17 Lecture - MGT101

Important Subjective

1. What is a fixed asset, and how is it different from a current asset?

Answer: A fixed asset is a long-term tangible asset that a business owns and uses in its operations, such as property, plant, and equipment. Current assets are short-term assets that are expected to be converted into cash within a year.

2. What is depreciation, and why is it necessary?

Answer: Depreciation is the process of allocating the cost of a fixed asset over its useful life. It is necessary to accurately track the value of fixed assets and to comply with accounting standards.

3. What are some of the methods of depreciation, and how do they differ?

Answer: Methods of depreciation include straight-line, declining balance, and units of production. They differ in the way they allocate the cost of an asset over its useful life.

4. What is salvage value, and how does it impact depreciation?

Answer: Salvage value is the estimated value of a fixed asset at the end of its useful life. It impacts depreciation by reducing the total amount of cost that can be allocated to depreciation.

5. How is depreciation calculated using the straight-line method?

Answer: Depreciation using the straight-line method is calculated by subtracting the estimated salvage value of an asset from its cost and then dividing the result by its useful life.

6. What is the impact of depreciation on a business's financial statements?

Answer: Depreciation reduces the value of fixed assets on a business's balance sheet and also reduces equity on its income statement.

7. How do changes in depreciation impact a business's financial statements?

Answer: Changes in depreciation impact a business's financial statements by altering the amount of depreciation expense recognized on the income statement, which in turn affects equity and net income.

8. Why is it important to accurately track fixed assets?

Answer: Accurately tracking fixed assets is important for financial decision-making, tax reporting, and compliance with accounting standards.

9. How does depreciation impact a business's tax liability?

Answer: Depreciation reduces a business's taxable income, which can lower its tax liability.

10. What are some strategies that businesses can use to maximize the tax benefits of depreciation?

Answer: Businesses can maximize the tax benefits of depreciation by choosing the most advantageous method of depreciation and by making strategic decisions about when to purchase and dispose of fixed assets.