32 Lecture - MGT401

Important Subjective

1. **What is a provision in accounting, and what is its purpose?**
   Answer: A provision is an amount set aside to cover anticipated future expenses or losses. Its purpose is to ensure that a company has enough funds to cover expected future costs.

2. **What is a contingent liability, and how is it recognized on the balance sheet**?
   Answer: A contingent liability is a potential obligation that depends on the occurrence or non-occurrence of one or more uncertain future events. It is recognized on the balance sheet when it is probable that the obligation will result in an outflow of resources, and the amount can be reliably estimated.

3. **How are provisions and contingent liabilities different from each other?**
   Answer: Provisions are amounts set aside for anticipated future expenses or losses, while contingent liabilities are potential obligations that depend on the occurrence or non-occurrence of one or more uncertain future events.

4. **What is a contingent asset, and how is it recognized on the balance sheet?**
   Answer: A contingent asset is a potential asset that depends on the occurrence or non-occurrence of one or more uncertain future events. It is not recognized on the balance sheet unless it is virtually certain that the asset will be realized.

5. **What is the income statement, and what information does it provide?**
   Answer: The income statement is a financial statement that shows a company's revenues, expenses, gains, and losses over a specific period, such as a quarter or a year. It provides information about a company's profitability and potential for growth.

6. **How are gains and losses recognized on the income statement?**
   Answer: Gains are recognized as revenue, and losses are recognized as expenses on the income statement.

7. **How does recognizing a provision affect a company's financial statements?**
   Answer: Recognizing a provision reduces a company's net income and shareholders' equity while increasing its liabilities.

8. **What is the difference between a contingent liability and a guarantee?**
   Answer: A contingent liability is a potential obligation that depends on the occurrence or non-occurrence of one or more uncertain future events, while a guarantee is a legal promise to make good on a debt or obligation if the debtor or obligor fails to do so.

9. **What are some examples of contingent assets?**
   Answer: Examples of contingent assets include lawsuits that the company is likely to win, insurance claims that the company has filed, and potential tax refunds.

10. **Why is it important for companies to recognize both contingent assets and liabilities?**
    Answer: Recognizing contingent assets and liabilities provides investors and analysts with additional information about a company's potential gains and losses, which can help them make

more informed investment decisions.