

38 Lecture - MGT101

Important Subjective

1. What is the purpose of financial statements in a limited company?

Answer: The purpose of financial statements in a limited company is to provide transparency about the company's financial health and to assist in making informed decisions.

2. What is a balance sheet, and what information does it provide?

Answer: A balance sheet is a financial statement that reports a company's financial position at a specific point in time. It provides information about a company's assets, liabilities, and equity.

3. Explain the difference between a cash basis and accrual basis of accounting.

Answer: The cash basis of accounting records transactions when cash is received or paid, while the accrual basis records transactions when they occur, regardless of when cash is received or paid.

4. What is the purpose of the income statement, and what information does it provide?

Answer: The income statement reports a company's revenues, expenses, and net income or loss for a specific period, providing information about the company's profitability.

5. What is the purpose of the statement of cash flows, and what information does it provide ?

Answer: The statement of cash flows reports a company's cash inflows and outflows during a specific period, providing information about a company's liquidity.

6. What is the purpose of the notes to the financial statements?

Answer: The notes to the financial statements provide additional details and explanations about the company's financial statements.

7. What is the difference between current assets and long-term assets?

Answer: Current assets are assets that are expected to be converted into cash within one year, while long-term assets are expected to be held for longer than one year.

8. What is the purpose of the statement of changes in equity?

Answer: The statement of changes in equity reports the changes in a company's equity over a period of time, providing information about the company's financial performance.

9. What is the difference between a liability and an expense?

Answer: A liability is a debt or obligation that a company owes, while an expense is a cost incurred by the company in its operations.

10. **What is the purpose of financial ratios, and how can they be used to evaluate a company's financial health?**

Answer: Financial ratios are used to analyze a company's financial statements and provide insight into the company's financial health. They can be used to evaluate liquidity, profitability, solvency, and other aspects of a company's financial performance.