32 Lecture - MGT101

Important Subjective

1. **What is a sole proprietorship?**
   Answer: A sole proprietorship is a business owned and operated by a single individual, who is personally responsible for all the debts and obligations of the business.

2. **What are the three main financial statements of a sole proprietorship?**
   Answer: The three main financial statements of a sole proprietorship are the income statement, balance sheet, and statement of cash flows.

3. **What is the purpose of the income statement?**
   Answer: The income statement shows the revenues, expenses, and net income of a business over a period, and its purpose is to measure the profitability of the business.

4. **What is the purpose of the balance sheet?**
   Answer: The balance sheet shows the assets, liabilities, and equity of a business at a specific point in time, and its purpose is to show the financial position of the business.

5. **What is the purpose of the statement of cash flows?**
   Answer: The statement of cash flows shows the cash inflows and outflows of a business over a period, and its purpose is to measure the liquidity of the business.

6. **What is the difference between current and non-current assets?**
   Answer: Current assets are assets that are expected to be converted into cash within one year, while non-current assets are expected to provide economic benefits beyond one year.

7. **What is the difference between current and long-term liabilities?**
   Answer: Current liabilities are obligations that are due within one year, while long-term liabilities are obligations that are due beyond one year.

8. **What is owner's equity?**
   Answer: Owner's equity represents the owner's investment in the business and is calculated as the difference between assets and liabilities.

9. **What is the difference between net income and retained earnings?**
   Answer: Net income is the profit or loss of a business for a period, while retained earnings are the accumulated profits of the business that have not been distributed as dividends.

10. **Why is it important for a sole proprietorship to prepare financial statements?**
    Answer: Financial statements are important for measuring the profitability and financial health of a business and for making informed business decisions. They also help to satisfy the reporting requirements of external stakeholders such as investors, lenders, and tax authorities.