

17 Lecture - MGT401

Important Subjective

- 1. What is the difference between credit risk and liquidity risk?**
Answer: Credit risk refers to the risk that a borrower will default on a loan, while liquidity risk refers to the risk that an investment cannot be sold quickly enough to meet cash needs.
- 2. Why is it important for companies to disclose information about risks associated with long-term loans?**
Answer: Disclosures provide transparency and accountability to investors, allowing them to make informed decisions about investing in the company.
- 3. What is fair value and why is it important to disclose it under IAS 32 and 39?**
Answer: Fair value is the amount of cash that can be obtained by selling a financial instrument in the market. It is important to disclose fair value to provide investors with an accurate understanding of the value of the company's assets.
- 4. How can companies reduce credit risk associated with long-term loans?**
Answer: Companies can reduce credit risk by conducting thorough credit analysis, requiring collateral, or obtaining a guarantee from a third party.
- 5. What are the consequences of not disclosing information about risks associated with long-term loans?**
Answer: Failure to disclose information about risks can lead to legal liability and loss of investor trust.
- 6. What are the three types of risks associated with long-term loans?**
Answer: The three types of risks are credit risk, interest rate risk, and liquidity risk.
- 7. What is interest rate risk and how can it impact long-term loans?**
Answer: Interest rate risk refers to the risk that interest rates will increase, leading to higher borrowing costs and potentially impacting the company's ability to repay the loan.
- 8. How can companies manage liquidity risk associated with long-term loans?**
Answer: Companies can manage liquidity risk by maintaining adequate cash reserves or diversifying their investments.
- 9. Why is it important for companies to provide clear and concise information in their disclosures?**
Answer: Clear and concise information allows investors to make informed decisions about investing in the company, reducing the risk of misunderstandings or legal liability.
- 10. What is market risk and how can it impact long-term loans?**
Answer: Market risk refers to the risk that the market value of an investment will decrease. This can impact the company's ability to sell the investment or use it as collateral for the loan.