8 Lecture - MGT101

Important Subjective

1. **What are financial statements, and what is their purpose?**
Answer: Financial statements are reports that provide information about the financial performance and position of a business. Their purpose is to provide information for decision-making by investors, creditors, and management.

2. **What is the difference between the income statement and the balance sheet?**
Answer: The income statement shows a company's revenues and expenses over a period of time, while the balance sheet shows a company's assets, liabilities, and equity at a specific point in time.

3. **What is the formula for calculating net income, and why is it important?**
Answer: The formula for calculating net income is revenue minus expenses. It is important because it shows a company's profitability over a period of time.

4. **What is the statement of cash flows, and why is it important?**
Answer: The statement of cash flows shows how much cash a company generated or used during a period. It is important because it provides information about a company's liquidity and cash flow management.

5. **What is the accounting equation, and how does it relate to the balance sheet?**
Answer: The accounting equation is assets equals liabilities plus equity. It relates to the balance sheet because it is the fundamental equation that the balance sheet is based on.

6. **What is the purpose of the statement of retained earnings?**
Answer: The purpose of the statement of retained earnings is to show how a company's retained earnings changed over a period.

7. **What are the three sections of the statement of cash flows?**
Answer: The three sections of the statement of cash flows are operating activities, investing activities, and financing activities.

8. **What is the difference between current assets and non-current assets?**
Answer: Current assets are assets that are expected to be converted to cash within one year, while non-current assets are assets that are not expected to be converted to cash within one year.

9. **What is the difference between current liabilities and long-term liabilities?**
Answer: Current liabilities are liabilities that are due within one year, while long-term liabilities are liabilities that are due in more than one year.

10. **Why is it important for financial statements to be accurate and reliable?**
Answer: It is important for financial statements to be accurate and reliable because they are used by investors, creditors, and management to make informed decisions about the business. Inaccurate or unreliable financial statements can lead to incorrect decisions and financial losses.