



QUALITIES OF USEFUL FINANCIAL REPORTS

As an entrepreneur, planning and implementing the accounting system of the business that you hope is going to make you money, it is important that your accounting system must produce information that are going to be useful to you and to those who are reading it.

How do you do this? Information that a business is expected to present must be:

1. Understandable.

Naturally the information produced must be understandable. A guideline is to provide information that people, who are willing to understand it, can understand it: professionals or nonprofessionals. As a business owner, you have to think of the different accounting backgrounds of the different types of people who will be reading your reports and match that accordingly.

2. Relevant & Material

Relevance is the capacity of information to make a difference in a decision. It is important to report and disclose information that is relevant for anyone to make a decision. Accounting information must also deal with things that are significant enough to impact decisions that are made by those who use your financial reports.

3. Reliable

People must depend that the figures and the facts printed on your financial statements are true. How can you say that an information is reliable? It must be verifiable. Free from error. E.g. you can always look at a receipt to verify the amount of an expense. As you already know, when you get audited, you must verify all transactions that occurred in your business anyway.

4. Comparable & Consistent

Comparability relates to the ability of an information to be compared with those of other similar companies so that decision-makers can compare 'apples to apples' not 'apples to oranges'. However, Generally Accepted Accounting Principles (GAAP) allow for certain choices of different accounting methods for depreciation and inventory management.

5. Conservative

This applies mostly in situations where there is uncertainty of an outcome but you have to estimate what this outcome might be. The key is to choose the less pessimistic estimate. Of course this may not always be a wise decision if the chances of the less pessimistic estimate is very minute as opposed to the other choice(s).

This article was written for OrangesAndLime.com, to help creative individuals — artists, musicians, designers, illustrators and entertainers — build their own freelance businesses. Please note that this article serves as a guideline only. You should still seek professional advice regarding the matter because laws and practices change over time and they differ from country to country.

<https://blog.granted.com/>