Chapter 1

Business Structures

In this chapter we will be looking at the differing roles within an accounting environment. We will look at the organisations themselves and how they may be structured. We'll look at the key features of each type of structure and the financial records each must keep. We'll look at what names can be used for a business. The chapter also covers organisational structures and reporting lines.

In order to be effective in accounting and finance at work we need to have a basic understanding of the different roles within an accounting system as well as the different types of business.

Bookkeeping

A bookkeeper is someone who records all the financial transactions of a business. Each type of transaction is stored in a different file called a book, hence the name bookkeeper. The most important action of any business is buying and selling. The bookkeeper will record the details of all day-to-day sales and purchases in **day books**. They are called day books because daily transactions are recorded here. There will be a day book for sales and another for purchases. Obviously, sales and purchases will involve the transfer of money, so the bookkeeper will also record the movement in and out of the business in a **cash book**. All books which record these transactions as they happen are called **books of prime entry**. In this case 'prime' means 'first' so these books are where the transactions are first recorded.

The bookkeeper is unlikely to be present at every transaction, so he or she will record transactions in the books of prime entry from **prime documents**. Typically, a prime document is a receipt or an invoice, although other documents may fall into this category.

In modern finance, much of the bookkeeping records will be completed and stored digitally (on a computer). However, whether the transactions are recorded digitally or manually, the principle is the same.

Accounting

An accountant is someone who deals with the presentation and interpretation of the figures. You will see later that there are rules and regulations covering the presentation of financial information. Financial information may include a **Statement of Profit or Loss** (also known as a **Profit & Loss Statement**, an **Income Statement** or a **Statement of Revenue and Expense**). A Statement of Profit or Loss (or SPL) shows a business's financial performance.

Financial information may also be shown in a **Statement of Financial Position** (SFP) (also known as a **Balance Sheet**). A Statement of Financial Position shows a business's assets, liabilities and net worth at a specific point in time.

The accountant may be responsible for advising on, and calculating taxation. Individuals and companies are all liable to taxation. Unlike employees, people with businesses are responsible for their own tax issues and the payment of amounts due. Accountants may calculate how much tax is due and complete the forms which are to be presented to **Her Majesty's Revenue and Customs** (HMRC). HMRC is the government department which deals with taxation in the UK.

When times are good, accountants are required to calculate profits. When times are bad, accountants are required to advise on how to manage risks and cut losses. Accounting can therefore be divided into two branches: financial accounting and management accounting.

The financial accountant will calculate the amount for sales revenue (also known as turnover), purchases, as well as other income and expenses so that the net profit for the year can be calculated. He/she will also record the organisation's assets and liabilities to prepare the Statement of Financial Position. In general, they are responsible for reporting the performance of the organisation as well as its financial position to the stakeholders. Stakeholders are the people who have an interest in the organisation and are directly affected by its decisions and performance, such as shareholders, banks, suppliers etc. They rely on the financial information provided by the financial accountant to make decisions. Hence, this particular branch of accounting is known as financial accounting.

Management accountants help the organisation achieve its objectives through the information they provide because it assists management in planning, controlling and making decisions. Firstly, management information is used to set standards of performance or yardsticks. For example, factory managers work with sales managers to budget production volumes to meet forecasted demands. Hence, managerial accountants can use them to analyse actual results and explain variances that occur from the budgeted results so that managers can make decisions to tackle those variances. In general, management accounting involves setting budgets/targets and analysing actual results to determine appropriate reasons for any variances.

Accounting Technician

An Accounting Technician is someone who performs some of the duties of both the bookkeeper and the accountant. He or she may assist with the preparation of financial statements, deal with bookkeeping, look after and control budgets, monitor expenses and write reports. In many larger organisations, accounting technicians work alongside members of chartered accountancy bodies. In smaller organisations, they may be the only financially trained member of staff.

In practice the roles of the bookkeeper, accountant and accounting technician are all not as clearly defined as above, but this is a guide to the traditional duties of each.

The Entity Concept

Throughout the AAT course you will see how the accounts always relate to an **entity**. However, we need to know what an entity is. The entity concept states that business transactions must be kept separate from those of the owner or other businesses. The owner of a business must keep their personal financial affairs separate from the business records.

This is a vital concept because:

- Each business entity is taxed separately.
- It is needed to see the financial performance of each entity.
- It is needed to ascertain the assets and liabilities of the business.

If the owner's personal finances are recorded along with the business's finances none of the above would be possible.

It is possible to have a **multi-entity company**. This is a business which may have subsidiaries or divisions due to takeovers and mergers. For multi-entity companies there will be both separate records for each part of the business and also financial records for the group as a whole.

Types of Business

There are two main sectors of business; the **private sector** and the **public sector**. The private sector consists of businesses that are owned by private individuals or groups of individuals. The public sector consists of entities overseen or owned by either central government or local government. The AAT is concerned with businesses in the private sector.

Sole Trader

The business will be owned and run by an individual. He or she will probably be responsible for most of the running of the business. He or she will be in charge of buying and selling goods or services and be in charge of hiring and firing staff. Many sole traders maintain their own books and then employ an accountant to prepare the final accounts ready for the tax calculation at the end of each financial year.

It is important to remember that a sole trader not only has the rights to all the profits a business makes, but also, he or she is personally responsible for any losses. If a sole trader finds that he or she cannot pay his or her creditors from the business's income, then the money has to be found from the sole trader's personal belongings. For example, if a sole trader cannot keep up the repayments on the loan secured from the bank, the bank has the right to any or all of the sole trader's personal belongings until the debt has been repaid or the sole trader has no more belongings.

A sole trader business is the easiest form of business to register. The only requirement is that you register the business with Her Majesty's Revenue and Customs (HMRC). You will then need to complete a self-assessment tax return each year and pay Income Tax and National Insurance on the profits made by the business. The tax return can be completed online or a paper return can be sent. Most sole traders will pay their tax in two instalments.

From April 2023 the requirements for sending a tax return are due to change. From that date all sole traders with a turnover above £10,000 are required to keep their financial records electronically and send an update of income and expenditure every 3 months to HMRC. There will be a final declaration after the end of the financial year. The updates and final declaration must be sent using suitable computer software.

Where the sole trader's sales are over £85,000 per year, they must register for Value Added Tax (VAT). The trader must then charge VAT to their customers on most goods and services, and pay this to HMRC (usually every 3 months). The VAT return must be completed electronically.

There is no statutory requirement for a sole trader to keep any financial records, other than a record of income and expenditure. However, a sole trader would find it difficult to get funding (from banks or other investors) without a Statement of Profit or Loss (SPL) and a Statement of Financial Position (SFP). (You can find out more about these in the *Principles of Bookkeeping Controls* book from the same publisher.)

Partnerships

This is where a group of individuals come together to form a business. Typically, there will be two to twenty individuals in a partnership (but there could be more) and an agreement will have been made as to the proportion of profits to which each partner will be entitled. Partnerships are formed usually because, with more people involved in the business, there will be more expertise and money available to invest in the company. The owners of the business are called individually 'partners' or collectively they are called a 'firm'.

However, as with sole traders, the partners are personally responsible for any losses. All partners are equally responsible for all the debts of the business. Initially, creditors will ask the business to pay its debts. If it can't pay, the creditors can ask the individual partners to pay. Partners are 'jointly and severally' liable for the business's debts. This means that the creditor can take action against any partner, but they can also take action against more than one partner at the same time. If one partner pays more than their agreed share of the business debts, they can take action against the other partners to recover the money the other partner(s) should have paid.

Partners are not jointly and severally liable for income tax and National Insurance. Each partner must pay Income Tax and National Insurance on their own share of the profits, as if they were a sole trader.

A partnership must register with HMRC and appoint a **'nominated partner'** who is responsible for managing the partnership's tax returns and keeping records. Just as with sole traders, there is no statutory requirement to keep any financial records other than a record of the income and expenditure for the partnership, but as before, it would be wise to draw up a SPL and SFP along with a record of the profits awarded to each partner. The nominated partner must complete a partnership tax return each year for the whole business and, in addition, each partner must complete their own personal tax return for their share of the profits.

Just as with sole traders, from April 2023, there will be a requirement to send an update of the income and expenditure to HMRC every 3 months. This must be sent using suitable computer software.

Just like a sole trader, a partnership must register for VAT when the sales (or turnover) exceed £85,000 per year.

Partnerships are covered by the **Partnership Act 1890** which allows for partners to share profits and losses equally. The Act is old and some parts are outdated. It is, therefore, wise for the partners to draw up a **Partnership Agreement** (though this is not mandatory). The Partnership Agreement will set out the rights and responsibilities of the partners and can also show how the profits will be divided between the partners.

Many partnerships are now becoming **Limited Liability Partnerships (LLP).** This is where the partners are only liable for amounts up to their investment in the company. Unlike sole traders or ordinary partnerships, a partner is responsible for losses only up to the amount which that partner has as equity in the business. While the 'members' of an LLP will pay Income Tax and National Insurance, like in a regular partnership, in other ways it is much like a Limited Company (see next). LLPs are covered by the Limited Liability Partnership Act 2000.

Limited Company

A limited company is where a business is formed which is quite separate in legal terms from its 'owners'. The 'legal' entity goes further than the entity concept, discussed earlier in this chapter. The 'legal' entity means that it will be treated as separate unit, being able to trade in its own name and make its own contracts. Unlike sole traders and regular partnerships, the owners of a limited company are only responsible for the amount of money they have invested (or guaranteed) to the company. It is said they have 'limited liability'.

The equity (capital) of a limited company will be divided into small equal units. Each unit is known as a **share**. Investors are then encouraged to buy some (or all) of the shares in return for a share of the profits. People who buy the shares become **shareholders**. The shareholders are owners of the business and are entitled to the profits of the business in proportion to the number of shares they have bought. Shareholders receive their share of the profits as '**dividends**'. There is no limit to the number of shares a business can offer for sale; the minimum is one share.

Limited companies pay Corporation Tax on the profit it makes. They must complete a tax return every 12 months (called a CT600) and send it to HMRC electronically.

Shareholders are not responsible for the day-to day running of the business. Shareholders will only make decisions on significant matters, such as changing the name of the company and appointing or removing directors.

Anyone can be a shareholder, but a director must be 16 years of age and not disqualified from being a director. Directors are legally responsible for running the business and must ensure that company accounts are properly prepared. Any remuneration that a director receives from the company will be subject to Income Tax and National Insurance in the same way as any other employee. This is as well as the Corporation Tax paid by the company. Directors will have their tax deducted at source under Pay As You Earn (PAYE). This means that the tax and national Insurance will be deducted from their pay before they receive the money and it will be deducted on each payment. The directors will not have to complete a self-assessment tax return each year for their own personal income from the business.

A shareholder can also be a director. In many small and start-up companies there will be just one person who assumes the role of shareholder and also the role of director.

To form a limited company, it must register with **Companies House**. This is the government department with deals with all UK limited companies. Once registered, the business becomes 'incorporated'. To register it must send a '**memorandum of association**' which is a legal document signed by all the initial shareholders agreeing to form a company. Where a business registers online, the memorandum will be automatically generated. The memorandum cannot be updated once recorded.

The business must also submit an '**articles of association**' which is a document showing the rules that must be followed in the running of the company. It will include items such as the extent of the powers of the directors, how directors are appointed or dismissed, and procedures for declaring dividends.
The business is legally required to send the company accounts to Companies House every year. These will then be available to the public at large. The company accounts will include a SPL, a SFP, and must include notes to the accounts stating how the accounts have been prepared and if there is any relevant financial information not included in the accounts. Larger companies must send a director's report showing particulars of important events since the end of the financial year and an indication of likely future developments. Larger companies will also need to have their accounts audited. An external auditor will be appointed by the shareholders, and it is the auditor's responsibility to comment on the accuracy of the financial statements. The auditors then report back to the shareholders.

Small companies are those with sales of £10.2 million or less and fewer than 50 employees. These small companies are exempt from providing a director's report and do not need to have the accounts audited. They can choose whether or not to send a SPL. They do still have to provide an SFP. However, a public limited company (see next) must always provide a director's report and an audit report.

The Companies Act 2006 is the law relating to limited companies. This is a mammoth piece of legislation with 1300 sections. Sections 380-474 cover accounts and reports. It states that 'the directors of every company must prepare accounts for the company for each of its financial years'

According to the Companies Act, the SPL and SFP must meet certain standards and be drawn up in a particular way. The business can follow either

- International Financial Reporting Standards (IFRS)
- UK Generally Accepted Accounting Practice (GAAP)

(The AAT uses the IFRS in its courses.)

CHAPTER 1
Business Structures

There are two main types of limited company. A **private limited company** may have one or more shareholders. The shares cannot be offered to the public. A **public limited company** (plc) must have at least two shareholders and must have issued shares worth at least £50,000. Both kinds of limited company must be registered at Companies House and each must appoint a director (at least two if it's a plc) who will manage the business. Each year a limited company must file its accounts with Companies House where the figures are open to the public. Profits are distributed to the shareholders each year (called **dividends**) in proportion to the number of shares owned. Some of the profit may be retained by the company for use within the company to pay future debts or for future investments. These retained profits are known as '**retained earnings**'.

Limited companies must also register for Corporation Tax with HMRC. If the company registers online the registration with Companies House and HMRC will be done at the same time.

It is possible to buy an **'off the shelf' company**. These are pre-registered companies which either have never traded, or have been dormant for some years. They will be companies that have been formed or acquired by an accountant or agent and will be held for sale to customers.

Before electronic registration, incorporation would typically take over a week. Buying a ready-made company would mean it would be available almost immediately. Electronic filing has reduced registration time greatly, but off the shelf companies continue to be popular.

An off the shelf company has certain advantages, particularly if it was registered a few years ago.

- It's usually easier to obtain bank loans and credit cards if the company appears to have a history.
- Some businesses will only trade with older companies as four out of ten new companies fail within five years.
- Older businesses attract more customers as they see older companies as more trustworthy. (You will often see the company logo displaying the date it was established.) Some will come with their own ready-made customer base.
- An off the shelf company may come with its own assets, bank accounts and VAT and PAYE registration.
- It is possible to change the name of an off the shelf company but retain its history.

However, there are risks in buying an off the shelf company. Taking over a ready-made company will also mean taking over any debts or liabilities either current or in the future. VAT inspectors may discover unpaid tax from the previous owners or there may be irregularities in PAYE. All of these become the responsibility of the new owner.

It's also likely that it will cost more to buy an off-the-shelf company than registering a brand-new company. The cost usually increases with age.

Pre-incorporation contracts

Where a business intends to become incorporated, the business cannot enter into any contract in its own name until it actually becomes incorporated. This can lead to some problems. For example, the business may need offices or some kind of premises from which it will base its operations. It may need to advertise its goods or services. It may need to advertise for staff. All these will take place before incorporation.

For this reason, a person may enter into an agreement for the benefit of the future company. These agreements are known as **pre-incorporation contracts**. These contracts are not made by the incorporated company and so the person making the contract becomes personally liable for the contract. The individual can be personally sued for any losses and will not be covered by the limited liability that the incorporated business offers.

Not-for-Profit Businesses

This includes charities or clubs. Typically, they will have been established with the objective of addressing a social need, rather than simply to provide a service or generate revenue. They receive funds from individuals or groups. They will reinvest revenue for the purpose of serving their client group or achieving their objective.

There are three main types of not-for-profit businesses

- Charities
- Community Interest Companies
- Community Amateur Sports Clubs

Charities

To be eligible to become a charity, the organisation must have a charitable purpose. Valid purposes are listed in the **Charities Act** and include the prevention of poverty, the advancement of education or religion, environmental protection, and human rights. Charities are prevented by law from political campaigning.

Charities have '**trustees**' who are responsible for the running of the charity. They don't usually get paid but they can claim reasonable expenses. It is recommended that a charity has at least 3 unconnected trustees.

The potential charity will need to write a 'purposes' document which, obviously, sets out the purposes of the charity. This will be needed by the Charity Commission to decide if it can become a charity, and HMRC to decide if it qualifies for tax relief.

The charity will also need a '**governing document**' which sets out how the charity will be run. This document will cover items such as who can be a member, how trustees will be appointed, how meetings will be held and how the charity's money will be looked after.

Charities must register with the **Charity Commission** if its income is £5,000 per year or more. When charitable status is achieved, the charity will be exempt from most taxes on profits and they will be able to claim back tax that's been paid on donations (known as **Gift Aid**). While charities are not exempt from VAT, there are a range of goods and services where they pay 5% or zero rate VAT where those goods would normally attract a rate of 20%.

Charities are also allowed to become incorporated. They don't need to register with Companies House for this. The advantage is that trustees have limited liability status.

Community Interest Companies (CIC)

A Community Interest Company (CIC) is a special type of limited company which exists for the benefit of the community rather than to make a profit. A CIC can be set up for projects such as the upkeep of the village hall or a business which creates projects for the long-term unemployed.

A CIC must register with Companies House and HMRC, but it will also register with the Regulator of Community Interest Companies. It must have directors and shareholders the same as a limited company, and it will distribute profits in the form of dividends. However, it must restrict this distribution to its members (known as the 'asset lock'), so that more of its profits are available for the community interest. It is also subject to less regulation.

The advantages of a CIC are the limited liability protection and the fact that it has access to certain types of funding, such as grants and donations which it would not be eligible for if it were a normal limited company. The CIC can be set up with a single form which is used by both Companies House and the Regulator. Disadvantages are that they do not qualify for the tax benefits of charities, and there are restrictions on the use of assets (such as the asset lock).

Community Amateur Sports Clubs (CASC)

Community Amateur Sports Clubs (CASC) are granted by HMRC for the purposes of tax relief on profits from certain activities. For HMRC to grant this status, the organisation must provide evidence that the money it holds is used to promote and provide facilities for eligible sports such as tennis, swimming, rugby and golf.

The organisation must have a turnover of less than £50,000 per year (or £30,000 a year from renting out property). For eligibility, the organisation cannot charge a membership fee of more than £31 per week. They may not pay more than £10,000 in total to all players for playing the sport but they may pay additional expenses for matches and tours.

Like charities, CASCs don't pay tax on income up to £50,000 per year provided the profits are used on qualifying purposes. Gift Aid cannot be claimed on membership fees and they don't qualify for the VAT benefits afforded to charities.

To apply, an authorised official must fill in a form and send it to HMRC. The form will ask for details of at least 3 officials (including the person making the application), the number of members, and details of the club's income. They will also need copies of the club's rules.

Other Business Types

Co-operatives

Co-operatives are owned by their staff who are 'members' of the company. Profits are shared amongst the members. Losses too are shared.

Franchises

A franchise business is a business in which the owners, or franchisors, sell the rights to their business logo and model to third parties. The third party is called a franchisee. The franchisee is essentially buying the right to use a business brand, but must adhere to certain restrictions imposed by the franchisor. For example, the franchisee may be compelled to buy equipment and supplies from the franchisor, or those recommended by the franchisor. Uniforms and signs may also be determined by the franchisor.

Well-known brands which are franchises include McDonalds, Hilton Hotels, United Carpets and Subway.

Business Names

Naming a business is an important part of setting up a business. The name of the business will set the tone of the trading affairs. A sole trader can choose their own name or another name for the business. A sole trader does not have to register a business name but it must be registered as a trade mark if they don't want anyone else to use it.

A business name must not be offensive or the same as, or similar to, an existing trade mark. Sole Traders and partnerships must not use 'limited' or 'Ltd'; incorporated businesses **must** use these.

A business name must not suggest an association with others without their permission. For example, you cannot use 'Royal' in the business name without the permission of the Cabinet Office. Similarly, you can't use 'Chartered Accountant' unless you are one.

A sole trader or partnership which uses a name which is not that of the owner(s), the name(s) of the owners and their business address must appear on all documents, including letters, invoices and receipts. This information must appear on the business's web site as well as at all premises where customers or suppliers have access. Where a supplier or customer requests this information it must be given immediately.

Partnerships must display all partners unless there are more than 20 partners in which case a list of all partners must be maintained at the partnership's principal place of business.

These requirements do not apply to businesses which trade under the name of the owner(s).

For limited companies and limited liability partnerships the information should be displayed as above, but as well as the company's registered address, it must also display the company's registered number. The registered number is issued when it is incorporated.

Requests for this information from customers or suppliers must be supplied within 5 working days.

Organisational Structures

It may be becoming clear that the organisational structure of a business is dependent on the type of business. A small sole trader may do all the bookkeeping him- or herself. This is perfectly possible (although a lot of hard work) since the amount of information required will be limited. Basically, all that is required in a one-man business is a list of what was sold and a list of what was bought. Taking the books to an accountant each year will be sufficient for the sole trader to see how well (or otherwise) the business is going and to satisfy HMRC regarding taxation.

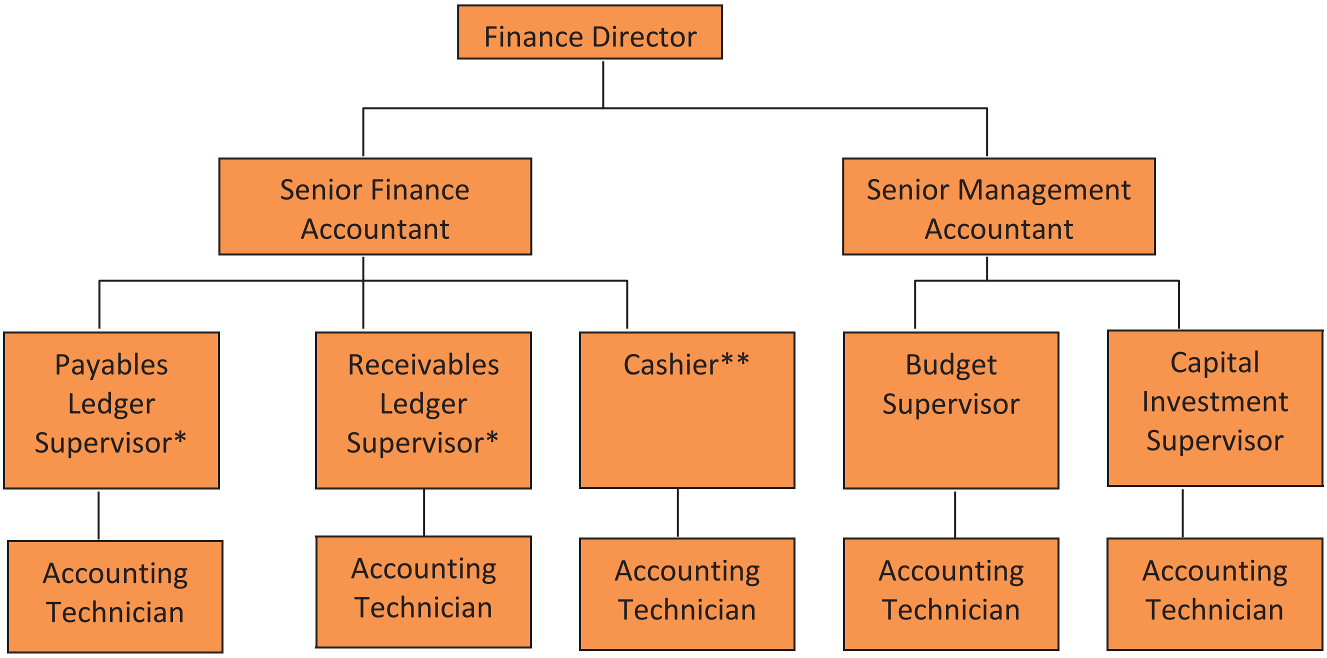
In partnerships a little more work is required, although each partner will be responsible for his or her own tax liabilities. Since the company has more than one owner, a track of sales and purchases needs to be kept and the revenue and expenses created by each partner. It would be wise for a partnership to employ at least a bookkeeper to record the day-to-day transactions.

Limited companies will require more detailed accounting records. The format of the accounting records is regulated and more than simply what was bought and sold will need to be recorded and reported. Larger companies will have different departments for sales, purchases, wages, and **management accounts**. Management accountants assist management in decision-making, planning, and control. **Financial accountants** report the financial position and performance of a business.

Where there is more than one person in a company some sort of organisational structure will be required. Employees must be aware of their reporting structure. It is vital for the efficient running of a business that each individual knows who will be providing information and also who this information should be passed on to.

The most common structure for larger businesses is the **hierarchical structure**. Responsibility passes from the director, to senior management, to middle management, and then to supervisors.

Hierarchical Structure

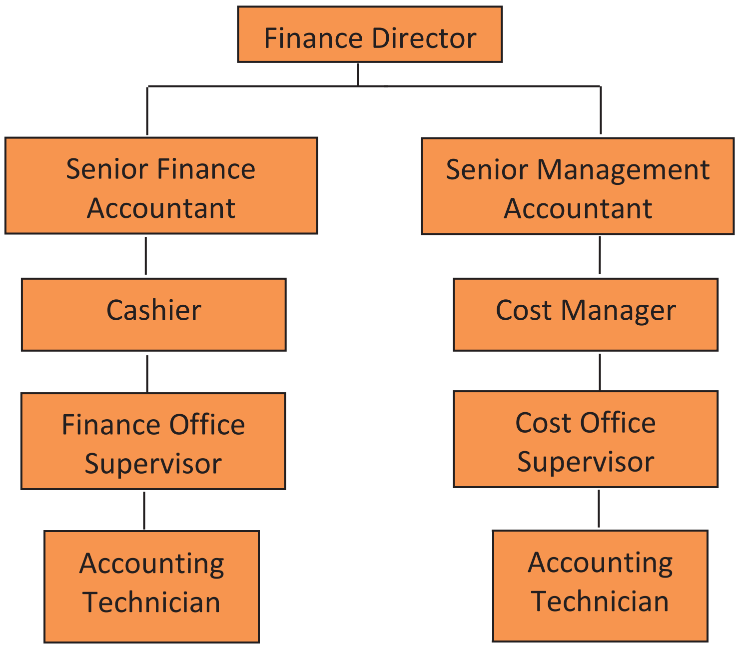


*A payables ledger is the book (now more commonly stored on a computer) where all transactions with suppliers to whom the business owes money is recorded. Similarly, a receivables ledger is the book where all transactions with customers who owe money to the business is recorded. More details of these are given in the book *An Introduction to Bookkeeping* by the same author.

**A Cashier is a person who deals with all the cash transactions of a business. Again, more details can be found *An Introduction to Bookkeeping* by the same author.

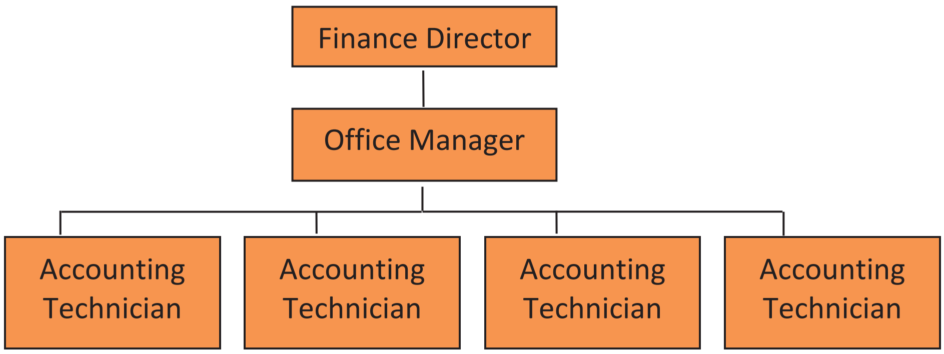
Then there is the ‘**tall**’ structure. This has many levels of management with a long chain of responsibility.

Tall Structure



Another structure is the ‘**flat**’ structure.

Flat Structure



Each of the above structures has been shown in a **functional format**, with each position showing what its function is. They could have been shown by **regional area** (Finance Director North and Finance Director South for example), by **product** (Finance Director Private Vehicles and Finance Director Commercial Vehicles), or a structure could be set up for individual projects.

Reporting Lines

No matter what the business or how it is structured all businesses carry out transactions which are common to all.

- All businesses provide goods or services.
- All businesses purchase goods and services and pay expenses.
- All businesses pay money into a bank account and make payments from it.
- All businesses pay wages or a remuneration of some kind.

All these transactions must be recorded in some form. Some small businesses simply collect all **invoices** and **receipts** and give them to the accountant at the end of the year so that the accountant can produce financial statements from them. An invoice is a list of goods or services sold and given to the purchaser for payment. A receipt is a written acknowledgement that payment has been made for goods or services. Some small businesses record these transactions in their books as they occur, making the accountant's work easier and less time consuming (and therefore usually less expensive). A larger business will need to employ staff to look after the recording of these transactions since it will not be physically possible to do this on one's own. The record of the transactions can be kept either by hand (manually) or on a computer, but at some stage this information will need to be passed on to other members of the business.

Whatever the structure of the business you must be aware of the reporting lines. The accounting technician must know, for example, whether to report to the office manager or the payroll supervisor. Most companies supply an organisational chart similar to those shown on the previous pages. They may include the actual names of the people so they may need to be updated periodically.

What information you will need to report and in what format will be determined by the person to whom it is to be reported. We will look at how to report information later in this book.

There may be specific tasks which do not follow the normal reporting lines. The cashier's assistant may need information from the payroll assistant for the weekly cash wages. The stores manager may require certain information from the accounting technician without going through the office manager.

It is critical that all employees should know the identity and status of the person to whom they should report and also what information is required and the format in which it should be presented.

Accounting tasks should be checked, usually by a more senior person. Invoices, for example, should be checked for accuracy. Accounting tasks should be authorised. Payment of invoices, for example, should be authorised by a senior person.

If the correct reporting lines are not followed, losses could be made and the reputation of the company could be damaged. If the wrong person is given the information, time will be lost and ultimately purchases, sales, receipts and payments could be missed or delayed.

Communicating the correct information in the correct format to the correct person is vital if the business is to perform efficiently and effectively.

Chapter Summary

- A bookkeeper records the financial transactions of a business in day books, while an accountant presents and interprets this data. A financier manages the assets of a company and advises on how best to invest the assets.
- The entity concept means that business finances must be kept separate to the finances of the owner.
- There are four main types of organisation: sole traders, partnerships, limited companies and not-for-profit organisations
- Each type of organisation will have different control, management, liability and distribution of profits.
- Each type of organisation will have different requirement on keeping financial and tax records.
- While most businesses can choose whatever trading name they like, there are some restrictions.
- For the effective and efficient running of a business, all employees should be aware of the organisational structure and the correct reporting lines within that structure.

Practice Questions

Chapter 1

1.1

i) Traditionally, if you record day to day transactions in books of prime entry would your job be in:

a) Bookkeeping
b) Accounting

ii) Traditionally, if you prepare a Profit & Loss account and a Balance Sheet would your job be in:

a) Bookkeeping
b) Accounting

1.2

Your organisation is in the process of employing a bookkeeper in the accounts department.

Explain at least 3 of the tasks that the bookkeeper may carry out.

1.3

i) An auditor will:

a) Prepare the annual Income Statement.

b) Set the budget for the next 3 months.

c) Check the accuracy of the company's recorded profit.

ii) A financial accountant will:

a) Prepare the annual Income Statement.

b) Set the budget for the next 3 months.

c) Check the accuracy of the company's recorded profit.

iii) A management accountant will:

a) Prepare the annual Income Statement.

b) Set the budget for the next 3 months.

c) Check the accuracy of the company's recorded profit.

1.4

a) What type of business is run and owned by an individual?

b) What type of business is owned by its shareholders?

c) What type of business is run and owned by a group of associated people?

d) What type of business is run or controlled by the government?

e) What type of business is run and owned by its staff?

f) What type of business is licensed to a third party?

g) If you bought shares from a stockbroker who traded in shares on the stock market, what kind of business would you be investing in?

1.5

i) As an Accounting Technician, you work in an organisation with a long chain of command. There are many levels of management and supervision. Is this likely to be

a) A Hierarchical structure.
b) A Tall structure.
c) A Flat Structure?

ii) As an Accounting Technician, you work in an organisation with few layers of management. You are responsible to the office manager, who oversees all of your colleagues as well. The office manager is responsible directly to the Managing Director. Is this likely to be

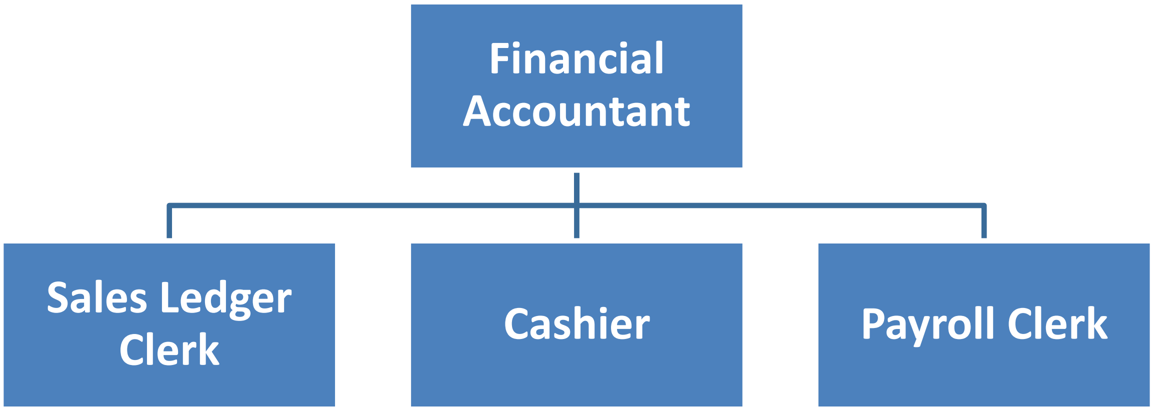
a) A Hierarchical structure.
b) A Tall structure.
c) A Flat Structure?

iii) As an Accounting Technician, you work in an organisation where you are responsible to a manager for your area of work. Other managers are responsible for colleagues who work in other areas of accounts. There are various levels within the organisation and at each stage one person has a number of workers directly under them according to their area of work. Is this likely to be

a) A Hierarchical structure.
b) A Tall structure.
c) A Flat Structure.

1.6

Below is an extract from an organisational chart showing the structure of a business.



a) Identify the three reporting lines

b) The financial accountant has received a query from a customer about an outstanding balance. Who would the financial accountant ask?

c) The payroll clerk pays staff who are paid weekly in cash. From whom would they need to request the correct notes and coins?

d) The cashier always receives details for the amounts required by the payroll department for staff wages late. To whom should they complain?

e) The business buys and sells goods on credit. What role appears to be missing from the chart?

1.7

Explain what the following are:

a) A public sector company.

b) A shareholder.

c) A not-for-profit organisation.

d) A plc.