

BUSINESS AWARENESS

STUDY TEXT

Qualifications and Credit Framework

Q2022

This Study Text supports study for the following AAT qualifications:

AAT Level 3 Diploma in Accounting

AAT Level 3 Certificate in Bookkeeping

AAT Diploma in Accounting at SCQF Level 7

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STUDY TEXT

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INTRODUCTION

HOW TO USE THESE 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 chance of success in your AAT assessments.

They contain a number of features to help you in the study process.

The sections on the Unit Guide, the Assessment and Study Skills should be read before you commence your studies.

They are designed to familiarise you with the nature and content of the assessment and to give you tips on how best to approach your studies.

STUDY TEXT

This study text has been specially prepared for the revised AAT qualification introduced in 2022.

It is written in a practical and interactive style:

- key terms and concepts are clearly defined
- all topics are illustrated with practical examples with clearly worked solutions based on sample tasks provided by the AAT in the new examining style
- frequent activities throughout the chapters ensure that what you have learnt is regularly reinforced
- 'examination tips' help you avoid commonly made mistakes and to focus on what is required to perform well in your examination
- 'Test your understanding' activities are included within each chapter to apply your learning and develop your understanding.

ICONS

The study chapters include the following icons throughout.

They are designed to assist you in your studies by identifying key definitions and the points at which you can test yourself on the knowledge gained.



Definition

These sections explain important areas of knowledge which must be understood and reproduced in an assessment.



Example

The illustrative examples can be used to help develop an understanding of topics before attempting the activity exercises.



Test your understanding

These are exercises which give the opportunity to assess your understanding of all the assessment areas.



Foundation activities

These are questions to help ground your knowledge and consolidate your understanding on areas you're finding tricky.



Extension activities

These questions are for if you're feeling confident or wish to develop your higher level skills.

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The business organisation

Introduction

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

ASSESSMENT CRITERIA

The types of businesses (1.1)

CONTENTS

- 1 Business organisations and the reason they are formed
- 2 Different types of organisations
- 3 Separation of ownership and control
- 4 Types of funding used by businesses

1 Business organisations and the reason they are formed

1.1 What is a business organisation?

Defining an organisation is challenging. 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 following definition:



Definition

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

Considering the three aspects of this definition in more detail:

- (a) 'Social arrangements' – someone working alone cannot be classed as an organisation. Organisations are structured to allow interrelated individuals to work together towards a common goal. This may include the creation of divisions to organise teams as part of an organisational hierarchy. Usually, the larger the organisation, the more formal its structures.
- (b) 'Controlled performance' – an organisation will have systems and procedures in place to ensure that group goals are achieved. Managers and individuals will be given specific roles and responsibilities, and held accountable for their performance. For a company this could involve setting sales targets, or periodically assessing the performance of staff members.
- (c) 'Collective goals' – organisations are defined by their goals, so we need 'goal congruence' i.e. everyone working towards the same goals. For example, the main goal of a school is to educate pupils. It will therefore be organised differently to a company that aims to make profits.

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 example, 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).



Example

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 presented earlier?

- (i) A company owned and managed by one person, with no employees.
 - (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 allows people to perform tasks that they would be unable to achieve on their own. Knowledge can be shared between all the people within the organisation.
- **Specialise** – individual workers can concentrate on a limited set of tasks. This allows them to build up a greater level of skill and knowledge than they would have if they attempted to master 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

Jared 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 Jared'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

1.3 Common features of business organisations

Different business organisations are defined around their structure, their processes, as well as the relationships, authority and responsibility of the individuals that make them up.



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