## 17 Lecture - MGT101

## **Important Subjective**

- 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.
- 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.
- 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.