



Provisions in accounting

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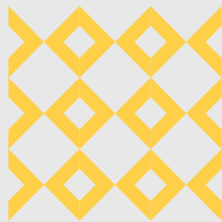
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01

Introduction:



Provision:

A provision in accounting means setting aside some money from the company's earnings to cover future expenses or losses that might happen later on. It's like putting money aside for a rainy day to make sure the company can handle unexpected costs or debts.



02

Objectives of provisions:

Objectives of provisions:



To meet anticipated losses and liabilities.



To meet known losses and liabilities.



To present correct financial statements.

Objectives of provisions:




To meet anticipated losses and liabilities.

Provisions are created to meet the anticipated losses and liabilities such as provisions for bad debts, provisions for discounts on debtors, and provisions for taxation.



To meet known losses and liabilities.



Provisions are created to meet the known losses and liabilities such as provision for repairs and renewals.





To present correct financial statements.

In order to present correct financial statements and report true profit and financial position, the business must maintain a provision for known liabilities and losses.

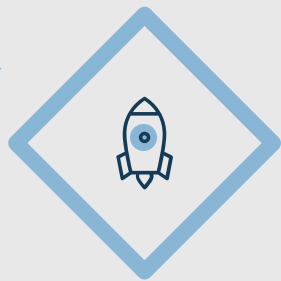




03

Types of provisions

Provision for bad debts



A provision for bad debts is an accounting estimate of the amount of money a company expects to lose from customers who don't pay their bills. It's essentially a way to set aside money in advance to cover these potential losses.

Warranty provision



A warranty provision is an amount of money that a company sets aside to cover the cost of future repairs or replacements of products that are still under warranty. It is an estimate of the company's liability for potential warranty claims.

A litigation provision is an accounting estimate of the potential costs associated with a legal dispute in which a company is involved. It represents a liability on the company's balance sheet, reflecting the expected financial burden of the lawsuit, regardless of who wins.



Litigation provision

A provision for income taxes, also known as an income tax expense, represents the estimated amount of income tax a company expects to pay to various authorities for the current reporting period. This includes federal, state, local, and foreign income taxes.

Provision for income taxes:



Types of provisions :

Provision for
income taxes:

Provision for bad debts



Warranty
provision

Litigation
provision

Features of provision :



It is maintained to meet the anticipated losses and liabilities.



It can't be distributed as dividend to shareholders.



It is recorded as expenses in the income statement.



It reduces the amount of net profit of the business.



04

Conclusion

Conclusion :

More than accounting tools, provisions shield companies from future uncertainties. Anticipating potential costs like bad debts or lawsuits creates a safety net, fostering preparedness, smart decisions, and investor confidence in long-term financial stability.

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THANKS !