

MEANING OF KEY TERMS USED IN THE CHAPTER

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| 1. Provision | Provision is an amount set aside by charging it to profits to meet a known liability, amount of which is not determined and is accounted by making best estimate. |
| 2. Reserve | It is an amount set aside out of profits to meet an unknown contingency or to strengthen the financial position. |
| 3. Revenue Reserve | It is the amount of reserve set aside out of revenue profits. |
| 4. Capital Reserve | It is the amount of capital profit transferred to Capital Reserve. |
| 5. General Reserve | It is the amount set aside out of profits not for any specific purpose. |
| 6. Specific Reserve | It is the amount set aside out of profits for a specific purpose, say, Reserve for Expansion. |
| 7. Secret Reserve or Hidden Reserve | It is a reserve the existence and/or the amount of which is not disclosed in the Balance Sheet. |
| 8. Reserve Fund | Amount of reserve invested outside the business, <i>i.e.</i> , reserves against which investment exist is termed as Reserve Fund . |

CHAPTER SUMMARY

- **Provision** is providing for a liability the amount of which is not certain. In other words, the amount provided is an estimate. Examples are: Provision for Doubtful Debts, Provision for Discount on Debtors, etc.
- **Concept of Provision** is to provide for liabilities, losses and expenses, whether the amount thereof is ascertained or not.
- **Objective of Provision** is to show correct profit or loss and liabilities and assets are shown at correct values.
- **Reserve** is an amount set aside out of profits to meet future contingencies or to strengthen the financial position of the enterprise. Examples of reserves are General Reserve, Reserve for Expansion, Dividend Equalisation Reserve, etc.

All Reserves appear on the liabilities side of the Balance Sheet.

- **Reserves** are generally classified into:

(a) Revenue Reserves and (b) Capital Reserves.

(a) *Revenue Reserves*: They are created out of revenue profits which are available for distribution as dividend. Examples are: General Reserve, Debentures Redemption Reserve, Dividend Equalisation Reserve, etc.

Revenue Reserves can further be classified into:

(i) General Reserve and (ii) Specific Reserve.

(i) *General Reserve*: This reserve is not created for any particular purpose. It is available for any future contingencies or expansion of the business.

(ii) *Specific Reserves*: Specific Reserves are those reserves which are created for specific purpose and are utilised for that purpose.

(b) *Capital Reserve*: It is created out of capital profits. Examples are: Profit prior to incorporation, Premium on issue of securities, Profit on forfeiture of shares, etc.