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शक्तिउत्थानआश्रमलखीसरायबिहार

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Depreciation, Provisions and Reserves

Question 12:

Distinguish between general reserve and specific reserve.

ANSWER:

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.

Question 13:

Explain the concept of secret reserve.

ANSWER:

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.

