

1. Distinguish between revenue reserve and capital reserve.

Basis of Difference	Revenue Reserve	Capital Reserve
Source	It is created out of revenue profit, i.e., revenue earned from normal activities of business operations.	It is created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc.
Dividend	It can be used for dividend.	It cannot be used for dividend.
Purpose	It is created for strengthening the financial position of the business.	It is created for the purpose laid down in the Companies Act.

2. Give four examples each of revenue reserve and capital reserves.

Solution:

1. Four examples of revenue reserve are given below.

1. General Reserve
2. Retained Earnings
3. Dividend Equalisation Reserve
4. Debenture Redemption Reserve

2. Four examples of capital reserve are given below.

1. Issues of shares at premium
2. Profit on issue of shares
3. Sale of fixed assets
4. Profit on redemption of debentures

3. Distinguish between provision and reserve.

Basis of Difference	Provision	Reserve
Meaning	It is created to meet the known liability.	It is created to meet unknown liability.
Nature	Provision is charged against profit.	Reserve is appropriation of the profit.
Purpose	It is created for a specific liability.	It is created for strengthening the financial position.
Mode of Creation	It is created by debiting the profit and loss account.	It is created by debiting the profit and loss appropriation account.
Use for payment of dividend	It cannot be used for payment of dividends.	It can be used for payment of dividends.
Creation	Creation of provision is compulsory. It is created even if there is no profit.	Creation of reserve depends on the discretion of the management. It is created only when there is profit.

4. Give four examples each of provision and reserves.

Solution:

Four examples of provision are given below.

1. Provision for bad and doubtful debts
2. Provision for discount on debtors
3. Provision for depreciation
4. Provision for taxation

Four examples of reserve are given below.

1. General reserve
2. Capital reserve
3. Dividend equalization reserve
4. Debenture redemption reserve

5. Distinguish between general reserve and specific reserve.

Solution:

Basis of Difference	General Reserve	Specific Reserve
Meaning	When the reserve is created without any specified purpose, the reserve is called general reserve.	When reserve is created for some specific purpose, the reserve is called specific reserve.
Usage	It can be used for any purpose	It cannot be used for any purpose other than the specified purpose for which it is created.
Examples	Retained earnings, reserve funds, etc.	Debenture redemption reserve, dividend equalisation reserve, etc.

6. Explain the concept of secret reserve.

Solution:

Reserves that are created by overstating liabilities or understating assets are known as secret reserves. They are **not** shown in the balance sheet. These reduce tax liabilities, as the liabilities are overstated. It is created by management to avoid competition by reducing profit. Creation of secret reserve is **not** allowed by Companies Act, 1956 that requires full disclosure of all material facts and accounting policies while preparing final statements.

1. The art of recording all business transactions in a systematic manner in a set of books is called-

- (a) Accounting
- (b) Book – keeping
- (c) Ledger
- (d) None of these.

2. The process of recording, classifying and summarizing all business transactions in order to know the financial result is called –

- (a) Book – keeping
- (b) Accounting
- (c) Journalizing
- (d) None of these.

3. Cash, goods or assets invested by the proprietor in the business for earning profit is called-

- (a) Profit
- (b) Capital
- (c) Fixed assets
- (d) None of these.

4. The person, firm or institution who does not pay the price in cash for the goods purchased or the services received is called-

- (a) Creditor
- (b) Proprietor
- (c) Debtor
- (d) None of these.

5. Book – keeping is-

- (a) An art
- (b) A science
- (c) An art and science both
- (d) None of these.

6. Generally the duration of an Accounting period is of-

- (a) 6 months
- (b) 3 months
- (c) 12 months
- (d) 1 month.

7. The sum of Liabilities and Capital is-

- (a) Expense
- (b) Income
- (c) Drawings
- (d) Assets.

8. In India, the accounting standard board was set up in the year-

- (a) 1972
- (b) 1977
- (c) 1956
- (d) 1932.

9. The basic accounting postulates are denoted by –

- (a) Concepts

- (b) Book – keeping
- (c) Accounting standards
- (d) None of these.

10. The amount drawn by businessmen for his personal use is-

- (a) Capital
- (b) Drawing
- (c) Expenditure
- (d) Loss.

11. Meaning of credibility of going concern is:

- (a) Closing of business
- (b) Opening of business
- (c) Continuing of business
- (d) None of these.