

46.1 An exercise on the effect of making or not making provisions

State how the following actions would affect the reported profit of a firm in the current period and in the next period(s):

- a) failure to make a provision when required
- b) making a provision when not required.

Response

- a) Failure to make a provision when required will mean that the reported profit of the current period will be overstated, and the reported profit of the next period(s) will be understated.
- b) Making a provision when it is not required will mean that the reported profit of the current period will be understated, and the reported profit of the next period(s) – when the unnecessary provision is released, will be overstated.