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The final accounts should be a true reflection of the financial state of a business on a particular date, however, there are several ways that a business can make its final accounts look good or even bad, therefore I'm going to talk through the different ways on accounts that can make a business look different to how they actually may be and explain the small changes that allows this to happen.

The accounts of D Simpson showed that he had a positive outcome, through his year. Overall he made a Net profit of ï¿½17'166 which is a good outcome, it also shows that he made good sales throughout the year. You can't always guarantee that this information is a 100% accurate because Owners of business want to show the best on their accounts to show anyone interested in their business, that they have good sales, and are coming out with a profit at the end of the year. D Simpson's accounts are all good but their may have been ways he changed them, I'm going to discuss the different way he may have changed them, this is known as window dressing. Intangible assetsIntangible assets are something that can't be picked up or touched.

For instance a customer may make a purchase on an item because of its brand name, or reputation. This is a value to the business, if the business is to be sold this shows a big value to the business from a brand name. In a business if you sell a product that is of an own make, this doesn't have a value because it hasn't got a brand name. Other intangible assets are goodwill, patents and copyright and trademarks, they aren't possessions of the company but they help them to make good money. If a new product is brought out then it requires a copyright/ patent. The board of director decide the valuation of brands that have been in the company a while, and they do not go on the balance sheet.

Brands which have been acquired for money go on the balance sheet and can be over-valued by the business owner, by them not depreciating the product enough this is not a illegal action but it does make the value of the business look different that what it should realistically be. Fixed assetsFixed assets are the machinery, fixtures, fitting, furniture and the building of the business. Business owners choose the value of them, and this goes down on the accounts, therefore we don't know the specific value for them and what they are worth, they can be over valued to make it look like the business is worth more than it actually, on the other hand they could under value making the business not look to be worth as much. Current assetsCurrent assets of the business are stock, debtors and cash. The stock that is sold in the business may go down in value after a long time, for instance clothing styles change throughout season therefore they have a sell by date on them.

Debtors are also part of current assets and there could be problems with them, either though they appear on the accounts they may not actually pay up due to going bankrupt or you may not be paid on time, meaning a lost of money when the accounts are being made. You may not always get the whole amount of payment also; therefore they aren't a reliable source. Cash is the only source that will only stay the same throughout the year and will not change. The business owner is able to price the stock as to what they believe it should be, therefore they could make up any price even though the value will go down over time. DepreciationA depression is a fixed asset of the business. Each year stock looses its value.

You can under depreciate so that it looks better than it actually, you may show that the depressions is going down by 5% each year, whereas it really is going down by 10% which is a lot more than expected, meaning it would have more loss of money than you may have expected if you were interested in the business. This means that the business owner is able to make their business to look a lot better than it actually is. Sale and lease backSale and lease back means that a company may decide to see its vehicle to a leasing company then the vehicle back for an agreed amount of time. The leasing company gains a customer and the business gains a lump sum of money.

This then is shown on the accounts as an income to the business and is shown on the profit and loss account showing an increase in the profit of the business. There is a reduced fixed assets on the balance sheet and more liquid cash so the liquidity position of the company is altered. This method can't be used all every year, but for a year when accounts may need to be shown it will make it look good. Operating expenditure Vs capital expenditureCapital expenditure is where they buy more assets. It like they have two separate bank accounts so they have the current assets that is there everyday bank account where they use on a regular basis that bank account, the saving accounts is where money goes in that isn't touched often other than to buy bigger items. On the cash flow, if they are struggling, they are able to transfer the capital expenditure into operating expenditure when selling a business to make the cash flow look good.

To conclude, there are many different ways in which you can make you accounts look good for people who are interested in buying the business. By altering the accounts by window dressing them, and slightly changing the amount on them it makes it look as though the company is doing better than it actually is so that it makes the people interested believe that it is doing well, and is making a profit.