

3 Lecture - MGT201

Important Subjective

1. **What is financial statement analysis, and why is it important?**

Answer: Financial statement analysis is the process of examining an organization's financial reports to gain insight into its financial health and performance. It is important because it helps investors, creditors, and managers make informed decisions about investments, loans, and business operations.

2. **What are the three main financial statements used in financial statement analysis?**

Answer: The three main financial statements used in financial statement analysis are the balance sheet, income statement, and cash flow statement.

3. **What is the difference between horizontal and vertical analysis?**

Answer: Horizontal analysis compares financial data over multiple periods, while vertical analysis compares financial data within a single period.

4. **What is the current ratio, and what does it measure?**

Answer: The current ratio is a financial ratio that measures an organization's ability to pay off its short-term debt obligations. It is calculated by dividing current assets by current liabilities.

5. **What is the debt-to-equity ratio, and what does it measure?**

Answer: The debt-to-equity ratio is a financial ratio that measures an organization's leverage. It is calculated by dividing total debt by total equity.

6. **What is the return on assets ratio, and what does it measure?**

Answer: The return on assets ratio is a financial ratio that measures an organization's efficiency in using its assets to generate revenue. It is calculated by dividing net income by total assets.

7. **What is the gross profit margin, and what does it measure?**

Answer: The gross profit margin is a financial ratio that measures an organization's profitability. It is calculated by dividing gross profit by total revenue.

8. **What is liquidity, and why is it important in financial statement analysis?**

Answer: Liquidity refers to an organization's ability to meet its short-term debt obligations. It is important in financial statement analysis because it helps investors and creditors assess an organization's financial health and ability to pay off its debts.

9. **What is the operating cash flow, and why is it important in financial statement analysis?**

Answer: The operating cash flow is the cash flow generated from an organization's core business operations. It is important in financial statement analysis because it helps investors and creditors assess an organization's ability to generate cash from its core business activities.

10. **What are some limitations of financial statement analysis?**

Answer: Some limitations of financial statement analysis include the use of historical data, the possibility of accounting manipulation, and the impact of external factors that are beyond an organization's control.