

39 Lecture - MGT101

Important Subjective

- 1. What is the purpose of the statement of cash flows in financial statements of limited companies?**
Answer: The purpose of the statement of cash flows is to report the cash inflows and outflows during a specific period, and to show how changes in balance sheet accounts affect cash and cash equivalents.
- 2. Why is the balance sheet important for financial analysis?**
Answer: The balance sheet reports a company's assets, liabilities, and equity at a specific point in time, providing a snapshot of the company's financial position. It is important for financial analysis because it can help identify potential areas of risk and provide insight into a company's overall financial health.
- 3. What are some key financial ratios used to analyze a company's performance?**
Answer: Some key financial ratios used to analyze a company's performance include the current ratio, quick ratio, debt-to-equity ratio, return on equity, and gross profit margin.
- 4. What is the difference between gross profit and net profit?**
Answer: Gross profit is the difference between revenue and cost of goods sold, while net profit is the amount of revenue left over after all expenses have been deducted. Net profit takes into account all expenses, including operating expenses, interest expense, and taxes.
- 5. 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, including accounting policies, significant events, and contingencies.
- 6. 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, showing how net income, dividends, and other transactions affect the company's equity.
- 7. Why is it important to analyze a company's cash flows?**
Answer: Analyzing a company's cash flows can provide insight into its ability to generate cash, meet financial obligations, and invest in future growth.
- 8. What is the difference between liquidity and solvency?**
Answer: Liquidity refers to a company's ability to meet its short-term obligations, while solvency refers to its ability to meet its long-term obligations.
- 9. How can financial ratios be used to compare companies in the same industry?**
Answer: Financial ratios can be used to compare companies in the same industry by providing a standardized way to evaluate performance and identify potential areas of strength or weakness.
- 10. What is the purpose of the income statement in financial statements of limited companies?**

Answer: The income statement reports a company's revenues, expenses, and net income or loss for a specific period, providing insight into its profitability and operating performance.