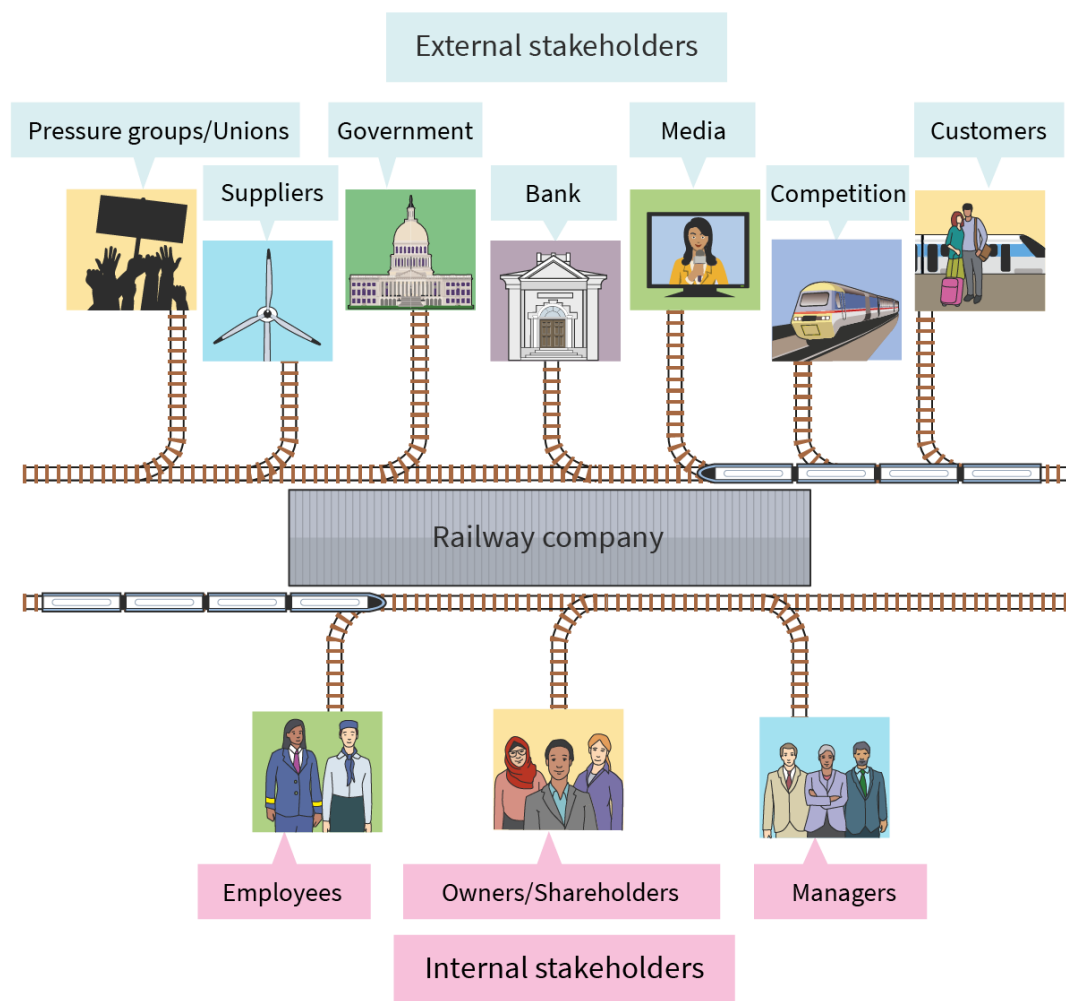


## 3.4 Final accounts

# The purpose of accounts for different stakeholders

The financial health of a business is central to its success. Businesses need to be transparent about their financial condition because this impacts many stakeholders. As you learned in [Subtopic 1.4 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-36525\)](#), stakeholders have varied interests in a business. This means that stakeholders also have varied interests in the final accounts.

As you also know, stakeholders can be divided into internal and external groupings (see **Figure 1**). In this section, stakeholders' interests in the final accounts will be approached using the same classifications.



**Figure 1.** Business stakeholders.

# Internal Stakeholders

Internal stakeholders are groups within the business that are interested in the final accounts. They include management, owners and shareholders, and employees.

## Management

Management refers to people in the organisation that plan, organise, coordinate and control the activities in the business. Managers, such as the chief executive officer (CEO), could be working at the top of the hierarchy, or they could be working at lower levels of management. Managers use final accounts to see changes in the business and develop new strategies. They might use them to identify the following:

- how easily a business can cover its immediate, short-term and medium-term debts to ensure that the company does not become insolvent
- the profit earned during the year
- the value of assets owned by the company
- the amount of money invested by shareholders

## Owners and shareholders

Owners and shareholders are the individuals and organisations that own shares in the company. These stakeholders might use the final accounts to identify the following:

- how effectively their money has been invested
- how much they will receive in dividends

## Employees

Employees are the people who work in the business. They could be interested in the final accounts for the following reasons:

- to know the overall financial stability of the business and how secure their jobs are
- to be able to negotiate for better wages based on the profits of the business



**Figure 2.** Employees may be interested in final accounts to know whether there is room to negotiate higher salaries.

Credit: jayk7, Getty Images

### Exam tip

Each stakeholder has a specific interest in the final accounts. You need to be precise in explaining how each group could use the accounts.

## External stakeholders

External stakeholders are groups outside the business that are interested in the final accounts of a business. They include the government, competitors, banks, the business's suppliers and the local community.

### Government

The government authorities of the country, region, or city where the business is located will be interested in the final accounts for several reasons.

- The government may wish to assess taxes on the business, based on the business's profits. These taxes are used to fund essential

public services like education and infrastructure that businesses depend on to be able to function.

- The government may also want to assess the health of businesses, because businesses provide jobs and contribute in other ways to the community. Businesses may need support in difficult times and financial reporting can reveal when this is necessary.

## Competitors

Competitors are the rival businesses in the market. They would be interested in the company's final accounts for the following reasons:

- to assess the overall financial strength of the company
- to compare profits for the year of businesses in the same industry as themselves

## Banks

Banks would be interested in final accounts to check the ability of a business to repay loans.

## Suppliers

Suppliers are businesses that supply goods and services to the company. They would be interested in the final accounts of the company to assess how effectively the company would be able to pay for the goods supplied to it on credit.

## Local community

The local community refers to the people and authorities of the town or city where the business is located. They are interested in the wellbeing of the community. So they want to know whether the business is financially stable and will remain in the community to provide jobs and the goods and services that the community needs.



**Figure 3.** The local community is interested in final accounts because businesses provide goods and services and have a relationship with the people they serve.

Credit: Jetta Productions Inc, Getty Images

## Concept

### Ethics

Ethics is the moral conduct of businesses to do the right thing. Some ethical behaviour is coded in laws and regulations. But much ethical behaviour is grounded by the mutual responsibilities that develop between networks of stakeholders – such as employees, customers, shareholders and suppliers – when organisations are established.

Accountants have a responsibility to keep business accounts in order and prepare the final accounts. These accounts must be accurate and transparent because many stakeholders rely on them for information that is important for their relationship with the business.

## Activity

**Learner profile:** Inquirers

**Approaches to learning:** Research skills (information literacy)

Using newspapers, the internet and your own knowledge, identify one business that had a positive financial performance in the most recent year, and one whose performance was not so good.

1. Identify some internal and/or external factors that impacted the business (see SWOT analysis in [Section 1.1.5 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-swotsteeple-analysis-id-36504\)\)](#)).
2. Identify how some stakeholders were affected by the positive or negative financial performance of the business.