

ACCA

Applied Knowledge

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Business and Technology
(RQF Level 4)

Business and Technology
(BT/FBT)

Study Text

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Introduction

How to Use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- 1 Detailed study guide and syllabus objectives
- 2 Description of the examination
- 3 Study skills and revision guidance
- 4 Study text
- 5 Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best to approach your learning.

The **Study Text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the paper. These diagrams should be used to check that you have covered and understood the core topics before moving on.

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Icon Explanations (Header C)



Definition – Key definitions that you will need to learn from the core content.



Key point – Identifies topics that are key to success and are often examined.



Tricky topic – When reviewing these areas care should be taken and all illustrations and Test your understanding exercises should be completed to ensure that the topic is understood.



Supplementary reading – These sections will help to provide a deeper understanding of core areas. The supplementary reading is NOT optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. Reference to this text is vital when self-studying.



Test your understanding – Exercises for you to complete to ensure that you have understood the topics just learned.



Illustration – Worked examples help you understand the core content better.



Progression – This symbol links the topics in the chapter to other relevant papers in the ACCA syllabus.

On-line subscribers

Our on-line resources are designed to increase the flexibility of your learning materials and provide you with immediate feedback on how your studies are progressing.

If you are subscribed to our on-line resources you will find:

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Syllabus introduction

Syllabus background

The aim of ACCA **Business and Technology**/FIA Diploma in Business and Technology, **Business and Technology**, is to introduce students who may not have a business background to the business, which as an entity is made up of people and systems which interact with the environment and with each other.

Objectives of the syllabus

- Understand the purpose and types of business and how they interact with the key stakeholders and the external environment.
- Understand business organisation structure, functions and the role of corporate governance.
- Recognise the functions, systems and new technologies in accountancy and audit in communicating, reporting and assuring financial information, including the effective compliance, internal control and security of financial and other data.
- Recognise the principles of authority and leadership and how teams and individuals are recruited, managed, motivated and developed.
- Understand the importance of personal effectiveness as the basis for effective team and organisational behaviour.
- Recognise that all aspects of business and finance should be conducted in a manner which complies with and is in the spirit of accepted professional ethics and professional values.

Core areas of the syllabus

- The business organisation, its stakeholders and the external environment.
- Business organisational structure, functions and governance.
- Accounting and reporting systems and technology: compliance, control and security.
- Leading and managing individuals and teams.
- Personal effectiveness and communication.
- Professional ethics in accounting and business.

ACCA Performance objectives

In order to become a member of the ACCA, as a trainee accountant you will need to demonstrate that you have achieved nine performance objectives. Performance objectives are indicators of effective performance and set the minimum standard of work that trainees are expected to achieve and demonstrate in the workplace. They are divided into key areas of knowledge which are closely linked to the exam syllabus.

There are five Essential performance objectives and a choice of fifteen Technical performance objectives which are divided into five areas.

The performance objectives which link to this exam are:

- 1 Ethics and professionalism (Essential)
- 2 Stakeholder relationship management (Essential)
- 3 Governance, risk and control (Essential)
- 4 Leadership and management (Essential)

The following link provides an in depth insight into all of the performance objectives:

https://www.accaglobal.com/content/dam/ACCA_Global/Students/per/PER-Performance-objectives-achieve.pdf

Progression

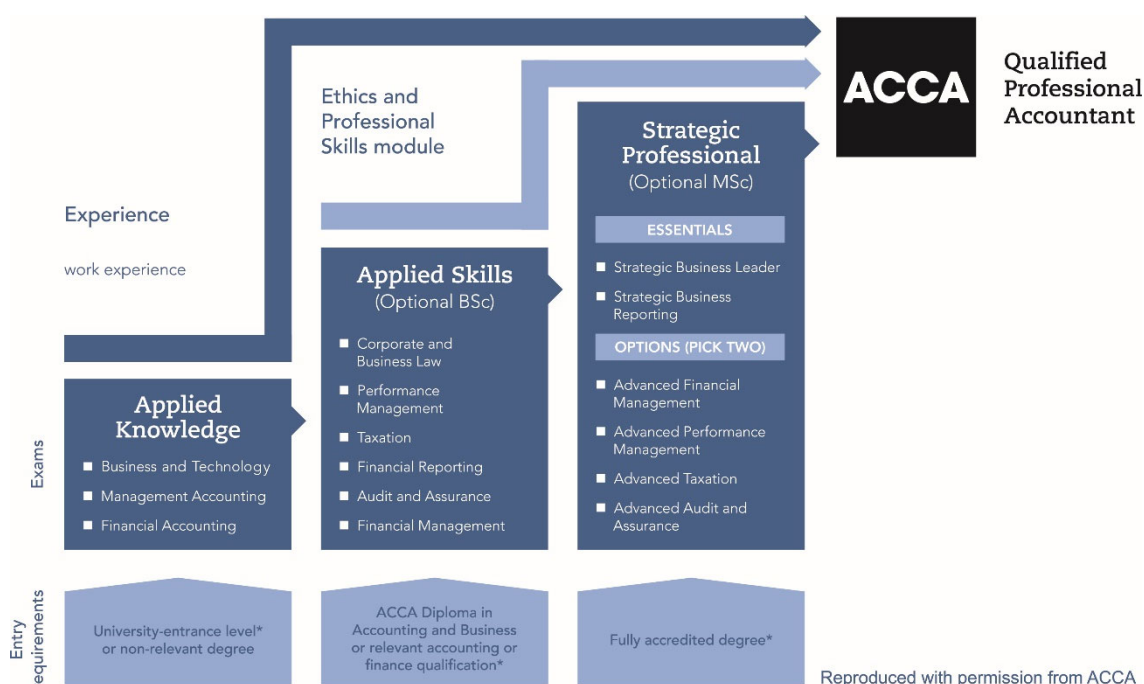
There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another. We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.



The business organisation

Chapter learning objectives

Upon completion of this chapter you will be able to:

- define 'business organisations' and explain why they are formed
- describe common features of business organisations
- outline how business organisations differ
- list the industrial and commercial sectors in which business organisations operate
- identify the different types of business organisation: commercial, not-for-profit, public sector, non-governmental organisations, co-operatives.



Types of organisation are also explored in the Corporate and Business Law examination, the Financial Reporting examination and the Strategic Business Leader examination.

1 Business organisations and the reason they are formed

1.1 What is a business organisation?

Defining an organisation is difficult as there are many types of organisations which are set up to meet a variety of needs, such as clubs, schools companies, charities and hospitals.

What they all have in common is summarised in the definition produced by **Buchanan and Huczynski**.



‘Organisations are social arrangements for the controlled performance of collective goals.’

Note the three key aspects of this definition:

- collective goals
- social arrangements
- controlled performance.



What is an organisation?

Consider the three aspects of Buchanan and Huczynski’s definition in more detail:

- ‘Collective goals’ – organisations are defined by their goals. The main goal of a school is to educate pupils. It will therefore be organised differently to a company that aims to make profits.
- ‘Social arrangements’ – someone working alone cannot be classed as an organisation. Organisations are structured to allow people to work together towards a common goal. Usually, the larger the organisation, the more formal its structures.
- ‘Controlled performance’ – an organisation will have systems and procedures in place to ensure that group goals are achieved. For a company this could involve setting sales targets, or periodically assessing the performance of staff members.

It is worth noting that a major similarity between most organisations is that they are mainly concerned with taking inputs and transforming them into outputs.

For a manufacturing company, this could involve taking raw materials and transforming them into a finished product that can be sold onto its customers.

An accountancy training firm will also take inputs (students and syllabuses) and transform them into outputs (qualified accountants).



Illustration 1 – Football team

A football team can be described as an organisation because:

- It has a number of players who have come together to play a game.
- The team has an objective (to score more goals than its opponent).
- To do their job properly, the members have to maintain an internal system of control to get the team to work together. In training they work out tactics so that in play they can rely on the ball being passed to those who can score goals.
- Each member of the team is part of the organisational structure and is skilled in a different task: the goalkeeper has more experience in stopping goals being scored than those in the forward line of the team.
- In addition, there must be team spirit, so that everyone works together. Players are encouraged to do their best, both on and off the field.



Test your understanding 1

Which of the following would be considered to be an organisation according to the definition produced by Buchanan and Huczynski?

- (i) A sole trader
- (ii) A tennis club
- (iii) A hospital
- A (i), (ii) and (iii)
- B (i) and (ii) only
- C (ii) and (iii) only
- D (i) and (iii) only

1.2 Why do we need organisations?

Organisations enable people to:

- **Share skills and knowledge** – this can enable people to perform tasks that they would be unable to achieve on their own. Knowledge can also be shared between all the people within the organisation.
- **Specialise** – individual workers can concentrate on a limited type of activity. This allows them to build up a greater level of skill and knowledge than they would have if they attempted to be good at everything.
- **Pool resources** – whether money or time.

This results in **synergy** where organisations can achieve more than the individuals could on their own.



Test your understanding 2

Daniel is organising a social event. Which of the following would be benefits of him forming a committee to manage the planning process and the event itself?

- (i) It would help to overcome his limitations, by bringing on board other people with different skills to him.
 - (ii) It would save time through the joint efforts of everyone on the committee.
 - (iii) It would help to satisfy Daniel's social needs.
 - (iv) All members of the committee would have to be skilled in all aspects of managing the social event.
- A (i), (ii) and (iii) only
B (i), (iii) and (iv) only
C All of the above
D None of the above

2 Different types of organisation

As we have discussed, different organisations have different goals. We can therefore classify them into several different categories.

2.1 Commercial versus not-for-profit

Commercial organisations

Commercial (or profit-seeking) organisations see their main objective as maximising the wealth of their owners.

There are three common forms that a commercial company can take:

- **Sole traders** – the organisation is owned and run by one person. In this type of organisation the owner is not legally separate from the business itself. If a sole trader's business is sued by a customer, the customer is actually suing the owner themselves.
- **Partnerships** – the organisation is owned and run by two or more individuals. Traditionally, partnerships (like sole traders) do not have a separate legal identity from their owners. However in recent years many countries have created alternative partnership structures (such as Limited Liability Partnerships (LLPs) in the UK) which mean that the business exists as a separate legal entity and the owners' liability is limited to the amount they have invested into the partnership.
- **Limited liability companies** – a company has a separate legal identity to its owners (who are known as shareholders). The owner's liability is limited to the amount they have invested into the company.

In the UK, there are two types of limited company:

Private limited companies (with 'Ltd' after their name) – these tend to be smaller businesses, often owned by a few shareholders. Shares cannot be offered to the general public.

Public limited companies (with 'plc' after their name) – these can be much larger businesses. Shares can be offered to the general public, meaning that there can be millions of different shareholders. This makes it easier for the company to raise finance, enabling further growth.

Not for profit organisations



Not-for-profit organisations (NFPs or NPOs) do not see profitability as their main objective. Instead, they seek to satisfy the particular needs of their members or the sectors of society that they have been set up to benefit.



Illustration 2 – NFP examples

NFPs include the following:

- government departments and agencies (such as HM Revenue and Customs)
- schools
- hospitals
- charities (such as the Red Cross, Oxfam and Doctors Without Borders)
- clubs.

The objectives of different NFPs will vary significantly:

- Hospitals exist to treat patients.
- Councils may see their mission as caring for their communities.
- Government organisations usually exist to implement government policy.
- A charity may have 'provision of relief to victims of disasters' as its main objective.

2.2 Public versus private sector organisations

Public sector organisations



The public sector is the part of the economy that is concerned with providing basic government services and is controlled by government organisations.



Illustration 3 – Public sector organisations

The organisations that make up the public sector vary from country to country, but generally include:

- police
- military
- public transport
- primary education
- healthcare for the poor

Private sector organisations



The private sector consists of organisations that are run by private individuals and groups rather than the government.



Illustration 4 – Private sector

The private sector will therefore normally include:

- businesses
- charities and
- clubs.

Within these will be both profit-seeking and not-for-profit organisations.



Test your understanding 3

Many schools run fund-raising events such as fêtes, where the intention is to make a profit. This makes them 'profit-seeking'.

Is this statement:

- A True
- B False

Non-governmental organisations (NGOs)



A non-governmental organisation is one which does not have profit as its primary goal and is not directly linked to the national government.

NGOs often promote political, social or environmental change within the countries they operate.



Illustration 5 – NGOs

NGOs include:

- the Red Cross
- Doctors Without Borders
- Greenpeace
- Amnesty International.

2.3 Co-operatives



Co-operatives are organisations that are owned and democratically controlled by their members – the people who buy their goods or services. Each member usually gets a single vote on key decisions – unlike companies where shareholders get one vote for each share that they own.

They are organised solely to meet the needs of the member-owners, who usually share any profits.



Illustration 6 – Co-operatives

In the UK, the largest example of a co-operative is the Co-operative Group, which has over 5.5 million members and operates in diverse markets, such as banking, travel and groceries.



Test your understanding 4

Which of the following are usually seen as the primary objectives of companies?

- (i) To maximise the wealth of shareholders
 - (ii) To protect the environment
 - (iii) To make a profit
- A (i), (ii) and (iii)
B (i) and (ii) only
C (ii) and (iii) only
D (i) and (iii) only



Test your understanding 5

Which of the following organisations is most likely to be classified as part of the public sector?

- A A charity
B A social club
C A school
D A public limited company

3 Sectors in which organisations operate

A further difference between organisations is the market in which they operate. There are a large number of different sectors, which include:

- **Agriculture** – production, processing and packaging of foodstuffs.
- **Mining** – extraction and processing of minerals.
- **Finance** – this includes banks and other companies that profit through investments and the lending of money to others.
- **Retailers** – sale of goods produced by manufacturers to consumers.
- **Service** – production of intangible goods and services.
- **Transportation** – movement of goods between locations.

This is not an exhaustive list, but it should give you some idea of the wide range of activities that support organisations.

4 Summary

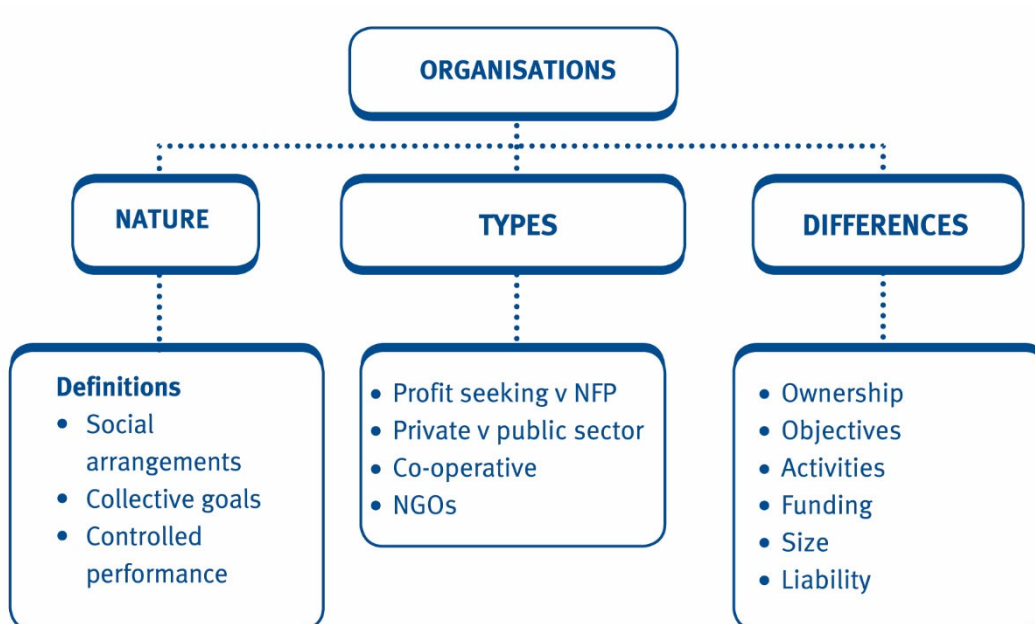
In summary, there are a number of key differences between the various types of organisations. These include (but are not limited to):

- **Ownership** – private sector organisations are likely to be owned by individual owners or shareholders (depending on the type of organisation). Public sector organisations will be controlled by the government, while co-operatives will be owned by their members.
- **Objectives** – as mentioned, each organisation has very different goals. This can range from the provision of social services (for charities and public sector organisations) to the maximisation of owner wealth (for profit-seeking organisations).
- **Activities** – the activities of an organisation will be designed to support its objectives. This means that organisational activities are as varied as the organisations themselves!
- **Sources of funding** – public sector organisations will tend to raise money from the central government. Private sector organisations, such as companies and co-operatives, will most likely have to raise funds from their owners. Charities are usually funded by donations.
- **Size** – organisations vary in size from large, multinational companies to sole traders consisting of only one person.
- **Liability** – the owners of sole traders or partnerships are liable for any losses their businesses make. Owners of companies enjoy **limited liability**.

In spite of these differences, the different types of organisations often face similar issues to each other. For instance, most will have employees that need to be motivated. Many organisations will need to design strategies for the future, or will need to consider what systems should be put in place to ensure the accurate recording of transactions.

It is these common issues that we are going to examine in more detail in the coming chapters.

5 Chapter summary



6 Practice questions



Test your understanding 6

Which of the following is NOT a benefit that organisations have over individuals?

- A They allow the sharing skills and knowledge
- B They enable people to perform tasks they would be unable to achieve on their own
- C They enable synergy to be achieved
- D They speed up the time taken to make decisions



Test your understanding 7

GreenWatch is an independent environmental charity set up to lobby the government for improved environmental regulation on business. What type of organisation is GreenWatch most likely to be classed as?

- A Public sector
- B Co-operative
- C Non-governmental
- D Commercial



Test your understanding 8

Which of the following statements regarding types of business is correct?

- A Partnerships are owned and run by one or more people
- B Private limited companies can sell shares to the public
- C Shareholders in companies typically have limited liability
- D The owners of sole traders typically have limited liability



Test your understanding 9

Which of the following statements regarding organisations are correct?

- (i) Companies tend to raise money from central government.
- (ii) Most sole traders and partnerships have the aim of maximising owner wealth.
- (iii) Public sector organisations are controlled by the central government.
- (iv) Charities form part of the public sector.

- A (i) and (ii) only
- B (iii) and (iv) only
- C (ii) and (iii) only
- D (ii) and (iv) only



Test your understanding 10

Here are four statements relating to the features of different types of organisation:

- A This type of organisation can sell its shares to the public.
- B This type of organisation is owned and run by two or more people who are legally indistinguishable from the organisation itself.
- C This type of organisation is controlled by the government.
- D This type of organisation is owned and democratically controlled by its members.

Required:

- (a) Identify the description above which is associated with each of the following types of organisation, by selecting A, B, C, D or none.
 - (i) Private limited company
 - (ii) Partnership
 - (iii) Public limited company
 - (iv) Co-operative
 - (v) Public sector organisation
 - (vi) Sole trader

(0.5 marks each, total = 3 marks)

(b) Below are four types of organisation:

- A Charities
- B Schools
- C Limited companies
- D Police forces

Required:

Write down which two of the above are most likely to be classified as part of the private sector by selecting TWO of the letters from (A, B, C, D).

(0.5 marks each, total = 1 mark)

(Total: 4 marks)

Test your understanding answers



Test your understanding 1

The correct answer is C

There would be no **collective** goals for a sole trader, so this does not satisfy the definition given.



Test your understanding 2

The correct answer is A

Statement (iv) would not be true, as organisations (which this committee could be classified as) allow for specialisation. Not all of the members would have to be skilled at performing all of the necessary tasks.



Test your understanding 3

The correct answer is B – False

Schools run fund-raising activities to help pay for extra books, e.g. to improve the quality of education given to pupils. The primary objective is educational, not profit. The money made at the fête is thus a means not an end.



Test your understanding 4

The correct answer is D

While protecting the environment is to be encouraged and is reinforced within statute to some degree, it is not a primary objective of the company. Companies exist primarily to maximise the return to their owners.



Test your understanding 5

The correct answer is C

Public sector organisations will be controlled by the central government. This is unlikely to be a charity, a company or a social club – which are typical examples of the private sector.

Note that a privately owned and operated school could be part of the private sector, but schools are still the most likely from the list to be public.

**Test your understanding 6****The correct answer is D**

Forming an organisation means that people work collectively. Typically this will mean that decision-making will become slower, as more people (with potentially differing ideas) are involved in the decision-making process.

**Test your understanding 7****The correct answer is C**

As a charity, GreenWatch is not commercial as it does not have a profit-making objective. It is not obviously controlled by the central government, meaning that it is not in the public sector. It also clearly does not meet the definition of a co-operative, which is an organisation that is controlled by the people who buy its goods.

**Test your understanding 8****The correct answer is C**

Sole traders do not enjoy limited liability as, legally, they are not separate from their owners. Only public limited companies can issue shares to the public and partnerships cannot be owned by one person!

**Test your understanding 9****The correct answer is C**

Companies usually raise money from sources other than the central government and charities are part of the private sector, rather than the public sector.



Test your understanding 10

- (a) The correct answers are:
- (i) **None**
 - (ii) **B**
 - (iii) **A**
 - (iv) **D**
 - (v) **C**
 - (vi) **None**
- (b) The private sector refers to organisations that are run by private individuals and groups rather than the government. Therefore, the correct answers are **A** and **C**.