30 Lecture - MGT401

Important Subjective

1. **What is the difference between a finance lease and an operating lease?**
Answer: A finance lease transfers the risks and rewards of ownership to the lessee, while an operating lease does not.

2. **What are the criteria for classifying a lease as a finance lease?**
Answer: A lease is classified as a finance lease if it transfers the risks and rewards of ownership to the lessee, and if it meets one or more of the following criteria: (1) the lease term is for the majority of the asset's useful life, (2) the present value of the lease payments is substantially all of the fair value of the asset, or (3) the asset is of a specialized nature that only the lessee can use.

3. **How are lease payments allocated between the lease liability and the interest expense under a finance lease?**
Answer: Lease payments are allocated between the lease liability and the interest expense based on the effective interest rate of the lease.

4. **What is the difference between a provision and a contingent liability?**
Answer: A provision is a present obligation arising from a past event, while a contingent liability is a possible obligation that depends on the occurrence of a future event.

5. **How are provisions measured under IAS 37?**
Answer: Provisions are measured at the best estimate of the expenditure required to settle the obligation, taking into account any risks and uncertainties.

6. **What is the difference between a contingent asset and a provision?**
Answer: A contingent asset is a possible asset that depends on the occurrence of a future event, while a provision is a present obligation arising from a past event.

7. **How are contingent liabilities disclosed in the financial statements?**
Answer: Contingent liabilities are disclosed in the notes to the financial statements, including a description of the nature of the contingency, an estimate of the financial effect, and the probability of the contingency occurring.

8. **What is the difference between a firm commitment and a contingent liability?**
Answer: A firm commitment is a binding agreement to purchase or sell goods or services, while a contingent liability is a possible obligation that depends on the occurrence of a future event.

9. **How are contingent assets recognized in the financial statements?**
Answer: Contingent assets are recognized in the financial statements only when the inflow of economic benefits is virtually certain.

10. **What is the difference between a warranty provision and a restructuring provision?**
Answer: A warranty provision is a provision for future warranty claims, while a restructuring provision is a provision for the costs of restructuring the business.