

PROVISION

VS

ACCRUALS

in Accounting





Provisions in accounting are amounts set aside to cover probable future expenses, or reductions in the value of an asset.



Accruals refer to the recognition of expenses and revenue that have been incurred and not yet paid.



Differences between Provisions & Accruals

Provisions

Provision is made when it is known that an expenses will arise but the **exact amount is not known**.

Provision result in the **decline in profits** as provisions are **charged to the income statement**.

Existence of liability **depends on the occurrence or non-occurrence of certain events**.

Provisions are generally made on the basis of **less substantial documentary evidence**.

Accruals

Accrual is made when the **exact amount** of expenses or revenue **is known** at the time of recording.

Accruals will not result in the increase or decrease in earnings.

Existence of liability is certain as it is only the actual settlement that remains pending.

Accruals are generally made on the basis of **actual documentary evidence**.



Examples

Provisions

Provision of **doubtful debts**

1

Purchase of **materials**

Provision for **impairment of assets**

2

Payment of **utility** expenses such as rent, professional fees and etc.



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