4 Lecture - MGT401

Important Subjective

1. **What is the purpose of a balance sheet, and what information does it provide about a company's financial position?**
   Answer: The purpose of a balance sheet is to report a company's financial position at a specific point in time. It provides information about a company's assets, liabilities, and equity, which can be used to assess its solvency, liquidity, and financial health.

2. **What is the difference between revenue and net income on an income statement?**
   Answer: Revenue is the total amount of money a company earns from the sale of goods or services, while net income is the profit or loss the company earns after deducting all expenses, including taxes.

3. **How is the statement of cash flows useful for investors and creditors?**
   Answer: The statement of cash flows provides information about a company's sources and uses of cash, including its operating, investing, and financing activities. This information can be used by investors and creditors to assess a company's liquidity and cash flow position.

4. **What are the components of the statement of changes in equity, and how do they relate to a company's financial performance?**
   Answer: The components of the statement of changes in equity include the opening balance of equity, net income or loss, dividends, and other equity transactions. These components reflect a company's financial performance, as net income or loss affects retained earnings and dividends reduce equity.

5. **What is the purpose of the notes to financial statements, and what kind of information do they provide?**
   Answer: The purpose of the notes to financial statements is to provide additional information and explanations about the numbers presented in the financial statements. They can include details about accounting policies, contingencies, and significant events that may impact a company's financial position or performance.

6. **What is the difference between current assets and non-current assets on a balance sheet?**
   Answer: Current assets are assets that can be converted to cash or used within one year, while non-current assets are assets that will not be used or converted to cash within one year. Examples of current assets include cash, accounts receivable, and inventory, while non-current assets include property, plant, and equipment.

7. **How does the matching principle impact the presentation of expenses on an income statement?**
   Answer: The matching principle requires that expenses be recognized in the same period as the revenue they help generate. This means that expenses must be matched to the revenue they contribute to, which can affect the timing and amount of expenses reported on an income statement.

8. **What is the purpose of the cash flow statement, and how is it different from the income statement and balance sheet?**
   Answer: The purpose of the cash flow statement is to provide information about a company's sources and uses of cash, including its operating, investing, and financing activities. It differs from the income statement, which reports a company's revenues and expenses over a period, and the balance sheet, which reports a company's financial position at a specific point in time.

9. **What is the difference between a liability and equity on a balance sheet?**
   Answer: A liability is an obligation or debt owed by a company to another party, while equity represents the residual interest in the assets of a company after deducting liabilities. Liabilities can include accounts payable, loans, and taxes owed, while equity can include common stock and retained earnings.

10. **How does the statement of changes in equity relate to the balance sheet and income statement?**
    Answer: The statement of changes in equity shows the changes in a company's equity over a specific period and is linked to the balance sheet and income statement. Net income or loss reported on the income statement affects retained earnings, which is a component of equity reported on the balance sheet. Dividends paid or other equity transactions reported on the statement of changes in equity also impact equity reported on the balance sheet.