21 Lecture - MGT401

Important Subjective

1. **What is the purpose of presenting liabilities in the balance sheet?**
   Answer: The purpose of presenting liabilities in the balance sheet is to provide information about a company's solvency and liquidity. It allows stakeholders to understand the company's financial obligations and the timing of their repayment.

2. **What is the difference between a current liability and a long-term liability?**
   Answer: A current liability is a financial obligation that is due within one year, while a long-term liability is a financial obligation that is due after one year. Current liabilities are typically paid using current assets, while long-term liabilities are paid using long-term assets.

3. **How are liabilities presented in the balance sheet?**
   Answer: Liabilities are typically presented in the balance sheet in descending order of maturity dates, with the earliest maturing liabilities presented first.

4. **What is a contingent liability?**
   Answer: A contingent liability is a potential obligation that may arise in the future, depending on the outcome of a specific event. It is disclosed in the financial statements if it is reasonably possible that the obligation will arise.

5. **What is the debt-to-equity ratio?**
   Answer: The debt-to-equity ratio is a financial metric that measures a company's leverage by comparing its total debt to its total equity. It is calculated by dividing total debt by total equity.

6. **How does the presentation of liabilities in the balance sheet affect a company's credit rating?**
   Answer: The presentation of liabilities in the balance sheet can affect a company's credit rating, as it provides important information about the company's ability to meet its financial obligations. Companies with a high proportion of long-term liabilities may be viewed as less risky by credit rating agencies.

7. **What is the current ratio?**
   Answer: The current ratio is a financial metric that measures a company's ability to meet its short-term financial obligations. It is calculated by dividing current assets by current liabilities.

8. **Why is it important for companies to disclose their contingent liabilities?**
   Answer: Companies are required to disclose their contingent liabilities in the financial statements to provide stakeholders with information about potential financial obligations that may arise in the future. This allows stakeholders to make informed decisions about the company's financial position and future prospects.

9. **How do companies account for accrued expenses in the balance sheet?**
   Answer: Accrued expenses are recorded as current liabilities in the balance sheet. They represent expenses that have been incurred but not yet paid, and are typically paid using current assets.

10. **What is the purpose of presenting liabilities separately in the balance sheet?**
    Answer: Presenting liabilities separately in the balance sheet allows stakeholders to understand the company's financial obligations in more detail. It allows them to see the timing of the company's financial obligations and the different types of liabilities that the company has.