

Chapter 1

Introduction to business accounting and the role of professional skills

The questions in this chapter are divided into three sections:

- **Testing your knowledge:** these questions are straightforward and are designed to help students assess their basic knowledge of a particular topic.
- **Applying your knowledge:** these questions ask students to use their basic knowledge to solve a particular problem.
- **Making evaluations:** these questions are more complex and ask students to integrate their knowledge of a particular topic or topics to make decisions.

We have included the 'Content analysis' below to help instructors decide which **applying your knowledge** questions to assign. It briefly summarises the content of each question. We did not provide a content analysis for the **making evaluations** questions because of their lack of uniformity, and because of the multiple topics included in them.

Content analysis for applying your knowledge questions

- 1-29 Service and Manufacturing Businesses.** Explain how two businesses can provide examples of a service business and a manufacturing business.
- 1-30 Cash Flows.** Explain how knowledge of a business' cash receipts and payments would help a bank make a loan decision. Determine which financial statement the bank would request to assist in making the loan decision.
- 1-31 Business Organisation.** List factors involved in deciding whether to operate as a sole proprietorship, a partnership, or a business.
- 1-32 Business Location.** List questions a business should ask before opening a factory in a new location.
- 1-33 International Business Location.** Referring to 1-31, list questions a business should ask before opening an international branch. Compare questions with 1-31.
- 1-34 Internal and External Users.** List examples of business information useful to both internal and external users.
- 1-35 Management Information.** Give examples of information that would be useful in the management activities of planning, operating, and evaluating.
- 1-36 GAAP.** Explain what generally accepted accounting principles mean and how they affect business reports. Explain why new proposals would concern business owners.
- 1-37 Financial statements.** Describe financial statements, list the major financial statements and explain what each financial statement includes.

- 1-38 Ethics.** Explain how codes of ethics help business people make decisions.
- 1-39 Forming Arguments.** Consider two sides of an issue and develop arguments to support both sides.
- 1-40 Argument Presentation.** Develop alternative methods for presenting an argument to a boss while considering possible rebuttals from the boss.
- 1-41 Evaluating Opportunities.** Develop questions to ask a boss concerning a new job offer.
- 1-42 Evaluating Loan Customers.** Determine what information is needed to evaluate a loan applicant and how this information could affect the loan decision.
- 1-43 Evaluating Accounting Information.** Referring to 1-41, determine what could be added to accounting information to make it more useful in the loan decision.
- 1-44 Critical Thinking and Problem Solving.** Develop a list of ideas to solve an office problem.
- 1-45 Logical Application of Knowledge and Reasoning.** Determine the flaw in a co-worker's reasoning.

Testing your knowledge

- 1-1** Private enterprise refers to an economic system in which individuals, rather than government, own and operate businesses.
- 1-2** A service business is different from a manufacturing or merchandising business because it sells services, rather than goods or physical products, to customers.
- 1-3** Both merchandising and manufacturing businesses sell products to their customers. The difference between the two is that a manufacturing business makes the products it sells. A merchandising business buys products that are ready to be sold (often from a manufacturing business) and then sells those products to its customers.
- 1-4** Entrepreneurship refers to a situation in which an individual with an idea for a business willingly risks the loss of both time and money, in order to obtain capital to use in the production and sale of goods or services.
- 1-5** As an entrepreneur in need of resources, you might go to a bank for a loan or invest your own money. If you need equipment, machinery, or furniture, you might also finance the purchase of these items through the seller or lease them. Entrepreneurs can also obtain capital from individuals who have money to invest.
- 1-6** The first factor affecting the business environment is easy access to a vast amount of information which allows businesses to make decisions using timely information. The only drawback is that managers must be able to sort through the information to find that which is most relevant and timely.

The second factor is technological advancement. Technology has extended the work day and allowed quick communication over vast distances. It also has allowed access to up-to-date information and enabled production lines to work without human intervention. This development has made the world more competitive.

The third factor affecting the business environment is the globalisation of business activities. Globalisation creates a larger, more diverse marketplace. The challenge is to market the same product to different cultures using different languages and currencies.

The fourth factor is the increasing number of regulations which a business must follow. As a business chooses to operate in different countries, the number of regulations that it must follow may increase. Businesses may be affected by politically arranged, economic, or trade agreements between countries.

The fifth factor is the many different ways to conduct business. The numerous different types of business transactions affect the business environment by allowing businesses alternative ways to finance activities, invest cash and compensate employees. E-commerce allows businesses to conduct business with other businesses and consumers more conveniently than in the past.

The sixth factor is the many different ways in which businesses can be formed. The changing forms of business allow owners to choose an organisational form (each with unique advantages and disadvantages) that most closely meets the needs of the business.

1-7 A business organised as a company is considered a separate legal entity, which means that it can own property, enter into contracts, issue shares and be taxed. Neither sole proprietorships nor partnerships are considered legal entities. The result is that when these types of businesses have property, it is considered the property of the individual owners. Any profits earned by a sole proprietorship or partnership are considered income of the individual owners who must pay the income tax on those profits. Additionally, individual owners in a partnership or a sole proprietor are liable for any debts of the business.

1-8 There are four types of regulations with which a business must comply. Those regulations may change depending on where the business chooses to operate.

Local regulations are those set by either the city or council in which the business operates. Local regulations may include pollution control measures, health permits and zoning regulations. Because these regulations are created by city and local authorities, there may be differences between different cities or counties in the same state.

State regulations, as the name indicates, are those set by state governments. Many state regulations require businesses to pay state-based taxes (e.g., stamp duty or payroll tax). States also regulate the types of businesses that can operate in the state, setting licensing requirements for professionals. There are also regulations monitoring workplace health and safety, industry-specific regulations and workplace discrimination. State regulations can vary from state to state.

Federal regulations apply to businesses regardless of where in the country they choose to operate. For example, businesses must comply with Australian Taxation Office (ATO) rules of paying income taxes and all business must withhold federal income taxes from employees' pay and collect and pay goods and services (GST) tax. There are also regulations monitoring safety, competition, workplace discrimination and business registration.

If a business chooses to operate outside of its home country, it also must abide by the laws and regulations of the country in which it chooses to operate. International

regulations might encompass foreign licencing and import or export taxes and restrictions.

1-9 Accounting is a system of recording and reporting economic information about the resources and activities of a particular entity and conveying that information to interested parties.

1-10 Both management accounting and financial accounting use accounting information to generate reports about the resources and activities of a business. These reports help communicate information to users to help in decision making.

The main difference between management accounting and financial accounting is the intended users and their different information needs. Management accounting focuses on users within the business (managers) and helps them with their planning, operating and evaluating activities. Financial accounting focuses on users external to the business (investors/shareholders and creditors) and helps them decide whether or not to engage in some activity with the business.

1-11 Management accounting reports help managers in planning activities by identifying the activities and resources needed to achieve the goals of the business. These reports also can help managers analyse planned activities and alternative actions by providing revenue and cost estimates.

Management accounting reports help managers in operating activities by providing timely economic information about how alternative actions will affect the profit and solvency of the business. Managers use this information to make day-to-day decisions about which activities will best achieve the goals of the business.

Management accounting reports also help managers in evaluating activities. Managers use revenue and cost estimates generated in the planning process as a benchmark and then compare actual revenues and costs against that benchmark.

1-12 Generally accepted accounting principles (GAAP) are a set of principles, procedures and practices that businesses use for financial accounting and reporting. These 'rules' are developed by professional organisations and all accountants are required to follow the 'rules' when maintaining books of account for a business.

1-13 Financial accounting reports help external users by revealing information about a business' ability to generate cash to pay its bills and about a business' ability to earn a profit. This information helps external users such as creditors and investors to analyse a business' potential credit risk and possible return on investment.

- 1-14** Today's business environment is one in which many people face complicated ethical situations where the distinction between wrong and right is not clear. Business groups have established ethical codes to help members work through difficult issues. Ethical codes also help reassure the public that the work done by members of the group is performed in an ethical environment and is reliable.
- 1-15** A sustainable business is one that is strategic and ensures that all processes, products and activities address concerns about corporate social responsibility and environmental management, whilst generating a profit. Business sustainability refers to the fact that the business must operate efficiently and productively in order to remain profitable and allow the business to grow.
- 1-16** Internal control involves the procedures needed to control or minimise a business' risks (of losses, earnings drops, fraud, fines, scandal, and so forth), to safeguard a business' economic resources and to promote the efficient and effective operation of its accounting system.
- 1-17** In order to be prepared to enter the profession of accountancy, a graduate needs a set of skills to apply the accounting knowledge learned. These skills include the abilities to communicate, to perform research, to analyse and organise information, to understand and apply knowledge from diverse areas and to use judgement. In addition, employers and professional bodies recommend that these individuals possess functional, personal, and broad business perspective competencies. Functional competencies relate to the technical competencies, which are most closely aligned with the value contributed by accounting professionals (i.e. knowledge and ability to apply skills). Personal competencies relate to the attitudes and behaviours of individuals preparing to enter the accounting profession such as self management. Developing these personal competencies will enhance the way professional relationships are handled and facilitate individual learning and personal improvement. Broad business perspective competencies relate to the context in which accounting professionals perform their services. Individuals preparing to enter the accounting profession should consider both the internal and external business environments and how their interactions determine success or failure. They must be conversant with the overall realities of the business environment.
- 1-18** Auditing is a part of a business' control procedures. Internal audits review the business' operations to ensure that all employees are following the required procedures. External audits are conducted annually to ensure that the business is complying with GAAP in accordance with accounting standards. Auditing involves the examination by an independent auditor, of a business' accounting records and

financial statements, and the business' internal control over its financial reporting. Based upon the sample evidence gathered in the auditing process, the independent auditor expresses a professional, unbiased opinion about (or attests to) the fairness of the accounting information in the business' financial statements and the effectiveness of the business' internal controls.

1-19 Three professional organisations of accountants include the Institute of Chartered Accountants (ICA), the Certified Practising Accountants (CPA) and the National Institute of Accountants.

1-20 The business environment is constantly evolving due to the changing factors that affect it. Examples of factors not mentioned in the chapter are as follows:

- The ATM card is an example of a technological innovation that has affected the business environment. ATM cards have effectively extended banking hours and may eventually replace cash and cheques as a widely used form of payment.
- The change in televisions from analogue to digital is an example of a technological innovation which may affect the business environment in the future. This innovation may allow televisions to function as computers which would increase accessibility to computers and allow more people the option of telecommuting.
- The increase in the minimum wage is an example of a regulation that will affect the business environment. This increase may affect selling prices as businesses try to compensate for the increase in labour costs.
- The mapping of human genes is an example of a discovery that may affect the business environment. Some people fear that this type of information may lead to a new type of hiring discrimination. People with a genetic predisposition for certain diseases may find it difficult to find and keep jobs. The result may be an increase in unemployment or an increase in the number of entrepreneurs and small businesses. On the other hand, this knowledge of genes might eliminate some illnesses or allow physicians to recognise illnesses earlier than in the past, perhaps generating higher cure rates. This would result in a healthier workforce and lower health-related costs for businesses.
- A unique example of a discovery (technological innovation) that may affect the business environment is the use of animals to produce drugs. For example, some genetically altered goats are being used to produce protein drugs. The drugs come from the goat milk and are harvested more cheaply than traditional laboratory methods. This discovery/innovation will lower pharmaceutical business' costs and the prices of many expensive treatments of serious diseases. This discovery/innovation might also make 'farming' a more profitable and attractive career.

- Different forms of energy and regulation associated with the use, cost and development of different forms of energy use (e.g. solar, wind, etc) may also affect the business environment. The drive to alternative forms of energy is underpinned by a desire to reduce carbon emissions and contribute to a sustainable planet.

1-21 The broad skills necessary for practising accountancy and effectively conducting business are:

- communication skills (written and verbal)
- interpersonal and teamwork skills (including the abilities to lead and influence others, to motivate others, to withstand and resolve conflict, and to organise and delegate tasks)
- intellectual skills (creative and critical thinking), including judgement and analytical skills
- self management skills – an ability to prioritise, manage your daily routine, get things done in a timely manner
- a knowledge base, necessary to support intellectual skills (including general knowledge, organisational and business knowledge, and accounting and auditing knowledge).

1-22 There is a difference between thinking and critical thinking. Thinking is a natural function for human beings. Critical thinking, however, requires practice as well as an awareness and monitoring of the thought process. A critical thinker must be aware of the assumptions made and be able to judge whether there is sufficient evidence to support those assumptions. A critical thinker also must be aware of his or her own biases and be able to keep those biases from affecting the thought process.

1-23 Independence refers to the critical thinker's use of others' beliefs and ideas. To be independent, the critical thinker does not accept the beliefs of others without questioning the source of those beliefs and the evidence supporting them.

Objectivity refers to the critical thinker's own beliefs and ideas. To be objective, the critical thinker must be aware of his or her own biases and prejudices and try to eliminate them from his or her thinking when evaluating ideas.

1-24 It is important to evaluate the credibility of a source of information because of the possibility that the information is faulty or biased. If the source is not credible, what is the probability that the information is sound? The credibility of information sources must be evaluated to ensure that decisions are based on accurate information.

1-25 Because general knowledge encompasses knowledge of history and of various cultures, it provides a vast background that may help critical thinkers to evaluate ideas and make value judgements about solutions. It also helps critical thinkers 'see' other points of view. In creative thinking, general knowledge may help provide fluency because the individual will know more and be able to use exposure to history and different cultures to generate different ideas.

Organisational and business knowledge includes knowledge of how businesses work and of how various factors affect businesses. This knowledge helps creative thinkers develop ideas designed for a business environment. This knowledge helps critical thinkers better understand the effects of solutions and evaluate alternatives.

1-26 The first stage of problem-solving is recognising and defining the problem. In this stage, the problem solver defines the problem, gathers facts surrounding the problem and identifies the objectives that would be achieved by solving the problem. The major pitfall in this stage is the possibility of incorrectly identifying the problem. Solving the wrong problem could lead to new problems, make the problem worse and lead to an unproductive course of action.

The second stage is identifying alternative solutions. In this stage, the problem solver uses both creative and critical thinking to generate and identify workable solutions. A pitfall that the problem solver might encounter in this stage would be an inability to arrive at solutions that are workable. If the problem is not defined clearly, it may be difficult for the problem solver to determine which solutions fit the criteria or solve the posed problem.

The third stage involves weighing the advantages and disadvantages of each solution. In this stage, the problem solver evaluates potential solutions by examining the different effects of each. A pitfall that might be encountered in this stage could be an incorrect understanding of the effects of potential solutions. This could occur if the information used is interpreted incorrectly or if a solution is formulated based on incorrect information. Also, if the problem solver relies on numbers alone, he or she may not identify some of the more subtle advantages or disadvantages of the proposed solutions.

The fourth and final stage is choosing a solution. In this stage the problem solver looks at the evaluation of advantages and disadvantages from the previous stage and decides the best course of action. A pitfall the problem solver may encounter in this stage is the choice of a solution which does not solve the problem or which is not the 'best' solution. This pitfall could occur in a number of different circumstances. This could occur if the problem solver misunderstands the criteria necessary to solve the problem, if the circumstances surrounding the problem change during the process of finding a solution (the defined problem and the criteria for solving it may no longer be

valid) or if the problem solver has a difficult time comparing the advantages and disadvantages of each solution (due to the different weights of each).

The pitfalls for each stage can be interrelated. For example, if the problem solver misidentifies the problem in stage one, the actions of each stage will be affected. Also, if the problem solver quits too soon in stage two, it is possible that the best solution will never be identified. Finally, however thorough the problem solver may be, unanticipated future events may cause the chosen solution not to work.

- 1-27** Accounting information is used in each stage of problem solving. In the first stage, accounting information (information on costs, pricing, etc.) is examined to help identify the problem. In the second stage, accounting information can be used to determine whether or not potential solutions are workable (if we have already borrowed as much as we can, are there other sources of cash?). In the third stage, accounting information is used to determine the economic effects of each solution including determination of costs, profits, timing of cash receipts and payments and effects on income taxes. In the fourth stage, the problem solver uses accounting information specified for each solution in stage three and decides, based on that information, which solution will be the best (which solution provides the greatest benefit at the least cost).
- 1-28** Judgement involves the evaluation of evidence to make a decision or a choice or make a recommendation. We exercise judgement when we decide between two alternatives based on objective facts or data. For example, auditors must exercise judgement when deciding whether to issue an unqualified audit opinion that says the financial statements of a firm have been prepared in accordance with GAAP and accounting standards. Management accountants will exercise judgement when making decisions whether to outsource products or services or make or deliver them internally. Financial accountants will exercise judgement in choosing accounting methods. *Rational choice theory* suggests that people try to maximise benefits while minimising costs when exercising judgement.

Applying your knowledge

1-29 When you buy a ticket from Qantas Airlines, you are purchasing the right to sit on an airplane as it travels from one place to another. You are buying transportation. Because transportation is something intangible, it is considered to be a service. Because Qantas Airlines is in the business of providing transportation (the peanuts are incidental), it is considered to be a service business.

When you visit your local Toyota dealer to purchase a car, you also are buying transportation. The difference between the purchase of the airline ticket and the purchase of the car is that the car is a means of transportation. It is a very tangible product which will be driven as well as parked in your garage or driveway. Because the Toyota Motor Business is in the business of making cars and selling them to dealers (as opposed to selling and providing transportation), it is considered to be a manufacturing business.

1-30 When a bank makes credit decisions, its main concern is that the borrower will be able to make the monthly loan payments on time. One way for the bank to determine a business' ability to repay the loan is to examine the business' receipts and payments of cash. The first place a loan officer might go to examine a business' liquidity (ability to pay bills and make loan payments) is the business' cash flow statement. This statement would show the cash receipts and cash payments for operating, investing and financing activities.

1-31 In deciding what type of structure to use to run your business, you would consider factors such as differences in the way each organisation is taxed, your ability to raise capital, your business knowledge and the level of risk you are willing to accept.

A few of the factors you would consider when organising your business as a company is that income taxes on the profits are paid by the business instead of by the individual owners; and a business tends to be less risky because the company, instead of the individual owners, are liable for any debts of the business.

One of the positive factors of operating as a sole proprietor is that it allows flexibility in running the business. As the sole owner, you would be able to make decisions regarding the operation of the business and the use of its capital. The difficulties would be that you would have to be able to raise enough capital on your own to start the business and that you would retain all the risk if the business fails.

If you are not able to raise enough capital on your own or want to share the risk or are lacking in some area of expertise, you may consider organising the business as a partnership. A partner can bring special skills and expertise or additional capital into a business to help make it successful.

1-32 In deciding whether or not to open a new factory and sales office in Queensland, here are a few questions you might want to consider:

- Is there a market for the chocolate in Queensland? If not, it would be a waste of your time and money to locate there.
- Are there suppliers close to the intended location to help minimise freight costs?
- How high will salaries have to be to attract good employees? (i.e., how is the labour market in that area? If there is low unemployment, you will have to pay higher salaries to attract employees.)
- How strong is the economy in the intended location? (If the economy is unstable, the business will have to worry about the frequency of recessionary periods in which chocolate sales will most likely decline.)
- Are there any regulations unique to the state of Queensland that would affect business operations? Regulations that might affect the business range from rules for making food products to rules requiring the business to pay unusual taxes or comply with unusual regulations.

1-33 When considering opening a new factory and sales office in Helsinki – in addition to the questions listed above in question 1-32 – you might ask questions such as the following:

- What regulations (taxes, health, etc.) will affect the business?
- What cultural differences will affect the demand for the product (maybe Finnish people don't eat much chocolate)?
- What cultural differences will affect the work force or labour costs? What kind of benefits and time schedules must be offered to employees?
- Will the chocolate have to be reformulated to the limited availability of ingredients? (Usual ingredients may not be readily available or cost effective in a foreign country)?
- Will the chocolate have to be reformulated to better meet the Finnish consumer's taste (Finnish consumers may have a more subtle sweet tooth)?
- How many competitive chocolate suppliers are there in Finland already?

1-34 One example of information about a business in which both internal and external users have an interest is the costs of products sold. Managers within the business use cost information to help determine appropriate pricing for the products sold. External parties use the same information to help analyse the business' performance and ability to generate profit. Another example of information useful to both internal and external users is data about the sales of products. Managers use this information to help

determine necessary purchases. External users want to know about product sales to look at profitability and to help analyse future cash flows.

Internal and external users are both interested in the profits of the business. External parties use this information to evaluate their decisions to invest in the business. Managers use this information to assess the effectiveness of business goals and operations.

Both internal and external parties want to know about the resources available for use in operations. Managers use this information to determine the best way to allocate resources within the business. External parties use this information to evaluate the business' financial position and ability to continue operating.

- 1-35** In planning activities, managers need to be able to determine future sales and costs. To help determine potential sales in the upcoming year, information that would be useful includes data on last year's sock sales, projections of growth in population (if the population is growing, it is possible that sock sales will grow as well) and information on the economic wellbeing of the area. If the area is growing economically and people have more money to spend, they might spend that money on more new socks. To help predict the costs of product sales for the upcoming year, you could use information on last year's sales, projected sales for the upcoming year, any inflationary trends and projections of changes in suppliers' prices.

In operating activities, you might need information on daily sales figures broken down by type of sock or by sock supplier. This information would let you know which socks are selling best and what kind of socks you should continue to buy to increase the profitability of the store. You would also need to know sales figures and inventory levels to help determine how often to order socks from suppliers and how many socks you should order at one time.

In evaluating activities, you would want to compare your predicted costs of sales with the actual costs of sales. This would help you identify major differences between projections and actual results and determine whether performance was good or whether it needs to improve.

- 1-36** Generally Accepted Accounting Principles (GAAP) are the 'rules' that direct the accounting practices of businesses in Australia and New Zealand that sell goods and services to the public. Businesses that follow GAAP must be able to keep up with any changes in GAAP that affect their accounting and reporting. Because it takes time to review information published on new principles, there is a cost of staying informed. When GAAP does change, there is a cost of changing accounting systems, changing reports and informing employees.

The owner(s) of a business that is affected by a proposed new accounting principle is concerned about the cost of changing the business' accounting system and about the increased paperwork and time which may be required. The owner(s) also is concerned about any reporting changes that could reduce the amount of profit the business reports. If a new principle makes a business' performance appear less profitable, the owner may be concerned that the business would have trouble raising capital and attracting investors. An example within Australia might be the debate about carbon tax accounting.

1-37 Financial statements are reports that communicate accounting information about a business to managers and external parties, such as creditors and investors. The major financial statements are the income statement, the balance sheet and the cash flow statement.

The income statement helps users evaluate a business' operations over a period of time by showing revenues, expenses and net income. Revenues are the total amount that the business charged its customers for the goods or services it provided during a specific time period. Expenses are the business' costs of providing those goods and services, and net income is the difference between revenues and expenses.

The balance sheet helps users evaluate a business' financial position on a particular date by showing the business' assets, liabilities and owner's equity. A business' assets are resources such as cash, products available for sale to customers, and land, buildings and equipment owned by the business. Liabilities are the business' obligations such as loans to be paid back to a bank and amounts owed to suppliers and employees. The owner's equity section of the balance sheet shows the amount invested in the business by its owner(s), and the business' cumulative earnings.

The cash flow statement helps users evaluate a business' liquidity by showing its cash receipts and payments from operating, investing and financing activities for a specific time period. Cash flows from operating activities refers to cash received for providing goods or services and cash paid to suppliers or employees to enable the business to produce goods and provide services. Cash flows from investing activities refers to cash paid for non-current assets such as equipment or land, and cash received when those assets are sold. Cash flows from financing activities refers to cash received when the business obtains loans or receives cash from the sale of shares, and cash paid out when the business makes loan repayments.

1-38 Business people may face many situations in which the ethical issues are complicated and the line between right and wrong is fuzzy at best. To help business people make ethically sound decisions in these complex situations, a code of ethics makes statements about acceptable ethical behaviour. These statements can be considered

guidelines which can be applied to various situations to help in the decision-making process.

1-39 Upon considering the following opposing sides of an issue:

- a. The main support for requiring all businesses to follow GAAP is that it would ease financial statement comparison of businesses all over the world.
- b. Some reasons why all businesses should not be required to follow GAAP are as follows:
 - Different countries have different cultures and different economic concerns which make unique reporting requirements necessary (examples include communist countries where information on production would be more important than information on profit).
 - It would be difficult to agree on which accounting standards should be GAAP although International Financial Reporting Standards (IFRS) have helped overcome this problem.
 - Some businesses report to few, if any, outsiders. GAAP, therefore, would not be important since the information contained in reports would be for internal use only.

1-40

- a. Alternative ways you could approach your boss include agreeing with her assessment and promising to do better (but only if you agree with her assessment), complaining about how unfair your workload is (this is not a very convincing approach, however) or logically persuading her that your workload is unreasonable.

Some of the information you could use to approach your boss in order to support your point of view might include:

- an explanation of your difficulty in meeting deadlines
- a comparison of your workload with standard industry workloads
- proof of your past outstanding performance
- an outline of a way of rearranging the workload within your department.

It is important that with other information presented to your boss you should be able to bring concrete examples of how your workload has increased. Regardless of the evidence you use to support your point of view, it is important that the approach used is as objective and professional as possible. It is important that your boss understands that you are presenting a serious problem and not whining.

b. The following are examples of support your boss might have for her point of view and responses you might use to refute her point of view:

- The current workload is the same as that expected from all employees at your level. If this is the case, you may want to request additional training or have the boss show you where you could cut time from your work and still deliver a quality performance.
- The business is currently cutting costs and needs employees to work harder to get the business through a temporary crisis. Your response to this argument may be that your inability to meet your deadlines may create greater problems for the business.
- The harder work schedule is temporary and is only during the busy season. Again, your response might be that the business may have problems due to your inability to meet deadlines during the busy season.
- The boss sees you spending time kibitzing during the day or spending too much time on the telephone. If this is the argument of your boss, then you must be able to provide evidence that those times when you were not working occurred because you were being held up by someone else, or that there is some other logical explanation for why you were not working.
- The boss is being pressured by higher level managers. If this is the case, then your boss may recognise that you are working too hard and may be amenable to implementing any solutions that you help identify.

Your own arguments should address the reasons, information, and evidence used by your boss.

1-41 Examples of questions you would want answered (and places where you might go for answers) might include the following:

- When must a decision be made? The amount of time you have to develop your opinion will affect the kinds of information you are able to collect. You would go to your boss for the answer to this question.
- What are the expectations of a new branch? If you know what the expectations are, you will be able to determine the potential of the new branch to meet those expectations. To determine business expectations, you could use business proposals, goals and other criteria for new branches (assuming that information is formally written) or you could get this information from your boss.
- How will performance be measured? Again, it is necessary to know the measures of performance before you can determine the ability of a new branch to perform well. This question can be answered through discussions with your boss and through research of branches in other locations.

- What kinds of gourmet food (if any) would people in Brisbane want and how much would they be willing to pay for it? This information would help you determine the profitability of opening a branch in the proposed location. Marketing surveys and focus groups could be used to determine both the type of fashion in which the people of Brisbane would be interested and the amount that they would be willing to pay.
- What is the economic climate in Brisbane? You would want to know if Brisbane is an economically strong community. If not, during a period of recession, few people would purchase fashion clothing. Statistical information about the area would help you to analyse the economic climate.
- Will various costs (labour, warehouse rental, transportation and distribution) be more expensive in the Brisbane area? This information will help you to determine the potential profitability of the new branch. Research of statistical information about unemployment and wages, and estimates from prospective suppliers will help answer this question.
- How long will it take to make a profit? This information will help you evaluate the ability of a new branch to meet expectations. Sales and costs estimates can be used to develop profitability projections.
- How much capital will be required to run the proposed branch effectively? Again, this information will help determine the profitability of the branch. By examining the capital requirements of other branches, you should be able to develop an estimate of needed capital.

1-42 First, you should be aware that a loan to family member can be a very sensitive issue, particularly if he is unable to pay you back. Before you decide to take a risk on the family member who tormented you throughout your early years (but who you love anyway), make sure you have carefully examined information about The Last Custard Stand. Some examples of information you may want to analyse before you make your decision include:

- The financial position of the business – you should use accounting information to determine your brother's current level of debt. If he already has a number of debts outstanding, you may be the lowest lender on the totem pole. (Be aware that your brother may consider payment to non-familial creditors more important than paying you.) If this is the case, you may decide not to lend him the money (another sensitive issue) or you may decide to lend him only a small amount. By looking at the financial position of the business, you will also be able to analyse the business' liquidity (ability to repay loans).
- The profitability of the business – you will want to know if the business has been making a profit and accounting information will help you evaluate the business'

ability to generate income. Certainly, you will be more willing to give your brother a loan if you know that the business has been making money. If it is not, this will give you the opportunity to ask your brother why it has not been making money.

- The purpose of the loan – you will want to know if the proceeds of the loan will be used for expansion or for use in the day-to-day operations of the business. If the money is for use in the day-to-day operations, then it is likely that the business is not doing well, regardless of what your brother says. The business should be able to generate enough cash to support its own operations and if it cannot, then it is not likely that the business will be able to generate enough cash to repay the loan. If this is the case, you may not want to loan your brother the money. On the other hand, if the money is going to be used to expand the business, chances are that the business is doing very well. If this is the case, then your brother should have accounting information such as projections and budgets that will help you analyse the potential profitability of the expansion. If the projections look good and reflect a continuation of the success of the current business, you will be more likely to give your brother the loan.

1-43 Although this information will be helpful, as it shows that The Last Custard Stand made a profit last year, this information could be augmented to make it more helpful. The information on profit would be more helpful if it showed data for more than just one year. You would want to be able to see trend data. Trend information would allow you to determine if the \$15 000 profit earned in the previous year is normal (The Last Custard Stand earns approximately \$15 000 every year). If the \$15 000 profit is on par with all previous years, you might conclude that The Last Custard Stand, although not necessarily a growing business, is at least a stable business in which you would be willing to invest your money. The trend information might show that the business has been making a successively higher profit each year. If this is the case you might infer that the Last Custard Stand is a growing and profitable business and that you should lend your brother the money. Finally, if the trend information shows that the \$15 000 profit is a fluke (the business rarely makes a profit) or that profit has been steadily declining, you may be hesitant to invest in the business.

The profit information also would be more helpful if it showed the details of The Last Custard Stand's revenues and expenses. A detailed list of expenses, for example, could help you understand how the business uses its resources to make a profit. This list, combined with trend information could help you notice which particular expenses are increasing, decreasing, or remaining stable, and which may be short-term or temporary expenses.

1-44 There are a surprising number of uses for broken copiers. Here are some examples of uses for the old machine:

- sell the old machine for scrap
- sell the insides and use the shell as a plant stand or planter in the lobby
- take it to the dump
- pay someone to take it away
- paint it various colours and put it in the lunch room where it can serve as a conversation piece or table
- put it on wheels and roll it out to the parking lot where it can be used to reserve the CEO's favourite parking space
- store paper in it for the new copier
- chain it to the business yacht where it could serve as anchor
- use as a cornerstone for a new building
- use it as a fish tank/aquarium
- sell chances to take a sledgehammer to it, either to get out all staff aggressions or to raise money for charity
- use it as a rubbish bin or recycle bin
- convert the insides so that it could be used as a microwave or popcorn popper
- use it as a business safe (what thief looking for corporate secrets would look inside a copier?).

1-45 The statement focuses on the attire that is worn on Friday but makes no statement about what attire is appropriate during the rest of the week. It is possible that jeans could be worn on any day of the week. Also, the co-worker makes no observations of Jan's usual attire. It is possible that Jan wears jeans every day of the week or that Jan has been recruited to help move the copier (from problem 1-44) and other office furniture and equipment.

Making evaluations

- 1-46** While you often may hear restaurants referred to as service businesses, you would probably tell Vito that his restaurant would be in the position of a manufacturer that sells products directly to the final customer. Although Vito's cooking is more like an artistic production than an assembly line, the restaurant basically purchases ingredients (food) from suppliers (grocery stores, restaurant supply stores, farmers, etc.) and uses those ingredients to produce a tangible good (a meal) which it sells to customers.
- 1-47** Before you and Harvey begin business, you would want to iron out many details. For example, you probably would want the partnership agreement to address how much each of you will contribute to the partnership (either cash or tools). You also would want to know who is responsible for what (i.e., who will be doing the physical labour), and whether each partner will receive a salary for participation in the business and if so, how much. You would want to know if each partner will be equally liable for any debts of the partnership. You would want to know how the profits and losses of the partnership will be shared between the two partners. Finally, you would want to know how the resources of the business will be divided should you ever decide to dissolve the partnership.
- 1-48** You should have no trouble finding support for the need for business codes of ethics. Some articles may illustrate the need for a code of ethics to provide a basic set of values in business. Evidence or support may include instances of embezzlement, fraud, insider trading, leaks of corporate secrets, telemarketing schemes that target the elderly and credit card fraud, just to name a few. A business code of ethics may help a business change the focus of its business operations to include honesty and fairness.
- A business code of ethics also is needed to help a business follow the right path when the issues are more complex. Some examples of situations you may read about where a business may need a business code of ethics to act as a guideline may include:
- discriminatory hiring and promotion policies
 - production of defective products (safety precautions are curtailed to minimise costs)
 - purchasing goods from foreign suppliers (who may or may not use child labour) to reduce costs.

In each of these instances, a business may not be conscious of any harmful effects caused by its actions. A business code of ethics might help a business recognise situations in which it has a responsibility to act with care and fairness.

1-49 Your answer to this question will depend on a number of different factors including the type of image that you want to project, the people with which you will be meeting, the purpose of the meeting and even the area of the country in which you work. Assuming that the business meeting is a traditional one in which you want to appear professional and in a location in which business suits are appropriate, your response may be similar to the following:

‘Yes, a suit is the most appropriate article of clothing to wear to a business meeting. A suit projects an image of confidence and professionalism. I have been to business meetings in which some people were wearing suits and some were not. It was evident that those wearing suits were taken more seriously and their comments were given more weight than those not wearing suits. Also, in the book *Dress for Success*, author John Malloy states that people wearing suits appear to be more authoritative, successful and professional than people not wearing suits.’

Certainly, your response might be significantly different if the business meeting is between athletic coaches or creative artists, or between architects and contractors on a construction site, or if it is to take place at a fishing lodge, ski resort, or golf club, or if it is to take place in another country where customs dictate a more appropriate dress code.

This question should generate some interesting responses from students, many based on their assumptions about the business world. It may (hopefully) generate more questions than it does answers. (It is difficult to answer the question without more information.) They may bring up some of the following questions, plus a few more.

- What is meant by ‘most appropriate?’ In terms of physical safety is this job security, promotability, or conservatism?
- Where will the meeting take place? (If it’s on a construction site, a business suit may ‘get in the way of’ safety.)
- Has a mode of dress been established for the meeting? (If this is a business retreat where attendees have been told that ‘business casual’ is the expected dress, a business suit would not be appropriate.)
- Who will be attending the meeting? Bankers? Construction workers? Graphic artists? (Given the conservative nature of the banking industry, jeans probably would not be appropriate at a formal meeting of bankers. However, they may be appropriate at a meeting of construction workers. (This may be a good time to ask students what they would wear to a meeting of graphic artists.)

- What would be the relationship of the wearer of the business suit to the other people attending the meeting? (If the wearer is a presenter, a business suit may be the most appropriate dress regardless of what the other attendees are wearing. If the wearer (with a teammate) is going to demonstrate synchronised swimming to the Olympic Committee, perhaps another kind of suit would be in order.)

The most important aspect of this problem is how the students support their answers, regardless of which answers they choose. You will probably hear sources such as Letitia Baldrige (hopefully from her business etiquette book) and John T. Malloy (*Dress for Success*) as well as work experience, war stories from parents and, of course, opinion. It is important to emphasise that opinion is not enough. Opinion must be supported by evidence or logical reasoning.

If you turn this question into a class discussion, the class should arrive at a consensus that the answer to this question depends on numerous factors. Of course, this is the nature of most business decisions.

1-50 There are two alternative solutions to this question. The first solution focuses on non-monetary issues; the second focuses on monetary issues.

a.

Alternative solution 1

(i) The first option is to produce only the Empty Decadence chocolate bar.

The advantages associated with this option are:

- there is a high projected sales volume of 100 000 which indicates that the chocolate bars will be accepted in the marketplace
- retraining employees to produce this chocolate bar will not be too difficult
- the factory can be reconfigured
- the demand for this chocolate bar is expected to increase over the next 10 years.

The disadvantages associated with this option are:

- these chocolate bars yield a lower amount of profit per unit than the Decadent Thunderbolt chocolate bar
- the factory must be reconfigured and employees retrained
- the market for the Empty Decadence chocolate bar has not been proven.

(ii) The second option is to produce only the Decadent Thunderbolt chocolate bar.

The advantages associated with this option are:

- the business knows that there is currently a demand for this product
- this chocolate bar yields a higher profit per unit

- the choice of this option will save money in that no factory reconfiguration or retraining will be necessary.

The disadvantages associated with this option are:

- there is a lower projected demand for the Decadent Thunderbolt chocolate bar
- demand for this chocolate bar will be decreasing.

(iii) The third option is to produce both the Empty Decadence and the Decadent Thunderbolt chocolate bars.

The advantages of this option are:

- there will be a higher total sales volume than will occur in either option A or B
- the resources necessary for this option are available
- the factory can be used to produce both
- the market for the Decadent Thunderbolt chocolate bars will decrease as the market for the Empty Decadence chocolate bar increases (factory space can gradually change from one chocolate bar to the other).

The disadvantages associated with this option are:

- more marketing effort will be required to market both chocolate bars effectively
- the chocolate bars may be competing for the same customers
- there will be costs associated with retraining employees and reconfiguring the factory.

(iv) The final option is to not produce either chocolate bar.

The advantages are:

- no resources would be used
- the business could rent out the factory space to generate revenue.

The disadvantages of this option are:

- no revenue would be generated from chocolate bar sales
- this option ignores the fact there is a market for each chocolate bar
- employees would have to be retrained for work elsewhere in the business or they would have to be fired
- the business could lose customer loyalty and then future sales of other chocolate bars.

Additional information that would help in the analysis of the options are as follows:

- specific cost and profit information or estimates for each option
- more specific sales projections
- a determination of whether or not financing is necessary

- information about what other chocolate bars are currently being sold, their forecasted sales and their profitability.

The choice of the option which will be most beneficial to the business will depend on the weight attached to the advantages and disadvantages of each and on the goals of the business. Other alternatives not considered might be renting or building a separate factory for producing the Empty Decadence chocolate bar, or test marketing the Empty Decadence chocolate bar initially to get a more definite determination of the market acceptance for the chocolate bar.

Alternative solution 2

- (i) The first alternative is to sell only Empty Decadence chocolate bars, dropping the Decadent Thunderbolt product line. The marketing department predicted that, in the first year, Unlimited Decadence Corporation could sell 100 000 Empty Decadence chocolate bars if Unlimited Decadence Corporation drops the sales of Decadent Thunderbolt chocolate bars. (Unlimited Decadence Corporation could have sold 80 000 Decadent Thunderbolt chocolate bars instead.) With this alternative, since the profit from the sale of Empty Decadence chocolate bars is \$0.10 less per chocolate bar than the profit from the sale of Decadent Thunderbolt chocolate bars, the sale of the first 80 000 Empty Decadence chocolate bars will bring in \$8 000 less profit (80 000 x \$0.10 difference in chocolate bar profits) than would have been earned by the entire predicted sales of the Decadent Thunderbolt chocolate bars. That means that for this alternative to be more profitable than producing and selling only the Decadent Thunderbolt chocolate bar, the remaining predicted sales of 20 000 Empty Decadence chocolate bars must generate more than \$8 000 in profit, or more than \$0.40 per chocolate bar. Otherwise, Unlimited Decadence Corporation will lose more by dropping the Decadent Thunderbolt chocolate bars than it will gain by selling only Empty Decadence chocolate bars, even though it can sell more Empty Decadence chocolate bars than Decadent Thunderbolt chocolate bars.
- (ii) The second alternative is to continue to produce the Decadent Thunderbolt line of chocolate bars and not to produce the new Empty Decadence product line. The analysis of this alternative is similar to the analysis of the first alternative. The marketing department predicted that, in the first year, Unlimited Decadence Corporation can sell 80 000 Decadent Thunderbolt chocolate bars if it chooses not to sell Empty Decadence chocolate bars. Sale of all the predicted Decadent Thunderbolt chocolate bars will generate \$8 000 more profit than the sale of the first 80 000 Empty Decadence chocolate bars. In order for this alternative to be a better choice than the first alternative, Empty Decadence chocolate bars would

have had to have a projected profit of less than \$0.40 per chocolate bar. In other words, in order to overcome the \$8 000 advantage that the sale of Decadent Thunderbolt chocolate bars has over the sale of the first 80 000 Empty Decadence chocolate bars (\$8 000), the sale of the other 20 000 Empty Decadence chocolate bars would have to earn a profit greater than \$8 000. This means that the profit per Empty Decadence chocolate bar would have to be greater than \$0.40 per chocolate bar ($\$8\,000/20\,000$ chocolate bars).

- (iii)** The third alternative is to produce and sell both the Decadent Thunderbolt chocolate bar and the Empty Decadence chocolate bar. If Unlimited Decadence Corporation chooses this alternative, the marketing department predicts that customers will buy 70 000 Empty Decadence chocolate bars and 65 000 Decadent Thunderbolt chocolate bars.

A comparison of this alternative with the first alternative (where only Empty Decadence chocolate bars are produced and sold) indicates that Unlimited Decadence Corporation would lose sales of 30 000 Empty Decadence chocolate bars (100 000 chocolate bars in the first alternative – 70 000 chocolate bars in this alternative), but gain sales of 65 000 Decadent Thunderbolt chocolate bars. The profit lost by losing the 30 000 sales of the Empty Decadence chocolate bars would be more than 'made up' by the sale of the first 30 000 Decadent Thunderbolt chocolate bars. In fact, the sale of these chocolate bars will earn \$3 000 more profit than the sale of the Empty Decadence chocolate bars (30 000 chocolate bars x \$0.10 additional profit per chocolate bar) because they earn \$0.10 more profit each than do the Empty Decadence chocolate bars. Since total predicted sales of Decadent Thunderbolt chocolate bars in this alternative is 65 000 chocolate bars, Unlimited Decadence Corporation stands to earn even more profit under this alternative than the \$3 000 extra profit earned by the sale of the first 30 000 Decadent Thunderbolt chocolate bars.

A comparison of this alternative with the second alternative (where only Decadent Thunderbolt chocolate bars are produced and sold) indicates that Unlimited Decadence Corporation would lose sales of 15 000 Decadent Thunderbolt chocolate bars (80 000 chocolate bars in the second alternative – 65 000 chocolate bars in this alternative), but gain sales of 70 000 Empty Decadence chocolate bars. By losing sales of 15 000 Decadent Thunderbolt chocolate bars and replacing them with sales of 15 000 Empty Decadence chocolate bars, Unlimited Decadence Corporation would lose \$1 500 in profit ($\0.10 extra profit per Decadent Thunderbolt chocolate bars x 15 000 chocolate bars). In order for this alternative to be a better choice than the second alternative, the remaining sales of 55 000 Empty Decadence chocolate bars would have to earn more than

the \$1 500 lost by losing the sales of 15 000 Decadent Thunderbolt chocolate bars and replacing them with sales of 15 000 Empty Decadence chocolate bars. That means that the remaining Empty Decadence chocolate bars would have to earn a profit greater than \$0.027 each ($\$1\ 500/55\ 000$ chocolate bars).

- (iv) The last alternative is to sell neither the Empty Decadence chocolate bar nor the Decadent Thunderbolt chocolate bar. Since the sale of either of these chocolate bars earns a profit (assuming the sale of Empty Decadence does earn a profit), the decision to sell neither chocolate bar would cause Unlimited Decadence Corporation to lose profits. Loss of profits makes this alternative an undesirable choice.

The first alternative will be better than the second alternative if the profit earned by selling each Empty Decadence chocolate bar will be greater than \$0.40. The third alternative is better than the first alternative because it will earn a higher total profit than the first alternative. The third alternative is better than the second alternative if the Empty Decadence chocolate bars will earn a profit greater than \$.027 each.

- b. At this point, it looks like the best solution will be either the second alternative or the third alternative. Of course, more information would be desirable for making a choice between the two alternatives. What is the projected profit for each chocolate bar? Does Unlimited Decadence Corporation sell other chocolate bars? How will the sale of Empty Decadence chocolate bars affect the sale of the other chocolate bars? If both chocolate bars will be sold, new employees will have to be hired to increase total production of chocolate bars. How will their salaries affect profit?
- c. Other alternative solutions might include selling Empty Decadence chocolate bars in some geographical areas and Decadent Thunderbolt chocolate bars in other geographical areas, or changing the mix of Empty Decadence and Decadent Thunderbolt chocolate bars in different geographical areas. Management also could consider changing the selling prices of the two kinds of chocolate bars, noting the effect of the changes on projected sales and on the anticipated profit for each kind of chocolate bar.

1-51 The changing business environment will provide many new opportunities. Rapidly changing technology will create job opportunities for people who can understand and use new technology. Globalisation will create opportunities for people who understand foreign languages and cultures. The information explosion will provide opportunities for people who can synthesise and filter information. These opportunities will result in personal benefit and growth for those who are able to take advantage of them.

To prepare for these opportunities, it is important that employees develop not just skills to perform certain tasks, but creative and critical thinking skills. The most valuable employees (those most able to take advantage of opportunities) will be those who continue to learn regardless of job requirements.

Dr Decisive

The following is an example of a response which students might write:

Dear Lucky,

I'm afraid it is time for you to pick up the phone, call your boyfriend and admit that you were in error. Your boyfriend is correct; there is an important difference between being just lucky and being both lucky and prepared. It is true that successful business people often are in the right place at the right time. That is luck. However, it is possible to be in the right place at the right time and not be successful.

For example, suppose that you are the manager of a retail clothing outlet that has stores all over the country. Let's say that on your way to the yearly manager's meeting in Las Vegas you happen to be seated on the plane next to the regional manager. That is lucky. But just being seated next to the regional manager will not make you successful in the business. This is your opportunity to wow your boss' boss with all your fantastic ideas about the business. If you are prepared, you might impress the regional manager and he or she may keep you in mind for promotion. If you have not thought much about the business and can't answer the questions the regional manager asks about the outlet that you run, you may not destroy your chances for promotion, but you probably won't be the first person considered.

I hope this example helps illustrate the difference between being lucky and being prepared.

Sincerely,

Dr Decisive