

Accounting principals



Accounting principles There are a number of accounting principles which must be taken into account when looking at a business and determining whether or not it is a going concern. Among these items are: product cost, performance measurement, transfer, pricing, outsourcing, union and budgets. In this assignment I will briefly describe the importance of each of these items and situate them within a business and describe why they are important to account for.

Product cost

For a company that sells products, few things are more important to consider than the costs of that product. If a product is priced too high, few people will buy it; if it is priced too low than many people will buy it but the company will make no money. The key is to price it at a level where people can still afford it and will still demand it but where the company will also be able to make a profit and be able to maintain its status as a going concern.

Performance measurement

There are many ways measure performance but the reason why it is important is that if performance suffers than the whole company suffers. There are many econometric systems of measurement used for this process. Needless to say, it is complex.

Transferable Pricing

Clearly taxes play a huge role in every business and it is important to account for them. Transfer pricing is one method of adjusting prices between different parties at arms length. This is an effective method of determining the real price of something with relations to tax. All good accountants will do this. For many years governments have permitted this kind of calculation.

Outsourcing

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Depending on where you sit politically outsourcing is either good or bad. It involves sending certain jobs to other places or countries where they can be done more cheaply. For example, a lot of companies outsource menial work such as call centres to India where wages are lower. This is a good way for companies to save money as they are always sending jobs to places where they can be done more cheaply. However, for workers at home they don't want to see their jobs move. In the end, the customers win as the company's savings are passed on to them. This is important to take into account when reading financial statements.

Unions

Many workplaces are unionized. Workers sign collective agreements and have many rights. For workers this can be a good thing as their jobs are more easily protected, but for many companies this often involves higher costs as unions demand more wages and benefits. We can see how unions have nearly destroyed the American car industry through the way they drove up costs dramatically over the years.

Budgets

No company can survive without a budget. A budget lays out all of the income and expenses and determines what a company spends on the various items and needs it requires to do business. The closer a company sticks to its budget the better off it will be. When it busts its budget it goes out of business.