

12 Lecture - MGT101

Important Subjective

1. Define the accounting equation.

Answer: The accounting equation is a fundamental concept in accounting that represents the relationship between a company's assets, liabilities, and equity. The equation states that assets are equal to the sum of liabilities and equity.

2. What is the purpose of the accounting equation?

Answer: The purpose of the accounting equation is to ensure that accounting records remain in balance. It serves as the basis for double-entry bookkeeping and helps ensure the accuracy of financial statements.

3. What is an asset in the accounting equation?

Answer: An asset is anything of value that a company owns or controls. Examples of assets include cash, inventory, property, and equipment.

4. What is a liability in the accounting equation?

Answer: A liability is an obligation that a company owes to another party. Examples of liabilities include accounts payable, loans, and taxes owed.

5. What is equity in the accounting equation?

Answer: Equity represents the residual value of a company's assets after deducting liabilities. It includes owner's equity and retained earnings.

6. What is the relationship between assets and liabilities in the accounting equation?

Answer: Assets are equal to the sum of liabilities and equity. This means that a company's assets are financed by either its liabilities or its equity.

7. What happens to equity when a company generates a profit?

Answer: Equity increases when a company generates a profit because net income is added to retained earnings.

8. What happens to equity when a company distributes dividends?

Answer: Equity decreases when a company distributes dividends because it represents a distribution of profits to shareholders.

9. What is the significance of the accounting equation in financial analysis?

Answer: The accounting equation provides a snapshot of a company's financial position and is used in financial analysis to assess its solvency and liquidity.

10. How does the accounting equation help in detecting errors in financial statements?

Answer: The accounting equation helps in detecting errors in financial statements because it ensures that assets equal the sum of liabilities and equity. If the accounting equation is not balanced, there is an error in the financial statements that needs to be corrected.