# Ministry of Education

## Chuvash State University after I.N.Ulyanov

## Faculty of Business and Management

Course Paper:

###### Talking Business

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##### Cheboksary – 2003

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# Introduction

# The given course paper represents a brief material. It has the recommendations of successful management of business. The experience of the entering business and the achievements of positive results are generalized in it. I have chosen the theme of my course paper as I think that each person has an opportunity of opening his own business in our country now, but not everyone can do it. And that's why I have decided to help the beginning businessmen to earn money.

The given course paper consists of three parts. In the first part it is considered preparatory steps of the setting up of business. Work of the company is analyzed in the following chapter of the course paper. And I have tried to study the stock market in the third chapter.

Chapter 1.

# Setting up business

If a person wishes to launch a new business, he has to make some preparatory steps. The first step is the selection of an appropriate legal form. In various countries these forms differ. But usually they are as follows: a limited liability company, a partnership and a sole proprietor.

There is a basic difference between these forms. A limited liability company is a legal entity (legal person). In case of a bankruptcy, it has to reimburse (cover) its debts with all its assets, but the creditors cannot seize the assets owned by the company’s shareholders.

Sole proprietors or partners do not form a legal entity and have unlimited liability. If their business goes bankrupt, they have to reimburse the debts not only with the firm’s assets but also with their personal belongings: money, houses, cars, etc.

For this reason, most businesses are set up as limited liability companies. The name of such a company ends with “Limited” in the UK or Canada and with “Inc.”, “Corp.” or “LLC” in the USA.

A limited liability company may be private or public. A private company is usually founded by a small group of people who know each other and intend to do business together. A private company cannot sell its shares to the public and if it the business is not successful the founders loose their own money only.

A public company’s shares are traded on the stock market and may be purchased by millions of people all over the world. These shareholders are not aware of the company’s day-to-day performance and must rely on the professionalism of the company’s managers and their reports. If the management is poor or in case of the managers’ fraud, the shareholders may loose billions of dollars.

Many countries have special regulatory bodies to supervise public companies, such as the US Securities Exchange Commission. Yet, corporate disasters sometimes happen. One of the most recent examples is the bankruptcy of Enron Corporation, a giant supplier of energy resources in the Western part of the United States.

The second step in setting up a business is the preparation of various documents, such as: Memorandum of Association, Articles of Association and Resolution of the founders on the appointment of directors. The Memorandum contains the conditions, on which the founders agree to set up this business, and the Articles set out the principles of the company’s formation and management: its name, objectives, share capital, rules of management, etc. The founders have to make the initial investment and may either hire the directors of the company or appoint themselves as the directors.

Every new business is to be registered with the official company register. The UK has such registration offices in London and in Edinburgh, while in the USA each of the 50 states has its own register.

Chapter 2.

# Company performance

Any business is set up to make profit. But the founders sometimes do not have enough experience or make serious mistakes, which result in losses. The financial results of the company’s operations can be seen from its financial reports.

There are at least three reasons for preparing such reports. First, every government needs to collect taxes and therefore requires detailed information on the company’s performance, revenues and expenses. Second, the shareholders need to know, whether the company’s management is professional enough, and ask for confirmation with facts and figures. Third, the company’s top executives must control the efficiency of the company’s various departments and the input of each department in the company’s operational results. The reports prepared by the company’s accounting department are often verified by an auditor, which is an independent public accountant. The auditor has to confirm that the reports comply with legal requirements and they reflect the company’s actual performance.

There are a lot of reports submitted annually, semi-annually and quarterly. The most important one is the balance sheet, which describes the company’s assets and liabilities as on the last date of each year. The assets are the values, which the company owns: money, buildings, equipment, raw materials, computer hardware and software, trade marks. The liabilities specify what the company owes, such as: share capital, credits received from banks and suppliers, other debts. If the amount of assets is higher than that of the liabilities, the company has profit. If the liabilities are higher than the assets, the company has losses. In the latter case they say that the company is “in the red”.

Money transfers between the company and its partners during the year are shown on the statement of cash flows. Cash is the most liquid asset, which is as important for the company’s activities as blood for a human body. If a company has huge fixed assets (land, buildings, equipment) but does not have enough money, it is a sign of financial problems.

There are many other reports, letters, notes and messages, which a company has to submit. Some of them are very colourful, with photographs and illustrations and look like advertising material. But their contents are usually a summary of the above two documents and additional comments to them.

If we deduct the company’s expenses from its revenues, the result is gross profit before taxes. If we further deduct taxes from the gross profit, the result is net profit, which may be distributed among the shareholders as their dividends or may be reinvested. The shareholders adopt a resolution on this matter at their annual meeting. Often they decide to use half of the net profit for dividends and to reinvest the other half. The net profit may also be carried forward to the next year. The amounts brought forward from the previous year are known as “retained earnings” of the company.

Companies are usually reluctant (do not wish) to pay taxes and there are legal ways to avoid some of them. The company’s ability to save on taxation depends on the professionalism of its accountants. The easiest way to avoid taxes is to increase expenses through purchasing new machinery, investing in new technologies, making money transfers to charity foundations.

While tax avoidance is allowed, tax evasion is a crime. The company’s executive body (the board of directors) is responsible for the correctness of the information submitted to the government. The personal liability is on the chief executive officer (the board chairperson) and the chief financial officer who sign the reports. If the information contained in the documents is not correct and if the company tries to evade taxes, these persons may be fined or even jailed. Otherwise, they may escape to another country, which sometimes happens.

Chapter 3.

# The stock market

A century ago, the size of enterprises was rather small, each of them usually employed several dozen workers, and most business companies were family-owned. Further industrial growth required more intensive financing and family capitals became insufficient. This gave birth to share capital, which can combine financial resources of many people into a pool for starting a big project.

The most visible representatives of share capital are public limited companies, such as British Petroleum, Royal Dutch Shell or General Motors. They raise money on the stock market by issuing securities, mostly shares and bonds.

Ordinary shares (common stock in USA) form the largest part of the whole securities market. A shareholder owning ordinary shares can vote at the annual shareholders’ meeting, which reviews the company’s reports, takes decisions on the company’s plans and the distribution of the company’s profit. The meeting may decide to distribute the dividends to the shareholders or to reinvest the profit. If the company has no profit or has losses, the owner of ordinary shares will receive no dividends.

Each ordinary share has its face value and its market price. The face value is indicated on the share certificate but one cannot sell or buy the share at the face value. The market price is established at the stock exchange, where the shares are quoted and traded. The market price may be several times higher or lower than the face value because it depends on the general market situation and on the performance of the company.

When the country’s economy grows, the stock market usually has an upward trend, the market prices of shares go up and the stock exchange traders say that the market is “bullish”. If the market has a downward trend, the market prices of shares go down and the market becomes “bearish”.

Many companies issue preference shares (preferred stock in USA). These shares give the shareholder a guaranteed, stable income fixed as a percentage of their face value. But preference shares do not let their owner to vote at the shareholders’ meetings.

Some companies issue bonds. These securities provide their owner with stable income, the same as preference shares do. But unlike ordinary or preference shares, bonds are redeemable. It means that the company issuing bonds has an obligation to redeem them or buy them back at the face value after a certain period of time, usually after several years.

There was a stock market boom during the latest decade of the twentieth century. Many people became active in shopping for financial products and invested much of their wealth in securities. They expected that the markets would grow rapidly in the coming years and hoped to earn money through buying securities at lower prices and selling them at higher prices.

But these expectations were ruined by a sudden economic crisis. Now the Western economies have been in recession for about two years and the market price of most securities is much lower than their face value. It is a very sad situation for the shareholders, because they cannot return their shares to the issuing companies and get their money back. They can only sell these shares at their market price, if somebody will buy them.

Conclusion

In the conclusion I want to tell, that the knowledge of the basic economic principles creates conditions of safe existence for the person. The public phenomena, which are studied with the economic theory, influence various layers of the population. The size of the received income plays an important role in the position of the person in the society.

Certainly, I cannot say that if you study the basic economic principles, you will understand all essence of economic events.

I hope that my work will help the beginning businessmen in the future.

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