



ACCOUNTS

BOOKS - ARYA ACCOUNTS (HINGLISH)

PROVISIONS AND RESERVES

Short Answer Questions

1. Given any four points of distinction between Provisions and Reserves.



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2. Differentiate between Provision and Reserve
on the basis of

(i) Appropriation or Charge

(ii) Financial Position

(iii) Distribution



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3. Given five examples of Capital Reserve.



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4. Distinguish between Revenue Reserves and Capital Reserves.



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5. Explain Capital Reserve and give its any two examples.



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1. Give two examples of provisions.



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2. What are Reserves ?



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3. Give two examples of reserves.



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4. Given two differences between provisions and reserves.



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5. Differentiate between reserve and provision on the basis of charge or appropriation.



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6. Given two examples of Specific Reserves.



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7. Name the reserve that can be used in distribution of dividend.



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8. Where will you transfer profit on sale of a fixed asset ?



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Objective Type Questions A

1. Provison' is a charge against profits.



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2. Provision is made to meet an unknown liability. '



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3. Creation of reserves reduces taxable profits of the business.



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4. Creation of reserves is discretionary.



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5. Dividend equalisation reserve is an example of general reserve.



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6. General reserve can be used only for some specific purpose.



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7. Capital reserves are normally created out of free or distributable profits.



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8. Making excessive provision for doubtful debts builds up the secret reserves in the business.

A. False

B. True

C. Cannot be determined

D. Both

Answer: B



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9. Reserve created for maintaining a stable rate of dividend is treated as secret reserve.

A. False

B. True

C. Cannot be determined

D. Both

Answer: A



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10. Usually, capital reserves are not available for distribution as each dividends.



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Objective Type Questions B

1. If the amount of any known liability cannot be determined accurately.

A. Provision should be created

B. Definite liability should be created

C. Reserve should be created

D. Should be shown as a contingent liability

Answer: a



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2. Which of the following is a correct difference between a provision and reserve?

Option1 A provision is created out of a legal necessity whereas a reserve is created as a matter of prudence.

Option2 A provision is invested whereas reserve is not invested

Option3 A provision is an appropriation of profit whereas a reserve is a charge against profit.

Option4 A provision can be used for distribution of dividend whereas a reserve cannot be allowed to be used for distribution of dividend.

A. A provision is created out of a legal necessity whereas a reserve is created as a matter of prudence.

B. A provision is invested whereas reserve is not invested

C. A provision is an appropriation of profit whereas a reserve is a charge against

profit.

D. A provision can be used for distribution of dividend whereas a reserve cannot be allowed to be used for distribution of dividend.

Answer: a



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3. Which of the following is a correct distinction between a Revenue reserve and Capital reserve ?

Option1 A revenue reserve is created out of capital profits whereas a capital reserve is created out of business profits.

Option2 A revenue reserve can be used for distribution of dividend with certain preconditions whereas a capital reserve can be used for distribution of dividend without any preconditions

Option3 A revenue reserve is created for

strengthening the financial position whereas capital reserve is created for meeting capital losses or to be used for purposes specified by the Companies Act.

Option4 There is no distinction between revenue reserve and capital reserve.

A. A revenue reserve is created out of capital profits whereas a capital reserve is created out of business profits.

B. A revenue reserve can be used for distribution of dividend with certain

preconditions whereas a capital reserve can be used for distribution of dividend without any preconditions

C. A revenue reserve is created for strengthening the financial position whereas capital reserve is created for meeting capital losses or to be used for purposes specified by the Companies Act.

D. There is no distinction between revenue reserve and capital reserve.

Answer: c



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4. Which of the following statements are correct about a "Provisions " ?

(i) Provisions are a charge against the profits of and enterprise

(ii) Provisions are created out of divisible

profits

(iii) Creation of provisions are not necessary for a business

(iv) Provisions are created to meet a known liability

A. (i), (ii) and (iii)

B. (ii) and (iv) only

C. (i), (iii) and (iv)

D. (i) and (iv) only

Answer: d



5. Which of the following statements is not appropriate in relation to "Provision"?

Option1 Provision is a charged against profit

Option2 Provision is created for known liability

Option3 Provision is created for strengthening the financial position of the business.

Option4 Creation of provision satisfies the principle of conservatism.

A. Provisiion is a charged against profit

B. Provision is created for known liability

C. Provision is created for strengthening the financial position of the business.

D. Creation of provision satisfies the principle of conservatism.

Answer: c



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Objective Type Questions C

1. are created in business for rainy day.



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2.are created for specific purpose.



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3. are created out of capital gains.

A. Capital Reserve

B. Investment Fluctuation Reserve

C. General Reserve

D. None of These

Answer: A



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4. Is reserve a charge against profit or an appropriating of profit ?



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5. Why 'Dividend Equalisation Reserve' is termed as Reserve and not a provision?



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Higher Order Thinking Skills Questions

1. Eicher Ltd. intentionally made excess provision for doubtful debts. What term will be used for excess provision ?



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