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Week 1

Part A

LO1:Explain (a) what finance entails and why everyone should have an understanding of basic financial concepts relating to (b) finance areas and (c) non-finance areas

- A) Finance is concerned with decisions about money (Cash Flows)
- Finance decisions deal with how money is raised and used
- Everything else being equal:
    - More value is preferred to less
    - The sooner cash is received the more value it has
    - Less risky assets are more valuable than riskier assets
- B) Financial Markets and Institutions
- Investments
- Financial Services
- Managerial (business) Finance
- C) Non-Finance areas in business
- Management
- Marketing
- Accounting
- Information systems
- Economics

LO2:Identify different forms of business organisations as well as the advantages and disadvantages of each

- Proprietorships/Sole Owner: owned by 1 person, owner contributions are called capital, Owners' personal transactions must be kept separate from the business, Owner is liable for entity's debts as it is not a separate legal entity

- Partnerships: owned by 2 – 20 people usually (partners), entity is not incorporated, agreement is made between partners regarding contributions, salaries, and sharing profit, partners are liable for entity's debts as it is not a separate legal entity
- Companies: a legal entity (an 'artificial person'), it is incorporated or registered and usually has limited liability, owners are called shareholders, shareholders are not liable for the companies debts (limited liability)

Sole Owner – Proprietorship

- Advantages:
    - Ease of formation
    - Subject to few government regulations
    - No corporate income taxes
- Limitations:
    - Unlimited personal liability
    - Limited life
    - Transferring ownership is difficult
    - Difficult to raise capital
- Company
    - Advantages:
    - Unlimited life
    - Easy transfer of ownership
    - Limited liability
    - Ease of raising capital
    - Disadvantages:
    - Cost of set-up and report filing associated with incorporation
    - Double taxation

LO3:Identify major goal(s) that companies pursue and what a company's primary goal should be

- **Primary goal: shareholder wealth maximisation**

    - **Maximising the value of the company**
    - **The price of ordinary shares**
- **Managerial incentives**
- **Social responsibility**

LO4: Explain (a) the role that managers, (b) business ethics and (c) good governance play in successful businesses

- Managers are naturally inclined to act in their own best interests
- Mechanisms to motivate managers to act in shareholders' best interests
    - Managerial compensation (incentives)
    - Shareholder intervention
    - Threat of takeover

Business Ethics

- Ethics can be defined as 'moral behaviour' or 'standards of conduct'
- Business Ethics: A company's attitude and conduct toward its employees, customers, community and shareholders

Corporate Governance

- The 'set of rules' that a company follows when conducting business
- Sarbanes-Oxley Act of 2002 established the standards for accountability and responsibility in reporting financial information
- Good corporate governance generates higher returns to shareholders

Part B

LO1:   Examine the four assumptions made when communicating accounting information.

Accounting Information must meet certain rules and standards

There are also a number of assumptions that users expect the information to contain:

1. Economic entity: financial activities of a business can be separated from those of the business' owner(s)