

Report on Max Wrench's Business by Gerald Sim & Partners

The major causes of small business failure are neglect, fraud, poor management and disaster. Of these, the most significant is poor management. (Wade, M. *The Accounting Framework*. Australia:1988. p109).

For the case of Max Wrench, an accounting system is very much needed to be put in place. Firstly, it is essential to calculate the current value of his assets, liabilities and owner's equity so that he can apply for a mortgage on his assets. More importantly, as Max is looking into expanding his business, it is of utmost importance that Max has the help of a good management accounting system, to help him assess the position of his business at all times and take necessary actions. Lastly, like every other business in Australia, Max needs a financial accounting system that is of acceptable standard.

Management Accounting

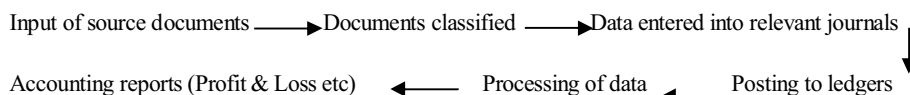
There is no legal or statutory requirement for any business to prepare management accounts nor are there any rules regarding how these accounts should be presented. Management accounts which are prepared regularly and kept up to date will allow Max to keep track of the financial performance and to take remedial action should the need arise. These reports can be prepared monthly or quarterly.

The Management accounts will comprise some or all of the following, depending upon the complexity of his business and the progress of his expansion. These requirements may vary as Max's business continues to grow.

- A forecast of the likely year end results and financial position (based on the actual 6 months to date results and the expected business for the remainder of the year)
- A forecast of future cash flows and borrowing requirements compared with available facilities
- Profit or loss for the current period (month or quarter) and 6 months to date
These are to be given with:
 - comparatives for the past year or any budgeting or forecast,
 - and may be supported by or analysed by the opinion of Max himself
- A balance sheet at the end of period.
The balance sheet may also be supplemented with:
 - Comparisons with prior year budgeting
 - Detailed analysis of key matters such as aged debtors, fixed asset purchases and sales, or pressing liabilities or fixed asset purchase commitments.
- A cash flow statement for the period to date
- A written commentary on significant features such as unexpected trends or variations from the budget

In order to prepare accurate management accounts it is essential that the underlying accounting records are up to date and accurate as at the relevant period end.

Since the business of Max Wrench is rather small in scale, it is advisable for Max Wrench to sub-contract his management accounting to Gerald Sim & Partners. Accounts will be managed in this way:



These stages of process will involve creation of General Ledger, Purchases Journal, Sales Journal, Accounts Payable and Receivable Ledgers and the Cash Journal.

The two employees of Max's company are also stakeholders of the company and Max can choose to give them access to some of the management info, and they can gauge their future prospects in this company. Management accounts will also help Max, the main stakeholder, estimate the amount of mortgage he can afford or need to take.

Financial Accounting and Accounting Records

Even for simple businesses like Max Wrench's, which are subject to no specific accounting regulations, the advantages of maintaining up to date accounting records cannot be underestimated.

It is a good habit in all businesses that all transactions are supported with a written record. Check butts, sales receipts, invoices etc., are to be filed accordingly. These are called source documents. Poor documentation and financial record keeping has resulted in 44% of businesses to fail. (Miles, S. *Business Management*. Victoria:1993. p40)

In particular, the maintenance of up to date accounting records:

- Creates a culture of accounting and financial propriety and discipline
- Identifies unpaid liabilities and unpaid debts receivable
- Allows proprietors or managers to monitor business performance.

Accordingly his unincorporated business is also strongly advised to:

- Maintain full double entry accounting records by computer using appropriate accounting software (if within Max's budget)
- Update the accounting records frequently; at least monthly
- Keep all applicable vouchers for the minimum period.

As we have observed, one of Max's employees is only a part-timer and it is therefore even more necessary that we take measures to prevent fraud or theft within the business. Regulations should be put in place to allocate tasks and authority within the company. For example, credit should only be given to approved customers, who should be present while receiving stock, stock received must tally with suppliers' invoice etc,. Cash balances should also be checked daily to reconcile with all supporting documents.

Max and neither of his employees are trained accountants and it would be extremely difficult for him to maintain highly detailed accounting ledgers and journals, therefore it is best advised that he sub-contract his accounting tasks. At the same time, he has to maintain proper accounting records of all business transactions and practice good housekeeping. With a good cooperation with Gerald Sim & Partners, the steadfast growth of his company is almost assured.

