

## Chart of Difference between the Provision and Reserve

Basis	Provision	Reserve
<b>Meaning</b>	The amount provided for the future expected liabilities.	The part of profit retains for future use.
<b>Purpose</b>	To get Actual profit or loss of the business.	To distribution part of profit and retention part of the profit for the growth of the business.
<b>Provides for</b>	To cover the known liabilities	To Increase the share of capital employed in the business.
<b>Need for Profits</b>	Not necessary, Provision is also charged against loss because it is created against liability for expenses.	Profit is necessary, but in the creation of the capital reserve, it is not necessary.
<b>Treatment in Balance</b>	If it is created against asset then subtracted from it. if created against liability then it will be shown on the liability side of the Balance sheet.	It is always shown on the liability side of the balance sheet.  <b>Tutor'sTips.com</b>
<b>Investment outside</b>	It cannot be invested outside the business.	It can be invested. In that case, it is called a fund.
<b>Dividend</b>	Business can never pay the dividend out of the provision.	Business can pay the dividend out of the provision.
<b>Compulsion</b>	It is compulsory as per GAAP guideline.	It is not compulsory to create, except in case of some capital reserves.
<b>Usage</b>	it is used only for the purpose for which it is created.	it can be used for any purpose if it is not created for a specific purpose.