilities are disclosed in the notes to the financial statements unless the possibility of an outflow of resources is remote.
- 8. What is the difference between a legal claim and a constructive obligation?**  
Answer: A legal claim arises when a third party makes a claim against the company that is legally enforceable. A constructive obligation arises from past events that give rise to a moral obligation to pay or perform but where there is no legal obligation.
- 9. How is the likelihood of a contingent liability assessed?**  
Answer: The likelihood of a contingent liability is assessed by considering the available evidence and the possibility of future events.

10. **What is the difference between a provision and a reserve?**

Answer: A provision is a liability of uncertain timing or amount that a company expects to incur in the future, while a reserve is a portion of retained earnings that has been set aside for a specific purpose, such as future expansion or dividend payments. Reserves are not recognized as liabilities in the statement of financial position.

## Lec 34 - Revenues IAS-18

1. **What is the definition of revenue under IAS 18?**

Answer: According to IAS 18, revenue is defined as the gross inflow of economic benefits arising from the ordinary activities of an entity when those inflows result in an increase in equity, other than increases relating to contributions from equity participants.

2. **How should an entity recognize revenue under IAS 18?**

Answer: An entity should recognize revenue when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

3. **What are the two types of revenue under IAS 18?**

Answer: The two types of revenue under IAS 18 are sale of goods and rendering of services.

4. **How should an entity measure revenue from the sale of goods under IAS 18?**

Answer: Revenue from the sale of goods should be measured at the fair value of the consideration received or receivable, net of any trade discounts or volume rebates.

5. **How should an entity measure revenue from the rendering of services under IAS 18?**

Answer: Revenue from the rendering of services should be measured at the fair value of the consideration received or receivable, taking into account any stage of completion of the transaction at the end of the reporting period.

6. **How should an entity account for the return of goods under IAS 18?**

Answer: An entity should account for the return of goods by reducing revenue and recognizing an expense for the estimated cost of the return.

7. **What is the criteria for recognizing revenue on a long-term construction contract under IAS 18?**

Answer: Revenue on a long-term construction contract should be recognized based on the stage of completion of the contract, measured by the proportion of costs incurred to date compared to the total estimated costs of the contract.

8. **What is the difference between a principal and an agent in a revenue recognition arrangement under IAS 18?**

Answer: A principal is the entity that is primarily responsible for providing the goods or services, while an agent facilitates the transaction between the principal and the customer.

9. **How should an entity recognize revenue from the sale of goods with a right of return under IAS 18?**

Answer: An entity should recognize revenue from the sale of goods with a right of return by estimating the amount of goods that are likely to be returned and reducing revenue accordingly.

10. **How should an entity recognize revenue from the sale of services with a warranty under IAS 18?**

Answer: An entity should recognize revenue from the sale of services with a warranty by allocating a portion of the transaction price to the warranty and recognizing the revenue over the period of the warranty.

## **Lec 35 - Presentation and Disclosure of Expenses in Income statement**

### **1. What is the purpose of presenting expenses in the income statement?**

Answer: The purpose of presenting expenses in the income statement is to provide users with a clear and accurate picture of the costs incurred by a company in generating revenue during a particular accounting period.

### **2. What are the different categories of expenses that are typically presented in the income statement?**

Answer: The different categories of expenses that are typically presented in the income statement include cost of goods sold, selling and distribution expenses, administrative expenses, finance costs, and other operating expenses.

### **3. What is the significance of disclosing the nature of expenses in the income statement?**

Answer: Disclosing the nature of expenses in the income statement is significant because it provides users with a clear understanding of the types of costs that a company is incurring and how they relate to the company's operations.

### **4. How does the disclosure of expenses in the income statement help users in making informed decisions?**

Answer: The disclosure of expenses in the income statement helps users in making informed decisions by providing them with an understanding of the costs associated with a company's operations and the factors that may impact those costs in the future.

### **5. What is the purpose of presenting expenses by function in the income statement?**

Answer: The purpose of presenting expenses by function in the income statement is to provide users with a clear understanding of how different costs relate to the different activities performed by a company, such as production, selling, and administration.

### **6. What is the significance of presenting expenses by nature and by function in the income statement?**

Answer: Presenting expenses by nature and by function in the income statement is significant because it provides users with a comprehensive view of the company's costs, which can help them in making informed decisions about the company's operations.

### **7. How can a company ensure that its presentation of expenses in the income statement is in compliance with relevant accounting standards?**

Answer: A company can ensure that its presentation of expenses in the income statement is in compliance with relevant accounting standards by following the guidelines provided in the applicable accounting standards, such as IAS 1.

### **8. How can a company improve the transparency and clarity of its presentation of expenses in the income statement?**

Answer: A company can improve the transparency and clarity of its presentation of expenses in the income statement by providing detailed disclosures of the nature and function of the expenses, as well as any significant changes in the expenses from prior periods.

**9. What is the impact of misstating expenses in the income statement?**

Answer: Misstating expenses in the income statement can have a significant impact on the accuracy of the financial statements, which can ultimately lead to incorrect decisions by users.

**10. What are some best practices for presenting expenses in the income statement?**

Answer: Some best practices for presenting expenses in the income statement include providing detailed disclosures of the nature and function of the expenses, presenting expenses by both nature and function, and ensuring that the presentation is in compliance with applicable accounting standards.

## Lec 36 - Statement of Changes in Equity, Accounting Policies, Changes in Accounting Estimates and Errors

- 1. What is the Statement of Changes in Equity, and what information does it provide?**  
Answer: The Statement of Changes in Equity is a financial statement that reports the changes in a company's equity over a reporting period. It provides information on the movement in share capital, reserves, and retained earnings.
- 2. What is an accounting policy, and why is it important to disclose it in financial statements?**  
Answer: An accounting policy is a set of guidelines that a company follows when preparing its financial statements. It is important to disclose accounting policies in financial statements so that investors and other stakeholders can understand how the company prepares its financial statements.
- 3. What is the difference between a change in accounting estimate and a correction of an error in accounting?**  
Answer: A change in accounting estimate is a change in the accounting treatment of a transaction or event that was previously accounted for, while a correction of an error in accounting is a retrospective restatement of previously reported financial information.
- 4. What is the impact of a change in accounting estimate on financial statements?**  
Answer: A change in accounting estimate can impact the financial statements by changing the amounts reported for prior periods, as well as the current period.
- 5. How are changes in accounting policies accounted for in financial statements?**  
Answer: Changes in accounting policies are accounted for retrospectively, which means that prior period financial statements are restated to reflect the new policy.
- 6. What is a prior period error, and how is it corrected in financial statements?**  
Answer: A prior period error is an error made in a previous period's financial statements. It is corrected by restating the prior period financial statements to reflect the correction.
- 7. What is the difference between an error in accounting and a fraud in accounting?**  
Answer: An error in accounting is an unintentional mistake made in the preparation of financial statements, while a fraud in accounting is an intentional misrepresentation of financial information.
- 8. What is the purpose of the Statement of Accounting Policies in financial statements?**  
Answer: The purpose of the Statement of Accounting Policies is to disclose the accounting policies adopted by a company in the preparation of its financial statements.
- 9. What are the criteria for changing an accounting estimate?**  
Answer: A change in accounting estimate is made when new information becomes available or when a company revises its assumptions or estimates. The criteria for changing an estimate are that the new estimate must be based on new information or new assumptions and must be a more accurate reflection of the current circumstances.
- 10. How are changes in accounting estimates disclosed in financial statements?**  
Answer: Changes in accounting estimates are disclosed in the notes to the financial statements, along with an explanation of the reasons for the change and the impact on the financial statements.





## Lec 37 - Changes in Accounting Policies – IAS 8, Errors and Cash Flows

1. **What is the purpose of IAS 8?**

Answer: IAS 8 is used to provide guidelines to entities to apply accounting policies consistently and to deal with changes in accounting policies, accounting errors, and the correction of errors in financial statements.

2. **What is an accounting policy?**

Answer: An accounting policy is a set of principles, procedures, and rules adopted by an entity in preparing and presenting financial statements.

3. **What is a retrospective adjustment?**

Answer: A retrospective adjustment is a correction of an error in previously issued financial statements, which requires the restatement of prior period financial statements.

4. **What is the difference between a change in accounting policy and a change in accounting estimate?**

Answer: A change in accounting policy refers to a change in the principles, basis, or method of accounting used by an entity, whereas a change in accounting estimate refers to a change in the estimation technique, or the assumption used in calculating an accounting value.

5. **How is the effect of a change in accounting policy reflected in financial statements?**

Answer: A change in accounting policy is applied retrospectively unless impractical, and the impact of the change is reflected in the opening balance of retained earnings of the earliest period presented.

6. **What is a cash flow statement?**

Answer: A cash flow statement is a financial statement that provides information about the cash inflows and outflows of an entity during a specific period.

7. **What is the purpose of a cash flow statement?**

Answer: The purpose of a cash flow statement is to provide information about an entity's liquidity, solvency, and financial flexibility.

8. **What is a cash equivalent?**

Answer: A cash equivalent is a short-term, highly liquid investment that is readily convertible into cash, and which carries an insignificant risk of changes in value.

9. **What is the difference between an operating activity and an investing activity?**

Answer: An operating activity is a cash inflow or outflow that results from an entity's core business operations, whereas an investing activity is a cash inflow or outflow that results from the acquisition or disposal of long-term assets.

10. **What is the purpose of disclosing non-cash transactions in the cash flow statement?**

Answer: The purpose of disclosing non-cash transactions in the cash flow statement is to provide information about significant investing and financing activities that did not involve the exchange of cash.

## Lec 38 - Cash Flow Statement IAS-7

1. **What is the purpose of the cash flow statement?**

Answer: The purpose of the cash flow statement is to provide information about an entity's cash inflows and outflows for a specific period.

2. **What are the three categories of cash flows presented in the cash flow statement?**

Answer: The three categories of cash flows presented in the cash flow statement are operating activities, investing activities, and financing activities.

3. **How are non-cash transactions reported in the cash flow statement?**

Answer: Non-cash transactions are not reported in the cash flow statement. However, they may be disclosed in the notes to the financial statements.

4. **What is the direct method of preparing the cash flow statement?**

Answer: The direct method of preparing the cash flow statement involves calculating cash inflows and outflows directly from operating activities.

5. **What is the indirect method of preparing the cash flow statement?**

Answer: The indirect method of preparing the cash flow statement involves adjusting net income for non-cash items and changes in working capital to arrive at cash flows from operating activities.

6. **How are cash and cash equivalents defined in the cash flow statement?**

Answer: Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible into cash.

7. **What is the purpose of presenting the cash flow statement alongside the income statement and balance sheet?**

Answer: The purpose of presenting the cash flow statement alongside the income statement and balance sheet is to provide users of the financial statements with a complete picture of an entity's financial performance, financial position, and cash flows.

8. **How can the cash flow statement be used by investors and creditors?**

Answer: Investors and creditors can use the cash flow statement to assess an entity's ability to generate cash flows and its liquidity position.

9. **What are the limitations of the cash flow statement?**

Answer: The limitations of the cash flow statement include the fact that it only presents cash flows for a specific period and does not provide information about an entity's long-term solvency.

10. **What is the importance of preparing the cash flow statement in accordance with IAS 7?**

Answer: Preparing the cash flow statement in accordance with IAS 7 ensures that the information presented is reliable, relevant, and comparable across different entities.

## Lec 39 - Cash Flow Statement (contd.)

1. Explain the significance of the Cash Flow Statement in financial reporting.  
Answer: The Cash Flow Statement provides information about the cash inflows and outflows of a company during a particular period. It helps in assessing a company's liquidity and ability to generate cash. The statement also assists investors in determining the extent to which a company's operations are generating cash flows and whether it has the potential to meet its financial obligations.
2. What is the difference between operating, investing, and financing activities in the Cash Flow Statement?  
Answer: Operating activities involve cash inflows and outflows that arise from a company's primary business activities, such as sales and purchases of goods and services. Investing activities refer to cash inflows and outflows related to the acquisition or disposal of long-term assets. Financing activities comprise cash inflows and outflows resulting from the issuance and repayment of long-term liabilities and equity.
3. How does depreciation impact the Cash Flow Statement?  
Answer: Depreciation is a non-cash expense, meaning that it does not involve the actual outflow of cash. However, it does reduce the value of a company's assets over time, which is reflected in the Cash Flow Statement. Depreciation is added back to net income when calculating operating cash flows.
4. What are the advantages of the direct method for preparing the Cash Flow Statement?  
Answer: The direct method provides a more detailed and transparent picture of a company's cash inflows and outflows. It also allows for a better understanding of the company's operating activities and how they generate cash. Additionally, it facilitates the identification of cash flow issues and helps in developing strategies to address them.
5. What is the purpose of the reconciliation of net income to cash flows from operating activities in the Cash Flow Statement?  
Answer: The reconciliation of net income to cash flows from operating activities adjusts net income for non-cash items such as depreciation and amortization and also takes into account changes in current assets and liabilities that impact cash flows. The purpose is to arrive at the actual cash generated or used by the company's operations during a particular period.
6. Explain the importance of the Cash Flow Statement in assessing a company's solvency.  
Answer: The Cash Flow Statement provides information about a company's cash inflows and outflows, which helps in assessing its ability to meet its financial obligations. By analyzing a company's cash flows, investors and creditors can determine whether the company has sufficient cash reserves to pay its debts and meet its other financial obligations.
7. How does a change in accounts receivable impact the Cash Flow Statement?  
Answer: A decrease in accounts receivable represents a cash inflow, while an increase in accounts receivable represents a cash outflow. This is because a decrease in accounts receivable means that the company has collected cash from its customers, while an increase in accounts receivable means that the company has extended credit to its customers and has not yet received payment.
8. What is the significance of the free cash flow metric?  
Answer: Free cash flow is a metric that indicates the cash generated by a company after taking into account all capital expenditures required to maintain and grow the business. It is a useful

metric for assessing a company's ability to generate cash and reinvest in its operations. A positive free cash flow indicates that a company is generating more cash than it requires to maintain its operations, while a negative free cash flow suggests that the company may need to raise additional capital.

9. How can the Cash Flow Statement be used to identify potential financial problems in a company?

Answer: By analyzing the Cash Flow Statement, investors and creditors can identify potential financial problems in a company, such as a negative operating cash flow, a high level of investing cash outflows, or a low level of free cash flow. These issues could indicate that the company is not generating sufficient

## Lec 40 - Cash Flow Statement (contd.)

- 1. Explain the significance of the Cash Flow Statement in financial reporting.**  
Answer: The Cash Flow Statement provides information about the cash inflows and outflows of a company during a particular period. It helps in assessing a company's liquidity and ability to generate cash. The statement also assists investors in determining the extent to which a company's operations are generating cash flows and whether it has the potential to meet its financial obligations.
- 2. What is the difference between operating, investing, and financing activities in the Cash Flow Statement?**  
Answer: Operating activities involve cash inflows and outflows that arise from a company's primary business activities, such as sales and purchases of goods and services. Investing activities refer to cash inflows and outflows related to the acquisition or disposal of long-term assets. Financing activities comprise cash inflows and outflows resulting from the issuance and repayment of long-term liabilities and equity.
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Answer: Depreciation is a non-cash expense, meaning that it does not involve the actual outflow of cash. However, it does reduce the value of a company's assets over time, which is reflected in the Cash Flow Statement. Depreciation is added back to net income when calculating operating cash flows.
- 4. What are the advantages of the direct method for preparing the Cash Flow Statement?**  
Answer: The direct method provides a more detailed and transparent picture of a company's cash inflows and outflows. It also allows for a better understanding of the company's operating activities and how they generate cash. Additionally, it facilitates the identification of cash flow issues and helps in developing strategies to address them.
- 5. What is the purpose of the reconciliation of net income to cash flows from operating activities in the Cash Flow Statement?**  
Answer: The reconciliation of net income to cash flows from operating activities adjusts net income for non-cash items such as depreciation and amortization and also takes into account changes in current assets and liabilities that impact cash flows. The purpose is to arrive at the actual cash generated or used by the company's operations during a particular period.
- 6. Explain the importance of the Cash Flow Statement in assessing a company's solvency.**  
Answer: The Cash Flow Statement provides information about a company's cash inflows and outflows, which helps in assessing its ability to meet its financial obligations. By analyzing a company's cash flows, investors and creditors can determine whether the company has sufficient cash reserves to pay its debts and meet its other financial obligations.
- 7. How does a change in accounts receivable impact the Cash Flow Statement?**  
Answer: A decrease in accounts receivable represents a cash inflow, while an increase in accounts receivable represents a cash outflow. This is because a decrease in accounts receivable means that the company has collected cash from its customers, while an increase in accounts receivable means that the company has extended credit to its customers and has not yet received payment.
- 8. What is the significance of the free cash flow metric?**  
Answer: Free cash flow is a metric that indicates the cash generated by a company after taking into account all capital expenditures required to maintain and grow the business. It is a useful

metric for assessing a company's ability to generate cash and reinvest in its operations. A positive free cash flow indicates that a company is generating more cash than it requires to maintain its operations, while a negative free cash flow suggests that the company may need to raise additional capital.

9. **How can the Cash Flow Statement be used to identify potential financial problems in a company?**

Answer: By analyzing the Cash Flow Statement, investors and creditors can identify potential financial problems in a company, such as a negative operating cash flow, a high level of investing cash outflows, or a low level of free cash flow. These issues could indicate that the company is not generating sufficient

## Lec 41 - Events after the Balance Sheet Date IAS-10

1. **What are events after the balance sheet date, and how are they treated in financial statements according to IAS-10?**

Answer: Events after the balance sheet date are events that occur between the balance sheet date and the date when the financial statements are authorized for issuance. According to IAS-10, these events should be considered for disclosure in the financial statements if they provide additional information about the company's financial position. If they result in adjustments to the financial statements, they should be reflected in the financial statements.

2. **Give an example of an event after the balance sheet date that may require disclosure in the financial statements.**

Answer: An example of an event after the balance sheet date that may require disclosure in the financial statements is a major litigation settlement that is agreed upon after the balance sheet date but before the financial statements are authorized for issuance. This event may have a significant impact on the company's financial position and may need to be disclosed in the financial statements.

3. **How should events after the balance sheet date that result in adjustments to the financial statements be treated according to IAS-10?**

Answer: If events after the balance sheet date result in adjustments to the financial statements, they should be reflected in the financial statements. The financial statements should be adjusted to reflect the impact of these events on the company's financial position.

4. **What is the cutoff date for considering events after the balance sheet date according to IAS-10?**

Answer: The cutoff date for considering events after the balance sheet date according to IAS-10 is the date when the financial statements are authorized for issuance.

5. **How should events after the balance sheet date that do not result in adjustments to the financial statements be disclosed according to IAS-10?**

Answer: Events after the balance sheet date that do not result in adjustments to the financial statements should be disclosed in the notes to the financial statements. The nature of the event, the estimated financial effect, and the date when the event occurred should be disclosed.

6. **What are the disclosure requirements for non-adjusting events after the balance sheet date according to IAS-10?**

Answer: The disclosure requirements for non-adjusting events after the balance sheet date according to IAS-10 include disclosing the nature of the event, the estimated financial effect, and the date when the event occurred in the notes to the financial statements.

7. **Can events after the balance sheet date be used to adjust the financial statements retrospectively?**

Answer: No, events after the balance sheet date cannot be used to adjust the financial statements retrospectively. They can only be used to adjust the financial statements for the period in which the event occurred.

8. **How should subsequent events that require disclosure in the financial statements be presented according to IAS-10?**

Answer: Subsequent events that require disclosure in the financial statements should be presented in the notes to the financial statements. They should be clearly disclosed, including the nature of the event, the estimated financial effect, and the date when the event occurred.



9. **Give an example of a subsequent event that requires disclosure in the financial statements according to IAS-10.**

Answer: An example of a subsequent event that requires disclosure in the financial statements according to IAS-10 is a significant business acquisition that is agreed upon after the balance sheet date but before the financial statements are authorized for issuance. This event may have a significant impact on the company's financial position and may need to be disclosed in the financial statements.

10. **What is the purpose of disclosing events after the balance sheet date in the financial statements according to IAS-10?**

Answer: The purpose of disclosing events after the balance sheet date in the

## Lec 42 - IAS-33 Earnings per Share

1. **What is the difference between basic EPS and diluted EPS?**

Answer: Basic EPS is calculated based on the number of outstanding common shares while diluted EPS takes into account the potential dilutive effect of convertible securities and other instruments that could increase the number of shares outstanding.

2. **What is a potential ordinary share?**

Answer: A potential ordinary share is a security or instrument that has the potential to be converted into ordinary shares and affect the calculation of EPS.

3. **What is a convertible security?**

Answer: A convertible security is a financial instrument, such as a bond or preferred share, that can be converted into common shares, potentially diluting the number of shares outstanding and affecting the calculation of EPS.

4. **How do stock dividends and stock splits affect the calculation of EPS?**

Answer: Stock dividends and stock splits can affect the calculation of EPS by increasing the number of shares outstanding, thereby reducing the EPS figure.

5. **Why is EPS important for investors and analysts?**

Answer: EPS is important for investors and analysts because it measures the profitability of a company on a per-share basis and provides insight into a company's earnings potential and financial health.

6. **What is the difference between basic EPS and diluted EPS in terms of potential ordinary shares?**

Answer: Basic EPS only considers outstanding ordinary shares, while diluted EPS takes into account both outstanding ordinary shares and potential ordinary shares.

7. **What is the difference between a simple capital structure and a complex capital structure?**

Answer: A simple capital structure has only common shares outstanding, while a complex capital structure has potential ordinary shares, such as convertible securities or stock options.

8. **What are the disclosure requirements under IAS 33 for companies reporting EPS?**

Answer: Companies reporting EPS under IAS 33 must disclose both basic and diluted EPS figures, the number of potential ordinary shares outstanding, and the dilutive effect of potential ordinary shares.

9. **What are the limitations of using EPS as a measure of a company's profitability?**

Answer: The limitations of using EPS as a measure of a company's profitability include potential manipulation of earnings through share buybacks and the exclusion of important factors such as operating expenses and capital expenditures.

10. **What is the impact of convertible securities on the calculation of EPS?**

Answer: Convertible securities can dilute the number of shares outstanding and increase the denominator used in the EPS calculation, potentially reducing the EPS figure.

## Lec 43 - IAS-33 Earnings per Share & Financial Statements

1. **What is the purpose of calculating earnings per share?**

Answer: The purpose of calculating earnings per share is to provide investors and analysts with a metric that allows them to evaluate a company's profitability on a per-share basis.

2. **What is the difference between basic EPS and diluted EPS?**

Answer: Basic EPS is calculated by dividing net income by the weighted average number of outstanding common shares, while diluted EPS takes into account the potential dilutive effect of convertible securities.

3. **What are potential ordinary shares?**

Answer: Potential ordinary shares are securities or instruments that have the potential to be converted into ordinary shares.

4. **What is a simple capital structure?**

Answer: A simple capital structure is a capital structure that has only common shares outstanding.

5. **What is a complex capital structure?**

Answer: A complex capital structure is a capital structure that has potential ordinary shares outstanding.

6. **How do companies calculate the weighted average number of outstanding common shares?**

Answer: Companies calculate the weighted average number of outstanding common shares by multiplying the number of shares outstanding by the percentage of the year that the shares were outstanding and then adding up the resulting products.

7. **What disclosures related to EPS must companies make in their financial statements?**

Answer: Companies must disclose both basic and diluted EPS figures, as well as information related to potential ordinary shares and changes in their capital structure.

8. **How can a company's EPS be affected by a stock split?**

Answer: A stock split can increase the number of outstanding shares, which can decrease EPS if net income remains the same.

9. **What is the dilutive effect of potential ordinary shares?**

Answer: The dilutive effect of potential ordinary shares is the potential impact on EPS if all potential ordinary shares were converted to ordinary shares.

10. **How can companies manipulate EPS figures?**

Answer: Companies can manipulate EPS figures through share buybacks, changes in their capital structure, or other financial engineering tactics.

## Lec 44 - Presentation and Disclosure Requirements of Financial Statements –

1. **What are the key elements of a balance sheet, and how do they provide information about a company's financial position?**

Answer: The key elements of a balance sheet are assets, liabilities, and equity. Assets represent the company's resources, liabilities represent its obligations, and equity represents the residual interest of the owners. Together, these elements provide a snapshot of the company's financial position at a specific point in time.

2. **What is the purpose of the income statement, and how does it differ from the balance sheet?**

Answer: The income statement shows a company's revenue and expenses over a period of time, usually a year. It differs from the balance sheet, which shows the company's financial position at a specific point in time.

3. **What are the key components of the statement of cash flows, and how do they provide information about a company's cash flows?**

Answer: The key components of the statement of cash flows are cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. These components provide information about the sources and uses of the company's cash during a specific period.

4. **What is the purpose of the notes to the financial statements, and what information should be included in them?**

Answer: The notes to the financial statements provide additional information about the company's financial position, performance, and cash flows. They should include information about accounting policies, contingencies, significant transactions, and other relevant information.

5. **What is the purpose of the management discussion and analysis (MD&A) section of the financial statements?**

Answer: The MD&A section provides management's analysis of the company's financial performance, including an overview of the company's operations, a discussion of significant events and trends, and an analysis of the company's financial condition and results of operations.

6. **What is the purpose of segment reporting, and what information should be included in it?**

Answer: Segment reporting provides information about the company's operating segments, which are components of the company that generate revenue and incur expenses. Segment reporting should include information about the revenues, expenses, and assets of each segment, as well as the company's overall performance.

7. **What is the purpose of the auditor's report, and what information does it provide?**

Answer: The auditor's report provides an opinion on the fairness of the financial statements, based on the auditor's examination of the company's accounting records and practices. It also provides information about the scope of the audit and any limitations on the auditor's work.

8. **What is the purpose of the statement of changes in equity, and how does it provide information about the company's equity?**

Answer: The statement of changes in equity shows the changes in the company's equity over a period of time, including the effects of transactions with owners and changes in the company's net income or loss.

9. **What is the purpose of the statement of financial position, and how does it differ from the income statement?**

Answer: The statement of financial position shows the company's financial position at a specific point in time, including its assets, liabilities, and equity. It differs from the income statement, which shows the company's financial performance over a period of time.

10. **What is the purpose of the statement of comprehensive income, and how does it differ from the income statement?**

Answer: The statement of comprehensive income shows the company's income and expenses, including gains and losses that are not included in the income statement. It differs from the income statement in that it includes a broader range of income and expenses.

## **Lec 45 - Presentation and Disclosure Requirements of Financial Statements – Revision (Contd)**

- 1. What are the objectives of the presentation and disclosure requirements of financial statements?**  
Answer: The key objectives of the presentation and disclosure requirements of financial statements are to provide information that is useful in making investment decisions and to promote transparency and accountability in financial reporting.
- 2. What is the purpose of the management discussion and analysis (MD&A) section of the financial statements?**  
Answer: The purpose of the MD&A section is to provide management's analysis of the company's financial performance and condition, as well as any significant trends or risks that may affect the company's future prospects.
- 3. What is the difference between a material change and an immaterial change in financial reporting?**  
Answer: A material change is a change in accounting policy, financial statement presentation, or other accounting estimate that would affect the judgment of a reasonable investor. An immaterial change, on the other hand, would not have a significant impact on the financial statements or investor judgment.
- 4. What are some common examples of disclosures required in the notes to the financial statements?**  
Answer: Common examples of disclosures required in the notes to the financial statements include a summary of significant accounting policies, details of the company's contingencies and commitments, and information about any related party transactions.
- 5. What is segment reporting and why is it important in financial reporting?**  
Answer: Segment reporting is the process of disclosing information about a company's operating segments, which are business units that generate revenue and incur expenses. It is important in financial reporting because it provides investors with a better understanding of the company's operations and the risks and opportunities associated with each segment.
- 6. What is the purpose of an auditor's report in financial statement disclosure?**  
Answer: The purpose of an auditor's report is to provide an independent opinion on the fairness of the financial statements, as well as any significant issues or risks identified during the audit process.
- 7. What are some common reasons why financial statements may need to be revised?**  
Answer: Financial statements may need to be revised due to errors in accounting or reporting, changes in accounting standards or policies, or other material changes in the company's financial position or performance.
- 8. What is the role of the audit committee in financial reporting and disclosure?**  
Answer: The audit committee is responsible for overseeing the company's financial reporting and disclosure processes, as well as selecting and overseeing the company's independent auditors.
- 9. What is the difference between interim financial statements and annual financial statements?**  
Answer: Interim financial statements are prepared on a quarterly or other periodic basis, while

annual financial statements are prepared once per year. Annual financial statements are typically more comprehensive and include a wider range of disclosures than interim financial statements.

10. **How can financial reporting and disclosure practices impact a company's reputation and stakeholder relationships?**

Answer: Poor financial reporting and disclosure practices can damage a company's reputation and erode stakeholder trust, while transparent and accurate reporting can enhance a company's reputation and build stronger stakeholder relationships.

