WARWICK BUSINESS SCHOOL

Pre-summer School Lecture on Accounting and Finance

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Introduction to Accounting,the Use of Accounting Information and Company Annual Reports

Accounting & Finance: Understanding the Business World

"How accountants help businesses, investors and society make better decisions."

Learning outcomes:

By the end of the workshop students should be able to:

- Familiarise with annual report
- Explain what accounting and finance are.
- Understand how businesses make profit.
- Read simple financial statements.
- Make simple business decisions using accounting information.
- Appreciate career opportunities in Accounting and Finance

Your perception of an accountant?

Why Study Accounting?

"Would you invest £10,000 in a company without knowing whether it makes money?"

Accounting is the language of business.

Accounting helps people make decisions.

Who uses accounting?

- Investors
- Banks
- Employees
- Governments
- Customers
- Managers

What is Financial Management

Finance – Relates to the monetary resources or funds and the sources and uses of funds

Financial Management – decisions made with regards to the funds, such as:

Financing decisions – How much funding and where should it come from to run the business?

Investment decisions –Allocating the funds efficiently in a business

Working capital management decisions - How should the day to day use of funds be managed? and for companies includes dividend decisions

Focus is mainly on large public limited companies (PLC's)

The Objective of the firm

We have previously observed that an organisation has a number of stakeholders, these stakeholders influence the goals and objectives of the organisation

Stakeholders

What should the financial goal be?

Maximise Profit?

Maximise Shareholder wealth

Creates an Agency Problem
Do managers act in the best interest of the shareholders?

How is shareholder wealth maximised?

Shareholder Wealth

Dividend Payments

Capital Gains

Key concepts in Financial Management

In order for financial managers to make effective an efficient decisions there are several key terms and concepts which are central to financial decision making

Risk and Return

The Time Value of Money

The relationship between risk and return

Return

Compensation for making an investment

Risk

Possibility that the return may be different to what is expected

The greater the risk the higher the return that will be required

Accounting	Finance
Records business activities	Decides how money should be invested
Reports financial performance	Makes investment decisions
Looks at past performance	Looks to the future

Why is understanding an Annual report important?

- EVEN if you don't want to become an accountant, EVERYONE uses numbers to make decisions

- It's important to understand to be able to **USE and INTERPRET Company Annual Report and <u>the financial statements within them</u>**
- **Better understanding = Better decisions**

- Consider what brings value to a firm
- Consider the information that an Annual report contains
- Consider how we can trust the information in the Annual Report

Annual Report and Financial Statements

What information is included in this report?

What trust can you place in the information?

An Annual Report

- Glossy publication that plcs must provide annually to shareholders to provide a coherent picture of a company – its purpose, operations and financial results and position
- Provides a lot of information both past and future
- Lots of **narrative** not just numbers…… plus, importantly the financial statements and related notes

Corporate Story-telling.....

Q. HOW MANY PAGES in Average Annual Corporate Report?

ANSWER: 180+ plus.... Can often be more..(Banking sector)

THINK: WHO READS them cover to cover?

What is in an Annual Report?

FRONT END:

Narrative statements:

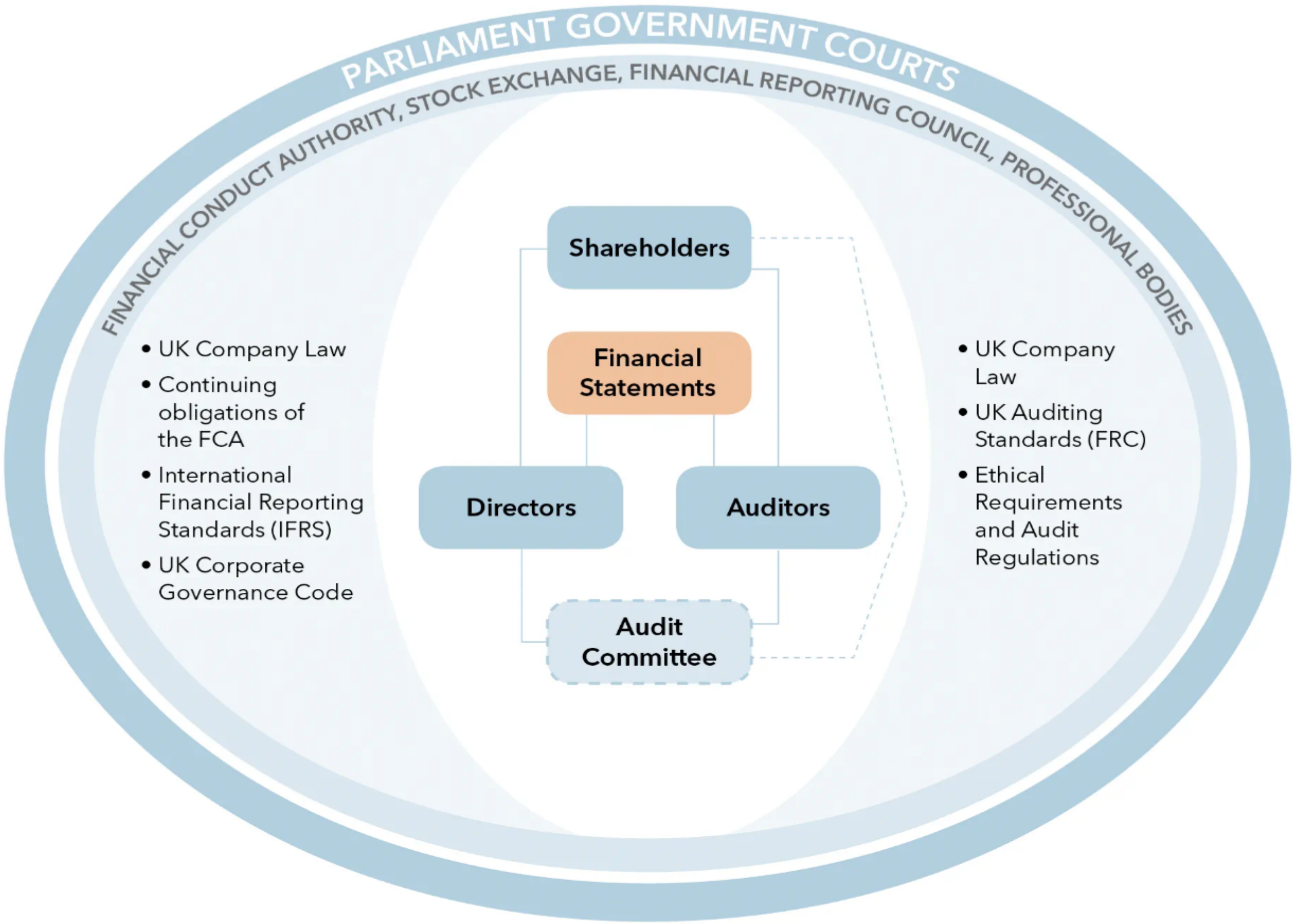
- Strategic Report
- Business model , Risk management information
- Operating and financial review – including Key Performance Indicators

- Corporate governance statements
- Statement on internal controls and viability Statement
- Sustainability disclosures (Increasing in volume!)

BACK END:

Audited financial statements

How do we know we can trust the information?



Source: https://www.icaew.com/technical/thought-leadership/full-collection/audit-and-assurance-thought-leadership/financial-reporting-who-does-what

Why is the audit profession under intense scrutiny at this time?

CMA proposes overhaul of audit and Big Four

The Competition and Markets Authority has proposed a radical shake-up of the UK audit market and the Big Four

Accountancy giant KPMG facing investigation over its auditing of collapsed Carillion

Big Four scandals highlight a lack of social utility

A series of issues around the world shows all too clearly that auditing has become flabby

FINANCIAL TIMES

PATISSERIE VALERIE

What skills / attributes does an auditor need?

Accounting roles……

ROLE WORKING ‘IN PRACTISE’
i.e. for a Professional Services Firm

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ROLE WORKING ‘IN INDUSTRY’
i.e. for ONE Company in a Finance Department

Accounting roles

ROLE WORKING 'IN PRACTISE'
i.E for a PROFESSIONAL SERVICES FIRM

BIG 4 or Challenger firm?

Example Service lines/departments within a PRACTISE firm

Audit and assurance

Consulting

Tax and legal

External audit v internal audit

Financial Advisory/ Business outsourcing

Accounting roles

ROLE WORKING ‘IN INDUSTRY’
i.e for ONE Company in a Finance Department

A coffee shop

Revenue:

£5,000

Expenses:

Coffee beans	£800
Rent	£1,000
Electricity	£500
Wages	£600

Profit ?

"Did the business do well?"

The Three Financial Statements

Income Statement: Reports profit/loss for a period:

Income
Expenses
Profit

Statement of Financial Position: Shows assets, liabilities and equity of a business at a particular point in time

Assets
Liabilities
Equity

Cash Flow Statement: Provides information on cash movements(cash in/out) of a business over a particular period of time.

Can a profitable business run out of cash?

Accounting	Finance
Records business activities	Decides how money should be invested
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Revenue £80,000
Expenses £60,000
Cash £1,000
Receivables £30,000
Payables £25,000
Ask:
Would you lend this company money?
This introduces business decision-making.

AI in Accounting

- ChatGPT
- Microsoft Copilot
- AI in auditing
- Fraud detection
- Predictive analytics

Can AI replace accountants?

Careers

- Accountant
- Auditor
- Investment Banker
- Financial Analyst
- Management Consultant
- CFO
- Entrepreneur
- Forensic Accountant
- Sustainability Consultant
- AI Consultant

We hope you have enjoyed this taster session
(and changed your perception about Accountants!)

Thank You

Any questions?