Finance

1. How can a Company Show Positive Net Income but go Bankrupt?
Ans: A company can show positive net income while facing bankruptcy by deteriorating working capital (by enhancing accounts receivable and reducing accounts payable) and financial tactics.

2. What does Working Capital Mean?
Ans: Working capital is the amount you get after deducting current liabilities from current assets. It tells you how much cash is tied up in the business through inventories and receivable and how much cash you need to pay off the business's short-term obligations (in the coming 12 months).

3. Why do Capital Expenditures Increase Assets When other Cash Outflows don't and Instead Create Expenses?
Ans: Capital expenditures are capitalized because they give benefits to the firm for a substantial amount of time. For example, a new branch would make a lot of money for the firm for a long while, but an employee's work will only benefit until the time of paying the wages and that's why they create an expense. This is the primary difference between an asset and an expense.

4. Explain a Cash Flow Statement.
Ans: First we start with net income, proceed line by line while making adjustments to arrive at cash flows from operations. Now, you will have to mention capital expenditures, purchase of intangible assets, purchase or sale of investment securities, and asset sales to arrive at cash flow from investments. After getting the cash flow from investments, you'll need to

mention issuance or repurchase of equity and debt and paying out dividends to arrive at finances.

Then, you need to add cash flows from investments, operations, and financing to get the total change in cash. Finally, the cash balance at the beginning of the period and the change in cash lets you arrive at the cash balance of the period's end. This is essentially what a cash flow statement looks like.

5. Can a Company Show Positive Cash Flows While Facing Financial Problems?

Ans: Yes, a company can show positive cash flows even while facing financial trouble through impractical enhancements in working capital (delaying payables and selling inventory) or by not letting revenue go forward in the pipeline.

6. What do you Mean by Preference Capital?

Ans: In simple words, preference capital refers to the amount raised by issuing preference shares. This is a hybrid method of financing the firm as it offers some features of debentures and some features of equity. It is the capital that has preference over equity capital at the time of dividend payment.

7. What do you Mean by Hedging?

Ans: Hedging is a risk management strategy we implement to offset losses in investments. We do so by taking an opposite position in a related asset. However, the amount of risk hedging reduces results in a similar reduction in the potential profit. You can say that hedging is similar to having insurance where you pay a certain premium and get assured compensation. With hedging, if the asset in question causes you a loss, the opposite position in the related asset will make up for this loss. This is why a hedger is quite different from speculators as a hedger doesn’t focus on maximizing profits but on minimizing risks.

8. What is RAROC?

Ans: RAROC stands for Risk-Adjusted Return on Capital and is a risk-based profitability measurement framework we use to analyse risk-adjusted financial performance. It gives a proper view of profitability across organizations. It is one of the best tools to measure a bank’s profitability. By combining it with the risk exposure and the ascertained economic capital, you can calculate the expected returns more accurately with RAROC.

9.What do you Mean by Fair Value?

Ans: Fair value refers to the unbiased and rational estimate of the potential market price of an asset, good, or service. The fair value of an asset is the amount at which you can buy or sell the asset in a current transaction between willing parties other than a liquidation. Similarly, the fair value of liability refers to the amount at which you can incur or settle in a current transaction between two willing parties other than a liquidation.

10.What do you Mean by the Secondary Market?

Ans: Secondary market is where people trade securities that have been offered to the public in the primary market beforehand and are listed on the stock exchange. The secondary market is also known as the aftermarket and some of the prominent examples of them include NASDAQ, Bombay Stock Exchange (BSE), and New York Stock Exchange (NYSE).

11. What is the Difference Between Cost Accounting and Costing?

Ans: Costing is the process of identifying a products or service's cost while cost accounting is the mechanism of analysing a business's expenditure. Cost accounting is a branch of accounting that determines the expenses incurred from a venture through examining, analysing, and predicting the cost data. On the other hand, costing is the process of asserting the costs and prices of products. Costing is a technique while cost accounting is a branch of accountancy. The former has very little impact on a business's decision-making while the latter is crucial for informed decision-making.

12. What do you Mean by Cost Accountancy? Do you Know the Objectives of Cost Accountancy?

Ans: Cost accountancy is the combination of costing and cost accounting where you classify, record, and allocate expenditure to determine a products or service's cost. It records and analyses the related data and presents them appropriately to help in guiding the decision-making process.

13. What do you Mean by Adjustment Entries? Why do We Pass Them?

Ans: The entries we pass at the end of every accounting period to the nominal and related accounts so we can indicate the correct profit and loss in the profits and loss accounts and keep the balance sheet accurate, are called adjustment entries.

It is crucial to passing adjustment before we prepare the final financial statements as in their absence the final statements would reflect incorrect information resulting in error and confusion. Moreover, the balance sheet wouldn't show the accurate position of the business if we don't pass the adjustment entries.

14. What do you Mean by the Put Option?

Ans: Put option is a financial market derivative instrument that allows the holder to sell an asset at a specific price by a specific date to the writer of the put. The purchase of a put option sends a negative message about the future of the stock in question.

15. What do you Mean by Deferred Tax Liability?

Ans: Deferred tax liability is the amount the company hasn't paid yet to the tax department but is expecting to pay it in the future. It happens when a company's tax expenses are lesser than the amount, they reflect in their tax reports or financial statement.

16. What is Goodwill?

Ans: Goodwill is an asset that contains the excess of the purchase price over the fair market value of an acquired business.

17. What is the Difference Between a Journal Entry and a Ledger?

Ans: The journal is the book of prime entry and all the transactions are recorded in it to show which account got debited and which one got credited. However, the ledger is the book for keeping separate accounts. You'd have to classify the recorded transactions in a journal and add them to the dedicated accounts present in the ledger. The ledger is also known as the book of final entry.