

Importance of accounting information in business development



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Describe how accounting information helps shareholders and lenders to make decisions concerning the operations and performance of the entity.

Accounting information can be used by shareholders and lenders to look at an entity's financial position and whether it is viable to invest or lend to the entity. If the performance of a company has been poor and there is no indication of this improving, a potential shareholder will not invest in the company as there is nothing to gain from the investment and a lender will not loan money to the company due to the risk of not seeing that money again. If however, the company is turning a profit, indicates that it will continue to do so in the future and has a great many assets, both shareholders and lenders will consider investing in the company in line with their personal interests.

List five/six stakeholders of accounting information. Describe the information requirements for each one; for example, lenders would need information regarding the business's ability to repay debt and service a loan.

Stakeholder	Information Requirements
Banks	Whether the company in it's capacity can repay a loan

should it

decide to

take one

out.

Whether

the

company

can

support an

employee'

s lifestyle

and

longevity

Employee in the

s company.

The

employee

may also

seek

opportuniti

es in the

company

such as

promotion

Governme The about

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of tax the
company
should be
paying and
whether
nts the
company
will pay
any more
tax in the
future.

Communit Whether
y the
company
is an asset
to the
communit
y,
providing
jobs and
resources
to other
organisati
ons within
the

communit
y such as
sponsorshi
p.

Consumer Whether

s the
company
is
providing
quality
products
or services
and not
cutting
corners on
the quality
of the
products.
They may
also like to
see
whether
their
favourite
product

will
continue
to be
available.

Whether
the
company
can fulfil
the
financial
obligation
of

Suppliers purchasing
products
from the
supplier so
the
supplier
itself can
make a
profit.

Darby Davis is considering purchasing a sushi bar in the inner Brisbane suburb of Paddington. Outline the importance of a business plan for Darby and the type of accounting information she will require to assist her in making the decision.

Business plans are important for new businesses as they provide the background and the purpose of the forthcoming business. In reference to the textbook, “ All business plans, whatever their structure, should cover the key issues of marketing, operations and finance”[i]. Specifically, a business plan should include strategy including a background profile, marketing strategy, timeline of business implementation, financial backing and any other issues the business may have.

How can the professional accounting bodies assist in standard setting?

Accounting firms can assist companies in many ways with their accounting methodology. This can include identifying technical issues, educating members, students and accountants of the company. By doing this, the accounting firms can ensure that the rules enforced by the AASB (Australian Accounting Standards Board), IFRS (International Financial Reporting Standards) and the GAAP (Generally Accepted Accounting Principles) are being met with compliance.

What is meant by business sustainability?

Business sustainability is the act of preserving aspects of the business for the present and future. This can include social, environmental and financial aspects of the business.

Outline the benefits for organisations in considering business sustainability.

By complying with business sustainability, the business is not only benefiting themselves by making plans to preserve their company but also having an

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impact externally. This can include within the local community, where the business is providing jobs to people. Environmentally, where the business is applying green strategy to benefit the future of the planet. And as one last example, to the shareholders who have invested in the company. By accepting sustainable practices, the business will be able to pay dividends to those shareholders and those shareholders will continue to invest in the company.

What are the three pillars of sustainability?

The three pillars of sustainability are: Social (People), Environmental (Planet) and Economic (Profit).

Outline the possible consequences for an entity that breaches its ‘social contract’.

When a business breaches its social contract, the company risks being rejected or boycotted on a social level. Society has an impact on how the business conducts itself within the public, and when a company breaches that expectation they may see negative effects from members of the wider community consequently.

Identify some social performance aspects on which entities report.

Businesses may report on several social performance aspects. These can include:

- Ethical and Integral Performance
- Environmental Performance
- Community Participation and Sponsorship
- Community Employment

- Improvement of Stakeholder relations

Illustrate with an example how sole traders and partners are taxed in Australia. What are the advantages or disadvantages compared to paying company tax?

Sole traders and partnerships both have their tax assessed as their personal income, this is treated as tax out of their salaries. This means that they do not have to submit to formal reporting standards about their tax, but many use MYOB or Quicken to keep track of their accounts. A disadvantage of this is that the tax rate can be higher than that of a company. Currently the tax rate of a company is 30% and the personal rate can vary on how much they make annually.

[i]Birt, Jacqueline, Keryn Chalmers, Suzanne Maloney, Albie Brooks, Judy Oliver. *Accounting: Business Reporting for Decision Making, 6th Edition*. John Wiley & Sons Australia,, 08/2016. VitalBook file.