

Interested parties

Read online at pastopic.com/cambridge/accounting-0452/notes/interested-parties

Last checked 1 October 2026

Read first: [The purpose of accounting](#)

© 2026 Pastopic. Free for personal study. Please share the link, not the file.

What you need to know

By the end of this topic you should be able to explain how each of these groups uses a business's (or a club's) accounting information to make its decisions:

1. **Owners:** is the business worth running, and what should they do next?
2. **Managers:** how is each part of the business performing, and what needs to change?
3. **Trade payables** (suppliers who sell on credit): will the business pay what it owes on time?
4. **Banks:** can the business repay a loan or overdraft, and the interest on it, and what security does it offer?
5. **Investors** (shareholders and people thinking of buying shares): what return will they get?
6. **Club members:** is the club's money being used well, and can it afford what the members want?
7. **Other interested parties**, such as the government and tax authorities, employees and their trade unions, customers, and people thinking of buying the business or joining it as a partner.

You don't calculate anything new in this topic. The ratios that these groups might look at are in the topics calculation and understanding of accounting ratios and interpretation of accounting ratios.

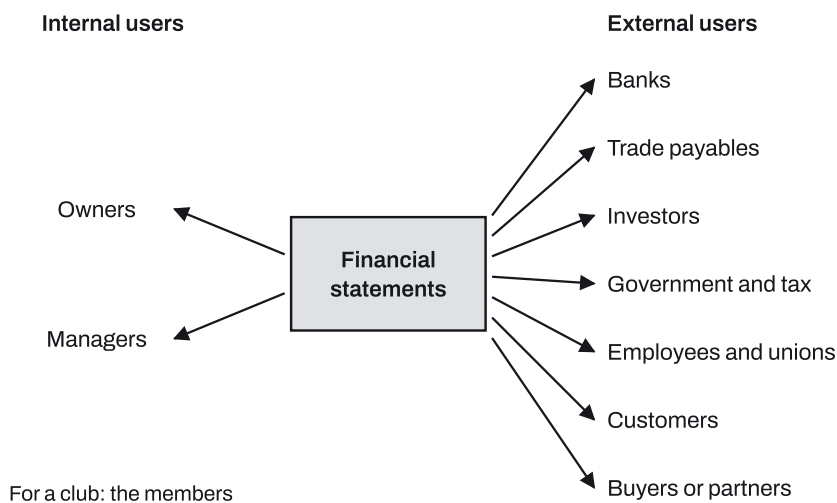
Understand it

Who reads accounts, and why

Financial statements are written for people who have to **make a decision** about the business: whether to keep going, lend, supply, invest, work there or charge tax. Each group has its own question, so each one looks at different parts of the statements.

It helps to split them into two groups:

- **Internal users** run the business from the inside: the **owner** (a sole trader or the partners) and the **managers** (and, for a company, the directors).
- **External users** are outside it: banks, trade payables, investors, the government and tax authorities, employees and trade unions, customers, and possible buyers or partners. A club's members are the club's owners, so for a club they are the main users.



Employees work inside the business, but they are not the ones making its decisions, so exam questions treat employees and their **trade unions** as external users.

What each group wants to know

User	The decision it faces	What it looks for in the statements
Owner	Keep going, expand or close? Take more drawings?	Profit (and whether it beats what the owner could earn elsewhere, such as the wage from a previous job), the progress of the business compared with past years, the cash position, the value of the owner's capital
Managers	How to raise profit and control the business	Detailed results for each product or department, costs and expenses, inventory, how fast customers pay, where to act
Trade payables (suppliers)	Sell on credit? How much, for how long?	Whether the business can pay what it owes when it is due: its cash and bank, its trade receivables, its current liabilities, its record of paying
Bank	Lend or give an overdraft?	Whether there will be enough money to pay the interest and repay the loan on time; the profit and cash position; the non-current assets it could take as security if the loan is not repaid; other loans already owed
Investors	Buy, keep or sell shares?	The share price to pay, the expected future profits , the expected dividends , the safety of the business
Club members	Is the subscription good value? Should it rise?	Whether there is a surplus or a deficit, how the treasurer has used the funds, whether the club can afford new facilities

User	The decision it faces	What it looks for in the statements
Government and tax authorities	How much tax is due? How is the economy doing?	Profit, to work out the tax due and check it is paid; figures from many businesses to compile national statistics
Employees and trade unions	Is the job safe? Ask for a pay rise?	Whether the business is profitable and liquid enough to keep employing them and to afford higher wages
Customers	Keep buying from this business?	Whether it will stay in business to keep supplying goods, spare parts or guarantees
Possible buyers or partners	Buy the business or join it?	Profit over several years, the assets they would get, the price asked

Each user's question is narrow

Many answers lose marks by giving every user the same general reason ("to see how the business is doing"). Match the reason to the decision:

- A **supplier** does not care about the business's **own** trade payables or its profit on its own; it wants to know whether **it** will be paid.
- A **bank** is interested in the business's ability to pay **interest and repay**, and in assets it could hold as **security**. It is not checking tax or wages.
- The **government** uses accounts for **tax** and **statistics**. It does not decide whether this trader can repay his debts; that is the bank's or the supplier's question. Planning action to fix a weak area is the manager's job.
- An **investor** in shares expects **dividends** and a rise in the share price. Share capital is not paid back to the shareholder while the company keeps going, so "when the company will pay back the money invested" is not something an investor looks for.
- The **owner** judges performance and makes plans. The statement of financial position shows non-current assets at cost less depreciation, not at their **market value**, so the owner cannot use it to find what the assets would sell for.

Linking a figure to a user

Written questions often name one figure and ask why a user is interested in it. Say what the figure means for **that user's decision**.

The level of trade receivables. Trade receivables are money that customers owe; they turn into cash only when customers pay.

- Very **high** trade receivables mean cash is tied up and some debts may never be paid (irrecoverable debts). The business may be short of cash to repay a loan and its interest, so a **bank** may refuse to lend or ask for security. A **supplier** may refuse credit, or supply on cash terms only.

- If trade receivables are at a sensible level and customers pay on time, cash comes in steadily, so the business is more likely to have the funds to pay the bank and its suppliers.

The going concern concept. Accounts are prepared on the basis that the business will continue for the foreseeable future. External users need that to be true:

- a **bank** needs the business to survive to repay its loan or overdraft and interest;
- the **government** needs it to survive to pay the taxes that fall due;
- **trade payables** need it to survive to pay for goods bought on credit (and to keep ordering);
- **employees** need it to survive to keep their jobs;
- **customers** need it to survive to keep supplying them and honour guarantees.

Key facts and formulas

There is no formula list in the IGCSE Accounting exam, and this topic has no formulas: learn which user wants what.

Formula	Status
Internal users: owners (sole trader, partners) and managers (directors)	Learn it
External users: banks, trade payables, investors, government and tax authorities, employees and trade unions, customers, possible buyers or partners	Learn it
Owner: performance and progress, profit compared with what he could earn elsewhere, decisions for the future	Learn it
Bank: ability to pay interest and repay the loan or overdraft; non-current assets as security	Learn it
Trade payables: ability to pay what is owed on time; whether to give credit	Learn it
Investors: price of shares, expected future profits, expected dividends	Learn it
Government and tax authorities: tax due; national statistics	Learn it
Employees and trade unions: job security; whether a pay rise is affordable	Learn it
Club members: surplus or deficit; use of funds; need to change the subscription	Learn it

How to do it

We have 13 tagged questions for this topic from 2021 to 2025 (11 different, as two appear on two paper variants): 10 one-mark multiple-choice questions from Paper 1 and 3 twenty-mark Paper 2 questions, where one part is about this topic. One Paper 2 question (0452/22/F/M/21 Q4) has a part of each written type, so the counts add up to 14.

Question type	Questions
Why is this user interested? (multiple choice)	8
Explain why a user is interested (written)	3
Which user is interested? (multiple choice)	2
Name the users (written)	1

1. Why is this user interested? (multiple choice) (8 questions)

The question names one user (owner, bank manager, supplier, government, investor) and asks for its reason.

1. **Recall that user's decision** from the table above: lend, supply on credit, invest, tax, keep running the business.
2. **Pick the option that serves that decision.** The wrong options are usually real reasons that belong to a **different** user: a tax check (government) offered as the bank's reason, remedial action (managers) offered as the government's reason.
3. **Reject options the statements can't show**, such as the market value of non-current assets, or workers' job satisfaction.

Variations you will meet:

- **The owner who gave up a job:** he compares the profit with what he earned before, to judge whether running the business is worth it.
- **"Which of these would interest the investor?"** with numbered statements: the share price, future profits and dividends do; the date the money is paid back doesn't.
- **"Why would the owner want his statements?"** with numbered statements: to assess performance and progress, and to plan future decisions; not to find market values.

2. Explain why a user is interested (written) (3 questions)

Parts of a Paper 2 question, 1 or 2 marks per user.

1. **Name the decision** that user makes about this business: the bank decides whether to lend, a supplier whether to give credit, an employee whether the job is safe.
2. **Link it to the figure or idea in the question** (the level of trade receivables, the business continuing, the profit), and say which way it points: "If trade receivables are too high, cash is tied up, so the trader may not be able to repay the overdraft and the bank may refuse to lend."

3. **Use the business's name** and keep each user's reason different.

Variations you will meet:

- **A table of users with a "Reason" column** (bank manager, government, trade payables): one short reason each, about that user's own money: loan and interest repaid, tax paid, suppliers paid.
- **"Explain why the bank manager and trade payables want to know the level of trade receivables"** (2 marks each): the level affects their decision (1), and which way (1): too high and the trader may not have the funds to repay or pay; a supplier may then refuse credit or supply for cash only.
- **"State two reasons why employees are interested"**: whether the business can keep employing them, and whether it can afford a pay rise.

3. Which user is interested? (multiple choice) (2 questions)

1. **Match the information to the decision.** Non-current assets available as **security** means a lender, so the bank manager. The ability to pay a debt means a lender or supplier. Tax means the government.
2. **"Which are external?"**: cross out the owner, the managers and anyone making decisions **inside** the business. A bank manager and a trade union are external.

4. Name the users (written) (1 question)

"State two users other than the owner and the employees" (1 mark each): give two **different** groups, by name: bank manager, trade payables, customers, government or tax authorities, investors, a possible buyer or partner. Don't repeat the groups the question has already excluded.

Worked examples

Example 1

Ling runs a bakery. Her employees' trade union is preparing a request for a wage increase.

Why would the trade union be interested in Ling's financial statements? **[1]**

A to check that Ling has paid the correct amount of tax B to decide whether to supply Ling's bakery on credit C to see whether Ling's business can afford to pay higher wages D to see whether Ling's non-current assets are enough security for a loan

A is the tax authority's reason, B a supplier's and D the bank's. **C (1)**

Example 2

Which parties are **external** users of a trader's financial statements?

1 a customer who relies on the trader for spare parts 2 the manager deciding which products to stop selling 3 a supplier deciding whether to increase the trader's credit limit 4 the owner deciding whether to take more drawings

A 1 and 3 B 1, 2 and 3 C 2 and 4 D 3 and 4 **[1]**

The manager and the owner run the business, so they are internal users. **A (1)**

Example 3

Joseph left a job that paid \$28 000 a year to open a hardware shop. After one year his shop made a profit of \$31 500. Its trade receivables were \$4 200 at the start of the year and \$11 800 at the end, although revenue did not change.

(a) Explain why Joseph would be interested in the profit of his shop. **[2]**

(b) Explain why Joseph's bank manager would be interested in the level of his trade receivables. **[2]**

(c) State why each of the following would be interested in Joseph's business continuing for the foreseeable future. **[2]**

(i) the tax authorities (ii) Joseph's suppliers

(a) Joseph gave up a salary to run the shop, so he wants to know whether it earns more than his old job **(1)**. The profit is \$3 500 ($31\,500 - 28\,000$) more than his old salary, which suggests it was worth leaving; he can use this to plan the shop's future **(1)**.

(b) The bank manager uses the level of trade receivables to help decide whether to lend to Joseph **(1)**. Trade receivables have risen by \$7 600 ($11\,800 - 4\,200$) while revenue stayed the same, so more cash is tied up in money owed by customers and some may never be paid; Joseph may not have enough funds to repay a loan or overdraft and the interest, so the bank may refuse to lend **(1)**.

(c) (i) To be sure that Joseph can pay the tax that becomes due on his profits **(1)**. (ii) To be sure that Joseph can pay what he owes for goods bought on credit, so that they can keep giving him credit **(1)**.

Common mistakes

- **Giving every user the same reason.** "To see how the business is doing" earns little. Say what **that** user will decide: lend, give credit, invest, tax, keep a job.
- **Not linking to the figure in the question.** Examiners found generic answers about a bank checking repayment or security, with no link to the **trade receivables** the question named. Say how the level of that figure changes the decision.
- **Giving the government the wrong reasons.** Answers about the economy, subsidies or employment missed the mark; for one business the government's interest is the **tax** it can pay, and across many businesses the **statistics** it compiles.

- **Choosing an option that belongs to another user.** A bank isn't checking tax or wage rates; a supplier isn't checking the customer's own trade payables.
- **Calling the owner or managers external users.** They run the business from inside.
- **Thinking shareholders are repaid.** An investor looks at share price, future profits and dividends, not when the money comes back.
- **Thinking the statements show market values.** Non-current assets appear at cost less depreciation.
- **Repeating an excluded user.** If the question says "other than the owner and the employees", a trade union or the workforce is not a new answer.

How to get the marks

- **"State":** one short, precise point per mark. "State two users" wants two different groups by name.
- **"Explain why ... is interested":** the decision (1), then how the figure affects it (1). Use the business's name and figures when they are given.
- **A table of users:** one reason per row, each about that user's own money or decision. Mark schemes accept other valid points, but the reason must fit the user.
- **Multiple choice:** first say the user's decision to yourself, then test each option. Options that are true for a **different** user are the usual traps.

Quick check

1. Name the two internal users of a sole trader's financial statements and three external users.
2. Why would a tax authority be interested in a trader's financial statements?
3. Sofia gave up a job paying \$24 000 a year to start a business. Its profit for the first year was \$21 500. Why would she look at this profit, and what does it tell her?
4. State two reasons why the members of a tennis club are interested in the club's financial statements.
5. A wholesaler supplies a shopkeeper on credit. Explain why the wholesaler is interested in the level of the shopkeeper's trade receivables.

Answers

1. Internal: the owner and the managers. External (any three): the bank, trade payables (suppliers), investors, the government or tax authorities, employees or trade unions, customers, a possible buyer or partner.
2. To work out the tax due on the trader's profit and check that the correct amount is paid (and, with other businesses' figures, to compile national statistics).
3. To judge whether the business is worth running compared with her old job. The profit is \$2 500 (24 000 – 21 500) less than her old salary, so on this year's figures she earned less than before; she might look at ways to raise profit, or at whether profit is likely to grow.
4. Any two: to see whether the club made a surplus or a deficit; to see whether the treasurer has used the funds well; to decide whether subscriptions need to change; to see whether the club can afford new facilities.
5. The shopkeeper pays the wholesaler out of money collected from customers. If trade receivables are too high, cash is tied up and some debts may not be paid, so the shopkeeper may not be able to pay the wholesaler on time. The wholesaler may then reduce the credit or supply for cash only.

Past questions to try

- [0452/12/O/N/21 Q33](#): why an owner wants to see his year-end statements.
- [0452/12/F/M/24 Q33](#): what a potential investor in shares wants to know.
- [0452/11/M/J/21 Q32](#): which parties are external users.
- [0452/22/F/M/21 Q4](#): part (d), why employees are interested, and two other users.