

# Chapter - 7 Depreciation, Provisions and Reserves

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## Question 1

Define Depreciation.

**Answer:** Depreciation is defined as continuing or permanent decrease in the quantity, value, and quality of assets.

## Question 2

What causes depreciation

**Answer:** Depreciation is caused by

- By constant use
- By the expiry of a time

## Question 3

Give two objectives of Depreciation

**Answer:** The two objectives of depreciation are

- For ascertaining the true profit and loss by profit and loss account
- For showing the true financial position by the balance sheet

## Question 4

State the two factors for determining the amount of depreciation

**Answer:** The two factors for determining the amount of depreciation are

- The total cost of the asset
- The estimated useful life of the asset

## Question 5

What is the scrap value or residual of an asset?

**Answer:** The scrap value or residual of an asset is the estimated sale value of the assets at the end of its useful life.

## Question 6

What is the formula of a depreciable cost?

**Answer:** Depreciable Cost = Cost of Asset – Scrap Value

### **Question 7**

Define Provisions.

**Answer:** The amount retained by way of providing for any unknown liability of which the amount cannot be determined with substantial accuracy.

### **Question 8**

State two features of Provisions.

**Answer:** The two features of Provisions are.

- Provision is arranged to meet a known liability
- The liability is known but the amount of these liabilities cannot be ascertained with reasonable accuracy
- Provision is a charge against profit and as such reduces the profits of the year in which it is created

### **Question 9**

Define Reserve

**Answer:** Reserve refers to the amount set apart out of profit and other surpluses to meet future risks.

### **Question 10**

If the amount of any unknown liability cannot be determined accurately

1. Provision should be created
2. Definite liability should be created
3. Reserve should be created
4. Should be shown as a contingent liability

**Answer:** Provision should be created

### **Question 11**

Give one difference between reserve and provision on the basis of charge or appropriation

**Answer:** Reserve is an appropriation of profit and provision is a charge against profit.

### **Question 12**

Provision is made to meet the unknown liability. Is it true or false

**Answer:** True

**Question 13**

General reserve can be used only for some specific purposes. Is it true or false

**Answer:** False

**Question 14**

Depreciation is provided only on fixed assets except for land

**Answer:** True

**Question 15**

Depreciation is non-cash expenditure

**Answer:** True