

A86012 Management and Principles of Accounting (2019/2020)

Session 1

What is a Business ?

Session Overview



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Course Objectives & Overview

At the end of the **first part** of this course students will:

- have an **overall understanding** of what a business is, the different ways in which it can be operated, managed, financed and controlled and;
- **Appreciate the importance of** accounting as both the language of business and a tool to measure business performance and financial position.

At the end of the **second part** of this course students **will be able to apply:**

- Basic accounting principles as a language to evaluate a company
- The Double-entry method of bookkeeping through a series of practical exercises
- Basic principles to prepare a financial statement (balance sheet, profit & loss account)

PGS	1. What is business	15. Accounting: glossary, vocabulary, terms	SG	
	2. Types of business	16. Introduction to financial accounting		
	3. Management	17. Accounting for business transactions		
	4. Review session 1	18. Recording transactions, journal and ledger		
	5. Marketing	19. Recording owner's contributions & financing		
	6. Marketing strategy	20. Review session 1		
	7. Review session 2	21. Recording long-lived assets and investments		
	8. Operations	22. Recording purchases		
	9. Finance	23. Recording sales and employee compensation		
	10. Financial management	24. Review session 2		
	11. Review session 3	25. Adjusting and closing entries		PT
	12. Human resources	26. Adjusting and closing entries ...continued		
	13. Review session 4	27. Cases and exercises		
	14. Exam	28. Exam		

Teaching methods



- Pre-reading
- Research
- Lecture
- Discussion
- Exercises
- Assignments
- External speakers
- Q&A
- Final test
- Office hour each week

Ground Rules

1. Be on time and don't leave early
2. Mobiles and laptops off
3. Don't come and go
4. Hand in assignments on time



Document

Memo - Rules

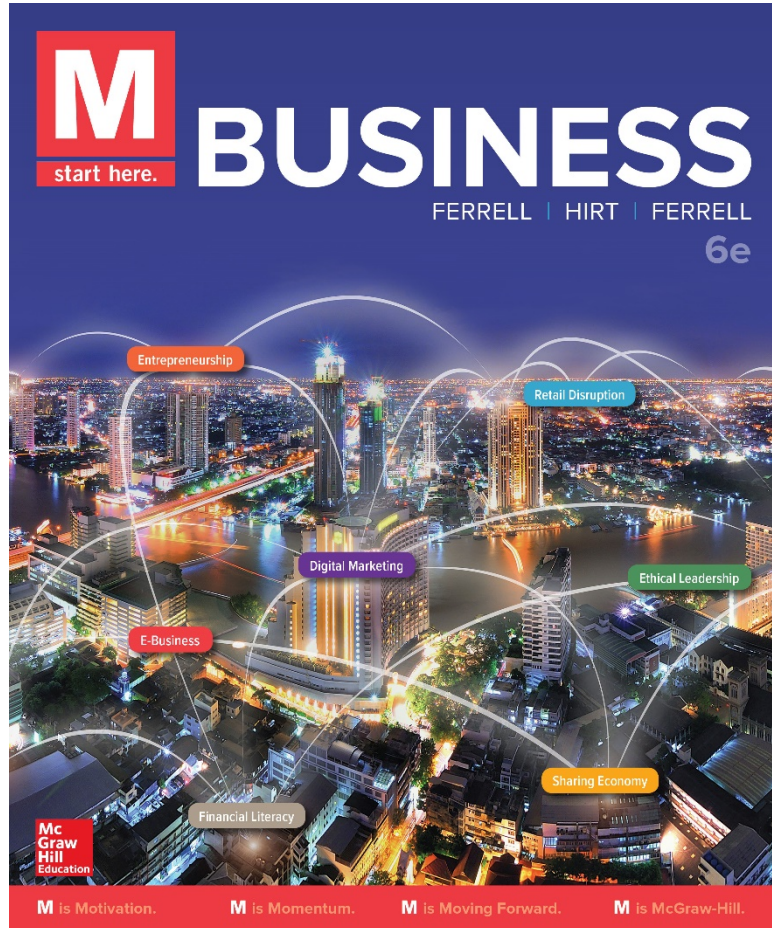


Please text or e-mail for an appointment beforehand

Reference material



Required



<http://www.mheducation.co.uk/m-business>.

Now £54.99 reduced to £49.49

ISBN: 978-1-260-09235-6

VitalSource £42.10

Introductions

- Briefly introduce yourself (Max 2 minutes)
 - Name
 - Where you are from
 - Where you live
 - Interests/hobbies
 - Experiences of business, management, accounting
 - Any special requests/needs
 - What you want to do after LIUC
 - What you hope to get out of this course



Paul G. Smith B.A., FCA

Tel +39 031 570211

Mobile +39 335 1230 930

Fax +39 031 338 5785

Email pasmith@tin.it

Via Privata Alfredo Rutschi 1

22100 Como (CO)

Italy

Background

- ▶ British national based in Italy since 1994. Began his working life in Manchester, U.K. and has also lived and worked in Brussels, Paris and London.
- ▶ U.K. Chartered Accountant and an Italian State Registered Auditor.
- ▶ An Accounting and Finance graduate of the University of Lancaster, U.K.
- ▶ English mother tongue, fluent in Italian and a good working knowledge of French.

Competencies

- ▶ Business management, Strategic Planning, Business Planning, Analytical Thinking
- ▶ Leading and managing global projects with multi-cultural teams, Leading and managing virtual teams
- ▶ Learning and Development, mentoring, counselling, tutoring and coaching
- ▶ Due Diligence (Buy-side and Sell-side)
- ▶ Accounting and Reporting (SEC, US GAAP, IFRS, OIC), Internal Controls and Risk Analysis, Auditing (PCAOB, US GAAS, ISA, CONSOB)

Professional experiences

- ▶ Global Learning Leader for a 67,000 people worldwide Audit business and managing a US\$ 25 million budget for a project with a global team and external providers to create a World Class Learning Program.
- ▶ Member of the EMEIA Assurance Leadership Team managing a €5 billion business of 30,000 professionals across the region with responsibility for integration and strategic resourcing and support in developing the Business Model.
- ▶ Regional Managing Partner of North Italian Audit practice comprising 30 partners and revenues of €60 million. Responsible for driving a change management initiative to improve key performance metrics.
- ▶ Led comprehensive strategic planning exercise throughout Europe following a major merger creating a 12,000 person organization and involving the creation of market share data bases, competitor analyses, industry groups and a strategic plan for market leadership.
- ▶ Managing Director of European Community Office responsible for identifying new service opportunities and developing service offerings in response to these.
- ▶ Many years experience in working in a multi cultural environments through working on projects for clients and internally throughout the whole of Europe, U.S.A., South America, Asia, Africa and the Middle East
- ▶ Multiple years experience in managing Italian multinational audit engagements, and c-suite executives and audit committees
- ▶ Over 20 years of experience in participating in internal global and regional committees, steering committees, working groups and task forces in the areas of Technology, Knowledge Management, Learning & Development, Assessment of Service Quality, Assurance Quality Reviews, Audit Effectiveness, Audit Innovation
- ▶ Extensive experience of working with global and multinational companies from the U.S., Europe, and Asia across a wide range of industry sectors including manufacturing, industrial products, long-term construction, oil and gas, chemicals, pharmaceuticals, technology, fashion, luxury, retail, consumer products and business services

Session 1 objectives

Obj of Session 1

At the end of this session students will:

- **Understand** the course objectives, content and teaching methods, required texts, ground rules and validation methods that will be used;
- Be able to **describe** what a business is, the history and evolution of business and the key business functions;
- **Understand** the context of business in different economic systems and the impact of economics and regulation;
- **Appreciate** the importance of business ethics and corporate social responsibility;
- **Understand** the importance of the international dimension of business, trade barriers and trade agreements

What is a business ?

Business

- Provide products that satisfy needs

Products

- Tangible and intangible
- Provide satisfaction and benefits

A Product Can Be...

- Tangible goods
 - Automobile
 - Smartphone
 - Jeans
- Services
 - Dry cleaning
 - Doctor's checkup
 - Basketball game
- Ideas
 - For solving problems

The Goal of Business

- Primary goal is to earn a **profit**
 - 10-dollar sale – 8 dollars to make = 2-dollar profit
 - Creates resources that support social institutions and government
 - Must be earned in responsible manner

The Goal of Business continued

- **Nonprofit organizations**
 - Do not have purpose of earning profits
 - Engage in management, marketing, and finance

The Goal of Business continued

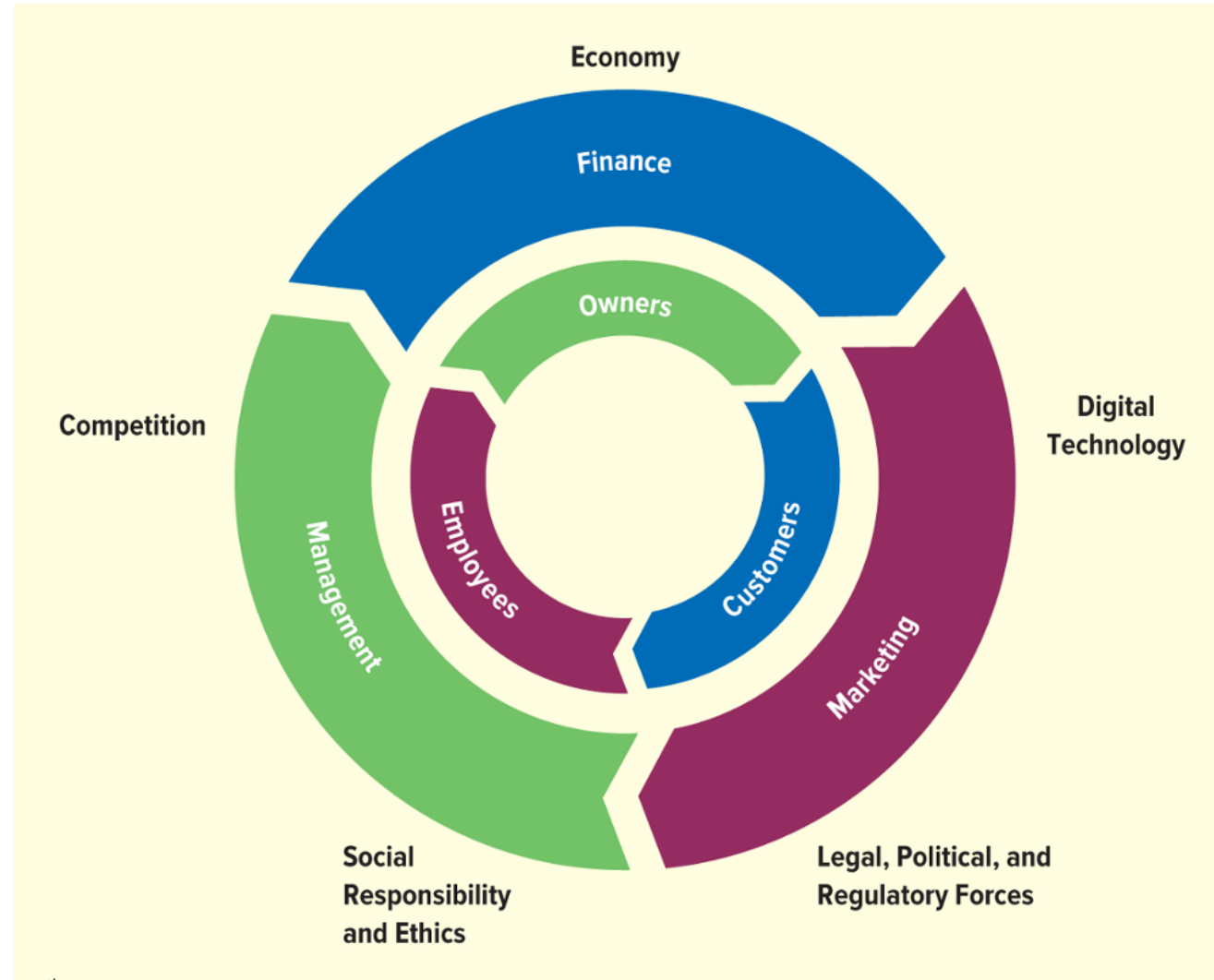
- Profit requires:
 - Management skills
 - Marketing expertise
 - Financial resources
 - Abiding by the law
 - Adapting to change
 - Social responsibility and acting ethically

The Goal of Business continued

- **Stakeholders**

- Includes customers, employees, investors, government regulators, and community
- To achieve and maintain profitability, businesses must:
 - Produce quality products
 - Operate efficiently
 - Be socially responsible and ethical in dealing with stakeholders

Figure 1-1 Overview of the Business World



Source: M Business 6th Edition

[Jump to long description in appendix](#)

The People and Activities of Business

- Management
 - Functions:
 - Planning
 - Organizing
 - Leading
 - Controlling
 - Concerned with:
 - Acquiring
 - Developing
 - Using resources effectively and efficiently

The People and Activities of Business continued

- Marketing
 - Focus is satisfying customers
 - Marketing mix
 - Product
 - Price
 - Place
 - Promotion

The People and Activities of Business continued

- Finance
 - Owner(s) primarily responsible for obtaining financial resources for operation of business, including:
 - Obtaining money
 - Using money effectively

The Purpose of a Business

To know what a business is we have to start with its *purpose*. Its purpose must lie outside the business itself. In fact it must lie in society since business enterprise is an organ of society. There is only one valid definition of business purpose: *to create a customer*.

Peter Drucker: Management: Tasks, Responsibilities, Practices 1973

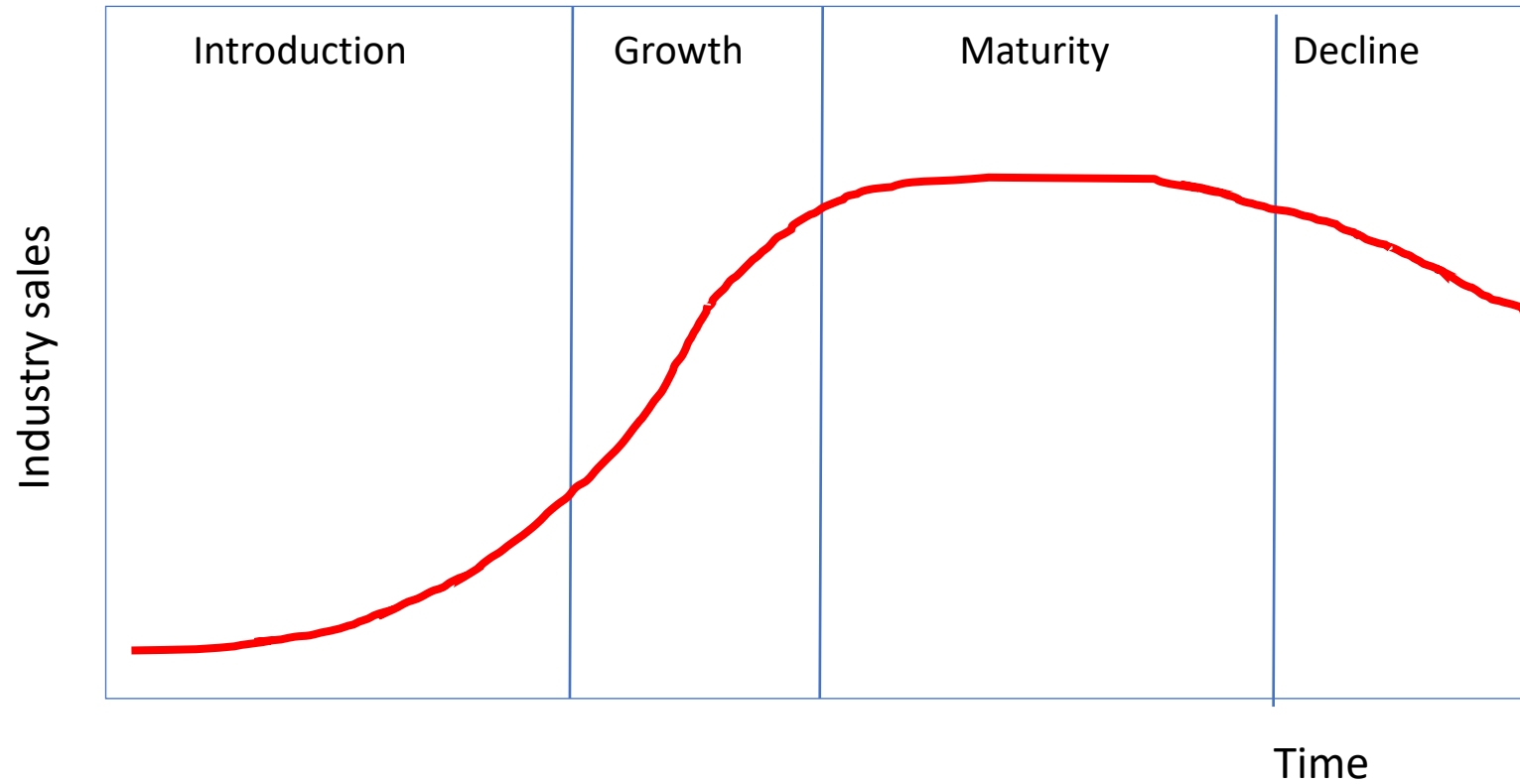
The Wheel of Competitive Strategy



FIGURE I-1. The Wheel of Competitive Strategy

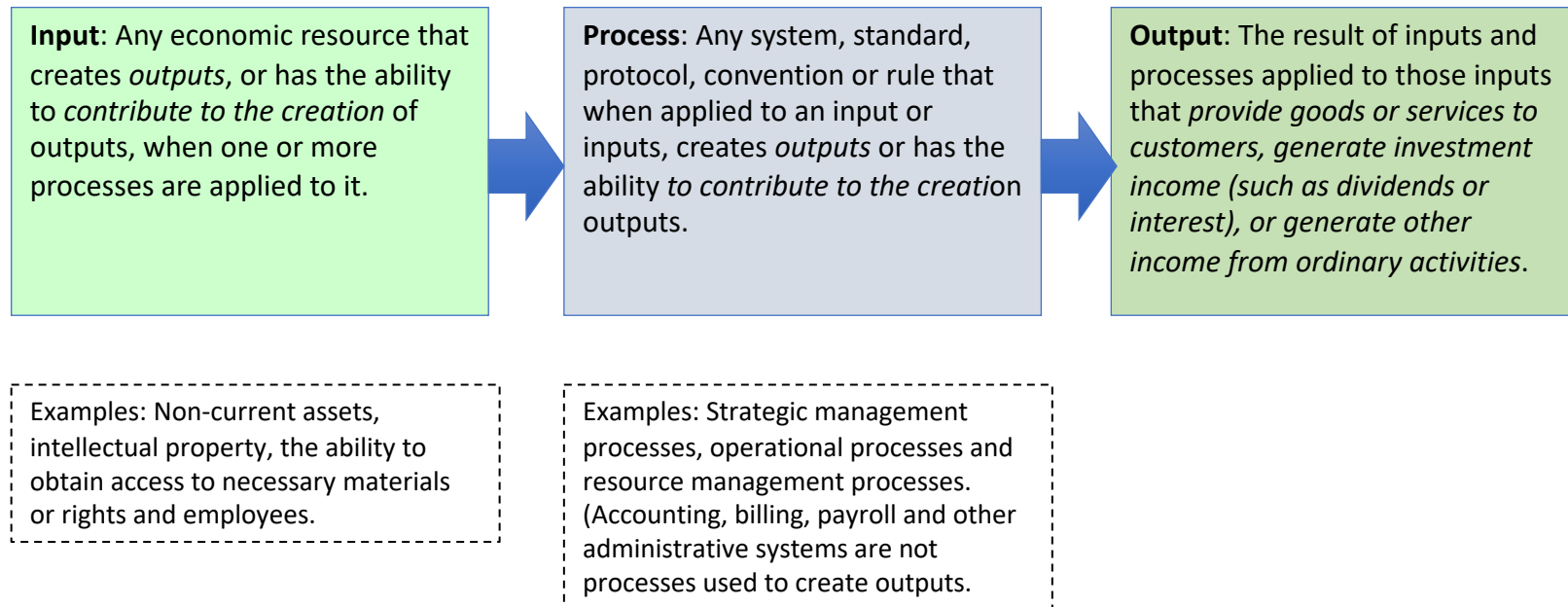
Traditional Product Life Cycle

(Pattern however, does not always hold)



IFRS 3 Definition of a Business

A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.



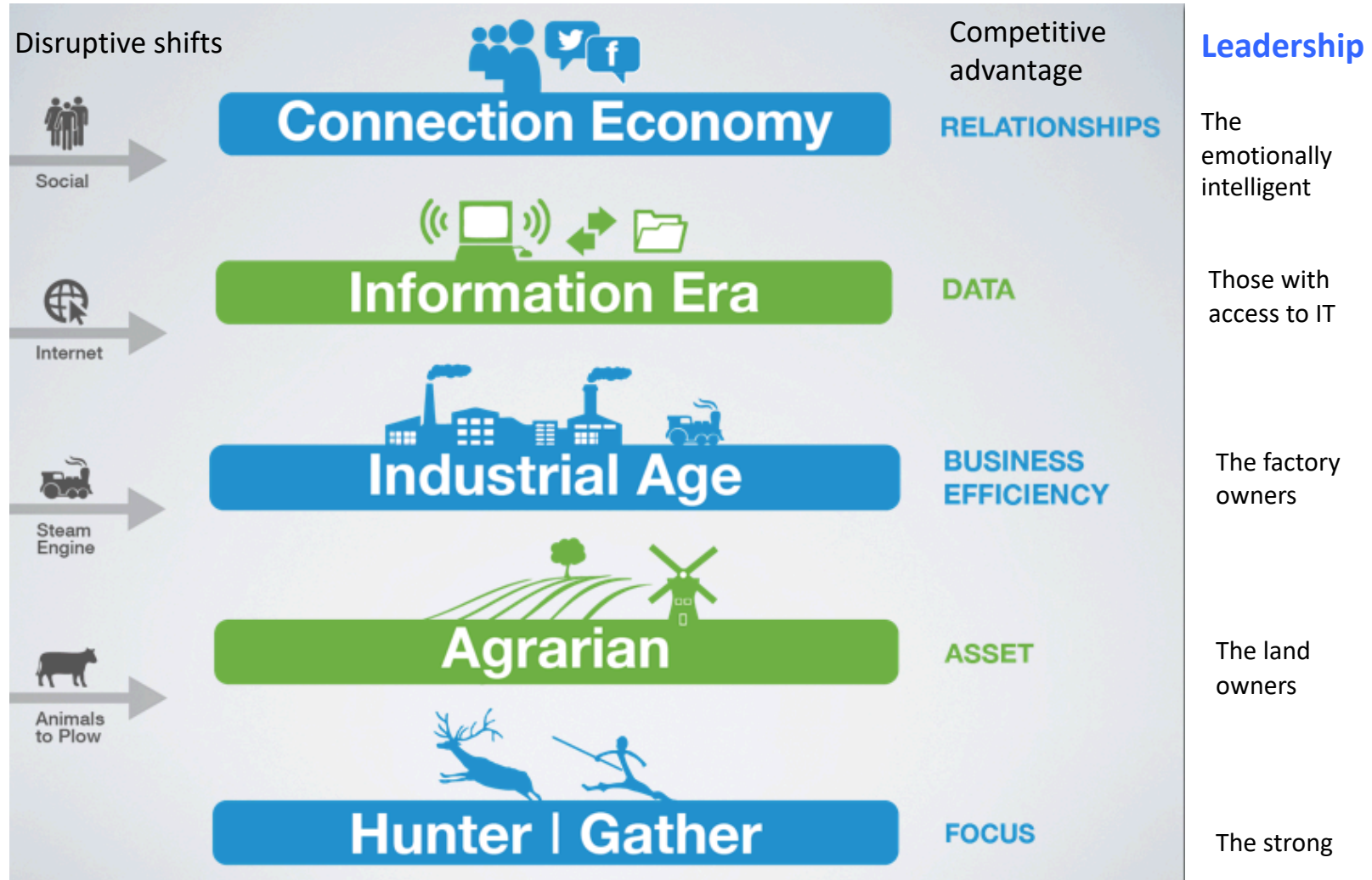
Optional test to identify concentration of fair value

Economic systems

Eco

Evolution

4th Industrial Revolution AI



Economics

- Resources distributed for production of goods and services

Natural resources

- Things not made by people

Human resources

- Labor

Financial resources

- Capital

Intangible resources

Economic Systems

- Must address three important issues:
 1. What goods and services, and how much of each, will satisfy consumers' needs?
 2. How will goods and services be produced, who will produce them, and with what resources will they be produced?
 3. How are the goods and services to be distributed to consumers?

Economic Systems continued

- **Communism**
 - People own all nation's resources
 - Appears efficient on paper, but in practice, these economies suffer from:
 - Low standards of living
 - Critical shortages of consumer goods
 - High prices
 - Corruption
 - Little freedom

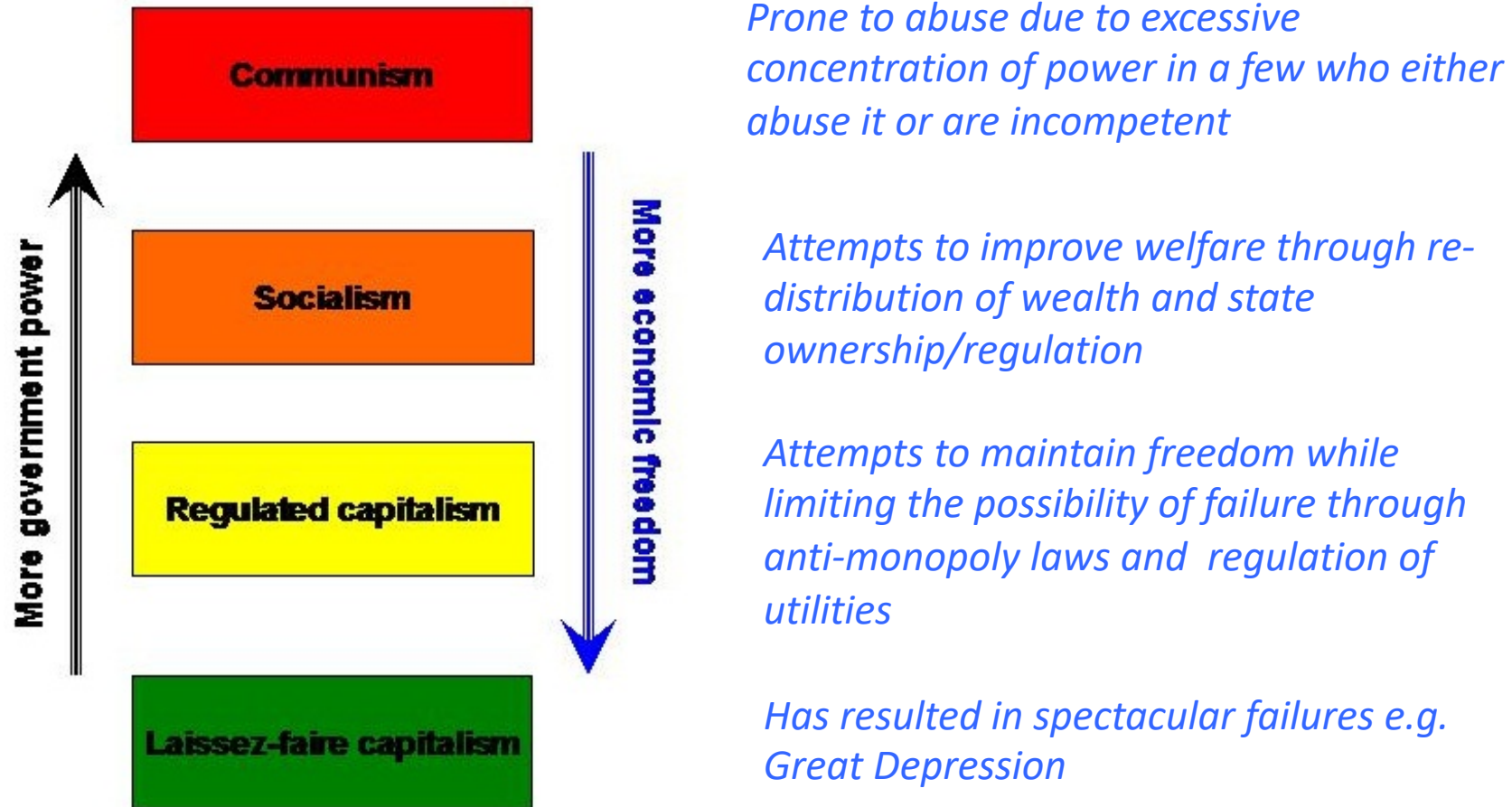
Economic Systems continued

- **Socialism**
 - Government owns basic industries but individuals own most businesses
 - Most are democratic and recognize individual freedoms
 - Allows higher standard of living and is more stable
 - Taxes and unemployment are generally higher

Economic Systems continued

- **Capitalism, or free enterprise**
 - Individuals own and operate majority of businesses
 - In **pure capitalism** or **free-market system**, all economic decisions are made without government intervention

Capitalism, socialism, communism



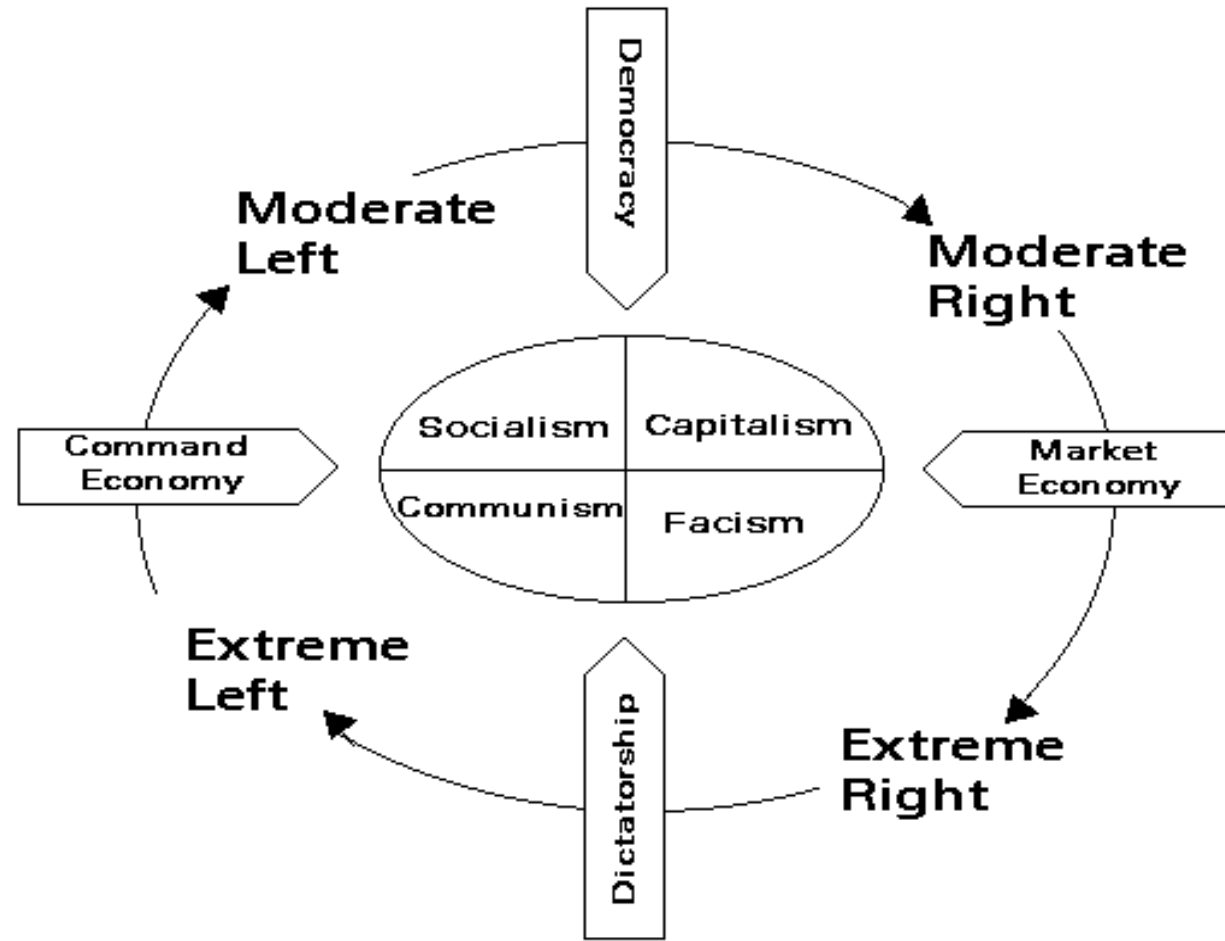


Table 1-1 Comparison of Communism, Socialism, and Capitalism 1 of 2

	Communism	Socialism	Capitalism
Business ownership	Most businesses are owned and operated by the government.	The government owns and operates major industries; individuals own small businesses.	Individuals own and operate all businesses.
Competition	Government controls competition and the economy.	Restricted in major industries; encouraged in small business.	Encouraged by market forces and government regulations.
Profits	Excess income goes to the government. The government supports social and economic institutions.	Profits earned by small businesses may be reinvested in the business; profits from government-owned industries go to the government.	Individuals and businesses are free to keep profits after paying taxes.

Table 1-1 Comparison of Communism, Socialism, and Capitalism 2 of 2

	Communism	Socialism	Capitalism
Product availability and price	Consumers have a limited choice of goods and services; prices are usually high.	Consumers have some choice of goods and services; prices are determined by supply and demand.	Consumers have a wide choice of goods and services; prices are determined by supply and demand.
Employment options	Little choice in choosing a career; most people work for government-owned industries or farms.	More choice of careers; many people work in government jobs.	Unlimited choice of careers.

Economic Systems continued

- **Capitalism, or free enterprise** continued
 - In modified capitalism, government intervenes and regulates business to some extent
 - Through laws
 - Federal Trade Commission Act created the Federal Trade Commission
 - Importance of government's role in economy

Economic Systems continued

- No country practices pure capitalism, socialism, or communism
- **Mixed economies**
 - Elements from more than one economic system
 - China and Russia have used state capitalism to advance the economy, integrating powers of the state with advantages of capitalism

The Free-Enterprise System

- Many large economies are free-enterprise—including the U.S., Canada, and Japan
- Many communist and socialist countries apply free-enterprise principles—including China and Russia
- Allows company to succeed or fail on basis of market demand

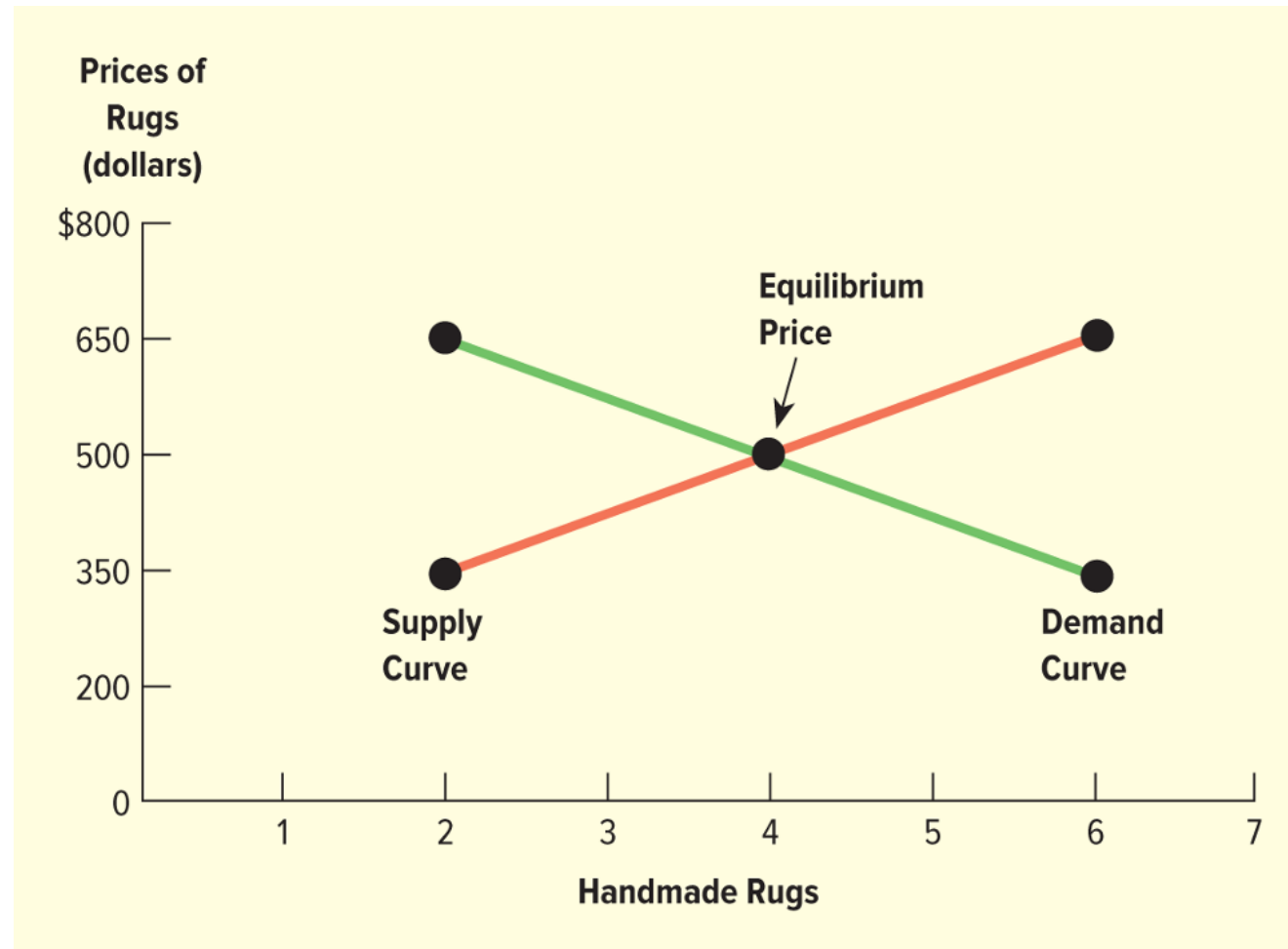
The Free-Enterprise System continued

- Basic individual and business rights to motivate companies to succeed
 1. Right to own property
 2. Right to earn profits and use them as one wishes
 3. Right to determine business operations
 4. Right to choose:
 - Career to pursue
 - Where to live or where to locate a business
 - What goods/services to purchase

The Forces of Supply and Demand

- **Demand**
 - Number of products consumers are willing to buy
- **Supply**
 - Number of products businesses are willing to sell
- **Equilibrium price**
 - Number of products businesses willing to supply equals amount of products consumers willing to buy

Figure 1-2 Equilibrium Price of Handmade Rugs



Source: M Business 6th Edition

The Forces of Supply and Demand continued

- Critics say system does not distribute resources equally
- Forces prevent sellers who have to sell at higher prices and buyers who cannot afford to buy goods at equilibrium price from participating in the market

The Nature of Competition

Competition is the rivalry among businesses for consumer's dollars

Pure Competition

- The market structure that exists when there are many small businesses selling one standardized product

Monopolistic Competition

- Fewer businesses than in a pure competition and the differences among the goods they sell are small

Oligopoly

- The market structure that exists when there are very few businesses selling a product

Monopoly

- The market structure that exists when there is only one business providing a product in a given market

The Nature of Competition

- **Competition**
 - Should improve quality of goods and services or reduce prices
- **Pure competition**
 - Prices determined solely by supply and demand
- **Monopolistic competition**
 - Businesses have some power over price due to marketing

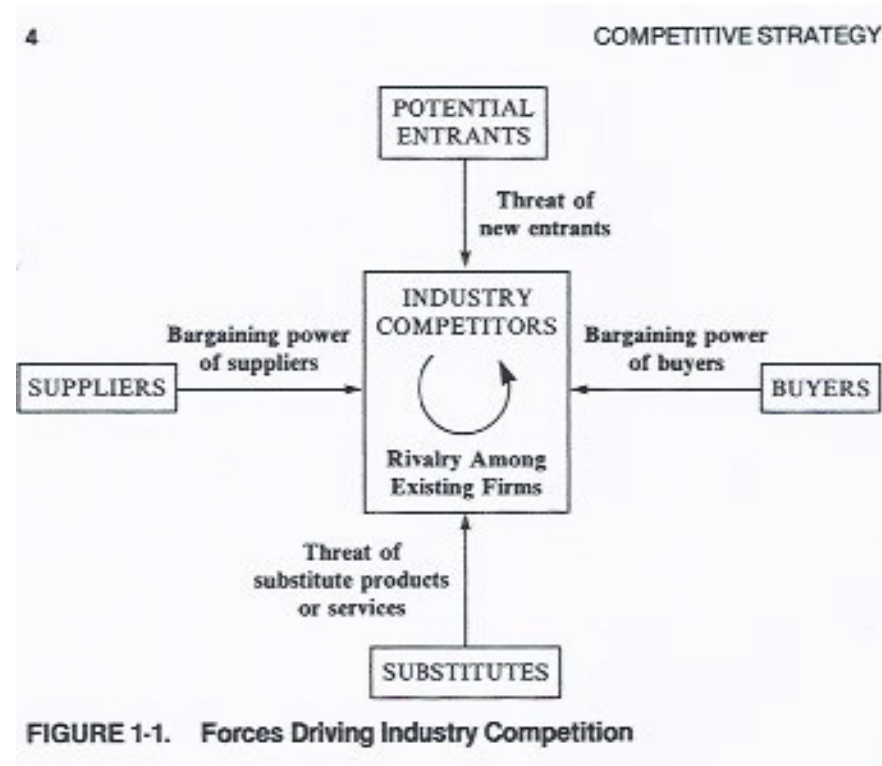
The Nature of Competition continued

- **Oligopoly**
 - Few businesses selling a product
 - Businesses control price
- **Monopoly**
 - Utility companies
 - Government permits due to cost of supplying service

Types of Market Structure

Type of market structure	Basis of Distinction			
	Number of independent sellers	Seller concentration	Product differentiation	Condition of entry
Perfect or Pure competition	Large	Non-existent	Homogeneous product	Free or easy
Monopolistic competition	Large	Non-existent or low	Products are close substitutes	Free or easy
Oligopoly	Few	Medium or high	Products may be homogeneous or close substitutes	Difficult
Duopoly	Two	High	Products may be homogeneous or close substitutes	Very difficult or impossible
Monopoly	One	Very high	Remote substitutes	Barred or impossible

Competitive Strategy



Economic Cycles and Productivity

- Economies expand and contract
- **Economic expansion** occurs when economy is growing and people are spending more money
 - Standard of living rises
 - May lead to **inflation**

Economic Cycles and Productivity continued

- Inflation can be harmful if individuals' incomes do not increase at same pace as rising prices, reducing buying power
 - Worst case of hyperinflation: Hungary in 1946
 - At one point, prices were doubling every 15.6 hours
 - More recent case: Zimbabwe
 - Inflation percentage rate rose into hundreds of millions
 - With elimination of Zimbabwean dollar and certain price controls, inflation rate began to decrease

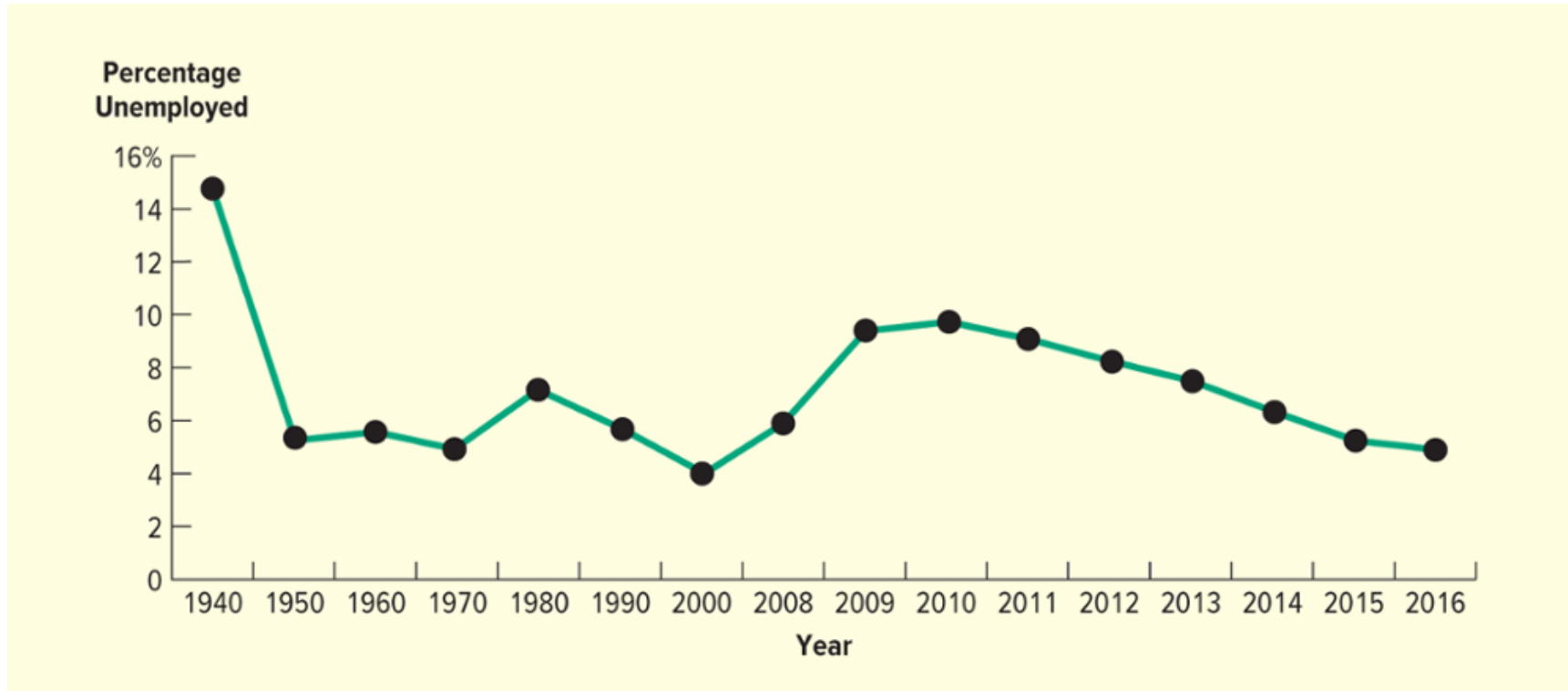
Economic Cycles and Productivity continued

- **Economic contraction** is slowdown of economy
 - Businesses lay off workers
 - May lead to **recession**

Economic Cycles and Productivity continued

- Recessions often characterized by rising levels of **unemployment**
- Deflation occurs when rising unemployment stifles demand, forcing prices down
- Severe recession may turn into **depression**

Figure 1-3 Annual Average Unemployment Rate, Civilian Labor Force, 16 Years and Over



Sources: Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," <http://data.bls.gov/timeseries/LNS14000000> (accessed March 30, 2017).

[Jump to long description in appendix](#)

Economic Cycles and Productivity continued

- Economies expand and contract in response to changes in:
 - Consumer spending
 - Business spending
 - Government spending

Economic Cycles and Productivity continued

- Measuring the economy
 - **Gross domestic product (GDP)**
 - Does not include profits from companies' overseas operations
 - **Budget deficit**
 - U.S. budget deficit has recently grown to record levels, partly due to increased defense spending and government stimulus spending

Table 1-3 How Do We Evaluate Our Nation's Economy? 1 of 2

Unit of Measure	Description
Trade balance	The difference between our exports and our imports. If the balance is negative, as it has been since the mid-1980s, it is called a trade deficit and is generally viewed as unhealthy for our economy.
Consumer Price Index	Measures changes in prices of goods and services purchased for consumption by typical urban households.
Per capita income	Indicates the income level of “average” Americans. Useful in determining how much “average” consumers spend and how much money Americans are earning.

Table 1-3 How Do We Evaluate Our Nation's Economy? 2 of 2

Unit of Measure	Description
Unemployment rate	Indicates how many working-age Americans are not working who otherwise want to work.
Inflation	Monitors price increases in consumer goods and services over specified periods of time. Used to determine if costs of goods and services are exceeding worker compensation over time.
Worker productivity	The amount of goods and services produced for each hour worked.

GDP Comparison 2003 - 2014

	Euro Billions			Euro
	2003	2014	% Growth	Per Capita
EU - 28	10,490	13,921	32	27,300
France	1,637	2,142	31	32,400
Germany	2,217	2,904	31	35,200
Italy	1,391	1,616	16	26,600
UK	1,720	2,222	29	34,400
USA	10,176	13,112	29	41,100

Inflation Rates 2014

	%
EU - 28	0,6
France	0,6
Germany	0,8
Italy	0,2
UK	1,5
USA	1,6

Employment

2014	Employment % 15 - 64		Youth Employment 15 - 24
EU - 28	64,9		32,5
France	64,3		28,4
Germany	73,8		46,1
Italy	55,7		15,6
UK	71,9		48,1
USA	68,1		n.a