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.