

40 Lecture - MGT101

Important Subjective

- 1. Why is it important for companies to ensure that their financial statements comply with accounting standards and regulations?**
Answer: Compliance with accounting standards and regulations ensures that financial statements are transparent, accurate, and reliable, which enhances investor confidence and credibility.
- 2. What is the purpose of the cash flow statement in a company's financial statements?**
Answer: The cash flow statement shows a company's cash inflows and outflows during a specific period, providing insight into the company's liquidity and ability to meet its financial obligations.
- 3. How do investors use financial statements to make informed decisions about a company?**
Answer: Investors analyze financial statements to evaluate a company's financial health, performance, and position, including revenue, expenses, profit or loss, assets, liabilities, and equity. They use this information to make investment decisions and assess the company's future potential.
- 4. What is the role of auditors in the preparation of financial statements?**
Answer: Auditors are responsible for verifying the accuracy of financial statements and ensuring that they comply with accounting standards and regulations. This enhances investor confidence and credibility.
- 5. How do companies present their financial statements to stakeholders?**
Answer: Companies usually present their financial statements in an annual report, which includes the income statement, balance sheet, cash flow statement, and statement of changes in equity. The report also includes notes to the financial statements, providing additional information and explanations.
- 6. Why is the balance sheet important for investors?**
Answer: The balance sheet shows a company's assets, liabilities, and equity, providing insight into the company's financial position and potential for growth. Investors use this information to assess the company's financial health and make informed decisions.
- 7. How do companies calculate their profit or loss?**
Answer: Companies calculate their profit or loss by deducting expenses from revenue in the income statement.
- 8. What is the difference between net income and net profit?**
Answer: Net income is the company's revenue minus expenses, while net profit is the company's revenue minus expenses and taxes. Net income is used more commonly than net profit in financial reporting.
- 9. What is the purpose of the statement of changes in equity?**
Answer: The statement of changes in equity shows the changes in a company's equity during a

specific period, including changes in share capital, reserves, and retained earnings. It provides insight into the company's financial health and potential for growth.

10. **What is the difference between current assets and non-current assets in a company's balance sheet?**

Answer: Current assets are assets that can be easily converted into cash within a year, such as cash, accounts receivable, and inventory. Non-current assets are assets that have a useful life of more than one year, such as property, plant, and equipment.