

Business Administration

University of Applied Sciences

Lecture by Prof. Dr. Ulrich Daldrup

SS 2017
(ver. 01.01.2017)

Who is Ulrich Daldrup

ACADEMIC	
Since 2016	“Vertrauensmanager of the German foundation “Stiftung der deutschen Wirtschaft (sdw)” for the universities of Aachen (RWTH), Applied Sciences FH Aachen and, the University of Maastricht
Since 1984	Professor at the Technical University of Cologne (TH Köln), teaching Business Administration and International Law and, Entrepreneurship
Since 2004	Professor/Lecturer at the University of Applied Sciences of Aachen, Campus Jülich, teaching Business Administration and International Management
1996 - 1998	Dean and Rector of the University of Bradford, Campus Aachen, MBA Study with Dutch NIMBAS University
2000	Dr. h.c. of the Technical University of Kaunas/Lithuania
1977	Ph. D./Dr. rer. nat. of the Technical University of Aachen
1965 - 1971	Study of Chemistry and Economics at the Technical University of Aachen (Dipl.-Chem.)
1958 -1965	European School, Brussels (Baccalauréat)
PROFESSIONAL/POLITICAL	
Since 2013	Chairman of the “European Agency for Sustainable Energy (EASE)
Since 2007	Vice President and CEO Germany of Energy Hills, The European Energy Competence Cluster
Since 1979	Owner and CEO of a private company based in Aachen. Member of Supervisory Boards of many companies: Savings Bank, Energy, Public Transport, Business Park, Technology Center, Water for the World Foundation etc
2000 - 2004	Commissioner of the German government for the Baltic States, based in Riga/Latvia
1994 - 1999	Mayor of the City of Aachen
1989 - 1993	Political advisor to the minister of industry and first President of Mauritius
1975 - 1994	Delegated as international expert by European Commission, German BMZ, KfW, GIZ, the UN as well as the World Bank on short term missions (90 countries)
1972 – 1974	Advisor to the Government of Morocco, seconded by German government, based in Rabat/Morocco ----- Member of the Board of: IBC AG, World Trade Center (Netherlands), ASEAG AG, Sparkasse Aachen, AGIT GmbH, International Business Park Avantis bv etc

Scripts

- Look at the following WEB Pages:
 - www.daldrup.org

You find under “University of Applied Sciences” all relevant documents for down-load in PDF format.

Structure of the lecture - Introduction

Theoretical part:

- Macro Economics (introduction)
- Investment calculation/The make of a Business Plan
- Cost calculation
- Enterprises: creation, legal forms
- Financing
- Economic Ratios
- Planning, Decision and Control
- Human Resources management
- Organization
- Marketing
- Accounting/Book keeping
- Ethics in business, compliance

Practical part:

- Excursion
- Drafting a Business Plan for a new investment (in a group of up to three students)
- Presentation of the Business Plan
- The Business Plan counts for 50% of the final quotation (exam must be passed)

Structure of Group Work and

- Groups of three students
- Make as team a Business Plan
- Submit the Business Plan in PowerPoint
- Each member of the team confirms by its/her signature having contributed to the make of the Business Plan
- Presentation of the Business Plan
- If written examination is successful, Business Plan counts 50% of the final mark
- If written examination is not successful, the Business Plan will not be considered anymore
- If no Business Plan is presented, only mark obtained in written examination counts

Objective: To give you a basic understanding of economics

- You could become an engineer with background in economics with management skills
- Understanding of costs and financial issues
- Leadership, direction, management
- Taking decisions
- Creating and/or managing a company
- Politics, legislation, employment and entrepreneurship
- Organisation
- Recruiting and working with people

Test – to know you better

- Have you ever heard:
 - Stock market
 - Calculation of labor cost
 - How to calculate the VAT
 - Oligopoly
 - Organigram
 - Break Even Point
 - Central Bank
 - Balance
 - Cash flow
 - Limited company
 - Shares
 - Depreciation costs

Just a simple invoice ?

Steuerrechnung

Datum 08/10/11 - 15:04
 Firma GFE GmbH
 Kunde Ullrich Daldrup
 Adresse Schlossrahe 1a, 52072, Aachen
 MwSt.-Nr. des Kunden 000000
 E-Mail [redacted]

Apple Store, Rosenstraße
 Rosenstraße 1
 80331 München
 rosenstrasse@apple.com
 089 242 145000
 apple.com/de/rosenstrasse
 MwSt Nr. DE258811348
 WEEE Reg Nr. DE 17437416

Beleg-ID 
 * R 0 4 5 6 5 9 1 0 3 5 *

Rechnungsnummer T2011R0450000014791
 Soweit nicht anders angegeben, entspricht das Rechnungsdatum dem Lieferdatum.

Produktbeschreibung	Support-Kontakt:	Einzelpreis	MwSt.-Satz	Menge	Preis ohne MwSt.	MwSt	Summe
iPad 2 Wi-Fi 3G 64GB Black Artikelnummer: MC775FD/A - Seriennummer: DN6G CUR4DFJ3 Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: apple.com/de/ support	671,43 €	19,0%	1	671,43 €	127,57 €	799,00 €
APPLE EARPHONES WITH REMOTE AND MIC-GEN Artikelnummer: MB770G/B Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: www.apple.com/ support	24,37 €	19,0%	1	24,37 €	4,63 €	29,00 €
Digital AV Adapter Artikelnummer: MC953ZM/A Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: www.apple.com/ support	32,77 €	19,0%	1	32,77 €	6,23 €	39,00 €
iPad Smart Cover Orange Artikelnummer: MC945ZM/A Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: www.apple.com/ support	32,77 €	19,0%	1	32,77 €	6,23 €	39,00 €

Summe					761,34 €	144,66 €	906,00 €
Zahlungsmethode	Zahlung mit Master Card (A)		xxxxxxxxxxxx3975	559237			906,00 €
						Summe	906,00 €

MwSt. Zusammenfassung:

MwSt.-Satz	MwSt. Basis	MwSt
19,0%	761,34 €	144,66 €

Datum 08/10/11 - 15:04
Firma GFE GmbH
Kunde Ullrich Daldrup
Adresse Schlossrahe 1a, 52072, Aachen
MwSt.-Nr. des Kunden 000000
E-Mail md@daldrup.org

Apple Store, Rosenstraße
Rosenstraße 1
80331 München
rosenstrasse@apple.com
089 242 145000
apple.com/de/rosenstrasse
MwSt Nr, DE258811348
WEEE Reg Nr: DE 17437416

Beleg-ID



* R 0 4 5 6 5 9 1 0 3 5 * *

Rechnungsnummer T2011R0450000014791

Soweit nicht anders angegeben, entspricht das Rechnungsdatum dem Lieferdatum.

Produktbeschreibung	Support-Kontakt:	Einzelpreis	MwSt.-Satz	Menge	Preis ohne MwSt.	MwSt	Summe
iPad 2 Wi-Fi 3G 64GB Black Artikelnummer: MC775FD/A - Seriennummer: DN6GUR4DFJ3 Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: apple.com/de/support	671,43 €	19,0%	1	671,43 €	127,57 €	799,00 €
APPLE EARPHONES WITH REMOTE AND MIC-GEN Artikelnummer: MB770G/B Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: www.apple.com/support	24,37 €	19,0%	1	24,37 €	4,63 €	29,00 €
Digital AV Adapter Artikelnummer: MC953ZM/A Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: www.apple.com/support	32,77 €	19,0%	1	32,77 €	6,23 €	39,00 €
iPad Smart Cover Orange Artikelnummer: MC945ZM/A Rückgabedatum: 22. Okt 2011	Für Support besuchen Sie: www.apple.com/support	32,77 €	19,0%	1	32,77 €	6,23 €	39,00 €

Summe	761,34 €	144,66 €	906,00 €
--------------	-----------------	-----------------	-----------------

Zahlungsmethode

Zahlung mit Master Card (A)

xxxxxxxxxxxx3975	699237	906,00 €
------------------	--------	----------

Summe	906,00 €
-------	----------

MwSt. Zusammenfassung:

MwSt.-Satz	MwSt. Basis	MwSt
19,0%	761,34 €	144,66 €

Excursion: How do you decide?

The investing in new cars dilemma

- Complexity of decision making:
 - A large company intends to buy new cars for its executives and for its transport department. What criteria for the selection of the new cars to be bought would you see as the most relevant?
 - *Brand/manufacturer, price, quality, shipment time, service available nearby, design of the car, rebate*



The insurance dilemma

- *A large company owns 500 cars of different size, age and use. There are limousines for the managers, trucks for the transport of goods etc. You are the new CFO of the company. You are asked to decide, whether the company should take for all its cars a “full cover/full risk” insurance or not.*
- *The insurance would cost the company some 2.000 EURO/car and per year.*
- *If you are the CFO, what would be your decision?*



The Recruitment dilemma

- *Recruitment of personnel, what is relevant:*
- Recommendations,
- Graduations,
- Assessment,
- Salary/ costs,
- Motivation,
- Age,
- Gender



The “Garden-Café-Dilemma”

Stock planning – the “Garden-Café-Dilemma”:

- You are the manager of a garden café, with a large open outside terrace. Most of your guests are coming during the weekend. If the weekend will be rainy, you risk that no guests will show up.
- How many fresh pies and cakes should the owner of this garden-café order for the upcoming week-end? Does the weather forecast have an influence?



Chapter 1: National Economy - Macroeconomics

- Basics (an introduction)
- The State
- The public and the private Sector
- Market
- GDP
- Employment
- Trade/Exchange rates
- Money
- Taxation, fiscal system
- Aging society
- The public budgets
- Shortage of goods

Macroeconomics vs. Microeconomics

Macroeconomics

- National economy

Microeconomics

- Economics on company level. Business administration
- Definition
 - Business administration analyses the operations and procedures in enterprises and their environment

The State

- Definition of a State by: a) Constitution b) Territory and c) Population living in that territory under respect of the constitution.

Case of Germany: Federal Democracy

- Constitution (Germany: Grundgesetz)
- Federal government
- Parliament (Legislator)
 - 2nd Chamber (Länderkammer)
- 16 Federal States
 - 16 Federal States Parliament
- Municipalities

EU: Political and regional power

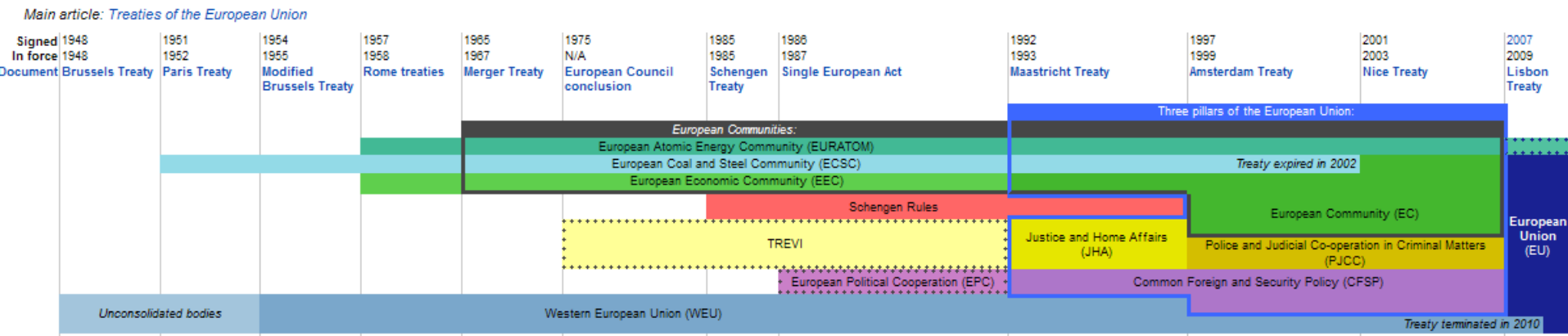
European Union

National States

Regions (in Germany States (Bundesland))

Bezirksregierung

Municipalities



The German State



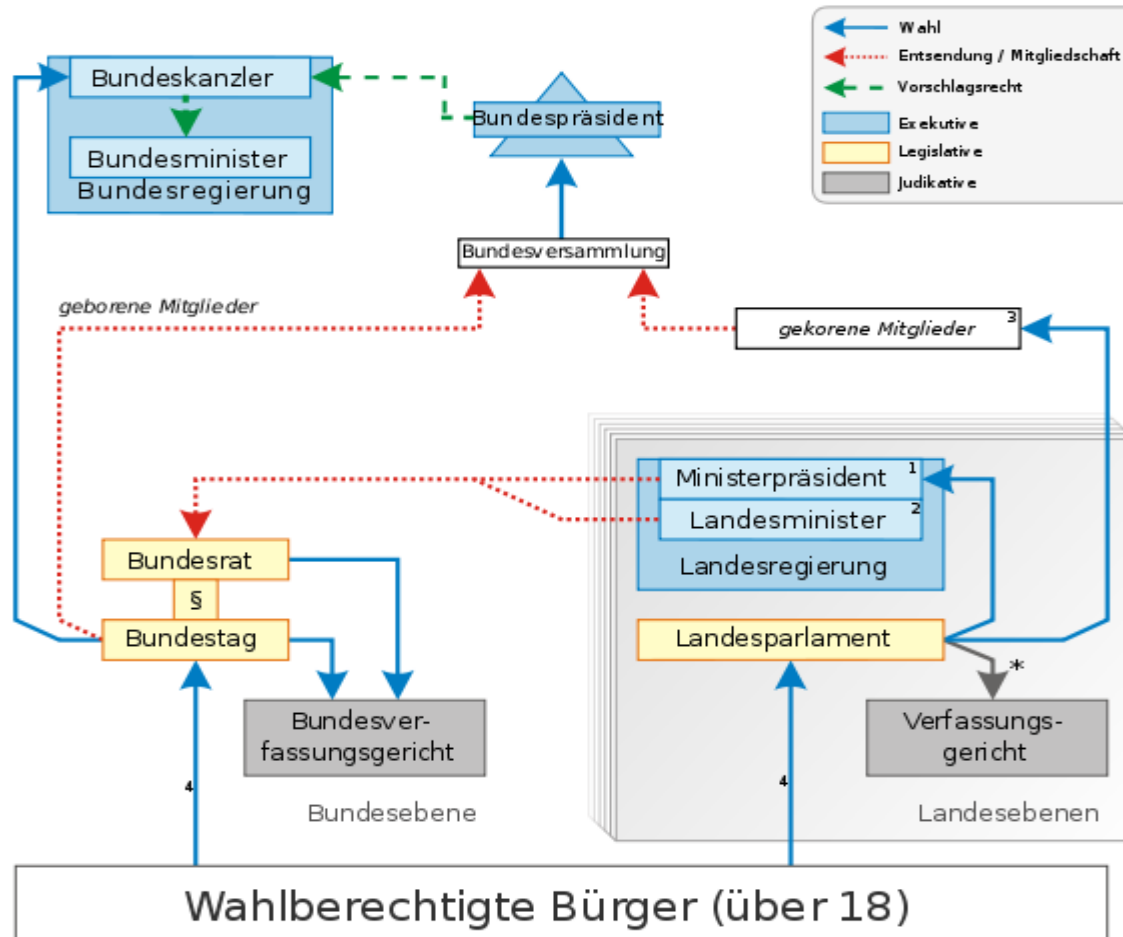
- Germany is a federal, parliamentary, representative democratic republic. The German political system operates under a framework laid out in the 1949 constitutional document known as the Grundgesetz (Basic Law). By calling the document Grundgesetz, rather than Verfassung (constitution), the authors expressed the intention that it would be replaced by a proper constitution once Germany was reunited as one state. Amendments to the Grundgesetz generally require a two-thirds majority of both chambers of the parliament; the articles guaranteeing fundamental rights, the separation of powers, the federal structure, and the right to resist attempts to overthrow the constitution are valid in perpetuity and cannot be amended.
- The Bundeskanzler (Federal Chancellor)—is the head of government and exercises executive power, similar to the role of a Prime Minister in other parliamentary democracies. Federal legislative power is vested in the parliament consisting of the Bundestag (Federal Diet) and Bundesrat (Federal Council), which together form a unique type of legislative body.
- The Bundespräsident (Federal President)—currently Horst Köhler—is the head of state, invested primarily with representative responsibilities and powers. He is elected by the Bundesversammlung (federal convention), an institution consisting of the members of the Bundestag and an equal number of state delegates
- Legislative power is divided between the federation and the state level. The Basic Law presumes that all legislative power remains at the state level unless otherwise designated by the Basic Law itself.
- With 82 million inhabitants, Germany is the most populous country in the European Union.
- About seven million foreign citizens were registered in Germany, and 19% of the country's residents were of foreign or partially foreign descent.
- Germany is the largest national economy in Europe, the fourth largest by nominal GDP in the world, and ranked fifth by GDP (PPP) in 2008.[81] Since the age of industrialisation, the country has been a driver, innovator, and beneficiary of an ever more globalised economy. Germany is the world's top exporter with \$1.133 trillion exported in 2006 (Eurozone countries are included) and generates a trade surplus of €165 billion



Administrative Structure



The Political System



¹ Der „Ministerpräsident“ wird in Bremen, in Hamburg und in Berlin genannt. *Bürgermeister/Erster Bürgermeister/Regierender Bürgermeister*
² In den Stadtstaaten (Berlin, Hamburg, Bremen) heißen die Landesminister Senatoren. In Bayern werden die Minister Staatsminister genannt.
³ Vom Landesparlament gewählte Vertreter des Volkes. Diese müssen nicht dem Landesparlament angehören.
⁴ Die Wahlen sind frei, geheim und gleich.
 *je nach Bundesland existieren unterschiedliche Regelungen zur Bestimmung der Mitglieder des Verfassungsgerichtes auf Landesebene.

Population

- The population of the Federal Republic of Germany encompasses all the inhabitants whose usual place of residence is within the territory of the Federal Republic of Germany, i.e. it includes all the foreigners registered in this territory.
- The Federal Republic of Germany is a densely populated country. Approximately 82 million inhabitants live here, which corresponds to a population density of 230 persons per square kilometer
- 9 % of the people living in Germany is not German

Market economy

- **Free Market Economy**
 - Market regulates Demand - supply
- **Social Market Economy**
 - Market regulates Demand – Supply. Some regulations to buffer individual risk exist such as unemployment, illness, retirement and, nursery care.
- **State Planning Economy**
 - The state/political party decides. 5-years/10-years plans
- **Mixed Economy**
 - Reality in most countries today

Free market economy

- A market economy (also called a **free market economy**, free enterprise economy) is an economic system in which the production and distribution of goods and services takes place through the mechanism of free markets guided by a free price system rather than by the state in a planned economy. In a market economy businesses and consumers decide what they will produce and purchase, as opposed to a planned economy where the government decides what is to be produced and in what quantities.
- **A market economy has no central coordinator** guiding its operation, yet theoretically self-organization emerges amidst the complex interplay of supply and demand and price regarding a multitude of goods and services. Supporters of a market economy generally hold that individuals pursuing their self-interest through trade has the incidental effect of bringing about a spontaneous order that is effective in supplying the greatest abundance of goods for society and in the most efficient manner

Video 1

- Market Economy

- Reference:

- <https://www.youtube.com/watch?v=K7ZGocnu21w>
- https://www.youtube.com/watch?v=_PKH2wtDT3
- <https://www.youtube.com/watch?v=B43YEW2FvDs>

The Market

- Division of labor and exchange of goods and services determine the Market
- The Market is the economic place where offer meets demand
- The market consists of suppliers of goods and purchasers of these goods
- The Market consists of producers and consumers

Kind of Markets

- Economic activities of corporations act between to kind of Markets:
 - The procurement market
 - The sales market
- This causes a flow of performances of goods and services
- The Flow of goods and services means a backflow of financial means

Different Markets

- Markets of consumer goods and investment goods
- Labour Market
- Financial and Stock Market
- Market of Media
- Street Market
- Flea Market
- Real estate Market
- 2nd hand cars market
- etc



Market: a social arrangement

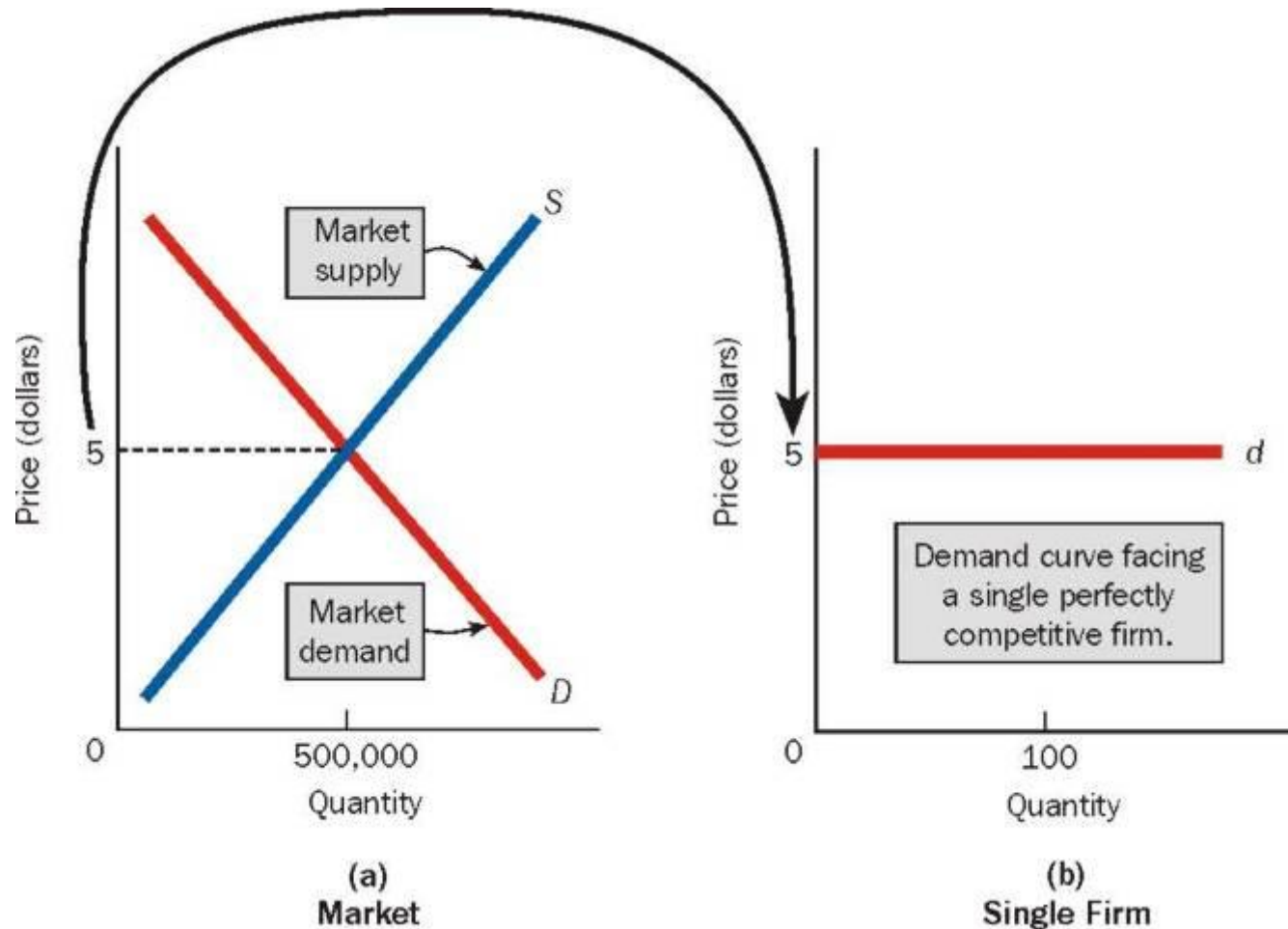
- **A market is a social arrangement that allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services.** It is one of the two key institutions that organize trade, along with the right to own property
- The function of a market requires, at a minimum, **that both parties expect to become better off as a result of the transaction.** Markets generally rely on **price adjustments** to provide information to parties engaging in a transaction, so that each may accurately gauge the subsequent change of their welfare.
- In less sophisticated markets, such as those involving barter, individual buyers and sellers must engage in a more lengthy process of haggling in order to gain the same information. Markets are efficient when the price of a good or service attracts exactly as much demand as the market can currently supply. **The chief function of a market, then, is to adjust prices to accommodate fluctuations in supply and demand in order to achieve allocative efficiency**

Supply and demand

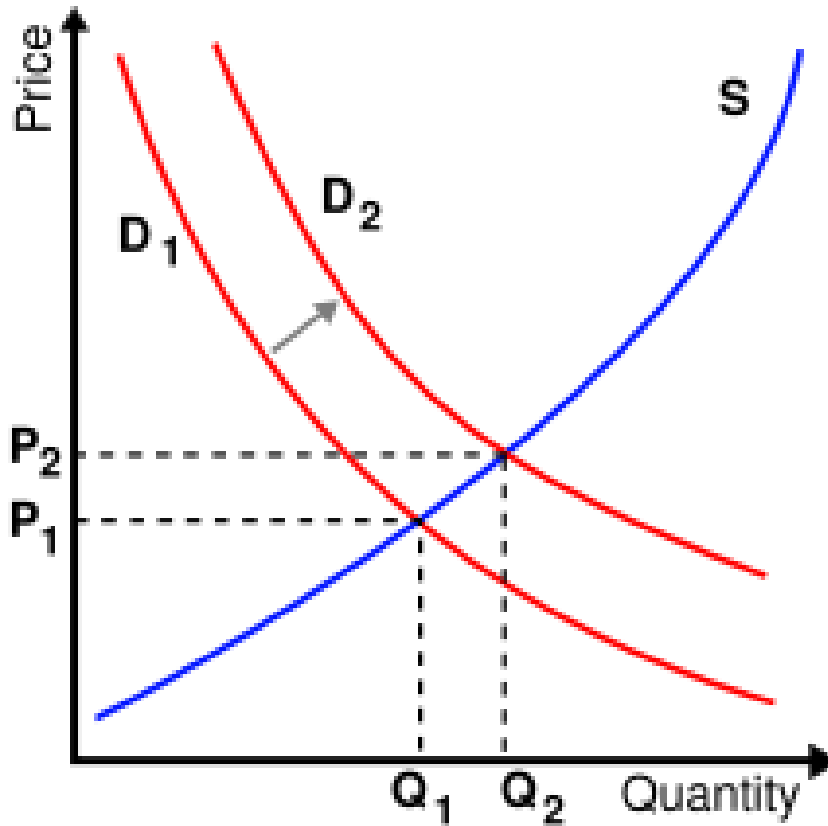
- In microeconomic theory supply and demand attempts to describe, explain, and predict the price and quantity of goods sold in perfectly competitive markets. It is one of the most fundamental economic models, ubiquitously used as a basic building block in a wide range of more detailed economic models and theories.
- To define, demand is the quantity of a product that a consumer or buyer would be willing and able to buy at any given price in a given period of time. Demand is often represented as a table or a graph relating price and quantity demanded. Most economic models assume that consumers make rational choices about how much to buy in order to maximize their utility - they spend their income on the products that will give them the most happiness at the least cost. The law of demand states that, in general, price and quantity demanded are inversely related. In other words, the higher the price of a product, the less of it consumers will buy.
- Supply is the quantity of goods that a producer or a supplier is willing to bring into the market for the purpose of sale at any given price in a given period of time. Supply is often represented as a table or a graph relating price and quantity supplied. Like consumers, producers are assumed to be utility-maximizing, attempting to produce the amount of goods that will bring them the greatest possible profit. **The law of supply states that price and quantity supplied are directly proportional.** *In other words, the higher the price of a product, the more of it producers will create.*

Demand Curve

- When the equilibrium price has been established, a single perfectly competitive firm faces a horizontal demand curve at the equilibrium price.



Supply and demand model



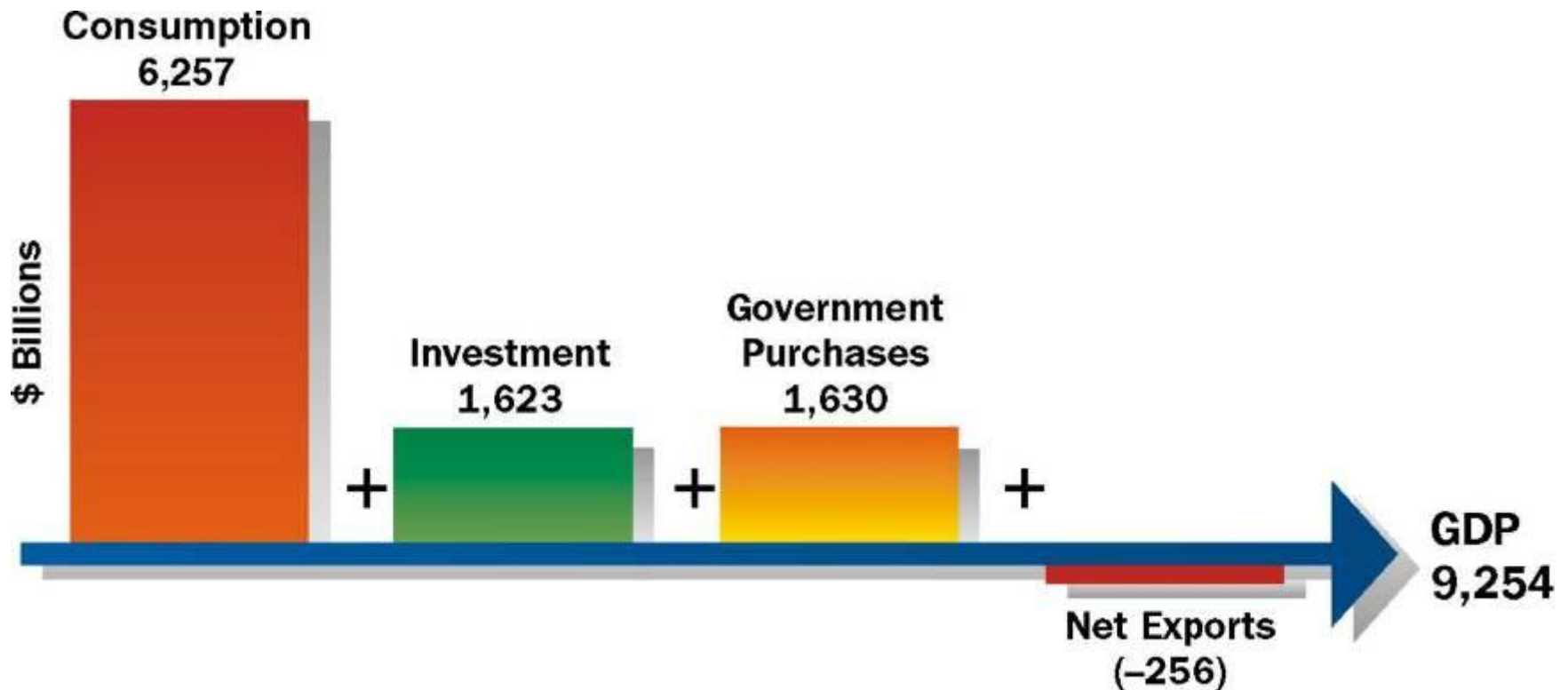
The supply and demand model describes how prices vary as a result of a balance between product availability and demand. The graph depicts a right-shift in demand from D₁ to D₂ along with the consequent increase in price and quantity required to reach a new equilibrium point on the supply curve (S).

Gross National Product

- One of the most important concepts in all economics is the national income, the „Gross National Product“ (GNP). This measures the economic performance of the whole economy.
- GNP measures the over-all annual flow of goods and services in an economy

Gross Domestic Product

- Anything that is not sold is “bought” by the firm that produces it.
- $GDP = \text{Consumption} + \text{Investment} + \text{Government Purchases} + \text{Net Exports}$



GDP by country (2014)

Gross domestic product 2014			
			(millions of
			US dollars)
	Ranking	Economy	
USA	1	United States	17.419.000
CHN	2	China	10.360.105
JPN	3	Japan	4.601.461
DEU	4	Germany	3.852.556
GBR	5	United Kingdom	2.941.886
FRA	6	France	2.829.192
BRA	7	Brazil	2.346.118
ITA	8	Italy	2.144.338
IND	9	India	2.066.902
RUS	10	Russian Federation	1.860.598
CAN	11	Canada	1.786.655
AUS	12	Australia	1.453.770
KOR	13	Korea, Rep.	1.410.383
ESP	14	Spain	1.404.307
MEX	15	Mexico	1.282.720
IDN	16	Indonesia	888.538
NLD	17	Netherlands	869.508

GDP per capita

Country name	2010	2014
Qatar	70,870.2	97,518.6
Norway	87,646.3	97,363.1
Macao SAR, China	53,045.9	96,037.7
Australia	51,801.0	61,887.0
Denmark	57,647.7	60,634.4
Sweden	52,076.4	58,887.3
Singapore	46,569.7	56,286.8
United States	48,374.1	54,629.5
Ireland	47,903.7	53,313.6
Iceland	41,695.9	52,111.0
Netherlands	50,341.3	51,590.0
Austria	46,593.4	51,127.1
Canada	47,463.6	50,271.1
Finland	46,205.2	49,541.3
Germany	41,725.9	47,627.4
Belgium	44,360.9	47,516.5
United Kingdom	38,362.2	45,603.3

Afghanistan	569.9	659.0
Togo	496.5	635.0
Mozambique	416.1	602.1
Guinea-Bissau	518.6	567.8
Ethiopia	341.9	565.2
Guinea	430.1	539.6
Liberia	326.6	461.0
Madagascar	414.1	449.4
Congo, Dem. Rep.	311.2	440.2
Niger	351.0	427.4
Gambia, The	562.2	418.6
Central African Republic	446.8	371.1
Burundi	214.2	286.0

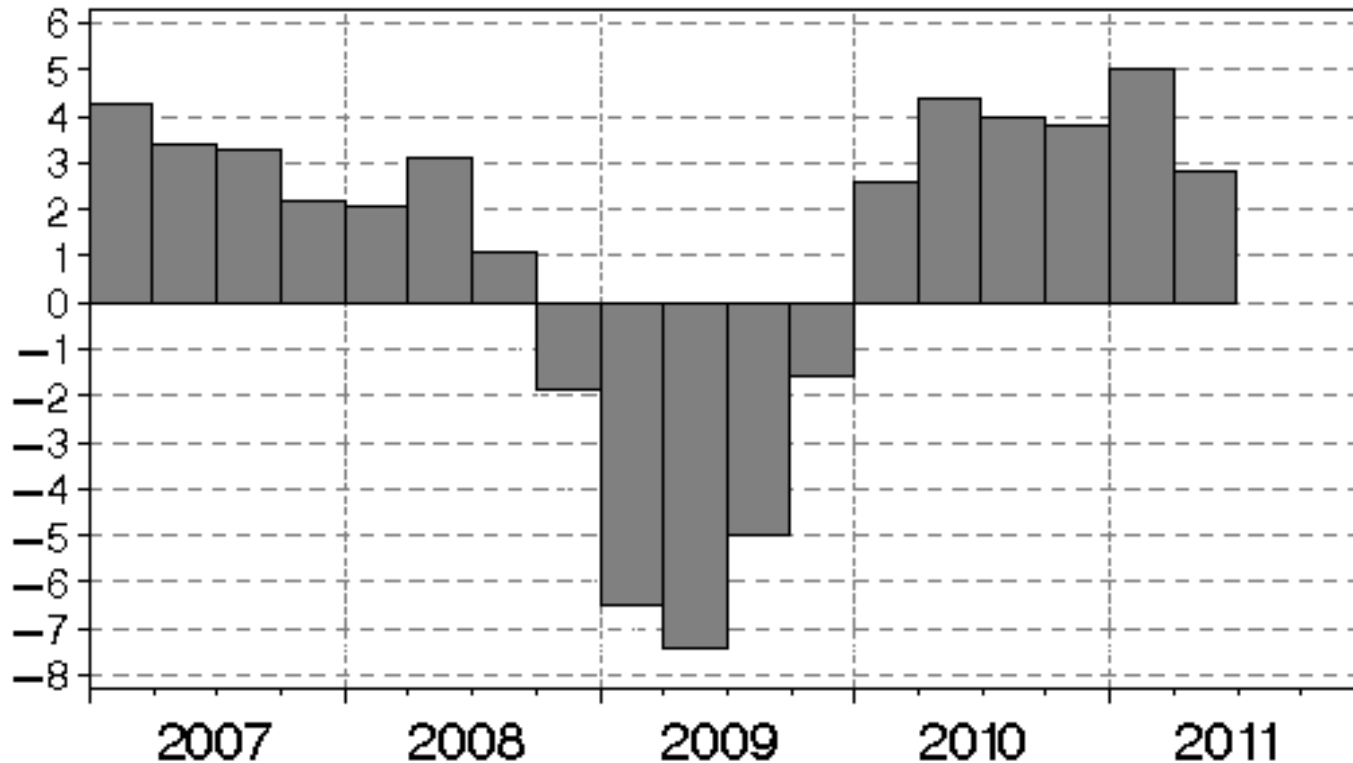
Video 2

- Definition of the GDP

Video 3

- Measuring GDP using the Income Approach and the Expenditure Approach
- Reference:
- <https://www.youtube.com/watch?v=ZdGnhusKnRU>

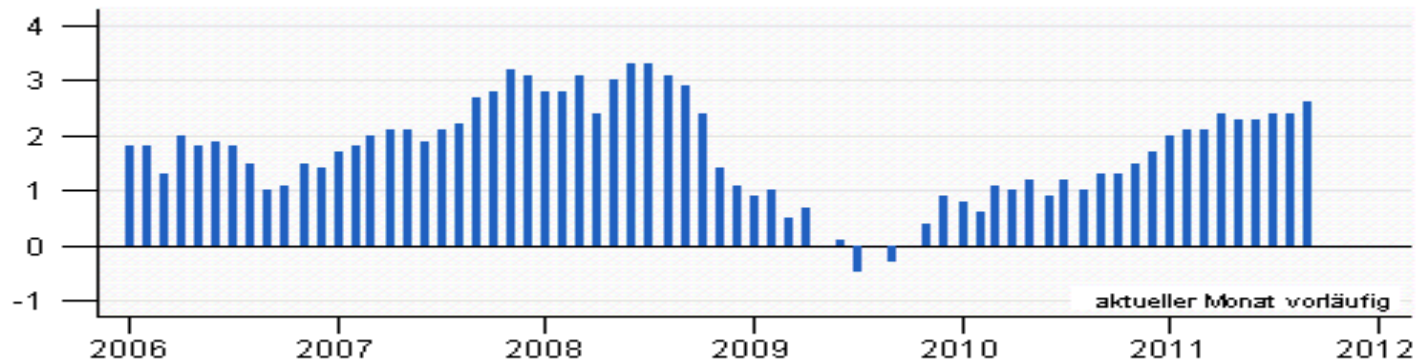
GDP change in Germany caused by the financial crisis 2008/09



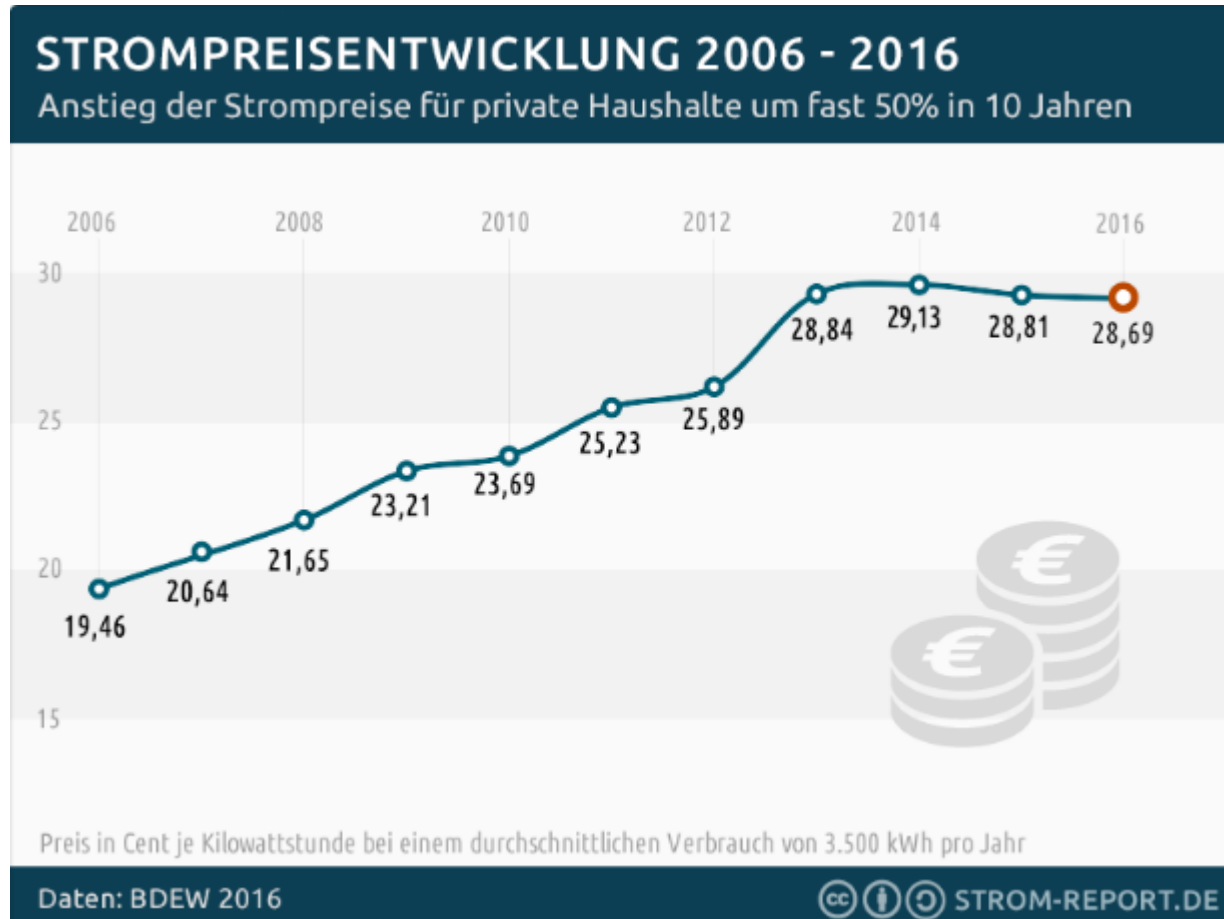
Inflation, deflation

- Inflation means a time of generally rising prices for goods and factors of production
 - A consumer price index (CPI) is a measure estimating the average price of consumer goods and services purchased by households. A consumer price index measures a price change for a constant market basket of goods and services from one period to the next within the same area (city, region, or nation).
- Deflation means a time when prices and costs are falling
- If inflation rate is lower than GDP rate, this has generally a positive effect on rising buying power of the population

Inflation rates in Germany

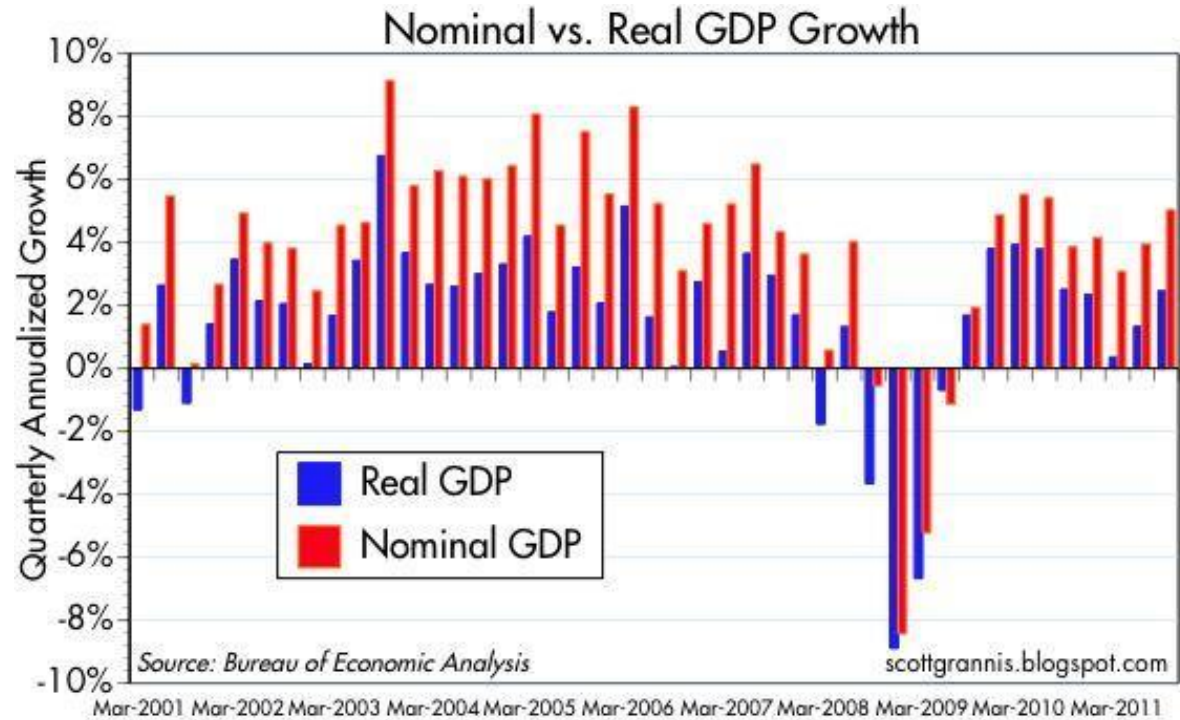


Example of inflation: The increase of the price of electrical energy in Germany



Real GDP

Real Gross Domestic Product (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation)



Deflation



Video 10

- [Understanding inflation, Deflation and Hyperinflation](#)

Division of Labour

- The issue of Division of labor stipulates, that each individual produces more goods and services than he needs for his own consumption
- Division of labor implies the exchange of goods and services
 - Exchange in kind, Traders, precious metal, coins, money

Video 4:

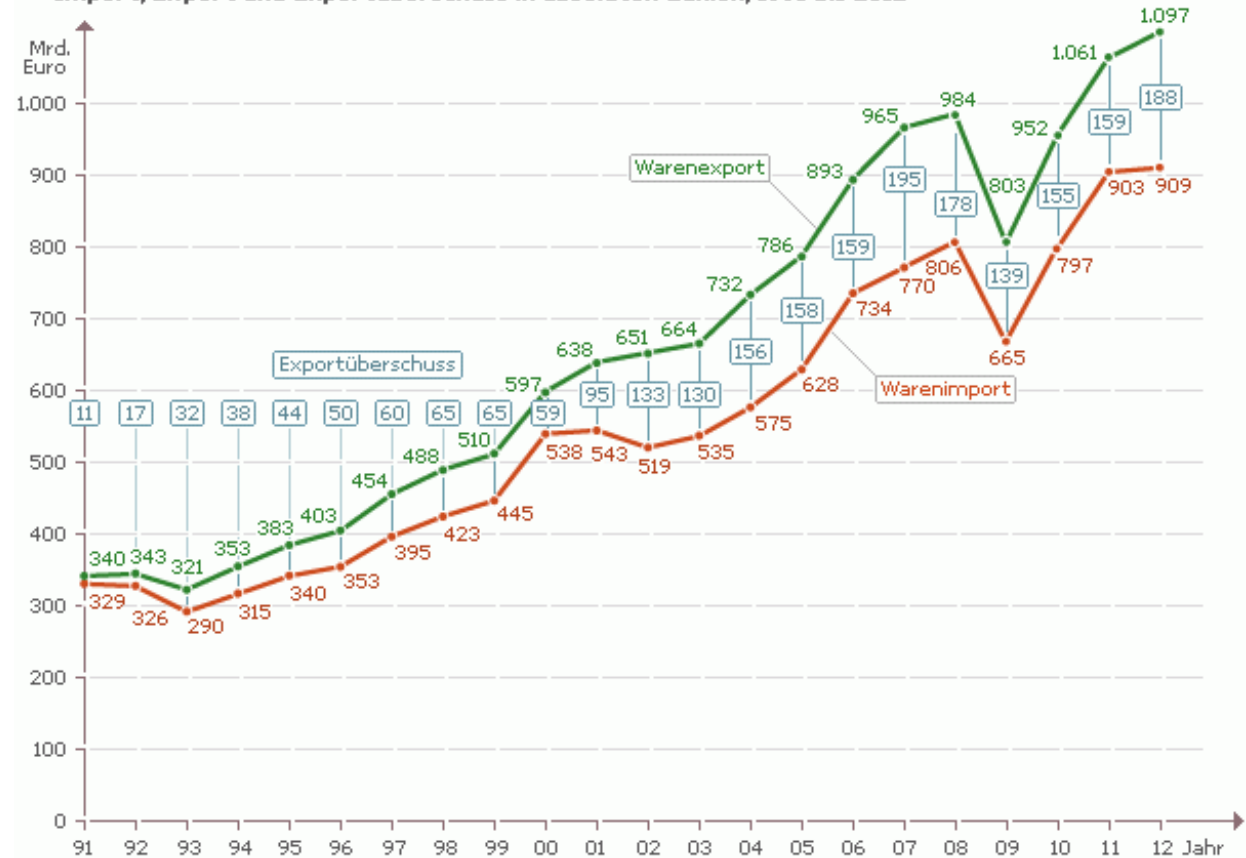
- International trade Absolute and comparative advantage

Trade/Balance of Trade

Germany in billion euro

Entwicklung des deutschen Außenhandels

Import, Export und Exportüberschuss in absoluten Zahlen, 1991 bis 2012

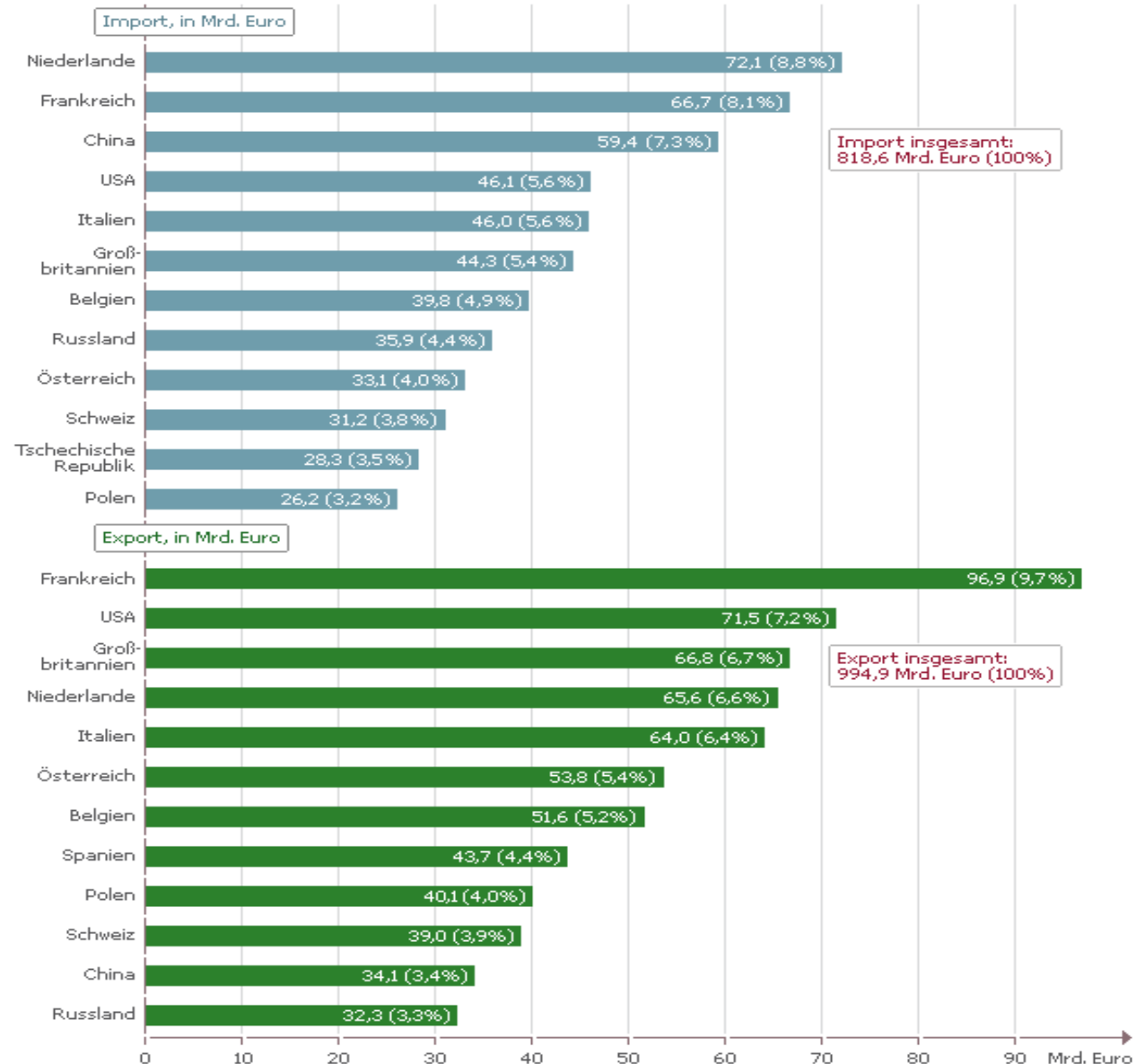


Quelle: Statistisches Bundesamt: www.destatis.de
 Lizenz: Creative Commons [by-nc-nd/3.0/de](http://creativecommons.org/licenses/by-nc-nd/3.0/de)
 Bundeszentrale für politische Bildung, 2013, www.bpb.de



Die wichtigsten Handelspartner Deutschlands

Nach Staaten, Warenimport und -export in absoluten Zahlen und Anteile in Prozent, 2008



Quelle: Statistisches Bundesamt: www.destatis.de
 Lizenz: Creative Commons [by-nc-nd/3.0/de](http://creativecommons.org/licenses/by-nc-nd/3.0/de)
 Bundeszentrale für politische Bildung, 2009, www.bpb.de

Video 5

- Illustrating the Gains from Trade in a Supply and Demand Diagram

Video 6

- Trade Flows and their Effect on Exchange Rates

Exchange rates

- **Fixed rates**

- The **Bretton Woods Conference** took place in July 1944, but did not become operative until 1959, when all the European currencies became **convertible**. Under this system, the IMF and the IBRD were established. The IMF was developed as a permanent international body. The summary of agreements states, "The nations should consult and agree on international monetary changes which affect each other. They should outlaw practices which are agreed to be harmful to world prosperity, and they should assist each other to overcome short-term exchange difficulties." The IBRD was created to speed up post-war reconstruction, to aid political stability, and to foster peace. This was to be fulfilled through the establishment of programs for reconstruction and development.
- The main terms of this agreement were:
 - Formation of the IMF and the IBRD (presently part of the World Bank).
 - Adjustably pegged foreign exchange market rate system: **The exchange rates were fixed**, with the provision of changing them if necessary.
 - **Currencies were required to be convertible** for trade related and other current account transactions. The governments, however, had the power to regulate ostentatious capital flows.
 - As it was possible that exchange rates thus established might not be favourable to a country's balance of payments position, the governments had the power to revise them by up to 10%.
 - All member countries were required to subscribe to the IMF's capital.

- **Variable (free) rates**

- If a currency is free-floating, its exchange rate is allowed to vary against that of other currencies and is determined by the market forces of supply and demand

- **Exchange rates as „economic weapon to promote exports“**

- Countries may gain an advantage in international trade if they manipulate the value of their currency by artificially keeping its value low

- In finance, the exchange rates (also known as the foreign-exchange rate, forex rate or FX rate) between two currencies specify how much one currency is worth in terms of the other. It is the value of a foreign nation's currency in terms of the home nation's currency.

Exchange rate: EURO, \$US,

Change from 20 May 1999 to 28 September 2012 **+0.2291 (+21.5%)**

Minimum (26 October 2000): **0.8252** - Maximum (15 July 2008): **1.5990** - Average: **1.2121**

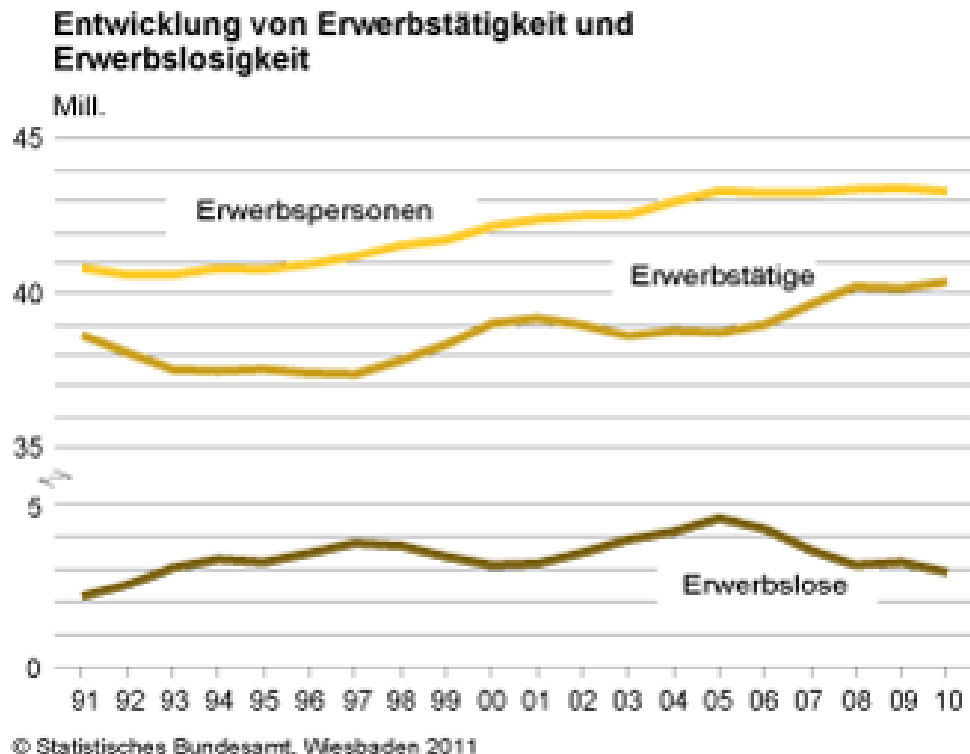


Video 7

- [Nominal and Real Exchange Rates](#)

Labour Market

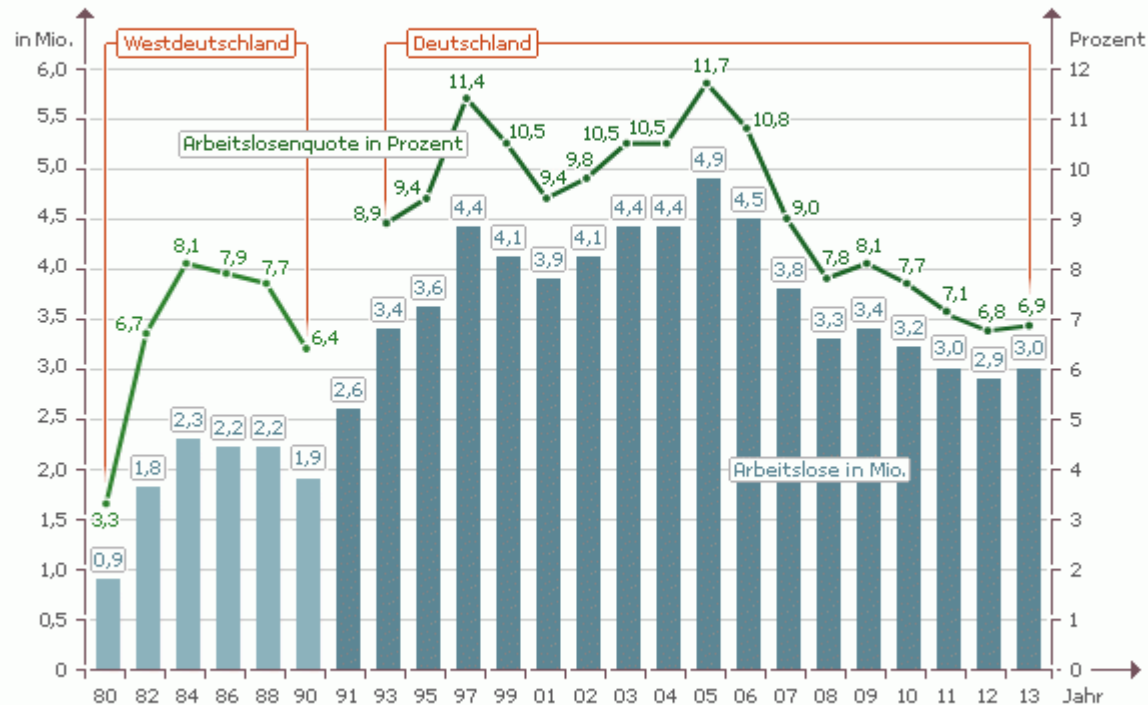
- Labour force participation plays a central part in our society, and with its functions of securing a livelihood, assigning the individual a position within the structure of society, for economic growth and welfare it comes into the picture in many areas. There is as much diversity in official labour market statistics and its sources.



Employment rate Germany 2013

■ Arbeitslose und Arbeitslosenquote

In absoluten Zahlen und in Prozent aller zivilen Erwerbspersonen, 1980 bis 2013



Quelle: Bundesagentur für Arbeit (BA): Arbeitslosigkeit im Zeitverlauf 02/2014
 Lizenz: Creative Commons by-nc-nd/3.0/de
 Bundeszentrale für politische Bildung, 2014, www.bpb.de



Reasons for unemployment

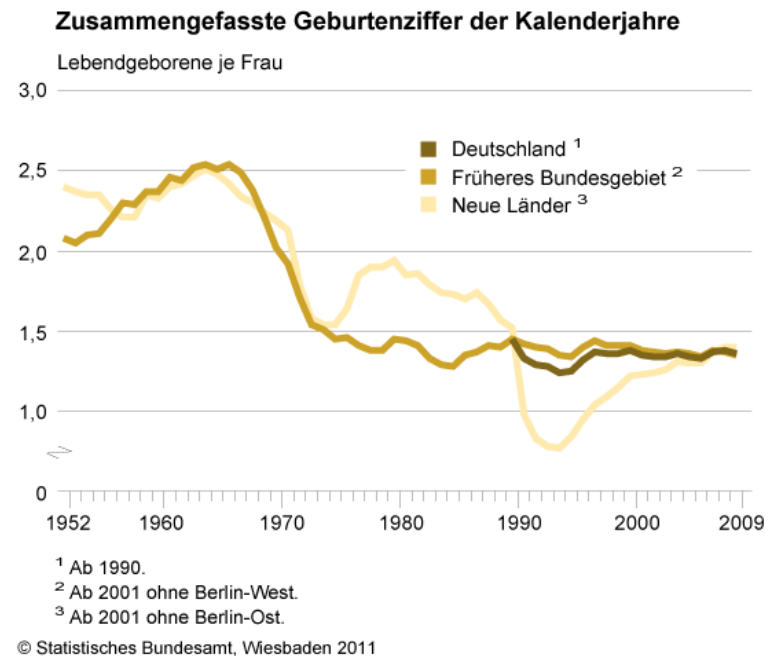
- Definition: "Being willing and able to work but finding no job"
- Forms of unemployment:
 - Fractional unemployment
 - Cycle unemployment (business cycle)
 - Seasonal unemployment
 - Structural unemployment

Video: 08

- UNDERSTANDING UNEMPLOYMENT

Aging Society/Fertility Rate

- In Germany, the average number of children per woman in 2007 was 1.37, following 1.33 in 2010. Hence, in 2007 it rose for the first time since 2004. Last time the average number of children per woman was higher was in 2000 (1.38). In 2007 about 685,000 children were born, which was by some 12,000 more than in 2006. In 2008 the number of births was roughly the same as in 2007, according to the results available so far
- A consequence of the low fertility rate is the negative impact on the demography
- This has an impact on social costs, retired and elderly people and the solidarity principle



Video 9

- [Aging Society](#)

Government spending

Government spending or government expenditure is classified by economists into three main types.

- Government purchases of goods and services for current use are classed as government **consumption**.
- Government purchases of goods and services intended to create future benefits, such as infrastructure investment or research spending, are classed as government **investment**.
- Government expenditures that are not purchases of goods and services, and instead just represent transfers of money, such as social security payments, are called **transfer payments**.

State Expenditure

- **Expenditure/revenue according to current accounts:** Total of all expenditure and revenue usually occurring regularly as part of administrative processes and of the operation of facilities and institutions and not affecting the assets (staff expenditure, continuous expenditure on material and equipment, interest payments and interest received, grants and subsidies for current purposes, revenue from charges, taxes), adjusted for payments from the same level.
- **Expenditure/revenue according to capital accounts:** Total of all expenditure and revenue leading to changes in assets or serving the purpose of funding investments of other institutions, without being special funding operations (construction work, purchase or sale of non-financial assets, grants and subsidies for investments, other transfers of assets, loan grants and reflux), adjusted for payments from the same level.

Economic Nature of Taxation

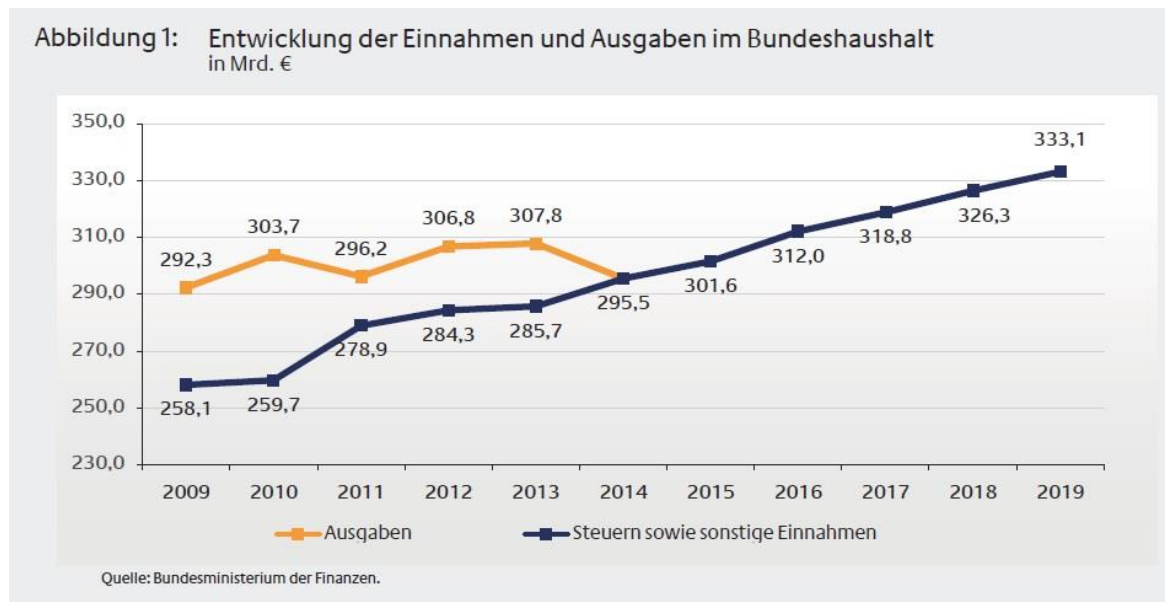
- The state needs money to pay its bills. It gets the EURO to pay for its expenditure primarily from taxes.
- However, what the state really needs to build roads, hospitals or to pay for welfare transfers is not so much money as real economic resources: the society's scarce supplies of labor, land and capital goods.
- The political parties how resources needed for public expenditure shall be taken from the population and from the enterprises

Video 12

- [Understanding Fiscal Policy](#)

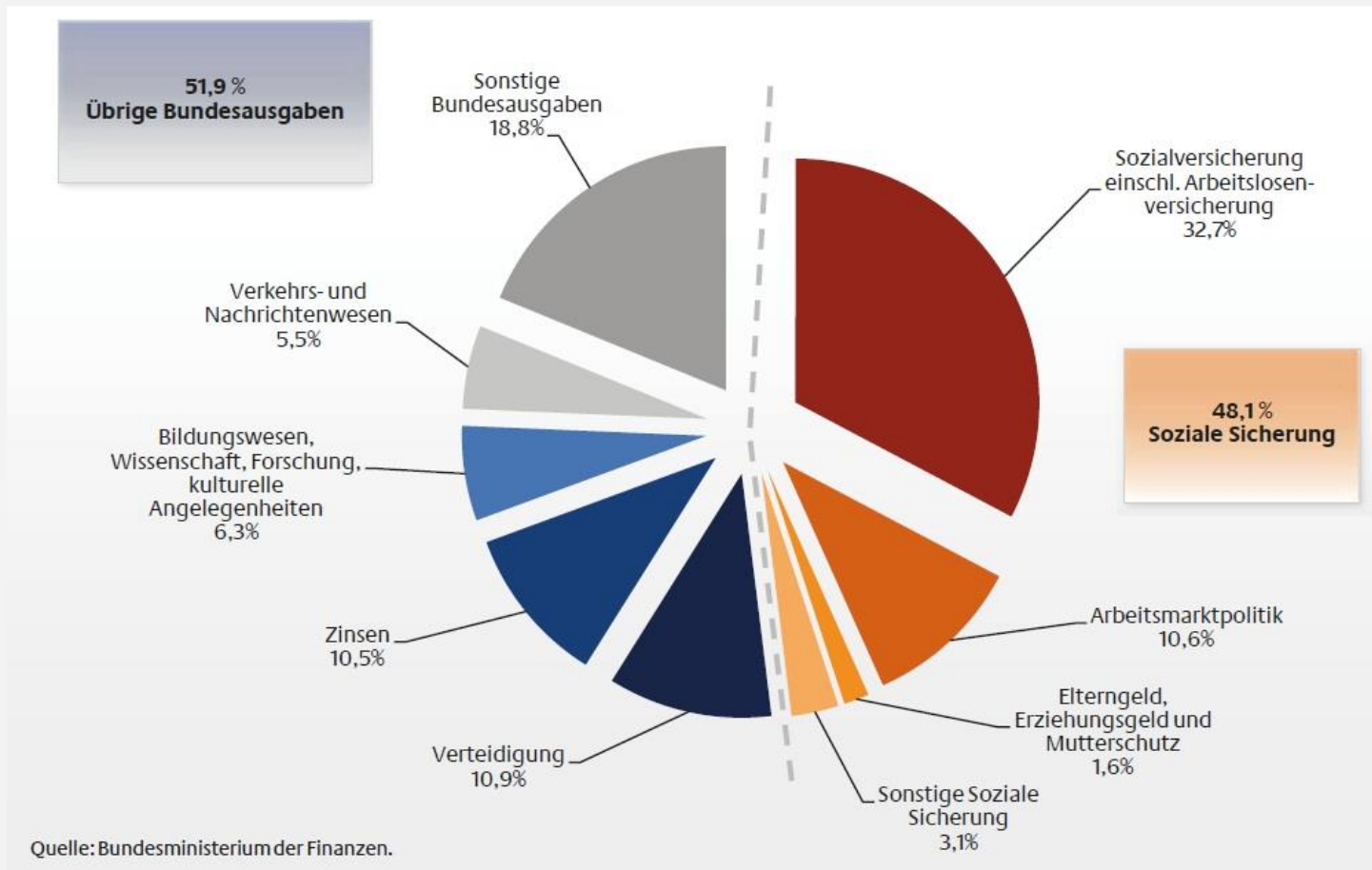
The State Budget

- The German State collects 50% of the „Added Value“ (Wertschöpfung) of Germany (Staatsquote)
- The volume of the German federal public budget is 312 billion EUR (in 2016)
- The volume of the NRW public budget is 69 billion EUR (in 2016)
- The volume of the European Commission public budget is 155 billion EUR (in 2016)

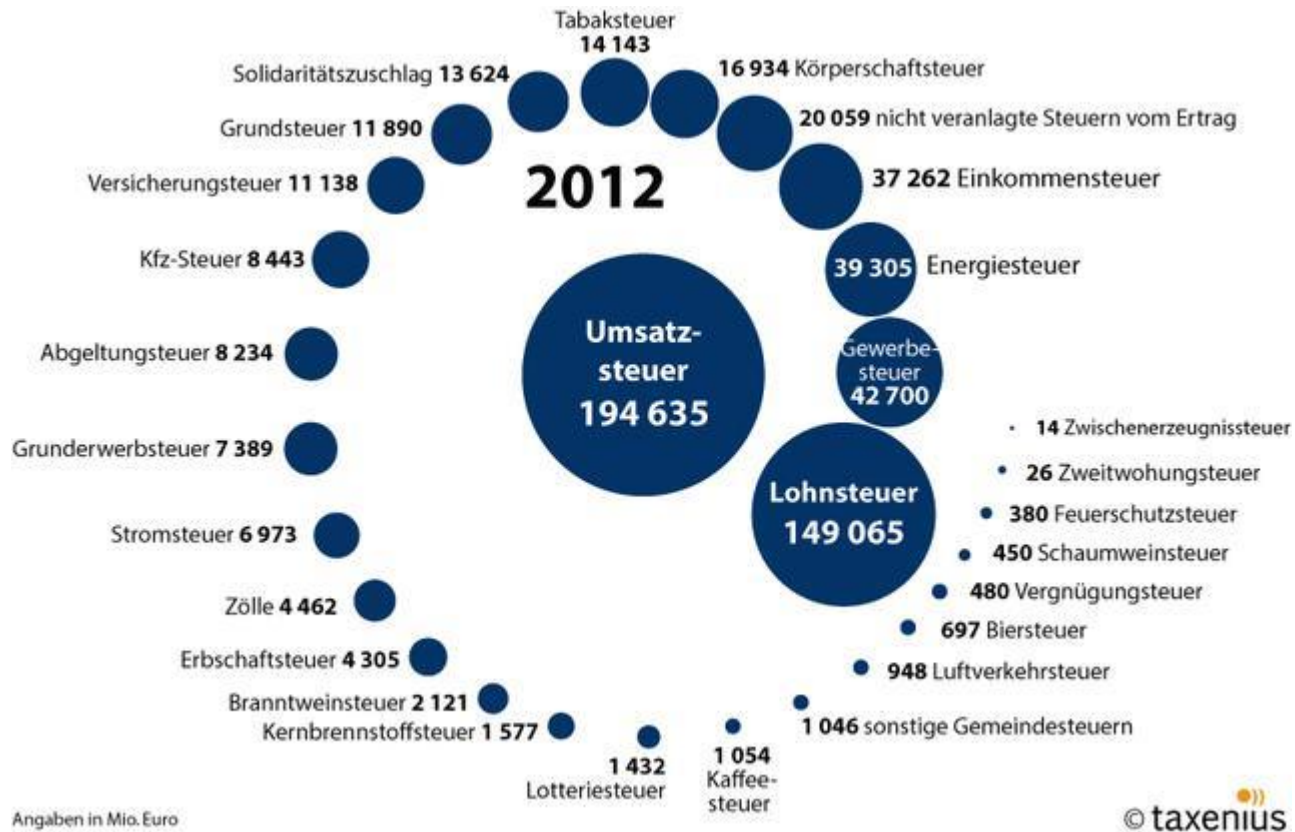


Federal Budget (Germany 2013)

Abbildung 1: Ausgabenstruktur im Bundeshaushalt 2013



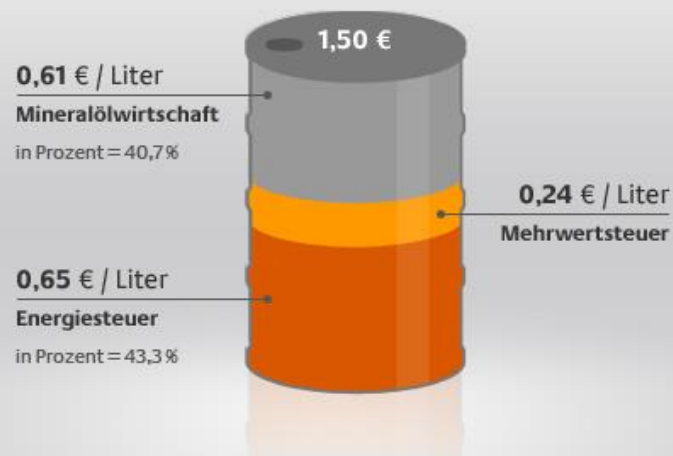
More than 34 different taxes...



Price calculation petrol

Berechnung der Steueranteile am aktuellen Tankstellenpreis in Deutschland

Wie setzt sich der Spritpreis zusammen?
(Bei einem angenommenen Preis von 1,50 € für einen Liter Super)



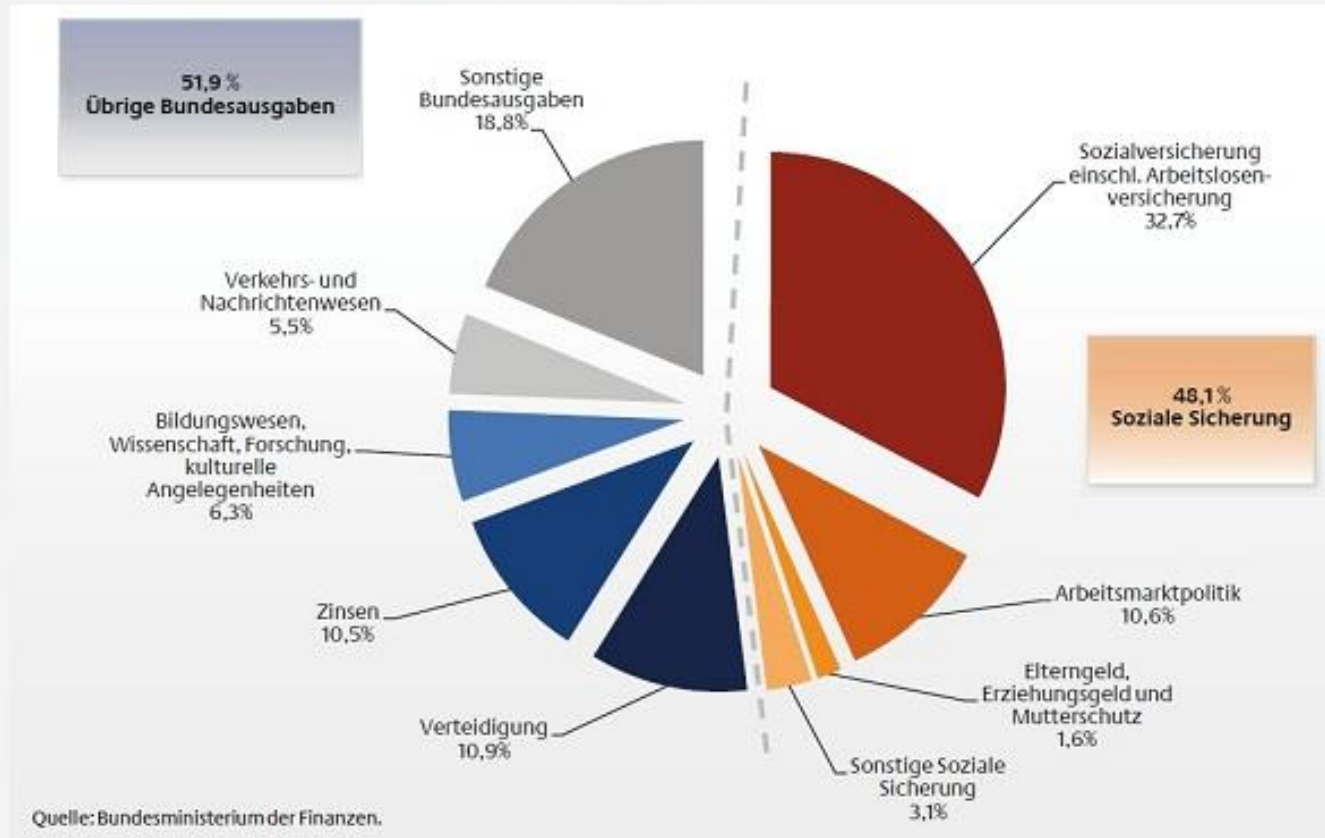
1 Liter Super / Benzin	1,50 €
Gesamte Steuerbelastung	= 0,89 €
in Prozent	= 59,3 %

Public spending

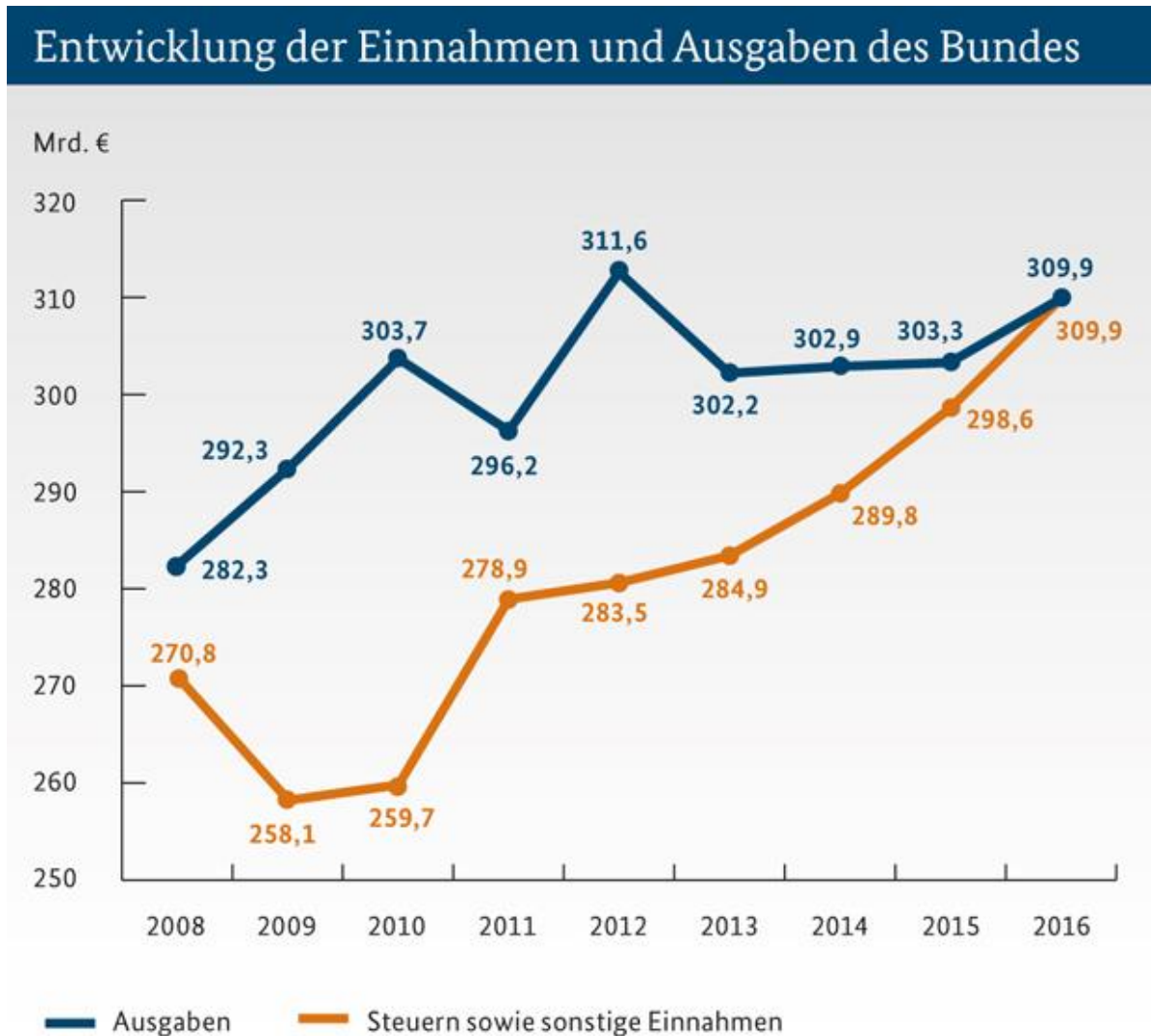
- In 2012 public authorities spent EUR 1,164.2 billion, adjusted for mutual payments between public budgets, on the execution of their manifold obligations such as e.g. social security, education, science and research as well as defense and public safety and order.
- In 2011 most expenditure was made by social insurances with EUR 511 billion, followed by the Federation and their extra budgets (EUR 361 billion), the Länder (EUR 319 billion) and the municipalities and associations of municipalities (EUR 194 billion). Public dept of Germany in 2011: EUR 2.030.013.
- 5.5 million people were employed by public employers for the fulfillment of public obligations. 4.5 million were employed by the public service and 1.0 million by enterprises under private law with a majority of public shareholders

Spenditure of the German Public Budget (2013)

Abbildung 1: Ausgabenstruktur im Bundeshaushalt 2013



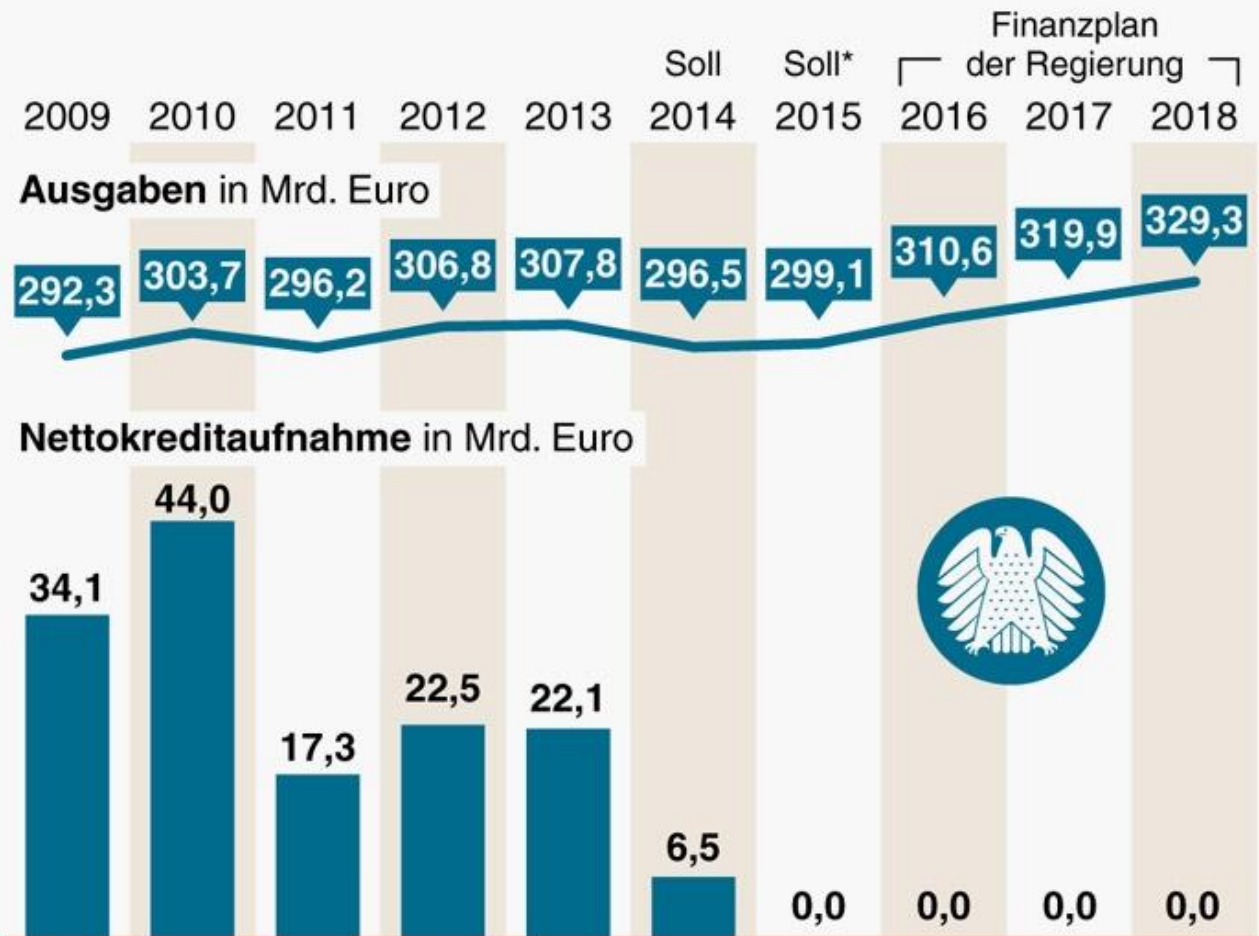
The German Public Budget: development



<https://www.bundesfinanzministerium.de/Content/DE/Bilderstrecken/Mediathek/Infografiken/bundeshaushalt-2013.html?docId=275996¬First=true&countIx=0>

„Nettokreditaufnahme“

Der Bundeshaushalt

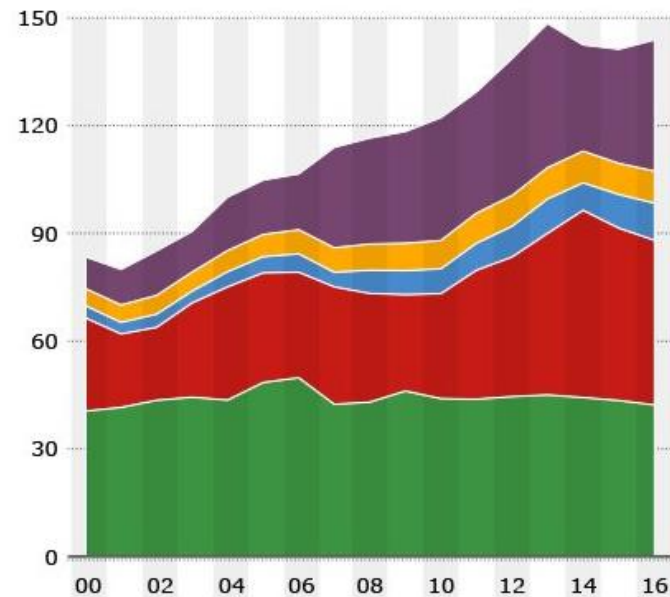


*Beschluss Haushaltsausschuss
Quelle: BMF, Bundestag

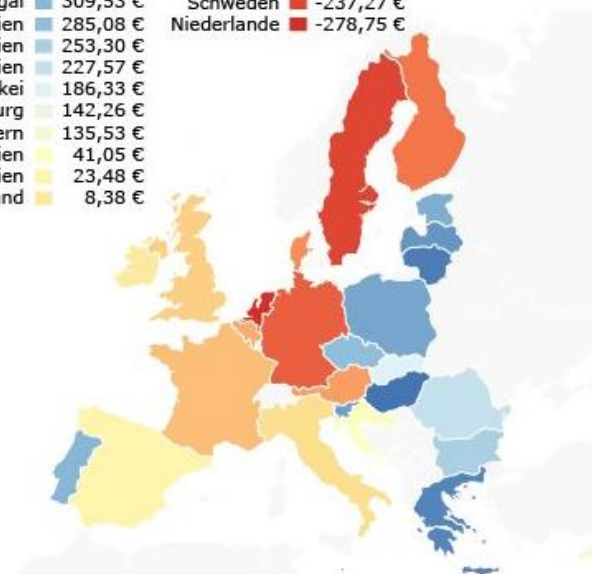
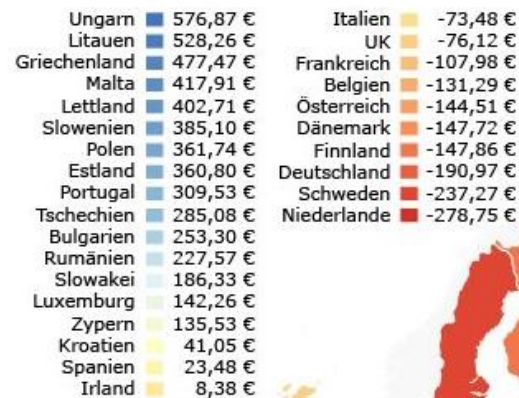
The budget of the EU: What every EU citizen has to pay to Brussels – or what he receives from Brussels

Der EU-Haushalt

Ausgabenbudget nach Bereichen
(in Mrd. Euro)



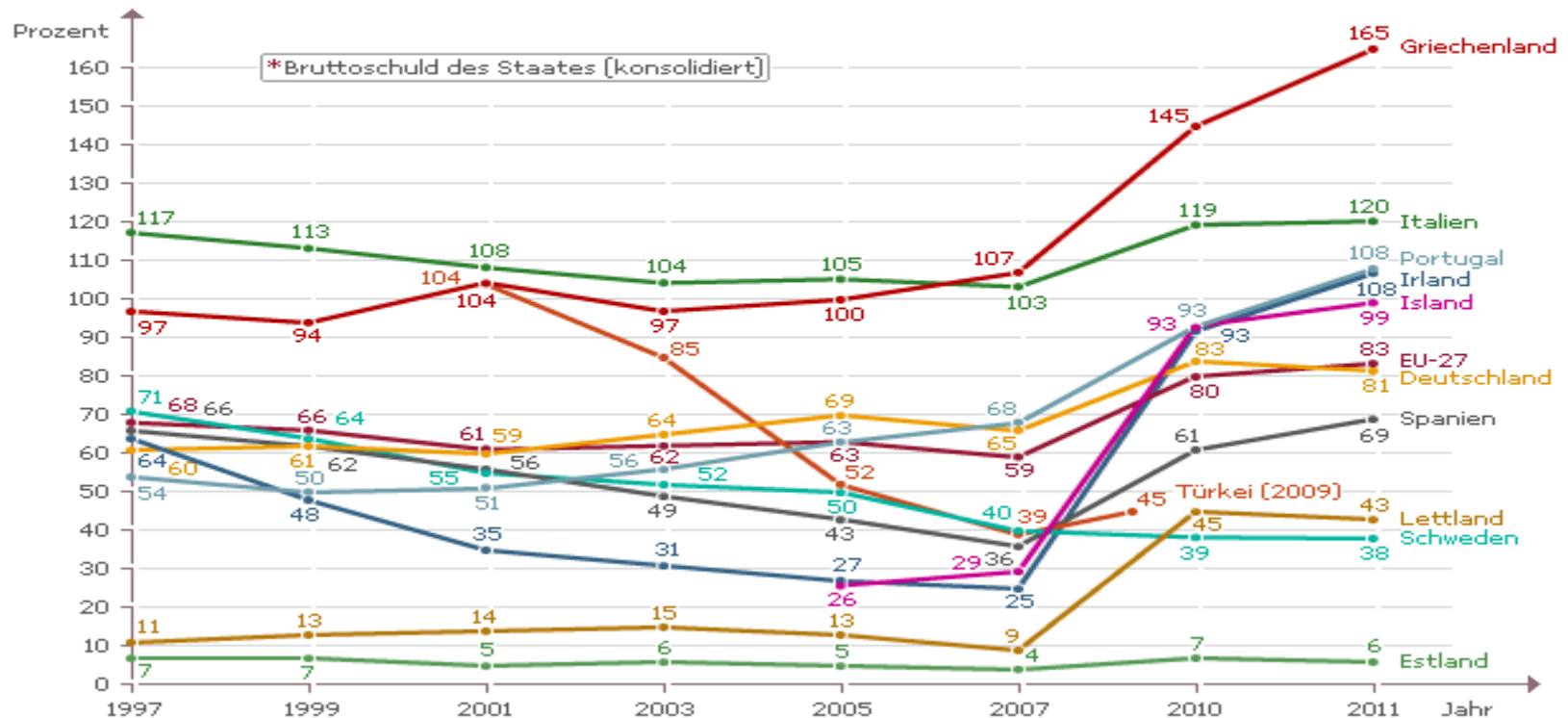
Haushaltssalden 2014 der EU-Länder pro Kopf
(in Euro)



Public dept EU (euro countries)

■ Öffentlicher Schuldenstand*

In Prozent des Bruttoinlandsprodukts (BIP), ausgewählte europäische Staaten, 1997 bis 2011

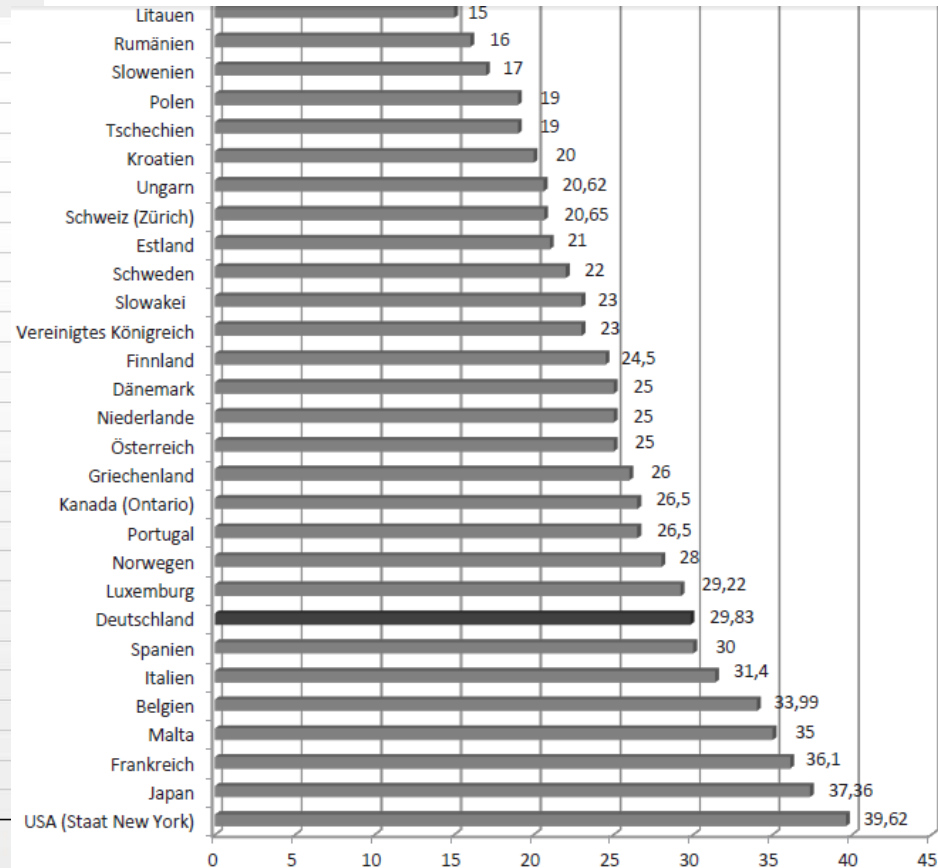
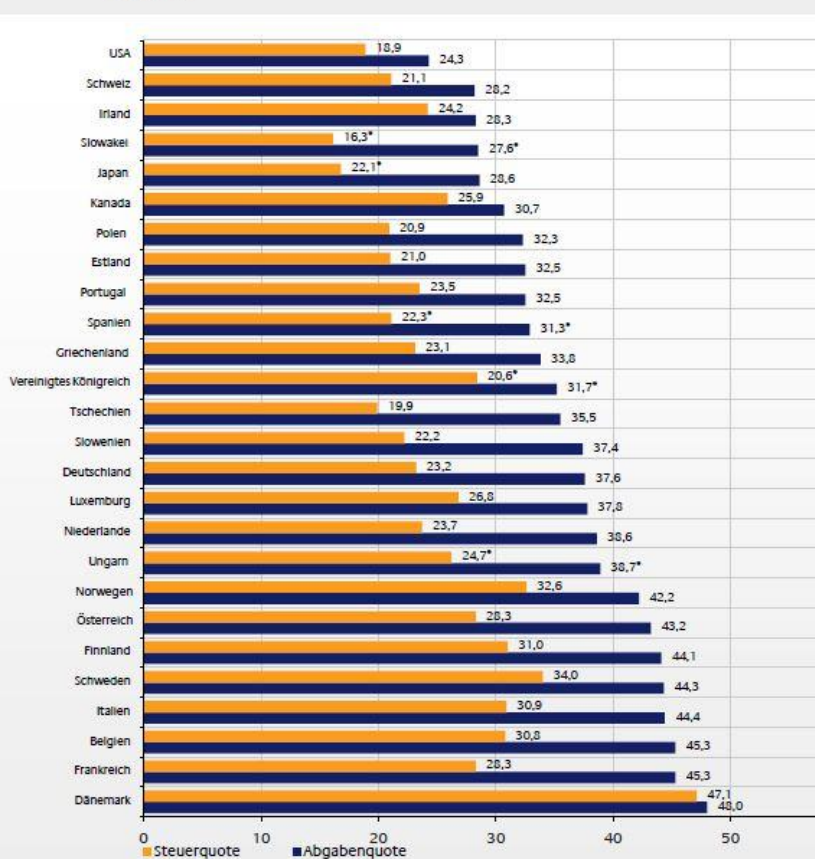


Quelle: Eurostat: Online-Datenbank: Defizit/Überschuss, Schuldenstand d. Staates u. damit zusammenhängende Daten (Stand: 04/2012)
 Lizenz: Creative Commons by-nc-nd/3.0/de
 Bundeszentrale für politische Bildung, 2012, www.bpb.de

(cc) BY-NC-ND

Taxation in selected countries

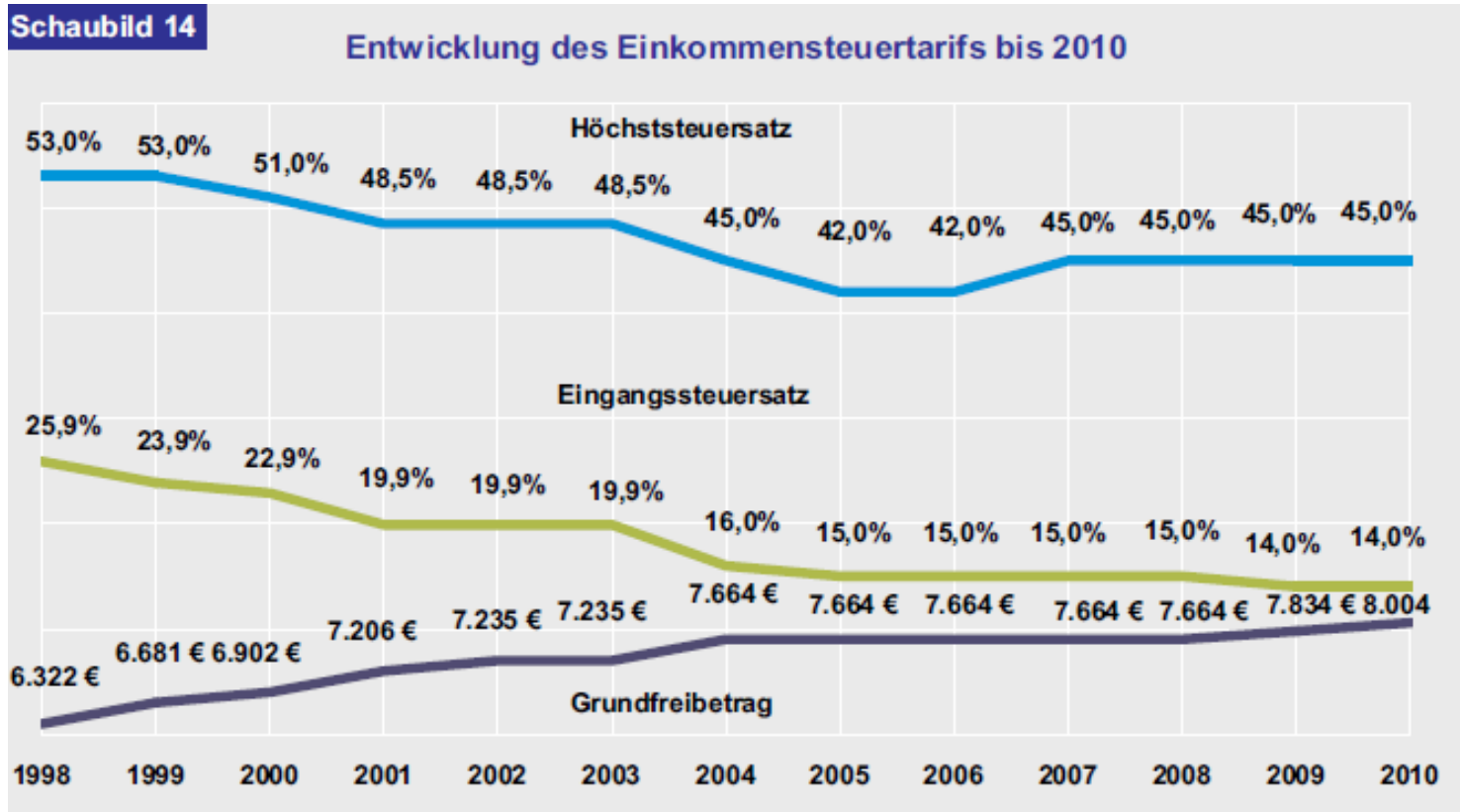
Abbildung 1: Steuer- und Abgabenquoten 2012
in % des BIP



*Stand: 2011.

Quelle: OECD (Hrsg.), Revenue Statistics 1965-2012, Paris 2013.

Development of the income tax



Profit

- In accounting, profit is the difference between the purchase and the component costs of delivered goods and/or services and any operating or other expenses:

Total revenue

- Total costs

= Profit

- The State collects Tax from the profit

Taxation of companies

- Corporate tax on profit: 25,0%
- Solidarity tax: 5,5% of corp. tax
- Municipality tax*: 14,0%
 - Calculation: Profit * „Steuermesszahl“ (3,5%) = Messbetrag
 - Messbetrag * Hebesatz = Gewerbesteuer
- * Gewerbesteuer:
 - * in USA: Commercial Property Tax
 - * in Spain: impuesto sobre actividades economicas

VAT Value Added Tax

- A value added tax or value-added tax (VAT) is a form of consumption tax.
- From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the "value added" to a product, material or service, from an accounting point of view, by this stage of its manufacture or distribution.
- The manufacturer remits to the government the difference between these two amounts.
- Each Member State's national VAT legislation must comply with the provisions of EU VAT law as set out in Directive 2006/11.2/EC
- In Germany 7% on basic items (food, public transport, books etc) and 19% on other services, products
- Each country has other VAT rates
- Cross border business between VAT subjects: net principle

Social charges

Public Health Insurance	15,50 % (7,30% by employee)	44.500 euro/y
Public Retirement Insurance	19,90 % (9,95 % by employee)	66.000 euro/y
Public Unemployment Insurance	3,00 % (3,00 % by employee)	66.000 euro/y
Public Care Insurance	1,95 %	

Income and living standards

- In 1848 Karl Marx and Friedrich Engels issued the „Communist Manifesto“, containing the lines: „Workers of the World unite! You have nothing to lose but your chains.“
- Assertion that “the rich will become more richer and the poor will become poorer” cannot be sustained.
- The per capita income increases since 1900 while the average working hours decrease
- Technological improvements, better capital goods, and more highly trained labor have raised production faster than growth of population
- Distribution of income: the income pyramid shows great inequality of incomes

Minimum of living: „Grundsicherung“

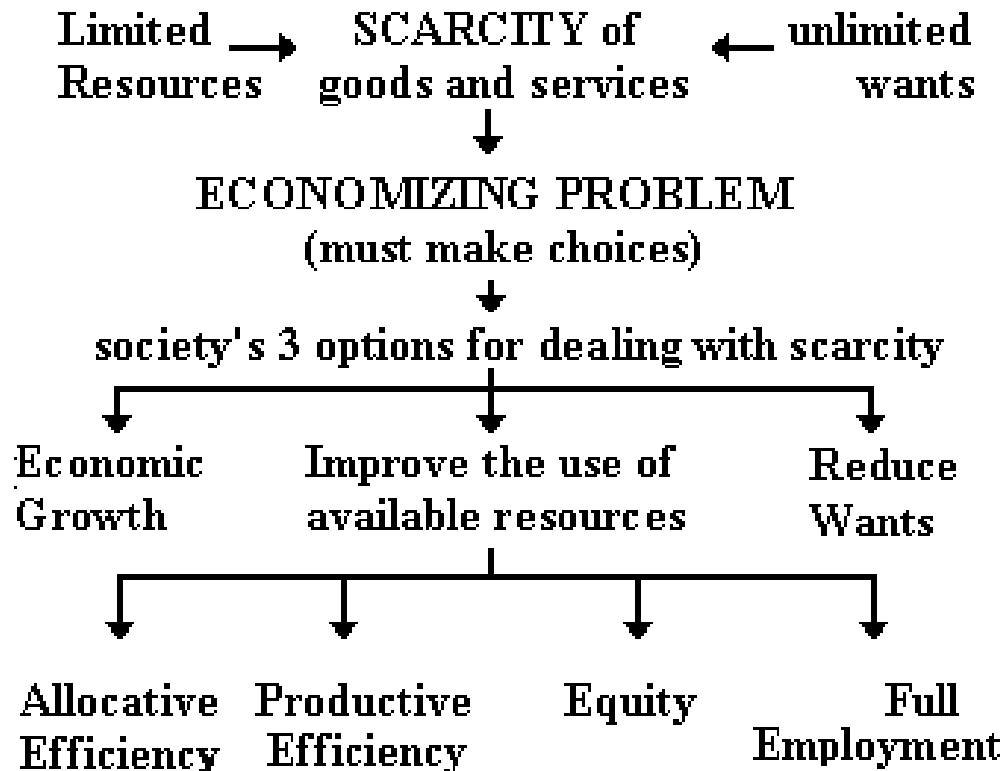
Hartz IV Regelsatz 2016 - das ist in **404 €** enthalten
neuer Regelsatz ab 2016



Shortage of goods

- Shortage by nature
 - Limited natural resources
- Technical shortage
 - Availability limited by limited technical resources
- Economic shortage
 - Production needs to many resources (eg time)
- Shortage caused by man-kind
 - Human potentials are limited (working time, illness ...)

Scarcity of goods/services

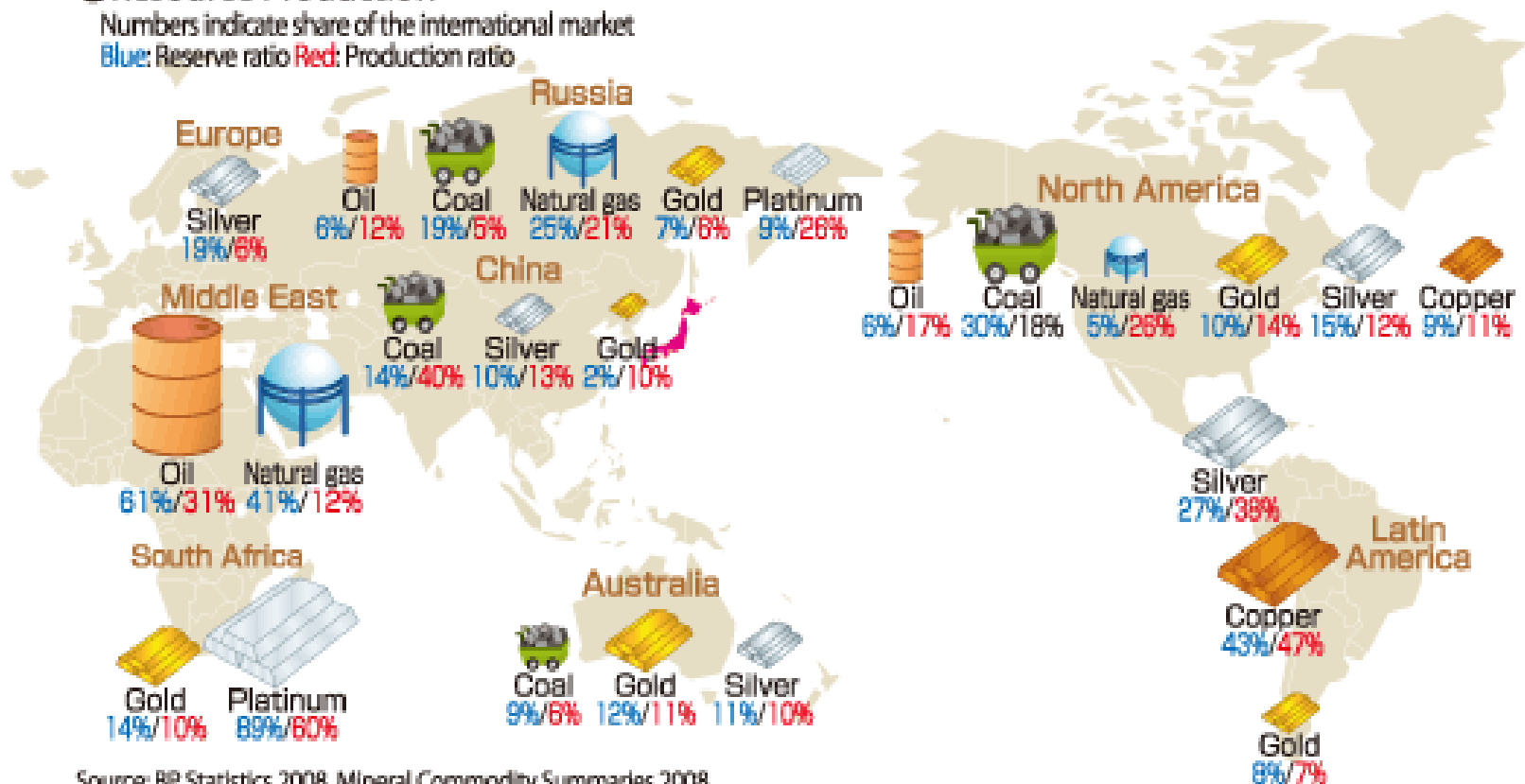


Resource Production

● Resource Production

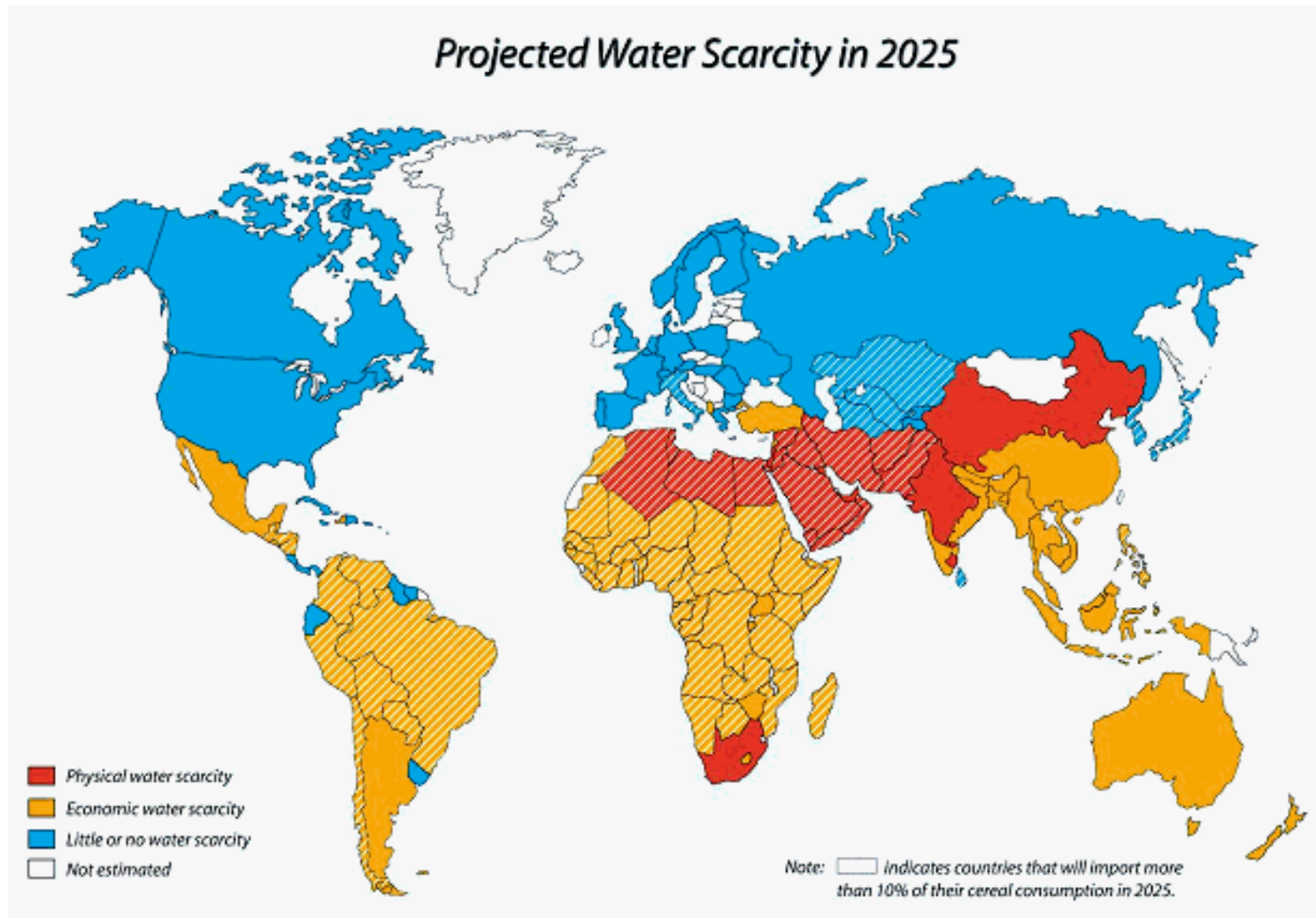
Numbers indicate share of the international market

Blue: Reserve ratio Red: Production ratio



Source: BP Statistics 2008, Mineral Commodity Summaries 2008

Water Scarcity



Water Footprint

WATER FOOTPRINT

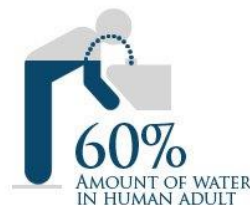
HOW MUCH WATER GOES INTO THE PRODUCTS WE USE



Sources: Waterfootprint.org, FAO, UNESCO, UNFPA

WATER USAGE IN EUROPE

IN KM³ PER YEAR



+7 BILLION
GLOBAL POPULATION



2.4 BILLION
PEOPLE WITH NO ACCESS TO CLEAN WATER

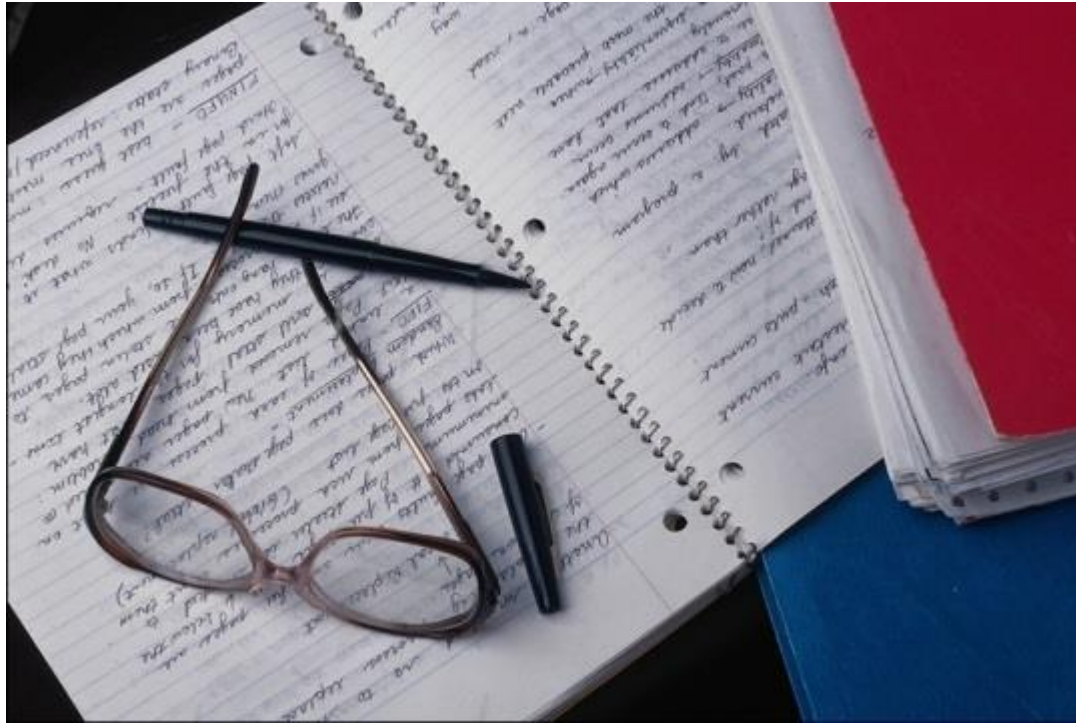
Wealth

- The earliest definitions of political economy were simple, elegant statements defining it as the study of wealth. The first scientific approach to the subject was inaugurated by **Aristotle**, whose influence is still recognised, inter alia, today by the Austrian School. Adam Smith, author of the seminal work *The Wealth of Nations* and regarded by some as the "father of modern economics," defines economics simply as "The science of wealth." Smith offered another definition, "The Science relating to the laws of production, distribution and exchange." **Wealth was defined as the specialization of labour which allowed a nation to produce more with its supply of labour and resources.** This definition divided Smith and Hume from previous definitions which defined wealth as gold. Hume argued that gold without increased activity simply serves to raise prices
- John Stuart Mill defined economics as "The practical science of production and distribution of wealth"; this definition was adopted by the Concise Oxford English Dictionary even though it does not include the vital role of consumption. For Mill, **wealth is defined as the stock of useful things.**
- Definitions in terms of wealth emphasize production and consumption. The accounting measures **usually used measure the pay received for work and the price paid for goods**, and do not deal with the economic activities of those not significantly involved in buying and selling (for example, retired people, beggars, peasants)

Welfare

- Later definitions evolved to include human activity, advocating a shift toward the modern view of economics as primarily a study of man and of human welfare, not of money. Alfred Marshall in his 1890 book Principles of Economics wrote, "Political Economy or Economics is a study of mankind in the ordinary business of Life; it examines the part of the individual and social action which is most closely connected with the attainment and with the **use of material requisites of well-being.**"
- The welfare definition was still criticized as too narrowly materialistic. It ignores, for example, the **non-material aspects of the services** of a doctor or a dancer. A theory of wages which ignored all those sums paid for immaterial services was incomplete. Welfare could not be quantitatively measured, because the marginal significance of money differs from rich to the poor (**that is, \$100 is relatively more important to the well-being of a poor person than to that of a wealthy person**). Moreover, the activities of production and distribution of goods such as alcohol and tobacco may not be conducive to human welfare, but these scarce goods do satisfy innate human wants and desires.
- **Marxist economics still focuses on a welfare definition.** In addition, several critiques of mainstream economics begin from the argument that current economic practice **does not adequately measure welfare, but only monetized activity**, which is an inadequate approximation of welfare.

Chapter 2: The Business Plan



We make a Business Plan to calculate and to present a new investment project.

Objective of the Business Plan

- To describe a new project
- To calculate a new project
- To present this new project to potential partners and to the bank
- To use the basics of this Business Plan to implement the project
- To adapt the Business Plan during the run of the project

Content of the Business Plan

- Description of the project
- Market analysis, definition of the market: site, size, competition, prices, quality
- Definition of production techniques, licenses needed and state of the art
- Definition of the capacities
- Calculation of investments
 - Depreciation costs
 - Financing costs
 - Labor costs
 - Utility costs
 - Raw materials costs
 - Administrative costs / overheads
- Total costs
- Self costs
- Price definition
- Profit and loss account (10 years), profitability
- Cash flow

Company: selection of legal form

Legal form	Capital investment	Liability	Bookkeeping, publicity	Name giving	Credit allowances
Single person company	No capital investment required	Complete personal liability	Registration not compulsory	Inclusion of first and last name	Excellent reputation
Private company		Personal liability	Registration not compulsory	First and last name of all partners	Excellent reputation
Commercial company		Personal liability	Registration compulsory	Last name of at least one partner (Taylor & Co. oHG)	Excellent reputation
Limited partnership		Complementary complete liability	Registration compulsory; Annual report	Name of partner who is personally liable	Excellent reputation
Company with limited liability	Minimum capital 25.000 EUR	Limited liability	Registration compulsory, Annual report has to be submitted to CCI	Any name completed by GmbH or in UK Ltd. (Taylor ltd.)	Annual report, Basel II

Technical project description

- Extend of innovation
 - Promotion of an existing product or procedure
 - New product or procedure
 - New sector for implementation or application
- Already finished pre-operations (status)
 - Availability
 - Degree of ripeness
 - Right of ownership

Marketing planning

- Market analysis
 - Where is the market (geographically)
 - Customer/client analysis
 - Competition analysis
- Marketing decision
 - Pricing
 - Service
 - Communication
 - Distribution

Investment (expenditure) and depreciation costs

- Investment
 - Feasibility study
 - Land
 - Infrastructure
 - Buildings
 - Equipment/machinery for production
 - Equipment administration
 - Transport equipment (trucks, cars ...)
 - Foundation of company, notary, duties
 - Unforeseen, unexpected
 - Licences

Financial planning

- Sales
 - Quantities
 - Development of sales over the years
- Financing the company
 - Credit/loan needed
 - Interest rates
 - Identification of financial partners (Bank, seed capital, private partners ..)

Financing costs

- Definition of Share Capital
- Definition of Credit/Loan needed
 - Financial partners
 - Bank, partners, seed capital, risk capital, venture capital, public subsidies etc
 - Credit conditions
 - Interest rate
 - Duration of credit in years
- Calculation of interest costs and pay back

Labour Costs

- Personnel
 - Salaries, wages: level and quantity
 - Managers
 - Researchers/Engineers
 - Administrative staff
 - Marketing staff
 - Workers (in production)
 - Unqualified
 - Social costs

Raw and semi finished material costs and utilities

- Quantities consumed and specific costs:
 - Raw materials
 - Semi finished goods
 - Services/repair
 - Services administrative (insurances etc)
 - Utilities (energy, water, steam, gas etc
 - other

Administrative costs

- Office supply
- Telecommunication
- Contributions and Fees
- Insurances
- Leasing
- Memberships
- Books, newspapers

Marketing costs

- e-Marketing
- Advertising
- Printing
- Exhibitions, fairs, shows
- Mailings
- Business trips
- Promotional events: sports, fashion etc

Total costs & Price finding

- Calculation of total costs (self costs)
- Calculation of costs per piece
- Definition of profit margin
- Calculation of price (ex factory)

Calculation of the Cash Flow

- Calculation of Turn over (sales, revenue)
- Calculation of Costs per year
 - Calculation of Benefit before taxes (brut)
- Corporate Taxes
- Benefit after taxes (net)
- Cash flow

Profitability

- Calculation of profitability
- Decision stop or go

Chapter 3: Students Project



We create our own company

- Business Plan -
- Chocolate Plant -

Description of the production of chocolate

- **Cleaning**

Before the real processing begins, the raw cocoa is thoroughly cleaned by passing through sieves, and by brushing. Finally, the last vestiges of wood, jute fibres, sand and even the finest dust are extracted by powerful vacuum equipment.

Roasting

The subsequent roasting process is primarily designed to develop the aroma. The entire roasting process, during which the air in the nearly 10 feet high furnaces reaches a temperature of 130 °C, is carried out automatically.

Crushing and shelling

The roasted beans are now broken into medium sized pieces in the crushing machine.

Blending

Before grinding, the crushed beans are weighed and blended according to special recipes. The secret of every chocolate factory lies in the special mixing ratios which it has developed for different types of cocoa.

Grinding

The crushed cocoa beans, which are still fairly coarse are now pre-ground by special milling equipment and then fed on to rollers where they are ground into a fine paste. The heat generated by the resulting pressure and friction causes the cocoa butter (approximately 50% of the bean) contained in the beans to melt, producing a thick, liquid mixture. This is dark brown in colour with a characteristic, strong odour. During cooling it gradually sets: this is the cocoa paste.

- **Cocoa Powder**

After the cocoa butter has left the press, cocoa cakes are left which still contain a 10 to 20% proportion of fat depending on the intensity of compression. These cakes are crushed again, ground to powder and finely sifted in several stages and we obtain a dark, strongly aromatic powder which is excellent for the preparation of delicious drinks - cocoa. Cocoa paste, cocoa butter, sugar and milk are the four basic ingredients for making chocolate. By blending them in accordance with specific recipes the three types of chocolate are obtained which form the basis of ever product assortment, namely.

Plain chocolate: cocoa paste + cocoa butter + sugar

Milk chocolate: cocoa paste + cocoa butter + sugar + milk

White chocolate: cocoa butter + sugar + milk

Kneading

In the case of milk chocolate for example, the cocoa paste, cocoa butter, powdered or condensed milk, sugar and flavouring - maybe vanilla - go into the mixer, where they are pulverized and kneaded.

Rolling

Depending on the design of the rolling mills, three or five vertically mounted steel rollers rotate in opposite directions. Under heavy pressure they pulverise the tiny particles of cocoa and sugar down to a size of approx. 30 microns. (One micron is a thousandth part of a millimetre.)

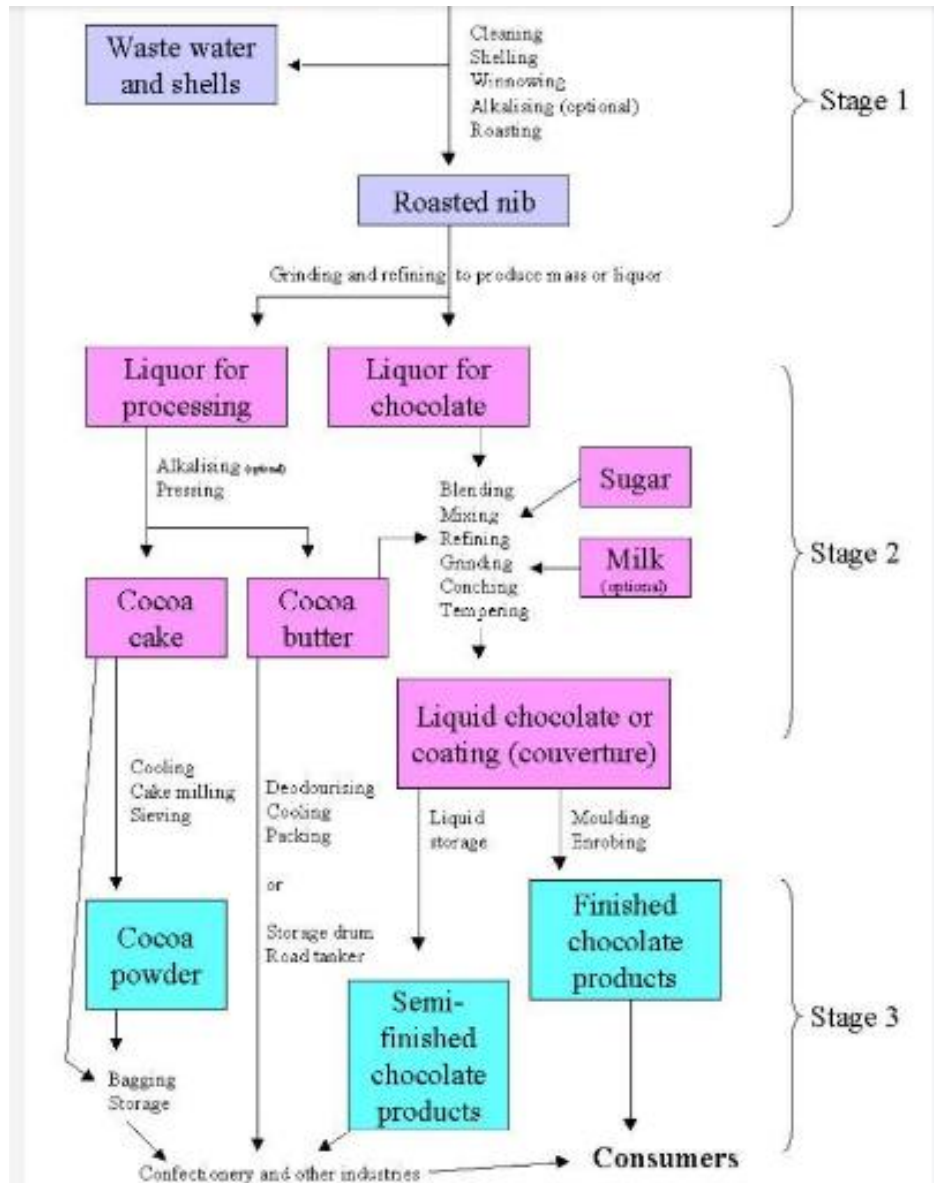
Conching

But still the chocolate paste is not smooth enough to satisfy our palates. But within two or three days all that will have been put right. For during this period the chocolate paste will be refined to such an extent in the conches that it will flatter even the most discriminating palate. Conches (from the Spanish word "concha", meaning a shell) is the name given to the troughs in which 100 to 1000 kilograms of chocolate paste at a time can be heated up to 80 °C and, while being constantly stirred, is given a velvet smoothness by the addition of certain amounts of cocoa butter and of the very valuable lecithin. A kind of aeration of the liquid chocolate paste then takes place in the conches: its bitter taste gradually disappears and the flavour is fully developed. The chocolate no longer seems sandy, but dissolves meltingly on the tongue. It has attained the outstanding purity which gives it its reputation.

Tempering

Before the forming process, the chocolate paste must be heated to 50 °C and then cooled to a specific temperature a little over 30 °C depending on the product.

Manufacturing chocolate. Flow chart



Results of the market study

Assumption:

Parameter	Spec. Assumptions	Comments
Total production:	22.000 Tons of Chocolate p.a. 220.000.000 bars of chocolates of 100 g. each	
Capacity	300 Tons Chocolate per day of 8 h	
Work time/production time	5 days/week, one shift of 8 hours	
Selling prices ex factory	Vary between 0,22 and 0,27 EUR per 100 g bar of chocolate. We intend to sell at 0,25 EUR/chocolate e.f.	
Place of production	Cologne / Germany	
Product (s) produces	Milk chocolate	

Labor intensive vs. Capital intensive

The scheduled production of 22.000 tons of chocolate can be planned or „labor intensive or capital intensive:

Labor intensive	Capital intensive
Production 24 h/day and 7 days/week	Production 8 h/day
Five shifts	One shift
Production turning 365 days/y	Production turning 220 days/y
The capacity of machinery to be installed is: $22.000\text{t}/365 = 60 \text{ t/day}$	The capacity of machinery to be installed is: $22.000\text{t}/220 = 100\text{t/day}/24\text{h}$ or $300\text{t/day}/8\text{h}$

Calculation of the investments and depreciation costs

Description	Investment	Depreciation (years)	Depreciation costs
Property/estate/plot 30,000 m2 to 250, - €/m2	7.500.000,00	0	0,00
Additional expenses - 6,5% Tax and 3,5 % other costs (notary, registration etc	750000,00	0	
SUM PURCHASE OF LAND	8.250.000,00	0	0,00
Exterior installations:			
Grading work	250000,00	50	5000,00
Roads	150000,00	50	3000,00
Foundations	100000,00	50	2000,00
Outside lights	60000,00	50	1200,00
Fence	50000,00	50	1000,00
Drains	100000,00	50	2000,00
Cables for power installation	50000,00	50	1000,00
SUM OF EXTERIOR INSTALLATIONS	760000,00		15200,00

Industrial site



Expenditure ./ Costs

- Caused by the payment of the invoices during the construction period, the company has „expenditures“
- Caused by „wear and tear“ (Wertverzehr) emerge „costs“, as „depreciation costs“

Depreciation costs of plots of land

- As „plots of land“ have by definition no „wears and tears“, land can not be depreciated. The depreciation rate of land is 0%.
- With other words: land does not loose its value – it is not “consumed”

The depreciation rates

- The depreciation rates are regulated by law
- Depreciation rates vary from country to country
- The State has an interest to define the depreciation rates, because these rates have a direct impact on the taxes to be paid by the entrepreneur
- For our future planning we will use the following depreciation rates:

Asset	Depreciation rate in years	Depreciation rate in years
vehicles	5	20 %
machines	10	10 %
furniture	10	10 %
informatics	4	25 %
buildings	50	2 %
land	0	0 %

Case study: „depreciation costs for a company car“

A company buys a new company car. The price of the car is 50.000 EUR plus VAT. The „expenditure“ is 50.000 EUR (VAT is refunded) when the car has been delivered and the invoice is paid. The depreciation period of the car is regulated by law, in Germany five years. Though the depreciation costs can be calculated:

Years	Asset value	Depreciation rate	Depreciation costs
1. year	50.000	5 years of 20% of the net purchase value of the car	10.000
2. year	40.000	20 %	10.000
3. year	30.000	20 %	10.000
4. year	20.000	20 %	10.000
5. year	10.000	20 %	10.000

Investment calculation: Buildings

Description plant	Investment expenditure	Depreciation rate	Depreciation costs p.a.
Building			
Administration building	1200000,00	50	24000,00
Gatehouse	100000,00	50	2000,00
Auxiliary building	150000,00	50	3000,00
Workshop	125000,00	50	2500,00
Production hall	1000000,00	50	20000,00
TOTAL of BUILDING	2575000,00		51500,00

Investment calculation: Machinery

Machinery			
Roasting			
Roasting machine	75000,00	10	7500,00
Fallow	50000,00	10	5000,00
Separator	37500,00	10	3750,00
Cocoa mill	37500,00	10	3750,00
K-rolling mill	62500,00	10	6250,00
SUM of MACHINERY	262500,00		26250,00

Investment calculation: Processing

Processing of raw materials	Investment	Depreciation in years	Depreciation costs
Sugar silo	12500,00	10	1250,00
Sugar Mill	37500,00	10	3750,00
Milk powder silo	12500,00	10	1250,00
Cocoa butter silo	10000,00	10	1000,00
SUM of Processing of Raw materials	72500,00		7250,00

Investment calculation: Chocolate production

Chocolate production			
1 Kneber	17500,00	10	1750,00
1 mixer	12500,00	10	1250,00
2 rolling mills	50000,00	10	5000,00
2 Conchen	125000,00	10	12500,00
Lecithin silo	5000,00	10	500,00
Camp silo	2500,00	10	250,00
Intermediate silo	20000,00	10	2000,00
Bar plant	1250000,00	10	125000,00
5 luggage machines	750000,00	10	75000,00
Cartoning machine	5000,00	10	500,00
Labelling machine	2500,00	10	250,00
Palletization	2500,00	10	250,00
SUM of PRODUCTION	2242500,00		224250,00

Investment calculation: Off-sites

Offsites/Extra Investment	Investment	Depreciation in years	Depreciation costs
Tools	250000,00	10	25000,00
Spare parts	100000,00	10	10000,00
Equipment camp	100000,00	10	10000,00
Supply lines	100000,00	10	10000,00
Waste water purification	750000,00	10	75000,00
Transportation/assembly inclusive	250000,00	10	25000,00
SUM of OFFSITES	1550000,00		155000,00
Expenditure/planning	400000,00	10	40000,00
Licenses	50000,00	10	5000,00
SUM of Engineering	450000,00		45000,00
Vehicles			
2 passenger cars	50000,00	5	10000,00
1Truck	75000,00	5	15000,00
SUM of VEHICLES	125000,00		25000,00

Calculation that the total investment and depreciation costs

Investment goods	Investment expenditures	Depreciation rate (%)	Depreciation costs p.a.
Property	8.250.000 €	0	0 €
Exterior installations	760.000 €	2	15.200 €
Building	2.575.000 €	2	51.500 €
Machines	262.500 €	10	26.250 €
Production plants (Chocolate)	2.242.500 €	10	224.250 €
Offsites	1.550.000 €	5	77.500 €
Engineering	850.000 €	10	85.000 €
Vehicles	200.000 €	20	40.000 €
Transport costs of the plant	0 €		
Assembly of the plant	0 €		
Unexpected	1.000.000 €	0	0 €
Circulating capital	641.000 €	0	0 €
Totals	18.331.000 €		519.700 €

Calculation of consumption costs

Expendable material	specific consumption per 100 g chocolate	specific price in EURO	Costs per quantity unit of bar to 100 g
Raw materials (in g)			
Cocoa mass (in g)	25	0,00100 €	0,02500 €
Cocoa butter (in g)	5	0,00550 €	0,02750 €
Sugar (in g)	50	0,00050 €	0,02500 €
Milk powder (in g)	20	0,00050 €	0,01000 €
Lecithin (in g)	0,1	0,02550 €	0,00255 €
Packing			
Staniol (g per bar)	3	0,00100 €	0,00300 €
Agony impact (g/bar)	5	0,00450 €	0,02250 €
Cardboard of VE 40 (EUR/VE)	0,23	0,12000 €	0,02760 €
Label (EUR/VE)	0,01	0,00500 €	0,00005 €
Utilities			
Energy, steam (EUR/Bar)			0,01000 €
Selling (EUR/Bar)			0,05000 €
Maintenance costs			0,00100 €
Administrative overhead costs (EUR/Bar)			0,01200 €
SUM of raw material costs per 100g bar			124 0,21620 €

Calculation of labour costs

Personal in cost centre	Number	Personnel direct costs
Roesterei	2	80.000 €
Processing of raw materials	2	80.000 €
Chocolate production	2	80.000 €
Bar plant	3	120.000 €
Packing machines	5	200.000 €
Kartonierer	2	80.000 €
Palletization	2	80.000 €
Doorman	1	40.000 €
Stock of raw materials	4	160.000 €
Packing	5	200.000 €
Administration incl Director General	7	750.000 €
Selling	2	200.000 €
Driver	2	80.000 €
Total of labour costs (1 Shift)		2.150.000 €

Case study: Remuneration statement

Agreed salary brut	5.000 EUR (the employer pays 5.962 €)
Deduction:	
Retirement pay	$487,5 + 487,5 = 975$ EUR (19,5 %)
Unemployment insurance	$125 + 125 = 250$ EUR (5,0 %)
Health insurance	$350 + 350 = 700$ EUR (14,0 %)
Income taxes	1.500 EUR (30 %)
Solidarity surcharge (5,5% of the income tax)	82,5 EUR
Church tax	135 EUR
Salary net	2.320 EUR

Total of investment and financing

Total investment	18.331.000 €	7,00% interest
40% own capital funds (equity)	7.632.400 €	10 years running time
60% outside financing	10.698.600 €	

A bank loan or any other funding by a third party will be needed to finance 60% of the total investment. We assume a bank loan over a period of 10 years with constant annual loan redemption and a 7% interest rate

Calculation of financing costs: Interest paid on debt

Year	Balance of debt	Interest rate(%)	Interest costs p.a.	Refunding Bank Loan
1. Year	10.698.600 €	7,00%	748.902 €	1.069.860 €
2. Year	9.628.740 €	7,00%	674.012 €	1.069.860 €
3. Year	8.558.880 €	7,00%	599.122 €	1.069.860 €
4. Year	7.489.020 €	7,00%	524.231 €	1.069.860 €
5. Year	6.419.160 €	7,00%	449.341 €	1.069.860 €
6. Year	5.349.300 €	7,00%	374.451 €	1.069.860 €
7. Year	4.279.440 €	7,00%	299.561 €	1.069.860 €
8. Year	3.209.580 €	7,00%	224.671 €	1.069.860 €
9. Year	2.139.720 €	7,00%	149.780 €	1.069.860 €
10. Year	1.069.860 €	7,00%	74.890 €	1.069.860 €
Sum interest			4.118.961 €	
Sum Repayment				10.698.600 €

Self costs in years 1 - 4

Capacity (in bars p.a.)

220.000.000

	1.Year	2.Year	3.Year	4.Year
Utilization of capacity(%)	60%	80%	100%	100%
Chocolate quantity (bars)	132.000.000	176.000.000	220.000.000	220.000.000

Costs	Costs per year	Costs per year	Costs per year	Costs per year
Depreciation costs	-519.700 €	-519.700 €	-519.700 €	-519.700 €
Financing costs	-748.902 €	-674.012 €	-599.122 €	-524.231 €
Labour costs	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €
Consumption costs	-29.594.400 €	-39.459.200 €	-49.324.000 €	-49.324.000 €
Sum of costs	-33.013.002 €	-42.802.912 €	-52.592.822 €	-52.517.931 €
Costs per 100g bar (in the first year of production)	0,2501	0,2432	0,2391	0,2387

Variable and Fixed Costs

Capacity (in bars p.a.)

220.000.000

	1.Year	2.Year	3.Year	4.Year
Utilization of capacity(%)	60%	80%	100%	100%
Chocolate quantity (bars)	132.000.000	176.000.000	220.000.000	220.000.000

Costs	Costs per year	Costs per year	Costs per year	Costs per year
Depreciation costs	-519.700 €	-519.700 €	-519.700 €	-519.700 €
Financing costs	-748.902 €	-674.012 €	-599.122 €	-524.231 €
Labour costs	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €
Consumption costs	-29.594.400 €	-39.459.200 €	-49.324.000 €	-49.324.000 €
Sum of costs	-33.013.002 €	-42.802.912 €	-52.592.822 €	-52.517.931 €
Costs per 100g bar (in the first year of production)	0,2501	0,2432	0,2391	0,2387

Self costs per bar of chocolate:

Capacity installed: 220.000.000 bars

Capacity utilisation: 1st year 60%, 2nd year 80%, 3rd year 100%

Period 10 years

	1.Year	2.Year	3.Year	4.Year	5.Year	6.Year	7.Year	8.Year	9.Year	10.Year
Utilization of capacity(%)	60%	80%	100%	100%	100%	100%	100%	100%	100%	100%
Chocolate quantity (bars)	132.000.000	176.000.000	220.000.000	220.000.000	220.000.000	220.000.000	220.000.000	220.000.000	220.000.000	220.000.000

Costs	Costs per year	Costs per year	Costs per year	Costs per year	Costs per year	Costs per year	Costs per year	Costs per year	Costs per year	Costs per year
Depreciation costs	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €
Financing costs	-748.902 €	-674.012 €	-599.122 €	-524.231 €	-449.341 €	-374.451 €	-299.561 €	-224.671 €	-149.780 €	-74.890 €
Labour costs	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €
Consumption costs	-29.594.400 €	-39.459.200 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €
Sum of costs	-33.013.002 €	-42.802.912 €	-52.592.822 €	-52.517.931 €	-52.443.041 €	-52.368.151 €	-52.293.261 €	-52.218.371 €	-52.143.480 €	-52.068.590 €
Costs per 100g bar (in the first year of production)	0,2501	0,2432	0,2391	0,2387	0,2384	0,2380	0,2377	0,2374	0,2370	0,2367

Definition of price

- The self costs for the production of one bar of milk chocolate is:
 - 0,2503 in the first year of production
 - 0,2250 in the last four years of production
- We decide to sell the chocolate at 0,2500 EUR ex factory (net of VAT)

Calculation of turnover/revenue

Year	Output		Price per bar	Turnover/Revenue
1	132.000.000		0,25	33.000.000 €
2	176.000.000		0,25	44.000.000 €
3	220.000.000		0,25	55.000.000 €
4	220.000.000		0,25	55.000.000 €
5	220.000.000		0,25	55.000.000 €
6	220.000.000		0,25	55.000.000 €
7	220.000.000		0,25	55.000.000 €
8	220.000.000		0,25	55.000.000 €
9	220.000.000		0,25	55.000.000 €
10	220.000.000		0,25	55.000.000 €

Cash Flow Calculation

	1. Year	2. Year
Sales profits	33.000.000 €	44.000.000 €
Depreciation costs	-519.700 €	-519.700 €
Labour costs	-2.150.000 €	-2.150.000 €
Operating (Consumption) costs	-29.594.400 €	-39.459.200 €
Financing costs	-748.902 €	-674.012 €
Loss carried forward		-13.002 €
Profit before tax	-13.002 €	1.184.086 €
Taxes (40%)	0 €	473.634 €
Profit after taxes	-13.002 €	710.452 €
Cash-flow (net profit + depreciation)	506.698 €	1.230.152 €
Repayment credit	1.069.860 €	1.069.860 €
Re-investing		
Dividend	-563.162 €	160.292 €

Computation of cash-flow for 10 years (in EURO)

	1. Year	2. Year	3. Year	4. Year	5. Year	6. Year	7. Year	8. Year	9. Year	10. Year
Sales profits	33.000.000 €	44.000.000 €	55.000.000 €	55.000.000 €	55.000.000 €	55.000.000 €	55.000.000 €	55.000.000 €	55.000.000 €	55.000.000 €
Depreciation costs	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €	-519.700 €
Labour costs	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €	-2.150.000 €
Raw material cost	-29.594.400 €	-39.459.200 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €	-49.324.000 €
Financing costs	-748.902 €	-674.012 €	-599.122 €	-524.231 €	-449.341 €	-374.451 €	-299.561 €	-224.671 €	-149.780 €	-74.890 €
Loss carried forward		-13.002 €								
Profit before tax	-13.002 €	1.184.086 €	2.407.178 €	2.482.069 €	2.556.959 €	2.631.849 €	2.706.739 €	2.781.629 €	2.856.520 €	2.931.410 €
Taxes (40%)	0 €	473.634 €	962.871 €	992.827 €	1.022.784 €	1.052.740 €	1.082.696 €	1.112.652 €	1.142.608 €	1.172.564 €
Profit after taxes	-13.002 €	710.452 €	1.444.307 €	1.489.241 €	1.534.175 €	1.579.109 €	1.624.044 €	1.668.978 €	1.713.912 €	1.758.846 €
Cash-flow (net profit + deduction)	506.698 €	1.230.152 €	1.964.007 €	2.008.941 €	2.053.875 €	2.098.809 €	2.143.744 €	2.188.678 €	2.233.612 €	2.278.546 €
Repayment credit	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €	1.069.860 €
Re-investing						-125.000 €				
Dividend	-563.162 €	160.292 €	894.147 €	939.081 €	984.015 €	903.949 €	1.073.884 €	1.118.818 €	1.163.752 €	1.208.686 €

Total dividend

Total dividend cumulated over 10 years:

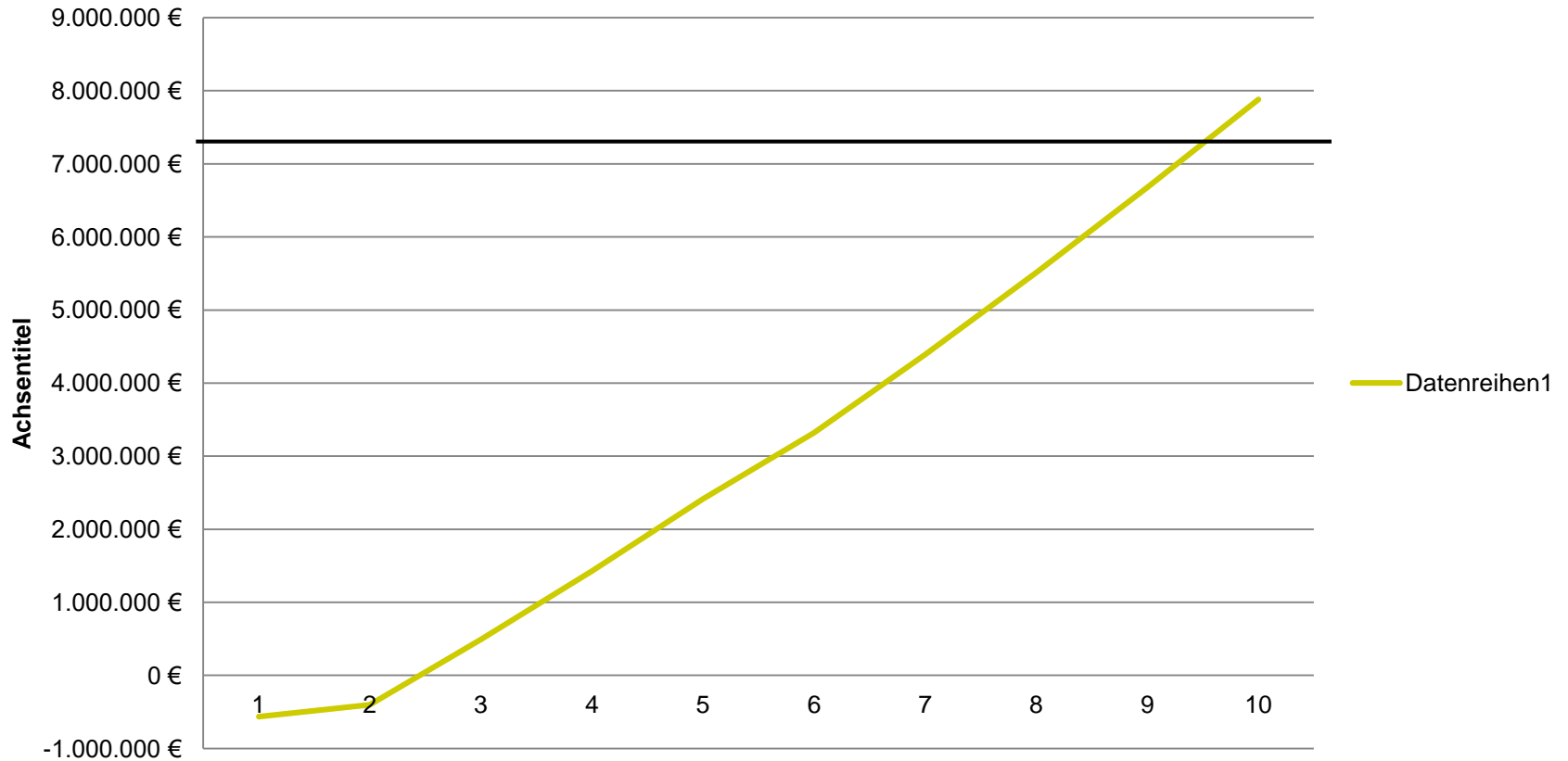
7.883.461 €

Equity profitability

Equity	Profit after tax	Dividend	Interest made on equity	
7.132.400 €	-13.002	-563.162	-8%	1. Year
7.132.400 €	710.452	160.292	2%	2. Year
7.132.400 €	1.444.307	894.147	13%	3. Year

Return on Investment

Return on Investment (RoI): 9,5 years



Dividend	-563.162 €	160.292 €	894.147 €	939.081 €	984.015 €	903.949 €	1.073.884 €	1.118.818 €	1.163.752 €	1.208.686 €
cumulated dividend	-563.162 €	-402.870 €	491.277 €	1.430.358 €	2.414.373 €	3.318.323 €	4.392.206 €	5.511.024 €	6.674.776 €	7.883.461 €

Chapter 4: The Cost Calculation



Cost accounting is:

- Cost accounting is the **process of tracking, recording and analyzing costs associated with the products or activities of an organization.**
- In modern accounting, costs are measured in accordance with the “Generally Accepted Accounting Principles (GAAP).” GAAP reporting records historical events and assigns a **monetary value to each event** that has taken place.
- Costs are measured in units of currency by convention.
- Cost accounting could also be defined as a kind of management accounting that translates the Supply Chain (the series of events in the production process that, in concert, result in a product) into financial values.
- Managers use cost accounting to support decision making to reduce a company's costs and improve its profitability.
- Cost accounting allows
 - **Control of the profitability**
 - **Price determination**
 - **Calculation of self-costs**
- Cost accounting is a **Management information and decision instrument**

Accountancy

- Accountancy (profession) or accounting (methodology) is the measurement, disclosure or provision of assurance about financial information that helps managers, investors, tax authorities and other decision makers make resource allocation decisions.
- Financial accounting is one branch of accounting and historically has involved processes by which financial information about a business is recorded, classified, summarized, interpreted, and communicated.

Auditing

- Auditing, a related but separate discipline, has two sub-disciplines: **Internal and External auditing**.
- External auditing is the process whereby an independent auditor examines an organization's financial statements and accounting records in order to express an opinion — that conveys reasonable but not absolute assurance — as to the truth and fairness of the statements and the accountant's adherence to **Generally Accepted Accounting Principles (GAAP)**, in all material respects.

Categories of costs

1. Cost-type accounting (Kostenartenrechnung)
2. Cost-centre accounting (Kostenstellen)
3. Product-cost accounting (Kostenträger)

What we will learn:

- **Cost types**
 - Labor costs, energy cost, etc
 - Direct vs. indirect cost
 - Variable/fixed cost
 - Calculatory costs
 - Calculation of consumption of utilities/materials
- **Cost centers**
 - Allocation of costs
 - Definition of in-house cost centers
 - Distribution of overheads on cost centers
 - In house invoicing
 - In-house cost allocation sheet (BAB)
- **Product cost**
 - Calculation by division
 - Calculation by division with equivalents
 - Self costs calculation of related products “joint products” (Kuppelprodukte)
 - Remaining value method (Restwertmethode)/Distribution method

Cost-type accounting

- Records, classifies and processes all cost data of the enterprise
- Which costs have been made
- Cost-types are created by the consumption of raw-materials, depreciations, financing, personnel

The most frequent Cost Types

- Costs of personnel and labour
- Costs of depreciation
 - Depreciation is a term used in economics to describe the fact that assets with finite lives lose value over time/consumption
- Costs of utilities: energy, water, steam, oil etc
- Cost of consumption of raw and semi-finished materials
- Costs of financing
- Costs of administration
- Costs of marketing
- Costs of nn

Example: Labour costs

- A salary is a form of periodic payment from an employer to an employee, which is specified in an employment contract.
- From the point of view of running a business, salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense. In accounting, salaries are recorded in payroll accounts.

Registration of cost data: salaries, wages

- Registration of wages and salaries
 - Registered and managed by Bookkeeping and/or Human Resources Department (HRD)
 - The contract
 - The “Social costs”
 - Tax on wages
 - Payment procedures

Salary Slip

Anschrift der Einrichtung

- a) Bei nicht ganzjähriger Beschäftigung erfolgt die Berechnung nach der Anzahl der Monate des Beschäftigungsverhältnisses.
- b) Bei Einstellung nach dem 01.12. eines jeden Jahres wird **keine** Jahressonderzahlung gezahlt.
- c) Bei Ausscheiden bis zum 31.03. des nächstfolgenden Jahres entfällt ebenfalls der Anspruch der Weihnachtsspendung/Jahressonderzahlung.

Bezug von Kindergeld für die angegebenen Kinder

GEHALTSABRECHNUNGSBOGEN FÜR KoKoBe

Name, Vorname					Geburtsdatum			Familienstand			Anzahl der Kinder		
								<input type="checkbox"/> ledig <input type="checkbox"/> verheiratet <input type="checkbox"/> geschieden					
Entgeltgruppe		Stufe	Einstellungsdatum			<input type="checkbox"/> ausgeschieden <input type="checkbox"/> gekündigt		am				Berufliche Qualifikation	
Jahr	Wochenstunden	Grundgehalt EUR	Ortszuschlag verheiratet aus Bestandsschutz- gründen EUR	Ortszuschlag Kind aus Bestandsschutz- gründen EUR	VGZ aus Bestandsschutz- gründen EUR	VL EUR	Jahres- sonderzahlung EUR	Brutto EUR	Soz.-Versicherung Arbeitgeberanteil EUR	ZVK Arbeitgeberanteil EUR	insgesamt EUR		
Jan.													
Febr.													
März													
April													
Mai													
Juni													
Juli													
Aug.													
Sept.													
Okt.													
Nov.													
Dez.													
In den Betriebskosten ausgewiesene Gesamtpersonalkosten										▶ EUR			

Registration of other cost data: utilities

- Electricity
- Steam
- Other Energy: gaz, oil, gazoline
- Water
- Waste water



Lager Alstom

Lagerverwaltung

X40

all stocks

LBS	Structure- No.	item description	act. stock	other stock	qty.	qty. + ordered	recomm.	unit of mess.
FDS	ds		0	0	0	4	4	
0501		Pantograph complete	0	0	0	9	4	Pc
0501-01	01	Base frame complete	0	0	0	20	0	Pc
0501-01	0101	Base frame welded	0	0	0		0	Pc
0501-01	0102	Buffer for upper frame	0	0	0		0	Pc
0501-01	0103	Buffer for lower frame	0	0	0		0	Pc
0501-01	0104	Nyloc nut	0	0	0			Pc
0501-01	0105	Washer	0	0	0			Pc
0501-01	010501	Schraube	0	0	0	100		Pc

technical data M10

show all

supplier/ sub-supplier

Prices

Nickname SCHUNK Order ID-number 32-10-0003xxxx Alstom ID classification C

changed by NIBORN on 25.06.2004 inserted by ELPELT on 23.06.2004

nr	ID	store	pos.	quantity	delivery date	exp. delivery date	eff. delivery date/ reduction date
	SCHUNK	WSJ	B1/A2	100			

comments

changed by NIBORN on 14.07.2004 inserted by ELPELT on 23.06.2004



Registration of cost data after a one year period: material consumption

- Three methods:
 - Scontration method
 - Inventory method
 - Retrograde method



Scontration method

Opening stock
+ inflow of stock
- Outflow of stock (consumption)
= final inventory

Inventory method

Opening stock
+ Inflow
- Final inventory
= consumption (outflow)

Retrograde method

- Back-calculation of consumed (used) materials from the finished product
- Mostly used in small enterprises

Valuation of consumed materials

- Based on purchase costs
- If materials have been purchased in different periods with changing prices:
 - Average price
 - Effective prices

(always net, without VAT)

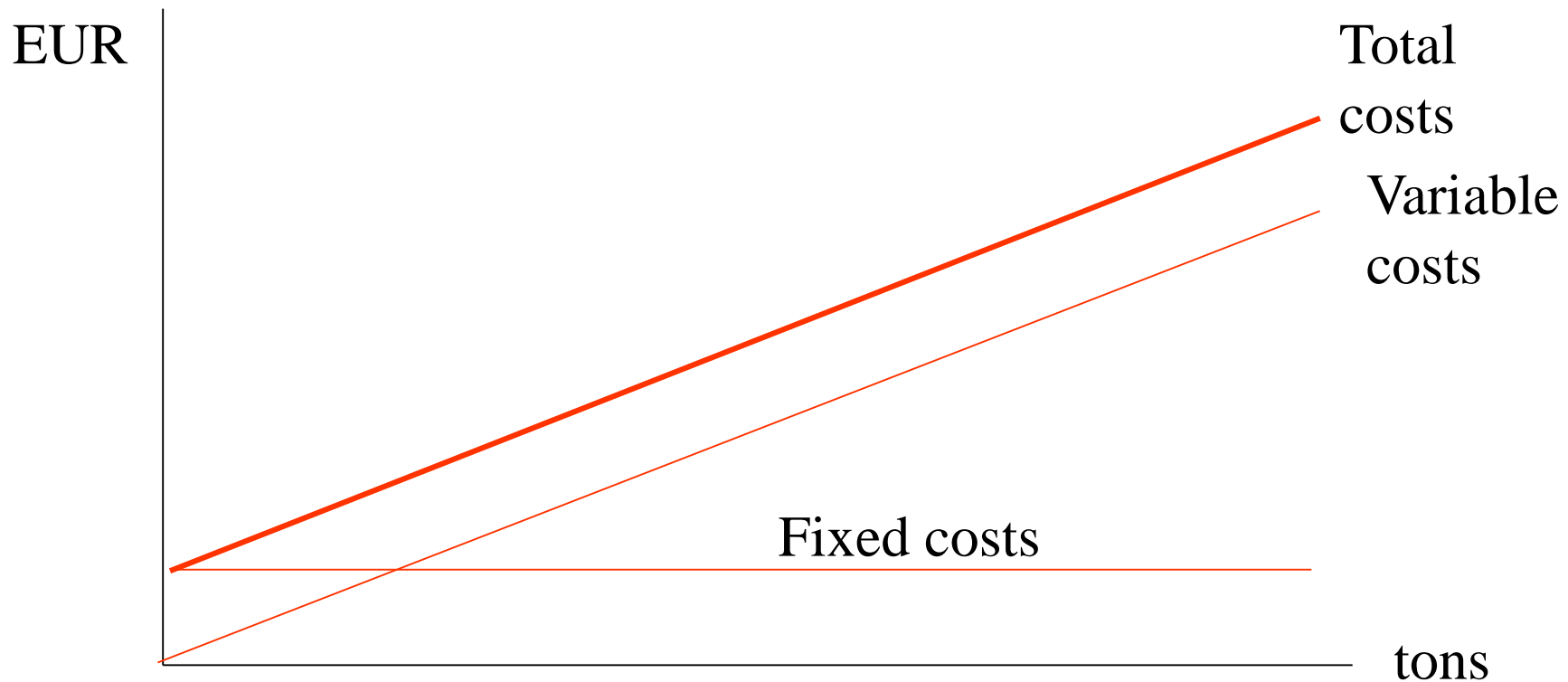
Direct cost

- Direct cost vs. Overhead Cost (Gemeinkosten)
- Direct Cost,
 - however, are costs that can be associated with a particular cost object
- Overhead Cost
 - In the case of a business, it is the amount of resources used by an organization just to maintain existence. also known as overhead or overhead cost. Overhead costs are usually measured in monetary terms, but non-monetary overhead is possible in the form of time required to accomplish tasks.

Variable costs - Fixed costs

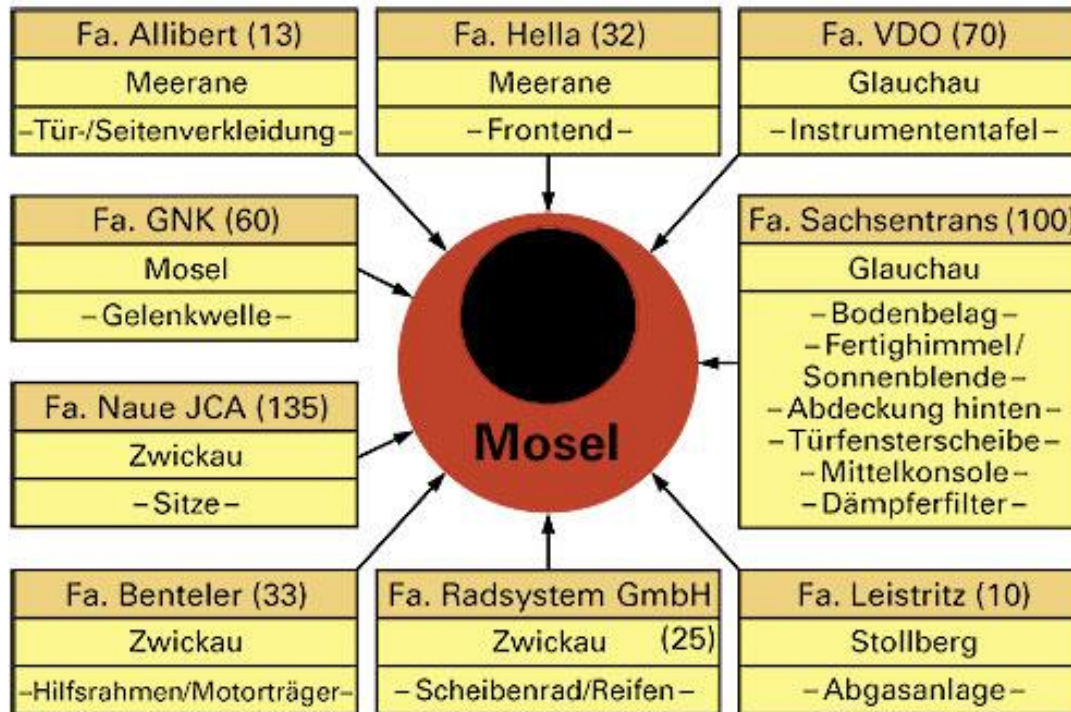
- **Variable costs** are expenses that change in direct proportion to the activity of a business. Along with fixed costs, variable costs make up the two components of total cost.
- **Fixed costs** are un-expired assets or expenses whose total does not change in proportion to the activity of a business, within the relevant time period or scale of production
- Along with variable costs, fixed costs make up one of the two components of **total cost**. In the most simple production function, total cost is equal to fixed costs plus variable costs

Costs can be variable or fixed

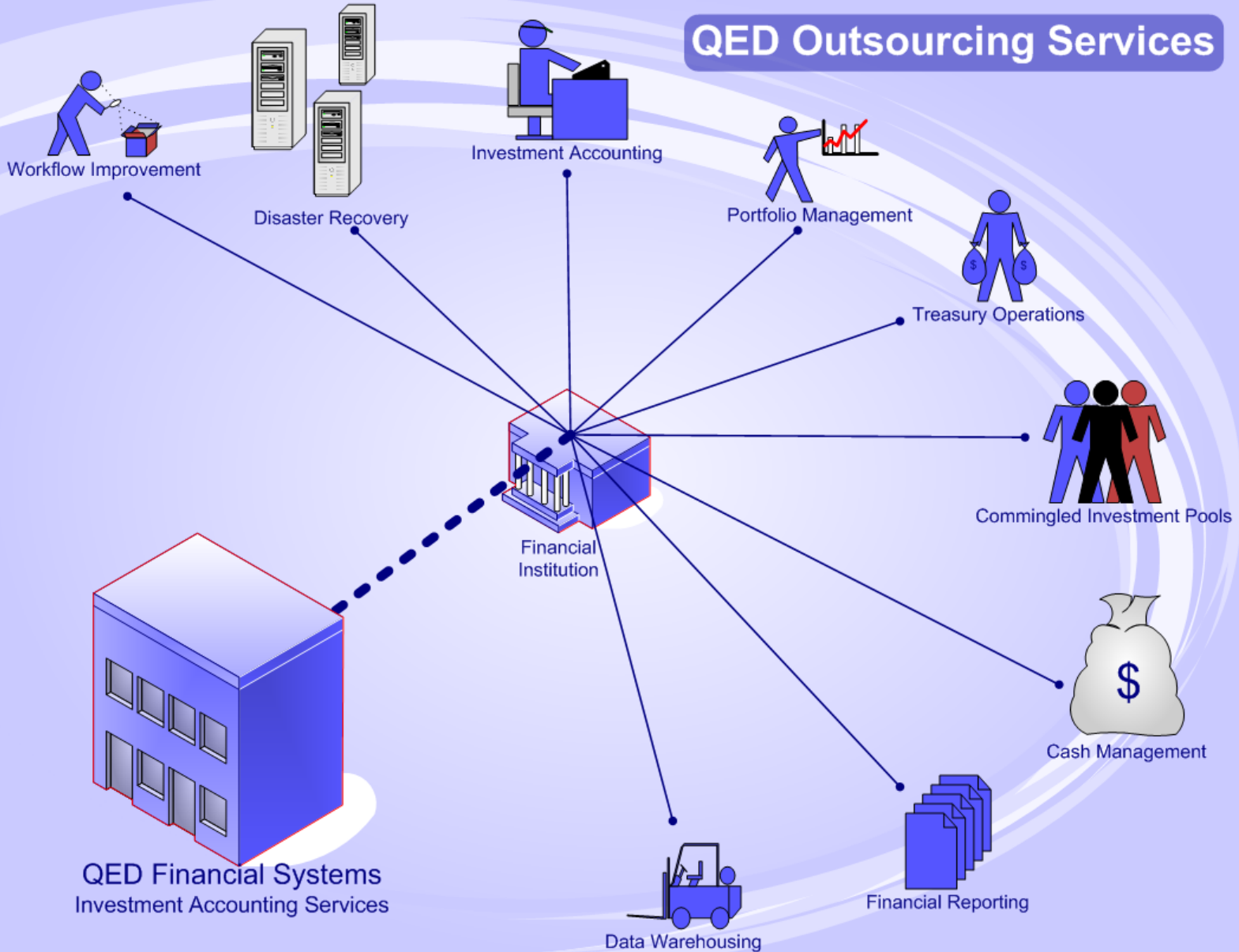


Subcontracting

Just in Time: Make storage costs variable



QED Outsourcing Services



Calculatory cost

- Cost without expenditure (payment)
- Differentiation Cost vs. Expenditure
 - (Kosten vs. Aufwand)
- Objective of calculatory cost:
 - Increase accuracy of cost accounting
 - To know the exact self costs
 - To distribute unforeseen risk-costs on other cost types

The five calculatory cost types

- Calculatory depreciation
- Calculatory interest (Working capital)
- Calculatory employers salary
- Calculatory risk
- Calculatory rent/lease

Case study: calculatory costs

- **Calculatory depreciation**

- Sie kaufen sich einen Geschäftswagen für 25.000 €. Laut Abschreibungstabelle sind Fahrzeuge bilanziell auf 5 Jahre abzuschreiben (linear), d. h. pro Jahr 5.000 €. In 5 Jahren kostet ein neuer Geschäftswagen z.B. 30.000 €, daher schreiben Sie kalkulatorisch pro Jahr 6.000 € ab, indem Sie 1.000 € pro Jahr mehr in Ihre Gesamtkosten einkalkulieren

- **Calculatory interest**

- Da man für das im Unternehmen eingesetzte Eigenkapital bei anderer Anlage Zinsen bekommen hätte, kann dieser „Ausfall“ durch die kalkulatorischen Zinsen wieder ausgeglichen werden. Man berechnet die marktübliche Verzinsung für das Eigenkapital und bringt diese in die Preiskalkulation mit ein. Beispiel: Sie haben als Eigenkapital 20.000 € eingebracht, der momentane Zinssatz wäre 4%, daraus ergeben sich kalkulatorische Zinsen in Höhe von 800 €.

- **Calculatory risk**

- Im Rahmen jeder betrieblichen Tätigkeit können Schäden oder Ereignisse auftreten, die zu erheblichen Verlusten führen. Dies gilt besonders für Wagnisse, die nicht von einer Versicherung gedeckt sind oder werden können (z. B. Garantieleistungen, Forderungsausfälle, Wegfall von Kunden oder Lieferanten etc.). Die Höhe der kalkulatorischen Wagnisse kann aber meist nur geschätzt werden. Häufig wird sie nicht in der Gesamtkostenerstellung berücksichtigt, sondern erst in der Preiskalkulation sogenannter Wagniszuschlag

- **Calculatory employers salary**

- Bei Einzelunternehmen und Personengesellschaften ist Ihr „Gehalt“ nicht automatisch in der Kalkulation drin. Hier sind Sie selbst das Unternehmen und entnehmen privat aus Ihrem Geschäftskonto Gelder für Ihren Lebensunterhalt. Deshalb müssen diese Kosten separat als kalkulatorischer Unternehmerlohn in die Kalkulation mit einbezogen werden

- **Calculatory rent**

- Stellt ein Einzelunternehmer oder der Gesellschafter einer Personengesellschaft eigene Räume für betriebliche Zwecke zur Verfügung, so können kalkulatorische Mieten zu den Gesamtkosten addiert werden. Die Höhe der Miete sollte sich nach den ortsüblichen Mietpreisen richten.

Cost centre accounting

- Causation of cost inside the enterprise
- Where costs occur
- Allows to distribute the administrative and over-head cost (indirect cost) on cost-centres
- Allows to control the profitability of the departments inside the enterprise

Definition of cost centres

- Each company is free to define its cost centres
 - Functional criteria
 - Spatial criteria
 - Responsibility criteria
 - Accounting criteria

Example Cost Centers



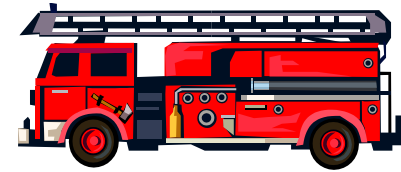
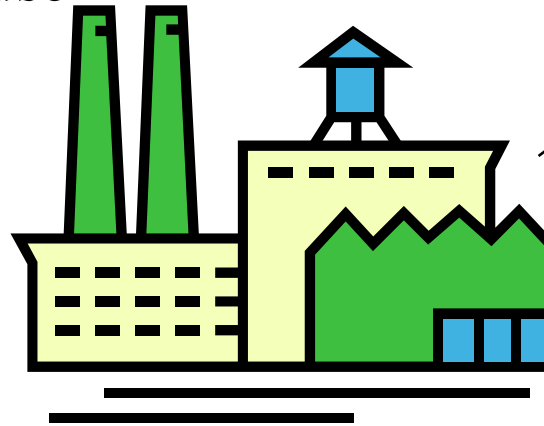
Warehouse



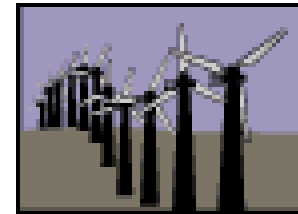
Filling station



Packaging



Fire brigade



Energy Production



Transport



Administration

Inter-company invoicing

- Between the departments of an enterprise is a continuous flow of exchange of services and products
- To calculate the exact self-costs per department
- To evaluate the profitability of each department (also compared to production by a third party)

Methods to calculate the inter-company cost

- Direct costs method (no overheads distributed to other costs centers)
- Cost distribution method (in addition to direct costs also indirect cost are distributed)
- Following the product cost accounting method to “charge” those products/cost centers that can cover additional costs
- “expense distribution sheet” (BAB)

Costs Distribution Sheet

Cost Centre Cost Type	Total Costs	Energy Production	Production Unit 1	Filling Station	Packaging	Administration
Depreciation						
Raw materials						
Utilities						
Labour						
Financing						
General Costs						
Sub Totals						

Product cost calculation

- Calculates the cost per product (piece or unit) produced
- Is the solution for the question: how many of the total costs can be covered by each type of product
- Basis to determine the self-costs per product and though to calculate selling prices
- Is the basis for calculation of prices, e.g. for offers

Excursion: How would you calculate the costs and prices per item?

- A company as Procter & Gamble produces a variety of products, as:
 - Personal & Beauty
 - Olay facial moisturizers and cleansers
 - Pantene Pro-V Nature Fusion.
 - Herbal Essences
 - House and Home
 - Health and Wellness
 - Baby
 - Pampers
 - Pet nutrition

Methods of Calculation

- Calculation by division
- Calculation by division with equivalences
- By and Co-product calculation
- Substraction method (Restwertmethode)

Calculation by division

$$U = \frac{C}{M} \frac{\text{(total cost)}}{\text{(total quantity produced)}}$$

U = costs per unit

Calculation by division with equivalences

- To be used if more than one different variety (sort) of a product/Unit is produced
 - The sorts are produced from identical raw materials
 - The cost relation is identified by “observation” or measuring
 - Allows to attribute costs to more than two varieties

Division with equivalents

Total costs: 600.000 EUR					
Sort	1 Equivalent	2 Qty. produces	3 Units of account 1 * 2	4 Unit costs	5 Total costs per sort
1	0,8	5.000	4.000	30 * 0,8 = 24.-	120.000 €
2	1,0	10.000	10.000	30 * 1,0 = 30.-	300.000 €
3	1,5	4.000	<u>6.000</u>	30 * 1,5 = 45.-	<u>180.000 €</u>
			20.000		600.000 €
$\frac{\text{Total Cost}}{\text{Total Qty Produced}} = \frac{600000 \text{ EUR}}{20000} = 30 \text{ Uof}$					

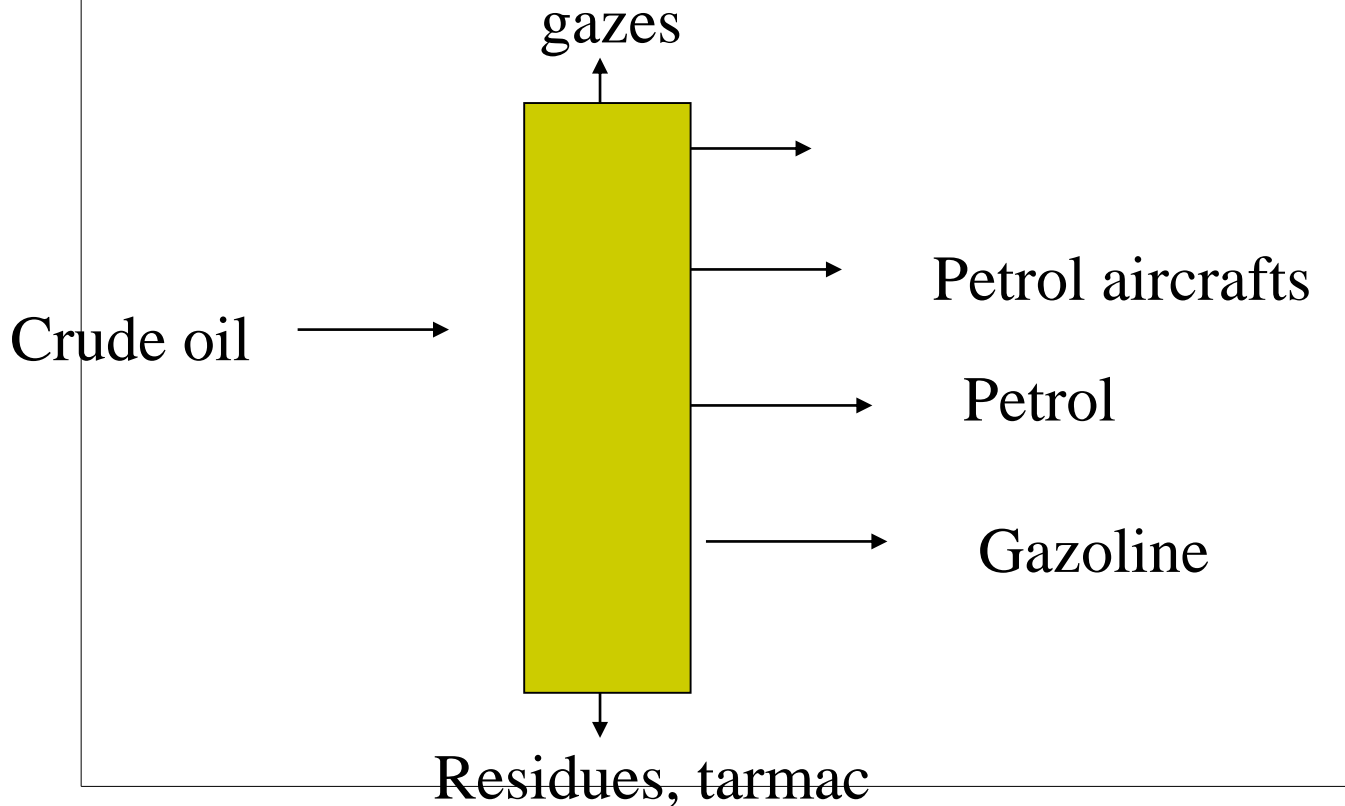
Self costs of by-products (Kuppelproduktion)

In some production process one can't avoid that next to the primary product additional by-products will be produced

In many chemical processes such, sometimes unwanted, by products exist

What effect do by-products have on self cost calculation?

Example of by-product process chemical refinery: How do define self costs by product?



Subtraction methode

- To be used if next to one main product by products with limited market value:
 - Turn-over sales by-products – total costs = costs main product

Break Even Point (BEP)

- Relation between sales/costs and quantity produced
- Define the minimum production to gain profit
- To calculate and decide advantage of selling at variable costs with limited cost contribution to fixed costs (to sell at lower price non used capacity)

Excursion:

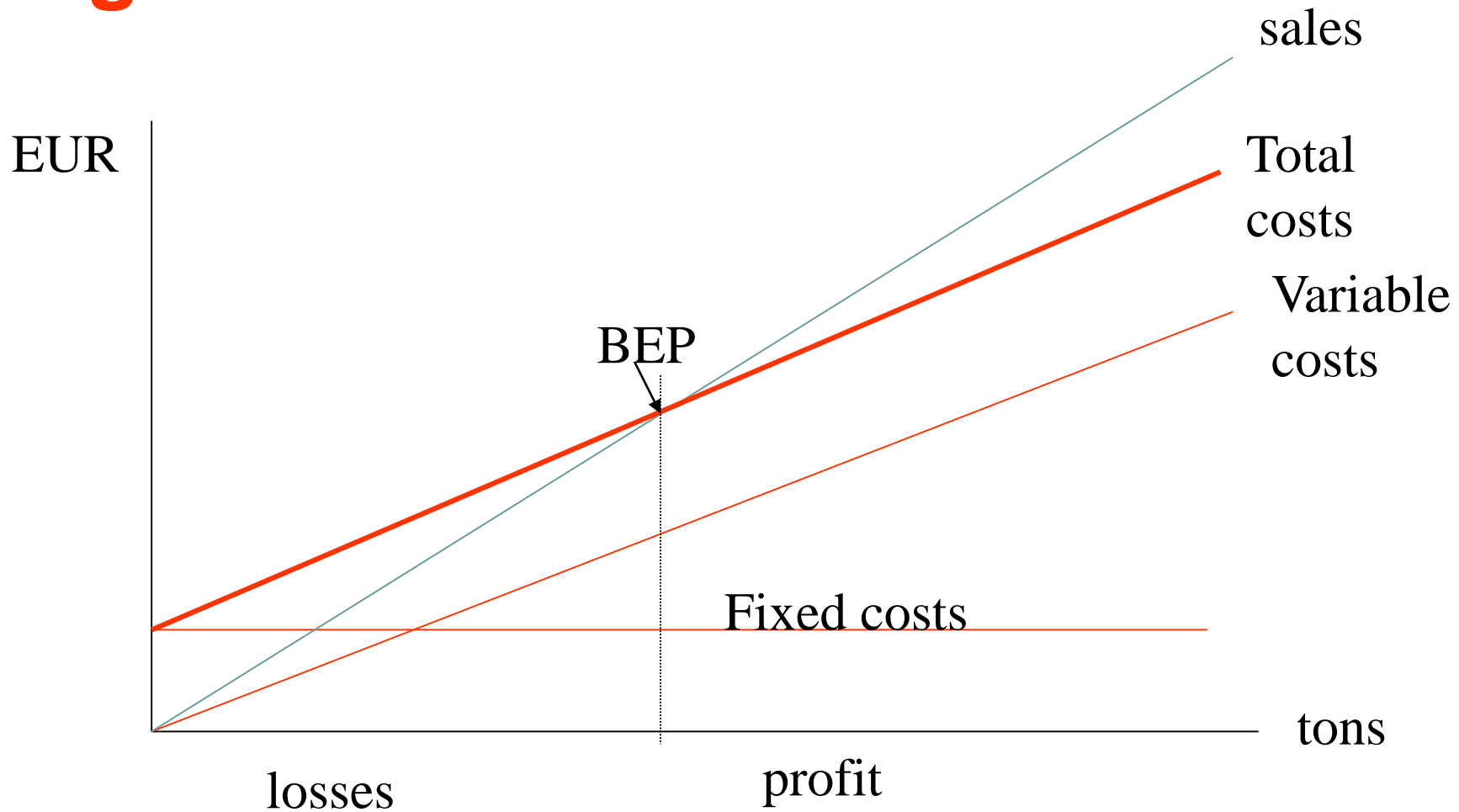
Lufthansa Airlines has an average capacity use of its seats in its aircrafts of 65% on its flights in Europe.

E.g. in an aircraft with 180 seat available, more than 50 seats remain unsold.

What strategy would you develop to sell also the 50 unsold seats?

Can you identify a correlation between fixed and variable costs when developing such a selling strategy?

Diagram BEP



Chapter 5: Entreprises

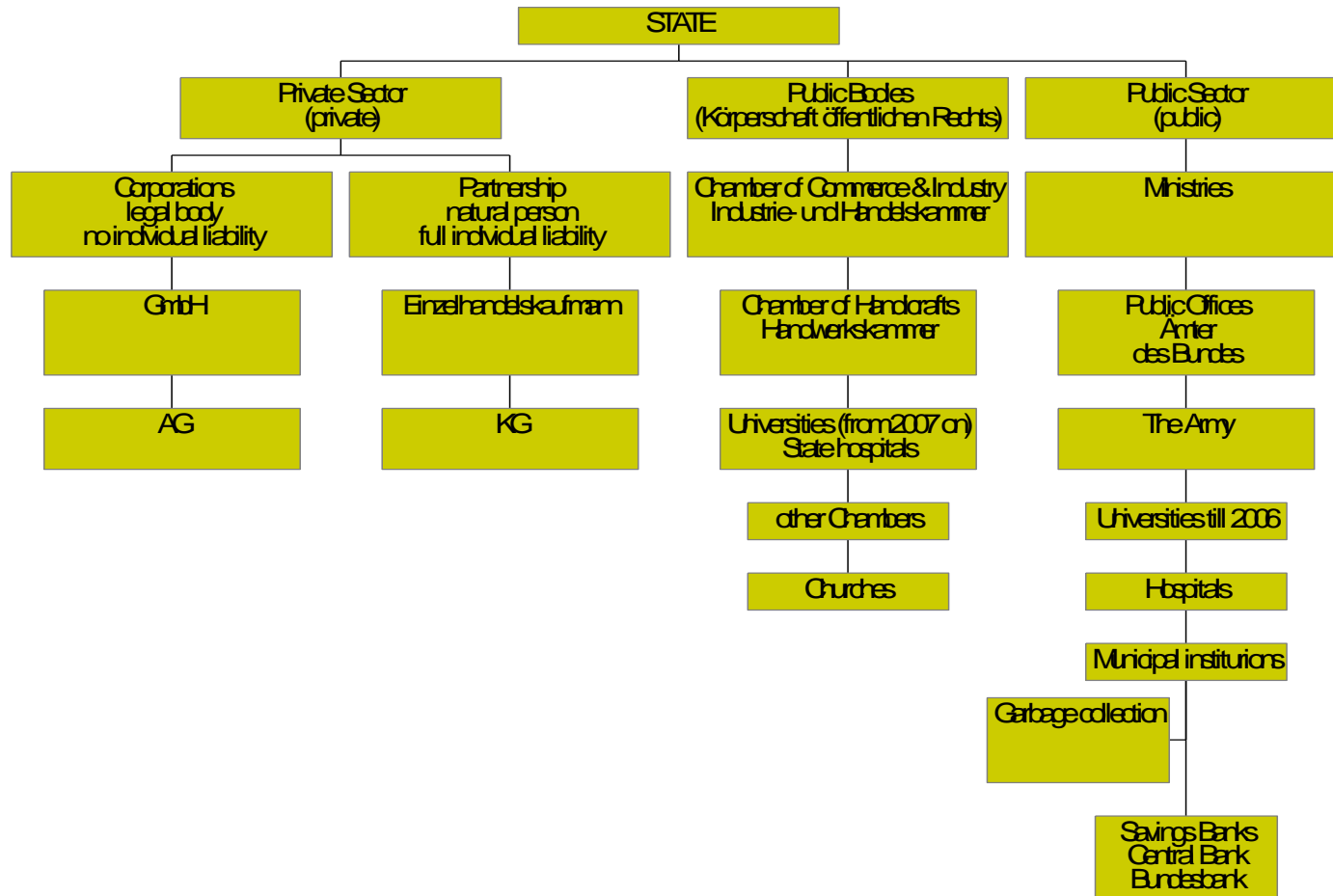


Companies

- Company/corporation is a economic unit to satisfy the need of the market
- Companies are profit oriented
- Some companies are not profit oriented as hospitals, Universities, charity institutions, churches (public sector)
- A company may have many production sites/branches/plants

Public Sector – Private Sector

Chart Title



Legal Forms of Enterprises

- Private sector enterprises
 - Companies with individual liability:
 - Traders/merchants/individual enterprise/handicraft/professionals
 - Companies with no individual liability:
 - GmbH, AG
 - Companies under specific legislation:
 - Banks, Insurrances, Mining etc
- Public sector companies or entities
- Corporations under public law:
 - Chambers, Churches

Legal forms of self-employment



- Sole proprietorship
- Legal form of the civil law (BGB Society = GbR)
- Partnership (only for freelancers as medicals, lawyers, tax consultants)
- Open trading company (oHG)
- Limited partnership (KG)
- Society with limited liability (GmbH)
- Company (Limited liability) as a special form of the GmbH (UG)
- German limited commercial partnership (KG) consisting of a general partner (GmbH) and a limited partner (GmbH&Co.KG)

The choice of the legal form is subject to

Liability

Taxation

Capital procurement

Company relations

Company name and external appearance

Transparency

Regulations

Participation options

...

Legal background

- Economic activities are subject to a number of legal regulations as:
 - Commercial laws (Germany):
 - BGB, HGB, AktG, GmbHG, Genossenschaftsgesetz, Kartellgesetz (GWB), Rabattgesetz, Gesetz zur Regelung allg. Geschäftsbedingungen, Scheckgesetz, Wechselgesetz, Publizitätsgesetz, Gesetz gegen unlauteren Wettbewerb, Gesetz gegen Wettbewerbsbeschränkungen, Urheberrechtsgesetz,, Produkthaftungsgesetz
- An economic activity is created if one or more individuals enter into a contract to form a common undertaking with an economic purpose

Small Merchant - Trader - Merchant

- A Trader (Merchant) runs a commerce, as defined by (§1-7 HGB)
- A „Trade“ is a continuous self-employed activity with the objective to gain profit
- Merchants can be of two types:
 - A wholesale merchant operates in the chain between producer and retail merchant. Some wholesale merchants only organize the movement of goods rather than move the goods themselves.
 - A retail merchant or retailer, sells commodities to consumers (including businesses). A shop owner is a retail merchant.
- A Trade activity is registered in the Registrar of Commerce (Handelsregister)
- A Trader/merchant, who is registered in the Commercial Registrar is subject to the BGB (Bürgerliches Gesetzbuch)
- “Small merchant” runs a very little shop and needs “only” a “**Gewerbeschein** trade licence)”, granted by the municipalities (Kleingewerbe)

Individual enterprise (Einzelhandelskaufmann)

- Most simple and most common form of an enterprise
- Is lead by one person
- Creation is simple and almost informal: Registration in the Registrar of Commerce or with the Municipality
- The enterprise has in its name a Family name and at least one „Christian name“
- No regulation on proprietary capital - Share capital
- Reliability of the individual entrepreneur is unlimited, immediate and touches his entire private assets
- An individual entrepreneur can be taken to court as by his enterprise

Trade certificate

- Despite commercial freedom in Germany each economic activity started to gain profit must be officially registered (Section 14 GewO). Even the takeover of an existing commercial enterprise or the opening of another branch must be registered. Excluded from the notification are activities as a freelancer, basic industry (eg country - and forestry, horticulture and viticulture, fisheries, mining) and the management of their own assets (such as renting, leasing their own land or buildings).
- Official declaration for Trade Certificate (Gewerbeschein)
 - The trader shall notify the municipality, that he intends to start a commercial activity.
 - This declaration does not mean to ask for any kind of commercial license or permit, because of the freedom of economic activities only to certain sectors needed special permits.
 - With the compilation of a Trade Certificate the Municipality will inform different authorities (including tax, Chamber of Commerce and Trade, health insurance, employment agency, professional associations, possibly Building Authority, Revenue).
 - Costs of a Trade Certificate vary from Municipality to Municipality: 20 EURO to 40 EURO
- § 14 GewO: Wer den selbständigen Betrieb eines stehenden Gewerbes oder den Betrieb einer Zweigniederlassung oder einer unselbständigen Zweigstelle anfängt, muß dies der für den betreffenden Ort zuständigen Behörde gleichzeitig anzeigen.

Sample of a Trade Certificate (Gewerbeschein)

Name der anzugebenden Gemeinde Stadt Essen		Gemeindekennzahl (Betriebsstätte (Gitz)) 05113000	Gewa 1
Gewerbe-Anmeldung nach § 14 GewO oder § 65 o GewO			
Bitte vollständig und gut lesbar ausfüllen sowie die zutreffenden Kästchen ankreuzen			
Angaben zum Betriebsinhaber <small>Bei Personengesellschaften (z. B. OHG) ist für jeden geschäftsführenden Gesellschafter ein eigener Vordruck auszufüllen. Bei juristischen Personen ist bei Feld Nr. 3 bis 9 und Feld Nr. 30 und 31 der gesetzliche Vertreter anzugeben (bei mündelbarer AG wird auf diese Angaben verzichtet). Die Angaben für weitere gesetzliche Vertreter zu diesen Nummern sind ggf. auf weiteren Vordrucken zu ergänzen.</small>			
1	In Handels-, Genossenschafts- oder Vereinsregister eingetragener Name mit Rechtsform (ggf. bei OHG: Angabe der weiteren Gesellschafter)		2 Ort und Nr. des Registerbezuges
Angaben zur Person			
3	Name		4 Vorname
			5 Geschlecht männlich <input type="checkbox"/> weiblich <input type="checkbox"/>
5	Geburtsname (nur bei Abweichung vom Namen)	6 Geburtsdatum	7 Geburtsort und -land
8	Staatsangehörigkeit) deutsch <input type="checkbox"/> andere: _____		
9	Anschrift der Wohnung (Straße, Haus-Nr., PLZ, Ort)		
Telefon-Nr. _____		Telefon-Nr. _____	Sonstige: e-mail/web _____
Angaben zum Betrieb			
10	Zahl der geschäftsführenden Gesellschafter (nur bei Personengesellschaften) / Zahl der gesetzlichen Vertreter (nur bei juristischen Personen)		
11	Verbindungsrechtliche Person/Innenbetriebe (nur bei mehreren Abhängigkeitsstellen, Zweigbetriebsleistungen und unselbständigen Zweigstellen)		
Name, Vorname _____			
Anschreiben (Straße, Haus-Nr., Plz, Ort)			
12	Betriebsstätte		
Telefon-Nr. _____		Telefon-Nr. _____	Sonstige: e-mail/web _____
13	Hauptbetriebsstätte (falls Betriebsstätte lediglich Zweigstelle ist)		
Telefon-Nr. _____		Telefon-Nr. _____	Sonstige: e-mail/web _____
14	Weitere Betriebsstätte		
Telefon-Nr. _____		Telefon-Nr. _____	Sonstige: e-mail/web _____
15	Angebotliche Tätigkeit – ggf. ein Betrieb einzuzeichnen (genau angeben, z. B. Herstellung von Möbeln, Elektroinstallationen und Elektroinstallationswerk, Stahlhandel mit Güternormen) usw., bei mehreren Tätigkeiten bitte Schwerpunkt unterstreichen		
Angaben zum Betrieb			
16	Wird die Tätigkeit (wenn) im Nebenberuf betrieben?		17 Datum des Beginns der angemeldeten Tätigkeit
Ja <input type="checkbox"/> Nein <input type="checkbox"/>			
18	Art des angemeldeten Betriebes		
Industrie <input type="checkbox"/> Handwerk <input type="checkbox"/> Handel <input type="checkbox"/> Sonstiges <input type="checkbox"/>			
19	Zahl der bei Geschäftsaufnahme tätigen Personen (ohne Inhaber)		
Vollzeit <input type="checkbox"/> Teilzeit <input type="checkbox"/> Keine <input type="checkbox"/>			
Die Anmeldung wird erstattet für	20 eine Hauptbetriebsstätte	21 eine Zweigbetriebsstätte	22 eine unselbständige Zweigstelle
	23 ein Aufnahmestellungs-gewerbe	24 ein Nebengewerbe	
Grund	23 Neuanrichtung / Übernahme	Neugründung <input type="checkbox"/>	Weiterführung nach Verlegung aus einem anderen Marktbezirk <input type="checkbox"/>
	Überschreibung / Übernahme <input type="checkbox"/>	Wechsel der Rechtsform <input type="checkbox"/>	Gründung nach Umwandlungsgesetz (z. B. Verschmelzung, Spaltung) <input type="checkbox"/>
	Überschreibung / Übernahme <input type="checkbox"/>	Überschreibung / Übernahme <input type="checkbox"/>	Überschreibung / Übernahme <input type="checkbox"/>
26	Name des früheren Gewerbetreibenden oder früherer Firmenname		
Falls der Betriebsinhaber für die angemeldete Tätigkeit eine Erlaubnis benötigt, in die Handwerksrolle einzutragen oder Ausländer ist:			
28	Liegt eine Erlaubnis vor? Ja <input type="checkbox"/> Nein <input type="checkbox"/> Wenn Ja, Ausstellungsdatum und erlassende Behörde:		
29	Liegt eine Handwerkskarte vor? Ja <input type="checkbox"/> Nein <input type="checkbox"/> Wenn Ja, Ausstellungsdatum und Name der Handwerkskammer:		
30	Liegt eine Aufenthaltsgenehmigung vor? Ja <input type="checkbox"/> Nein <input type="checkbox"/> Wenn Ja, Ausstellungsdatum und erlassende Behörde:		
31	Enthält die Aufenthaltsgenehmigung eine Auflage oder Beschränkung? Ja <input type="checkbox"/> Nein <input type="checkbox"/> Wenn Ja, sie enthält folgende Auflagen bzw. Beschränkungen:		
Hinweis: Diese Anzeige berechtigt nicht zum Beginn des Gewerbebetriebes, wenn noch eine Erlaubnis oder eine Eintragung in die Handwerksrolle notwendig ist. Zuwiderhandlungen können mit Geldbuße oder Geldstrafe oder Freiheitsstrafe geahndet werden. Diese Anzeige ist keine Genehmigung zur Errichtung einer Betriebsstätte entsprechend dem Planungs- und Baurecht.			
32 Datum	33 (Mikroschrift)		

Stadt Essen
Gewerbemeldestelle
45121 Essen

Partnership - not incorporated Cie (Personengesellschaft)

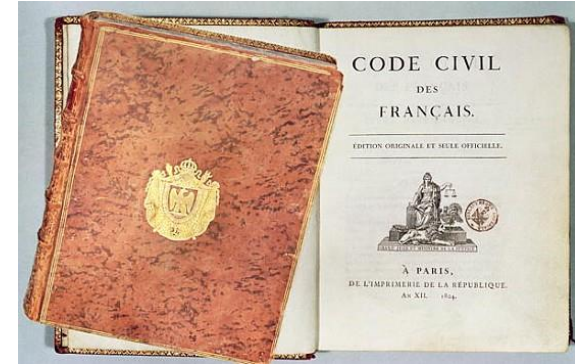
- In civil law systems, a partnership is a nominate contract between individuals who, in a spirit of cooperation, agree to carry on an enterprise; contribute to it by combining property, knowledge or activities; and share its profit
- Partnerships may be formed .. in the legal forms of General Partnership (Offene Handelsgesellschaft, OHG) or Limited Partnership (Kommanditgesellschaft, KG).
- A partnership can be formed by only one person.
- In the OHG, all partners are fully liable for the partnership's debts, whereas:
- In the KG there are general partners with unlimited liability and limited partners whose liability is restricted to their fixed contributions to the partnership.
- Although a partnership itself is not a legal entity, it may acquire rights and incur liabilities, acquire title to real estate and sue or be sued

General Partnership (Offene Handelsgesellschaft)

- At least two partners
- Simple contract/agreement to create the enterprise (Formloser Gesellschaftsvertrag)
- Registration in the Registrar of Companies (Handelsregister)
- No legal body (Rechtspersönlichkeit)
- Can enter into liabilities (Verbindlichkeiten), can go to court and can be brought to court
- Carries the name of at least one of the Partners, the objective of the enterprise with the addition „oHG“
- No minimum capital (Mindestkapital)

Partnership under Civil Law

Gesellschaft bürgerlichen Rechts (GbR)



- The Partnership under Civil Law, called GbR- society, is in Germany an association of at least two partners (natural or legal persons or companies) that agree in a mutual contract, to achieve a common objective as defined in the contract, and in particular to contribute the agreed performances (Section 705 BGB). A partnership under civil law is therefore a partnership
- Creation by a simple contract (formloser Vertrag)
- Has Legal Capacity (Rechtsfähigkeit)
- This form of partnership is often used in small business, in partnerships of doctors, lawyers and other professionals and cooperation between several companies on the occasion of a joint project, such as the construction industry Working Group (ARGE), above.
- Is not registered in the Registrar of companies
- Common management by the Partners
- Common liability

Self Employment/Liberal profession/Freelancer

- Self-employed people can also be referred to as a person who works for himself/herself instead of an employer, but drawing income from a trade or business that they operate personally.
- To be self-employed is not the same as being a business owner: A business owner is not required to be hands-on with the day-to-day operations of his or her company, while a self-employed person has to utilize a very hands-on approach in order to survive.
- The self employed activity is characterized individual business risk, the possibility of deciding the individual labor performance, any other activities and preferences, and definition of working hours.
 - Free employments as:
 - Lawyer, physician, accountant, artists, architect, and farmers
 - Free employees need specific qualification: e.g.
 - A physician a recognized university degree
 - A lawyer a recognized university degree
 - An accountant (Steuerberater, Wirtschaftsprüfer) a specific qualification with public examination/diploma
 - A sportsman needs no such academic qualification. His qualification is individual success in doing sports for profit (professional)
- Most liberal professions need to register with a Chamber: Chamber of medical doctors, chamber of architects, chamber of handicrafts etc

Handicraft Sector

- Membership of a skilled craft in Germany is not regulated via the company size or turnover, but by law. The Trade and Crafts Code determines which occupations are part of the crafts sector
- Approximately 1,004,000 businesses are registered in the craftsmen 's rolls and in the directory of craftsmen' s trade. There work around 5.36 million
- 364,000 apprentices receive a qualified training. This means that 12.5 per cent of all employees and 27.3 per cent of all apprentices in Germany work in the trade. In 2015, sales in handcraft reached around 544 billion euros (excluding VAT).

Qualification

apprenticeship

Craftsman/Skilled labour (Facharbeiter)

Master craftsman (Meister)

Chamber of Handicraft (Handwerkskammer)

[Professions of the Handicraft sector \(regulated by law in Germany\) –](#)

In other countries:

SME Small and Medium Enterprises



Liability: why it is so important

- We can make the distinction between two types of entrepreneurs:
 - Entrepreneurs with full individual liability by the individual owner
 - Entrepreneurs with limited liability, limited only by the paid up/share capital of the enterprise, but not by the individual risk of the owner

Companies/Corporations with no individual liability

- Capital company (Kapitalgesellschaften)
 - Joint Stock Company/Incorporated Company (US) / Company by shares (Aktiengesellschaft)
 - Limited partnership by shares (Kommanditgesellschaften auf Aktien)
 - Limited company (Gesellschaften mit beschränkter Haftung)

Limited Partnership (Kommanditgesellschaft)

- A variation of the „General Partnership“, but with the objective to run a commerce in form of a common enterprise (Handelsgewerbe unter gemeinschaftlicher Firma)
- At least one of the Partners has a limited liability: limited to a defined capital contribution in form of goods (Kommanditist). The other Partners do not have such a limited liability (Komplementär), but has a full individual liability (§ 161 HGB)
- To be registered in the Registrar of Commerce (Handelsregister)
- Carries the name of at least one of the full reliable partners, the objective of the enterprise with the addition KG
- Eine Kommanditgesellschaft (KG) (französisch société en commandite, Auftragsgesellschaft) ist eine Personenhandelsgesellschaft, in der sich zwei oder mehr natürliche Personen und oder juristische Personen zusammengeschlossen haben, um unter einer gemeinsamen Firma ein Handelsgewerbe zu betreiben. Die KG unterscheidet sich von der offenen Handelsgesellschaft (OHG) insofern, als bei einem oder mehreren Gesellschaftern die Haftung gegenüber den Gesellschaftsgläubigern auf den Betrag einer bestimmten Vermögenseinlage beschränkt ist (Kommanditisten), während mindestens ein anderer Gesellschafter persönlich haftet (Komplementär).

The Limited Cie in Germany: GmbH

- To be created by one or more individuals
- Minimum Share capital: 25.000 EUR (in Germany)
- Name of the Cie. defines the companies activity, followed by the letters “GmbH”
- On letter head must be printed the legal form of the company, the headquarter, the register of commerce, all CEOs (Chief Executive Officers(/Managers/Directors and, if existing, the name of the Chairman of the Supervisory board
- The GmbH has two company organs:
 - The owners assembly
 - The Director or Board of Directors

The “Limited” company: Ltd.

A limited company in the United Kingdom is a corporation whose liability is limited by law (U.S. law, English law, Scots law etc.). There are three main types of limited companies which are set up by the Memorandum of Association & Articles of Association:

- **private company limited by shares (Ltd.)**
 - Similar to Pty. Ltd.
- **private company limited by guarantee**
 - These companies do not have share capital but are guaranteed by its "members", who agree to pay a fixed amount in the event of the company's liquidation. Frequently charities incorporate using this form of limited liability. Another interesting example is the Financial Services Authority.
- **public limited company (PLC).**
 - Public limited companies by shares (plc) (similar to the U.S. Corporation and the German AG) offer several advantages over trading as sole trader (e.g. Unlimited liability).

Founding of a "GmbH"

- The act of having founded a 'GmbH' creates a new **legal entity**; one with its own rights and duties, and one bearing its own name.
- Generally, shareholders remain unaffected by the rights and duties of this new legal entity.
- A GmbH may sue, or itself be sued.
- It may own tangible assets as well as real estate. The property owned by a GmbH has nothing to do with the private property owned by the shareholders themselves.
- This corporate form is equally open to persons wishing to establish a GmbH comprising a single shareholder - in this case a one-man GmbH.
- The right to either found or participate in a GmbH is likewise extended to non-German nationals and requires no further permission. However, it should be observed that other principles apply in the case of shareholders intending to work for the GmbH in Germany (see §7 and §11).

Minimum capital

- Share capital must total a minimum of 25,000 Euro and be divisible into shares with a minimum face value of 100 Euro. Capital contributions may be made either in the form of cash subscription, or indeed in the form of investments in kind. With regard to the establishment of GmbH on the basis of cash subscription, 25% of the total cash investment, nevertheless a minimum of 50% of the total share capital must have been paid prior to registration in the Trade Register.
- Each shareholder is liable for the outstanding sum to the extent of his initial share contribution. In practice, the establishment of a GmbH on the basis of cash subscription is performed by opening a bank account in the name of the new company and to be placed at the company's complete disposal.
- Finally, a bank statement, acting as proof of inpayment, is to be presented to the Court of Registration.

Capital contributing

- Special requirements are to be observed for the effect of payment in kind - that is to say, not in cash, but by means of tangible or intangible assets, licences, or enterprises:
- As a rule, the local court will demand another specialist report guaranteeing the sustained value of used objects submitted as payment in kind.
- The foundation of a GmbH by cash subscription is, therefore, simpler.

Chapters forming the Act of Incorporation

- Name of the company/corporate name
- Registered Address/Headquarters
- Purposes
- Authorized shares/authorized capital
- Subscription of shares/partners – equity
- Shareholders preemptive rights
- Meetings of shareholders
- Board of directors
 - Number, election, quorum, meetings, responsibilities
- Articles of dissolution

Ltd. Company: Articles of association

- As at least one CEO, Director (Geschäftsführer)
- Has two bodies: the Directors (Board of Directors) and the Partners (Board of Partners/Supervisory Board/Owners Assembly)
- Exemption from § 181 BGB allows that only one of the Directors can represent the Company
- Decisions to be taken by Supervisory Board
- A Ltd. Company has no Supervisory Board by law, but can create one

Legal verification and registration in the Trade register

- Now, at the very latest, a **notary** must be sought. In particular, he will document the articles of association as well as verify the application for registration in the Trade Register.
It is often recommendable to consult a lawyer or notary even for the preparation of both the articles of association and the application for registration in the Trade Register. As a general rule, pre-formulated, standardised contracts will be supplied. The application form together with the documents mentioned in §8 of the Private Limited
- Company Law ('GmbH-Gesetz') are forwarded by the notary to the cognizant **Court of Registration**.
The responsible Chamber of Industry and Commerce will be requested by the local court to submit an expert statement of opinion.
- The GmbH is subject to compulsory registration as is every newly-founded business enterprise. Hence, registration in the Trade Register must be followed by registration at the cognizant Office for Public Order ('Amt für öffentliche Ordnung'), or Mayor's Office ('Bürgermeisteramt'). The official form used for this purpose is supplied with carbon copies which are to be forwarded to the other obligatory places of registration, e.g. the Finance Office and the mutual indemnity association.
- The foundation of a new „GmbH“ **must be published**

Example

- In case a GmbH is to be founded on the basis of cash subscription with a total share capital of 25,000 Euro. Minimum down-payment is therefore 12,500 Euro (50%).
- In the case of the (cash subscription) establishment of a GmbH with more than one shareholder and a share capital of 100,000 Euro, the minimum amount payable prior to registration in the Trade Register is 25% of the individual share capital by every partner. Nevertheless the total paid up share capital must be a minimum of 50%.
- In case of two or more shareholders every shareholder can own shares between 1.000 EURO and the maximum paid up capital less the share capital of the partners.
- Example:
 - Mr. A: 10.000 EURO share-capital
 - Mrs B: 50.000 EURO share-capital
 - Mr. C: 100.000 EURO share-capital
 - Cie D: 40.000 EURO share-capital
 - **TOTAL 200.000 EURO share-capital**
 - Voting rates are function of paid up capital

Aktiengesellschaft (Company by shares, stock company,

incorporated Cie, Incorporation, Corporation joint-stock Cie,)

- A corporation is an artificial **legal entity** (technically, **a juristic or legal person**) which, while made up of a number of natural persons or other legal entities, has a **separate legal identity** from them.
- As a legal entity the corporation receives legal rights and duties. Five rights always exist for a corporation:
 - the ability to sue and be sued (this gives the corporation access to the courts);
 - the right to a common treasury (this gives the right to hold assets separate from the assets of its members);
 - the right to hire agents (this gives the corporation the right to hire employees)
 - the right to a common seal (this gives the corporation the right to sign contracts); and
 - the right to make by-laws (this gives the corporation the right to govern its internal affairs).

Company by Shares (AG)

- A minimum of one or more founders (individuals or companies) own the shares
- Minimum share capital 50.000 EUR



- Capital of the company in shares. Minimum value of one share is one EURO
- Has three bodies (in Germany):
 - Board of Directors
 - Supervisory Board
 - Shareholders meeting (Gesellschafterversammlung)

Shares

- "Shares" means the units into which the proprietary interests in a corporation are divided, whether certificated or uncertificated shares

Types of shares

- "**Authorized shares**" means the shares of all classes which the corporation is authorized to issue.
- "**Certificated shares**" means shares represented by instruments in bearer or registered form.
- "**Uncertificated shares**" means shares not represented by instruments and the transfers of which are registered upon books maintained for that purpose by or on behalf of the issuing corporation

Share dividend

- "Share dividend" means a dividend by a corporation that is payable in its own authorized but unissued shares or in treasury shares. An amendment to a corporation's articles of incorporation to change the shares of any class or series, whether with or without par value, into the same or a different number of shares, either with or without par value, of the same class or series or another class or series does not constitute a share dividend.

Further legal characteristics

- In addition to legal personality, the modern business corporation has three other legal characteristics:
 - **transferrable shares** (the membership can change without affecting the existence of the corporation as a legal entity),
 - the capacity for **perpetual succession** (the possibility that the corporation can continue to exist despite the withdrawal of any of its members), and
 - **limited liability** (the responsibility of the members for the debts of the corporation is limited).

Liability to the shareholders

- The GmbH incurs liability to the value of its total property. Shareholders, on the other hand, are subject to limited liability, as the name implies.
- In the event of such a company reaching the point of bankruptcy, **shareholders are not liable** beyond their initial share contribution, i.e. the private property of a shareholder remains his own.
- As stipulated in the articles of association, no further financial contribution is required of the shareholder once the initial share contribution has been paid.
- Consequently, should the initial share capital not yet have been paid in full, so shareholders are merely required to pay the outstanding sum in the case of insolvency.

Other forms of private enterprises

- Bank
- Insurance
- Mining Company under the „Mining law“ (Bergrechtliche Gesellschaft)
- Shipping company (Reederei)
- Cooperative (Genossenschaft)
- Association: e.V. (eingetragener Verein)
- Non profit company/organisation (charity/gemeinnützig)

Franchising

- **Franchising** is the practice of using another firm's successful business model.
- For the franchisor, the franchise is an alternative to building 'chain stores' to *distribute* goods and avoid investment and liability over a chain.
- The franchisor's success is the success of the franchisees
- Case of McDonald, Hotels etc



Leasing

- **Leasing** is a process by which a firm can obtain the **use** of a certain fixed assets for which it must pay a series of contractual, periodic, tax deductible payments
- Leasing is not a credit
- Leasing does not result in ownership but only offer the right of use
- Leasing can have a duration of up to 20 years



Public companies

- Public companies with private company legal form
- Public companies and bodies
 - Hospitals, universities
 - Public economic activity (Chamber of Commerce)
- Privatisation/Nationalisation

Public ownership

- Public ownership (also called government ownership, state ownership or state property) refers to government ownership of any asset, industry, or corporation at any level, national, regional or local (municipal); or, it may refer to common (full-community) non-state ownership.
- The process of bringing an asset into public ownership is called Nationalization.
- A government owned corporation (sometimes state-owned enterprise, SOE) may resemble a not-for-profit corporation as it may not be required to generate a profit; although governments may also use profitable entities they own to support the general budget. SOE's may or may not be expected to operate in a broadly commercial manner and may or may not have to face competitive tendering.
- The creation of a government-owned corporation (corporatization) from other forms of government ownership may be a precursor to privatization.

Insolvency

- “**Bankruptcy**” is a legally declared inability or impairment of ability of an individual or organization to pay its creditors. The company will be closed.
- “**Insolvency**” means inability of a corporation (or person or business) to pay its debts as they become due in the usual course of its business. The company may survive
- **Chapter 11**: rehabilitation or reorganization, used primarily by business debtors, but sometimes by individuals with substantial debts and assets; known as corporate bankruptcy, it is a form of corporate financial reorganization which typically allows companies to continue to function while they follow debt repayment plans

Private insolvency

- In Germany in 1999, the Bankruptcy Act was replaced by the bankruptcy law. Since the bankruptcy law (Insolvency Act), the consumer bankruptcy procedure is regulated.
If after completion of the bankruptcy proceedings, liabilities still exist, the debtor may be exempted (residual debt). This possibility exists in Germany since the enactment of the Bankruptcy Act (Insolvency Act) on 1 January 1999.
- The remaining debts still existing after the court decision on the opening of the bankruptcies can be “freed” after a period of “insolvency” of six years.
- This legal provision was a response to the increasing indebtedness of not economically independent people.
- In UK the duration of the „insolvency“ is only one year.
- in Germany are opened more than 100.000 insolvency acts on private persons.

General Motors Chapter 11

- The General Motors Chapter 11 sale of the assets of automobile manufacturer General Motors and some of its subsidiaries was implemented through section 363 of Chapter 11, Title 11, United States Code in the United States Bankruptcy Court for the Southern District of New York. The United States government-endorsed sale enabled the NGMCO Inc. ("New GM") to purchase the continuing operational assets of the old GM. Normal operations, including employee compensation, warranties, and other customer service were uninterrupted during the bankruptcy proceedings. Operations outside of the United States were not included in the court filing.
- The company received \$33 billion in debtor-in-possession financing to complete the process. GM filed for Chapter 11 reorganization in the Manhattan New York federal bankruptcy court on June 1, 2009. The filing reported US\$82.29 billion in assets and US\$172.81 billion in debt.
- After the Chapter 11 filing, effective Monday, June 8, 2009, GM was temporarily removed from the Dow Jones Industrial Average and replaced by Cisco Systems..
- On July 10, 2009, a new entity completed the purchase of continuing operations, assets and trademarks of GM as a part of the 'pre-packaged' Chapter 11 reorganization. As ranked by total assets, GM's bankruptcy marks one of the largest corporate Chapter 11 bankruptcies in U.S. history. The Chapter 11 filing was the fourth-largest in U.S. history, following Lehman Brothers Holdings Inc., Washington Mutual and WorldCom Inc. [A new entity with the backing of the United States Treasury was formed to acquire profitable assets, under section 363 of the Bankruptcy Code, with the new company planning to issue an initial public offering (IPO) of stock in 2010. The remaining pre-petition creditors claims are paid from the former corporation's assets.

Disclosure requirement (Publizitätspflicht)

- The commitment to disclosure is regulated by law:
 - For all capital companies (§§ 325 – 330 HGB)
 - Publication of the „Annual Balance Sheet“ (Offenlegung des Jahresabschlusses (Bundesanzeiger))
- Publication of Annual accounts if:
 - Balance sheet total > 60 Mio EUR
 - Total revenue > 125 Mio EUR
 - Number of employment > 5000

Chapter 6: Financing



Money



- The State has the monopoly to produce money. He is the sole owner of the money.
 - Money is issued by the Central Bank (dependent ./ Independent)
- Medium of exchange
- Gold standard
- Circulation of money
- Currencies (foreign) – exchange of - convertibility

Money is:

1. Money is any good that is widely accepted for purposes of exchange and in the repayment of debts.
2. Money reduces transaction costs because it is a medium of exchange.
3. Money is a unit of account. We don't have to keep prices in oranges, apples, or computers; money provides this role for us.
4. Money is a store of value, it maintains its value over time. We accept payment for our efforts and keep money until we spend it.



The first money notes

- On the 10th of May, 1775, the first issue of Continental Currency was circulated, The bills were printed by Hall & Sellers in Philadelphia. They were designed with intricate patterns to make counterfeiting difficult and bore a variety of patriotic mottos in Latin on their obverse. A special paper was used and the image of a **real leaf** from one of the local trees was imprinted on the reverse; it was felt that no counterfeiter could duplicate the pattern of God's handiwork.
- The bill claimed that the bearer was entitled to the designated amount of Spanish milled dollars (the most common coin then in circulation in the colonies) or the value thereof in gold or silver.



Commodity money systems

- A number of commodity money systems were amongst the earliest forms of money to emerge. For example
 - the shekel referred to a specific volume of barley in ancient Babylon
 - iron sticks were used in Argos, before Pheidon's reforms.
 - cowries were used as a money in ancient China and throughout the South Pacific.
 - salt was used as a currency in pre-coinage societies in Europe.
 - ox-shaped ingots of copper seem to have functioned as a currency in the Bronze Age eastern Mediterranean.
 - state certified weights of gold and silver have functioned as currency since the reign of Croesus of Lydia, if not before.
 - rum-currency operated in the early European settlement of Sydney cove in Australia.
- Under a commodity money system, the objects used as money have intrinsic value, i.e., **they have value beyond their use as money**. For example, **gold coins retain value because of gold's useful physical properties besides its value due to monetary usage**, whereas paper notes are only worth as much as the monetary value assigned to them. Commodity money is usually adopted to simplify transactions in a barter economy, and so it functions first as a medium of exchange. It quickly begins functioning as a store of value, since holders of perishable goods can easily convert them into durable money.

Medium of exchange

- Economics offers various definitions for money, though it is now commonly defined by the functions attached to any good or token that functions in trade as a **medium of exchange, store of value, and unit of account**. Some authors explicitly require money to be a standard of deferred payment, too. In common usage, money refers more specifically to currency, particularly the many **circulating currencies with legal tender status conferred by a national state**; deposit accounts denominated in such currencies are also considered part of the money supply, although these characteristics are historically comparatively recent. Other older functions a money may possess are a means of rationing access to scarce resources, and a means of accumulating power of command over others.
- The use of money provides an alternative to **barter**, which is considered in a modern, complex economy to be inefficient because it requires a coincidence of wants between traders, and an agreement that these needs are of equal value, before a transaction can occur. The efficiency gains through the use of money are thought to encourage trade and the division of labour, in turn increasing productivity and wealth.

Money, that is what it is about

- A company is set up and turning to follow the principle of making profit and realizing cash-flows (Geldstrom)
- All participants intend to make money:
- Share holders invest their money
 - Committed assets (Fremdkapitalgeber) deposits to yield profits
 - Worker receive wages / remunerations
 - Suppliers get paid
 - The State collects taxes and public charges
 - Insurance companies collect premiums and contributions

Value

- It could be argued that beneath an economic theory is a theory of value. Value can be defined as the underlying activity which economics describes and measures. It is what is "really" happening.
- **Representative money like this 1922 US \$100 gold note could be exchanged by the bearer for its face value in gold..**
- **Adam Smith** defined "labor" as the underlying source of value, and "the labor theory of value" underlies the work of **Karl Marx**, David Ricardo and many other classical economists. The "**labour theory of value**" argues that a good or service is worth the labor that it takes to produce.
- **For most, this value determines a commodity's price.** This labour theory of price and the closely related cost-of-production theory of value dominates the work of most classical economists, but those theories are far from the only accepted basis for "value". For example, neoclassical economists and Austrian School economists prefer the marginal theory of value.
- **"Market theory" argues that there is no "value" separate from price**, that the market incorporates all available information into price, and that so long as markets are open, that price and the value are one and the same. This theory rests on the idea of the "rational economic actor".
- Another set of theories rests on the idea that there is a basic external scarcity, and that "value" represents the relationship to that basic scarcity (or lack thereof). These theories include those based on economics being limited by energy or based on a "gold standard".

Money has value

- Our money has value because of its general acceptability and trust in it.
- We accept paper dollars because we know that other people will accept dollars later when we try to spend them.
- Money has value to people because it is widely accepted in exchange for other goods that are valuable.

Credit card



- A credit card is an instrument or document that makes it easier for the holder to obtain a loan.
- Credit card transactions shift around the existing quantity of money between various individuals and firms, but do not change to total money available.

Problems with paper as money

- Due to the *ease of production* paper money may lose value through inflation and in today's electronic era, vast quantities of money can be created with a few key strokes. Perhaps the biggest criticism of paper money relates to the fact that its stability is generally subject to the whim of **government regulation rather than the disciplines of market phenomena**. Paper money can be easily damaged or destroyed by every day hazard from fire, water, termites and simple wear and tear.
- Paper money is also subject to counterfeiting.

Banks, types

- **State Banks**

- European Central Bank
- Central bank
- Landesbank
- Savings bank (Sparkasse)

- **Private Banks**

- Universal bank
- Commercial bank
- Investment bank
- Community bank (Raiffeisen)
- Postal savings bank
- Off-shore bank

- **Special forms of banks/financial sector**

- Regional development bank
- Funds (hedge funds etc)
- Family office

Financial institutions/Banks

- A bank is a business which provides financial services for profit. Traditional banking services include receiving deposits of money, lending money and processing transactions.
- Some banks (called Banks of issue) issue banknotes as legal tender.
- Many banks offer ancillary financial services to make additional profit; for example: selling insurance products, investment products or stock broking.
- Currently in most jurisdictions the business of **banking is regulated and banks require permission to trade**. Authorization to trade is granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans.

Banks act

- The combination of the instability of banks as well as their important facilitating role in the economy led to banking being thoroughly regulated. The amount of capital a bank is required to hold is a function of the amount and quality of its assets. Major banks are subject to the Basel Capital Accord promulgated by the Bank for International Settlements. In addition, banks are usually required to purchase deposit insurance to make sure smaller investors are not wiped out in the event of a bank failure.

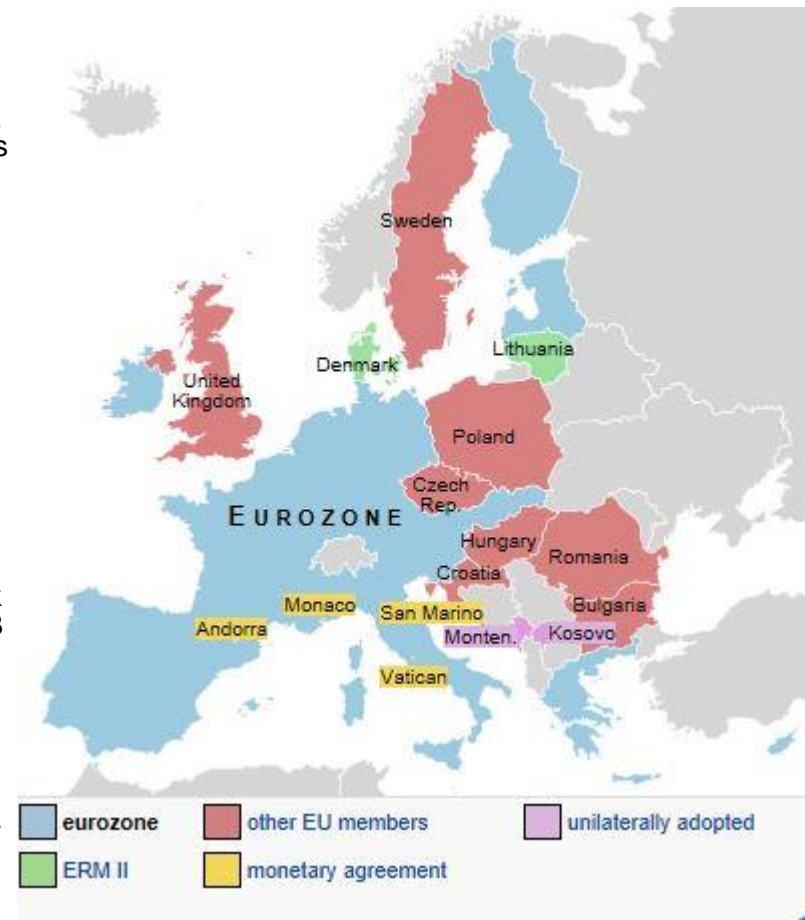
Bank services

Although the type of services offered by a bank depends upon the type of bank and the country, services provided usually include:

- Taking deposits from their customers and issuing checking and savings accounts to individuals and businesses
- Extending loans to individuals and businesses
- Cashing cheques
- Facilitating money transactions such as wire transfers and cashiers checks
- Issuing credit cards, ATM cards, and debit cards
- Storing valuables, particularly in a safe deposit box
- Cashing and distributing bank rolls

The EURO

- The euro (sign: €; code: EUR; plural: euros) is the **official currency of the eurozone**: 19 of the 28 Member States of the European Union (EU). It is also the currency used by the EU institutions. The eurozone consists of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.
- The euro is managed and administered by the Frankfurt-based **European Central Bank (ECB)** and the Eurosystem (composed of the central banks of the eurozone countries). As an independent central bank, the ECB has sole authority to set monetary policy. The Eurosystem participates in the printing, minting and distribution of notes and coins in all Member States, and the operation of the eurozone payment systems.
- The 1992 **Maastricht Treaty** obliges most EU Member States to adopt the euro upon meeting certain monetary and budgetary requirements, although not all states have done so. The United Kingdom and Denmark negotiated exemptions,[9] while Sweden turned down the euro in a 2003 referendum, and has circumvented the obligation to adopt the euro by not meeting the monetary and budgetary requirements. All nations that have joined the EU since 1993 have pledged to adopt the euro in due course.
- The currency is also used in a further five European countries, with and without formal agreements, and is consequently used daily by some 327 million Europeans.
- Over 175 million people worldwide use currencies which are pegged to the euro, including more than 150 million people in Africa



The Maastricht Criteria

The euro convergence criteria (also known as the Maastricht criteria) are the criteria for European Union member states to enter the 3rd stage of European Economic and Monetary Union (EMU) & adopt the euro as their currency. The 4 main criteria are based on Article 121(1) of the European Community Treaty. The purpose of setting the criteria is to maintain the price stability within the Eurozone even with the inclusion of new member states.

1. Inflation rate:

No more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states of the EU.

2. Annual government deficit:

- The ratio of the annual government deficit to gross domestic product (GDP) **must not exceed 3%** at the end of the preceding fiscal year. If not, it is at least required to reach a level close to 3%. Only exceptional and temporary excesses would be granted for exceptional cases.

3. Government debt:

- **The ratio of gross government debt to GDP must not exceed 60%** at the end of the preceding fiscal year. Even if the target cannot be achieved due to the specific conditions, the ratio must have sufficiently diminished and must be approaching the reference value at a satisfactory pace.

4. Exchange rate: Applicant countries should have joined the exchange-rate mechanism (ERM II) under the European Monetary System (EMS) for two consecutive years and should not have devaluated its currency during the period.

5. Long-term interest rates: The nominal long-term interest rate must not be more than 2 percentage points higher than in the three lowest inflation member states.

Comparision Eurozone

Comparison of Eurozone with other economies, 2012^{[36][37]}

	Population ↕	GDP ^a ↕	% world GDP by PPP ↕	Exports ↕	Imports ↕
Eurozone	335 million	\$11 trillion	14%	27% GDP	25% GDP
EU (27)	506 million	\$17 trillion	21%	18% GDP	17% GDP
United States	314 million	\$16 trillion	20%	14% GDP	17% GDP
China	1 354 million	\$14 trillion	18%	26% GDP	24% GDP
Japan	128 million	\$5 trillion	6%	15% GDP	17% GDP
India	1200 million	\$1.877 trillion	6.4%	24% GDP	31% GDP

Central bank, State bank, ECB

- Its primary function is to provide the nation's money supply, but more active duties include controlling subsidized-loan interest rates, and acting as a lender of last resort to the banking sector during times of financial crisis (private banks often being integral to the national financial system). It may also have supervisory powers, to ensure that banks and other financial institutions do not behave recklessly or fraudulently.
- Most richer countries today have an "independent" central bank, that is, one which operates under rules designed to prevent political interference. Examples include the European Central Bank (ECB) and the Federal Reserve System in the United States. Some central banks are publicly owned, and others are privately owned. For example, the United States Federal Reserve is a quasi-public corporation

A Central Bank is a bank that the government sets up to help handle its transactions, to coordinate and control the commercial banks and, the most important, (to help) control the nation's money supply and credit conditions (discount rate).

Functions of a central bank (not all functions are carried out by all banks):

- implementing monetary policy
- determining Interest rates
- controlling the nation's entire money supply
- the Government's banker and the bankers' bank ("lender of last resort")
- managing the country's foreign exchange and gold reserves and the Government's stock register
- regulating and supervising the banking industry
- setting the official interest rate – used to manage both inflation and the country's exchange rate – and ensuring that this rate takes effect via a variety of policy mechanisms



Central Bank

- A central bank, reserve bank, or monetary authority is a public institution that usually issues the currency, regulates the money supply, and controls the interest rates in a country.
- Central banks often also oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on printing the national currency, which usually serves as the nation's legal tender.
- Examples include the European Central Bank (ECB), the Federal Reserve of the United States, and the People's Bank of China.
- The primary function of a central bank is to provide the nation's money supply, but more active duties include controlling interest rates (monetary policy), and acting as a lender of last resort to the banking sector during times of financial crisis.
- It may also have supervisory powers, intended to prevent banks and other financial institutions from reckless or fraudulent behaviour.
- Central banks in most developed nations are independent in that they operate under rules designed to render them free from political interference.

Video 11

- [Central Bank](#)

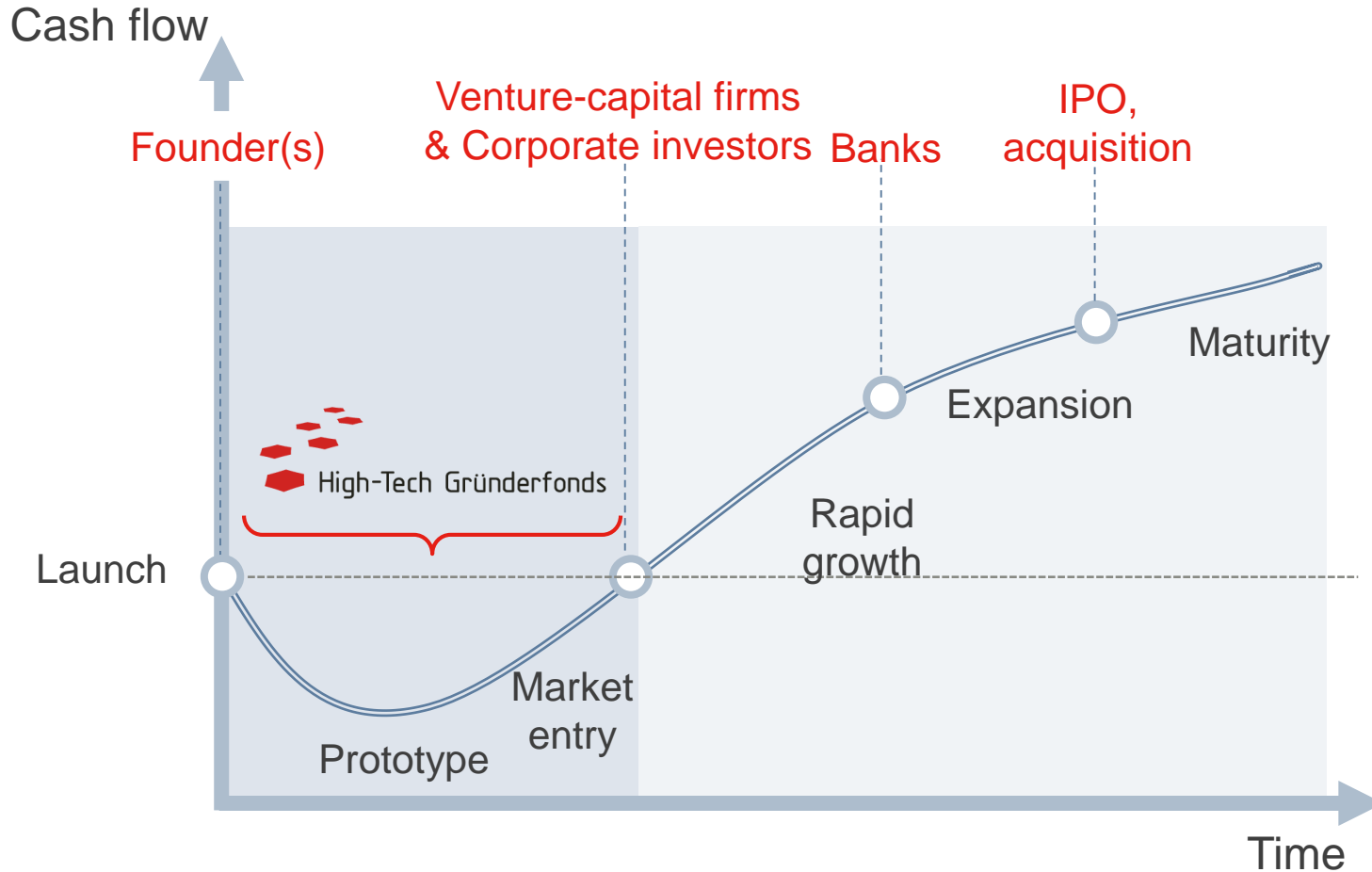
Credit

- Credit is often loosely referred to as money. Money is used to buy goods and services, whereas credit buys goods and services on the promise *to pay with money in the future*.
- This distinction between money and credit causes much confusion in discussions of monetary theory. In lay terms, and when convenient in academic discussion, credit and money are frequently used interchangeably. For example, bank deposits are generally included in summations of the national broad money supply. However, any detailed study of monetary theory needs to recognize the proper distinction between money and credit.
- Bank notes are a form of credit. Gold-backed bills are likewise also a debt of the bank, a promise to pay in gold

From where companies get their capital

- Share capital
 - By owners themselves
 - By Share holders
 - VC – Venture Capital
- Credit
- Bonds
- Participation
 - Joint venture
 - Take over
 - IPO

VC maturity fostered by VC investment



What do investors look for?

Summary – success factors for start-ups

- **Business idea** = innovative, problem-solving (i.e. need-based!), sustainable USP
- **Technology**
 - IP and know-how fully anchored in company
 - Tech development takes part within company
- **Market**
 - High growth potentials, high entry barriers
 - Exit scenarios available
- **Team**
 - Complementary, open for enhancement
 - High commitment, personal fit (“gut feeling”)
- **Performance-based incentives** (“value creation”)
 - Pace & flexibility
 - Capital efficiency
 - Fund fit



Typical red flags

Selected everyday examples

- Lack of commitment / part-time manager mentality
- Utopic salary expectations, status symbols
- Omnipotence fantasy
- Delayed/incomplete sharing of critical information
- Focus on public image
- Complex company structure
- Fear of an exit (grasshopper phobia)
- Inconsistent investor communication
- Poor availability of management team
- Low prioritization of investor meetings
- No self-reflection, resistant to advice
- Justifying poor performance with external factors



Stock market

- The term 'the stock market' is a concept for the mechanism that enables the trading of company stocks (collective shares), other securities, and derivatives. Bonds are still traditionally traded in an informal, over-the-counter market known as the bond market.



Partners of stock markets

- Many years ago, worldwide, buyers and sellers were individual investors, such as wealthy businessmen, with long family histories (and emotional ties) to particular corporations. Over time, markets have become more "institutionalized"; buyers and sellers are largely institutions (e.g., pension funds, insurance companies, mutual funds, hedge funds, investor groups, and banks).

Bonds

- In finance, a bond is a debt security, in which the issuer owes the holders a debt and is obliged to repay the principal and interest (the coupon) at a later date, termed maturity.
- Bonds are generally issued for a fixed term (the maturity) longer than ten years.
- Coupon is the interest rate that the issuer pays to the bond holders. Usually this rate is fixed throughout the life of the bond.

Bond investment rating

- In investment, the credit rating assesses the credit worthiness of a corporation. It is analogous to credit ratings for individuals and countries. The credit rating is a financial indicator to potential investors of debt securities such as bonds. These are assigned by credit rating agencies such as Standard & Poor's and have letter designations such as AAA, B, CC.
- Moody's assigns bond credit ratings of Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, . Standard & Poor's and Fitch assign bond credit ratings of AAA, AA, A, BBB, BB, B, CCC, CC, C, D.



S&P rates companies on a scale from AAA to D

- **Investment Grade**

- ⑩ **AAA** : the best quality companies, reliable and stable

- ⑩ **AA** : quality companies, a bit higher risk than AAA

- ⑩ **A** : economic situation can affect finance

- ⑩ **BBB** : medium class companies, which are satisfactory at the moment

- **Non-Investment Grade** (also known as [junk bonds](#))

- ⑩ **BB** : more prone to changes in the economy

- ⑩ **B** : financial situation varies noticeably

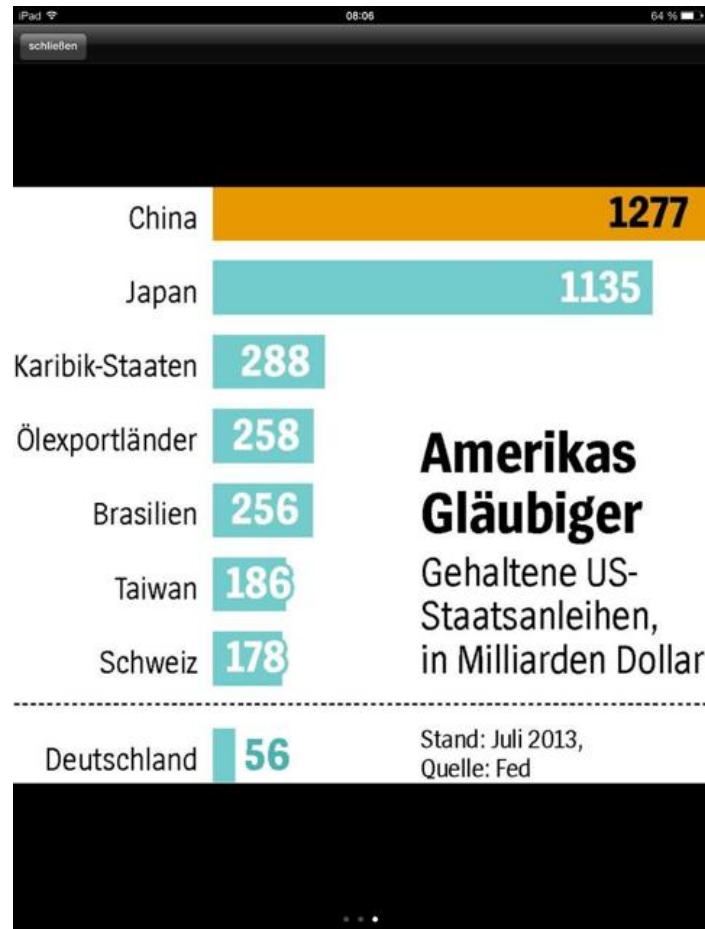
- ⑩ **CCC** : currently vulnerable and dependent on favorable economic conditions to meet its commitments

- ⑩ **CC** : highly vulnerable, very speculative bonds

- ⑩ **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations

- ⑩ **CI** : past due on interest

The international debt of the US



China will nicht noch viel mehr Dollar haben

Die Zentralbank in Peking möchte den Anstieg der Devisenreserven bremsen. Eine Aufwertung des Renminbi gilt als hinnehmbar.

itz./gb. PEKING/FRANKFURT, 21. November. China will dafür sorgen, dass seine Devisenreserven nicht ins Uferlose steigen. „Es ist China nicht länger von Nutzen, Fremdwährungsreserven anzuhäufen“, sagte der Stellvertretende Gouverneur der Zentralbank, Yi Gang, in Peking. Er ist zugleich der Vorsitzende des Amtes für Devisenverwaltung (Safe). Die Volksrepublik hortet den umfangreichsten Fremdwährungsschatz der Welt. Im dritten Quartal stieg er um 166 Milliarden Dollar auf einen Rekord von 3,7 Billionen Dollar. China wird also jeden Tag um etwa 1,8 Milliarden Dollar reicher.

Die Gesamtsumme der Währungsreserven übersteigt das Bruttoinlandsprodukt von Deutschland, der viertgrößten Volkswirtschaft. Die Safe legt das Geld, das vorwiegend aus dem Handelsbilanzüberschuss stammt, bevorzugt in Dollar an; schätzungsweise zu 70 Prozent. Indem China andere Valuta kauft, drückt es den Wert seiner eigenen Währung, des Renminbi (Yuan), und verschafft sich so Wettbewerbsvorteile auf den Weltmärkten.

Dieses System will man aber durchbrechen, wie das Zentralkomitee der Kommunistischen Partei in der vergangenen Woche beschlossen hat. Die Wechselkurse und Zinsen sollen freigegeben, die Kapitalverkehrskontrollen gelockert werden. Den Renminbi will man auch unter der Kapitalbilanz konvertibel machen, also für grenzüberschreitende Kredite und Anlagen öffnen, und zu einer lokalen Reservewährung aufbauen. Zudem soll die Binnennachfrage gestärkt werden, wodurch der Export relativ zum Import an Bedeutung verlieren würde. All das würde bedingen und ermöglichen, dass die Währungsreserven nicht mehr so schnell steigen wie bisher.

Mehr als ein Drittel der Rücklagen sind in amerikanischen Staatsanleihen ange-



Neue Haltung in Chinas Zentralbank: Eine Aufwertung des Renminbi nutzt mehr als sie schadet.

Foto: Bloomberg

legt, so dass Peking heute der größte Auslandsgläubiger Washingtons vor Japan ist. Im September stieg das Volumen der Schuldpapiere um 2 Prozent auf knapp 1,3 Billionen Dollar. Angesichts des Haushaltsnotstands in Amerika fürchtet China um seine Anlagen und ist auch nicht glücklich damit, dass es immer abhängiger von der amerikanischen Geldpolitik wird. In Zeiten der „quantitativen Lockerung“ der amerikanischen Geldpolitik, also der Anleihekäufe der Fed, drohen die gehorteten Dollar immer mehr an Wert zu verlieren.

Die Chinesen hätten ihre Kapitalanlagen in Amerika schon seit Jahren gerne breiter gestreut, aber Washington ließ früh erkennen, dass die Regierung umfangreiche Übernahmen großer amerikanischer Unternehmen nicht wünsche. Um wenigstens etwas höhere Renditen zu erzielen, hatten die Chinesen daraufhin un-

ter anderem Anleihen der halbstaatlichen Finanzhäuser Fannie Mae und Freddie Mac gekauft, die dann in der im Jahre 2007 ausgebrochenen Finanzkrise in Schwierigkeiten gerieten und Hilfen vom amerikanischen Staat brauchten.

Die Volksrepublik glaubt, sich erlauben zu können, den Renminbi stärker aufwerten zu lassen. Dann würden ihre Waren international zwar teurer, aber der Inflationsdruck aufgrund überteuerter Importe nähme ab, und die Kaufkraft der Bevölkerung würde im Sinne der Ausweitung des Binnenkonsums gestärkt. Yi Gang machte deutlich, dass die Aufwertung des Renminbi mehr Personen nutze als schade.

Chinas Devisen fließen nicht nur in Finanzanlagen, sondern auch in Unternehmensbeteiligungen. Dafür ist die China Investment Corporation (CIC) zuständig, die ebenfalls zur Zentralbank gehört. Derzeit verwaltet sie ein Vermögen von 575

Milliarden Dollar. Die CIC ist unter anderem am Satellitenbetreiber Eutelsat in Frankreich beteiligt sowie am Flughafen Heathrow und an Thames Water in England.

Die beste Übersicht über die von Zentralbanken und Staatsfonds gehaltenen Währungsreserven in der Welt wird vierjährlich vom Internationalen Währungsfonds (IWF) veröffentlicht. Aber auch sie ist nicht vollständig, da alle Meldungen aus den Mitgliedsländern freiwillig erfolgen. Für das zweite Quartal 2013 hat der IWF Währungsreserven über 11,1 Billionen Dollar erfasst, von denen sich aber nur 6,1 Milliarden Dollar einzelnen Währungen zurechnen ließen. Die wichtigsten Währungen bei den Devisenreserven sind der Dollar mit weitem Abstand vor dem Euro. Der Renminbi spielt noch keine bedeutende Rolle, dürfte aber an Bedeutung zulegen.



FAZ-Index
Dax 30
M-Dax
3rd-Dax
Euro Stoxx 50
Dow Jones
Nasdaq Index
Bund-Future
Tagesgeld Frankf
3-Monats-Euroibor

Wichtigste dürfte h
des Ifo-Gescha
hierzulande al
tor für die we
wicklung. Nach
Rückgang gab,
mer für Novet

Nach lang

Andreas H
arbeitet I
bank UBS. Be
Euroraum. Ob
ropäische Ban
Schritt hält un
Kooperation i
lässt sich Höf
die europäisch
zuhaken. Die
der Schuldenst
„Die Leute hal
sen“, stellt er
chen in Deutsc
chenland und l
tere Rettungsq

Video 13

[13 - The relationship between the Current Account China - USA with State Bonds - .mp4](#)

Video 14

[14 - Spiegel 2013 43 117180368.wmv](#)

The Financial Crisis

- The **financial crisis of 2007–2008**, also known as the **Global Financial Crisis** and **2008 financial crisis**, is considered by many economists to have been the worst [financial crisis](#) since the [Great Depression](#) of the 1930s. It threatened the total collapse of large financial institutions, which was prevented by the [bailout](#) of banks by national governments, but stock markets still dropped worldwide. In many areas, the housing market also suffered, resulting in [evictions](#), [foreclosures](#) and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity leading to the [2008–2012 global recession](#) and contributing to the [European sovereign-debt crisis](#). The active phase of the crisis, which manifested as a [liquidity crisis](#), can be dated from August 9, 2007, when [BNP Paribas](#) terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity"
- The bursting of the U.S. (United States) [housing bubble](#), which peaked in 2006, caused the values of [securities](#) tied to U.S. [real estate pricing](#) to plummet, damaging financial institutions globally. The financial crisis was triggered by a complex interplay of policies that encouraged home ownership, providing easier access to loans for [lending](#) borrowers, overvaluation of bundled [subprime](#) mortgages based on the theory that housing prices would continue to escalate, questionable trading practices on behalf of both buyers and sellers, compensation structures that prioritize short-term deal flow over long-term value creation, and a lack of adequate capital holdings from banks and insurance companies to back the financial commitments they were making. Questions regarding bank [solvency](#), declines in credit availability and damaged investor confidence had an impact on global [stock markets](#), where securities suffered large losses during 2008 and early 2009. Economies worldwide slowed during this period, as credit tightened and international trade declined. Governments and [central banks](#) responded with unprecedented [fiscal stimulus](#), [monetary policy](#) expansion and institutional bailouts. In the U.S., Congress passed the [American Recovery and Reinvestment Act of 2009](#).

THE THEORY OF HOW THE FINANCIAL SYSTEM CREATED AAA-RATED ASSETS OUT OF SUBPRIME MORTGAGES

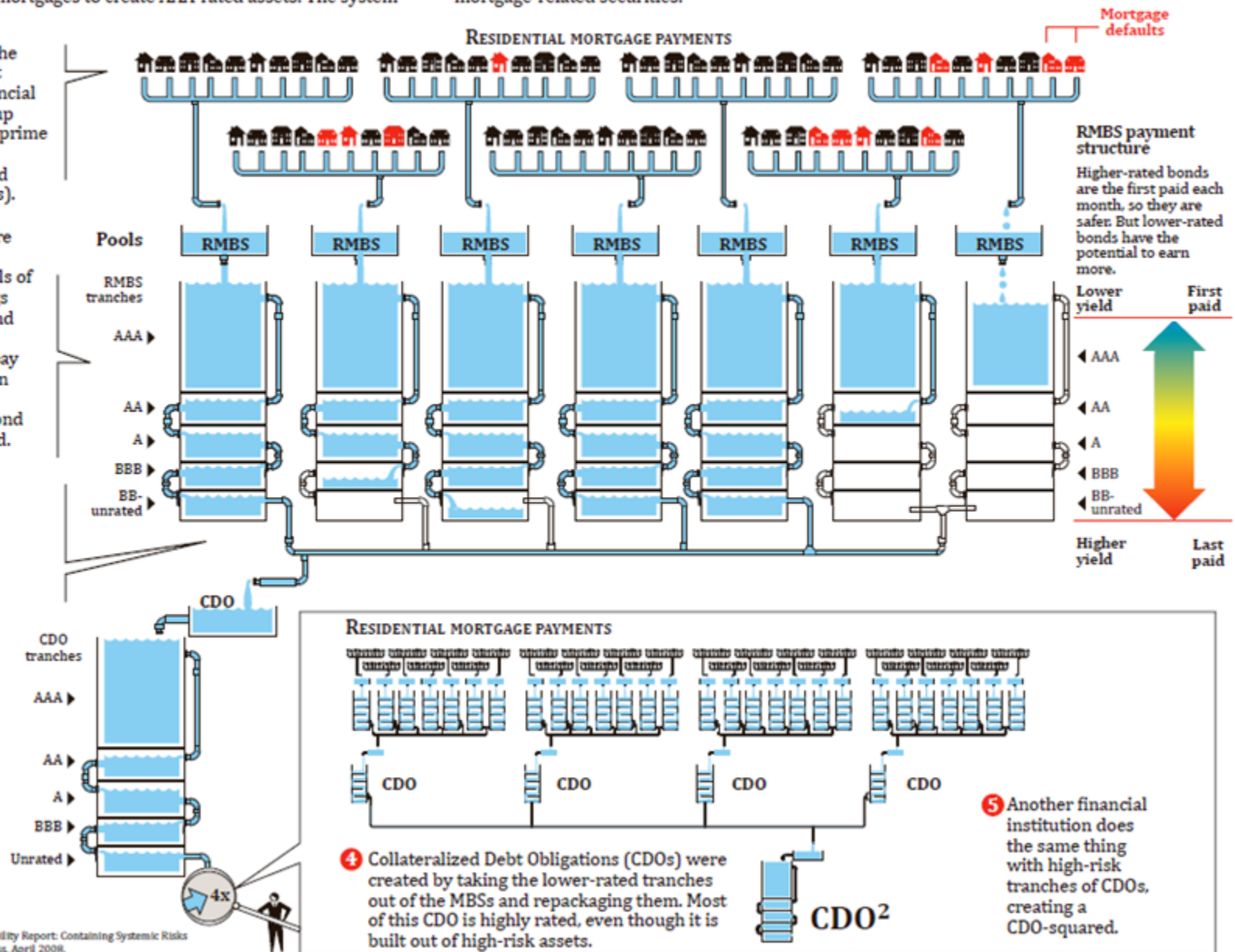
In the financial system, AAA-rated assets are the most valuable because they are the safest for investors and the easiest to sell. Financial institutions packaged and re-packaged securities built on high-risk subprime mortgages to create AAA-rated assets. The system

worked as long as mortgages all over the country and of all different characteristics didn't default all at once. When homeowners all over the country defaulted, there was not enough money to pay off all the mortgage-related securities.

1 People all over the country take out mortgages. Financial institutions group hundreds of subprime mortgages into Mortgage Backed Securities (MBSs).

2 The securities are grouped into tranches by levels of risk and earnings potential for bond holders. When everybody can pay their mortgage in full each month, each group of bond holders gets paid.

3 The mortgage payments are collected by a financial institution and payments distributed to bond holders. Higher rated tranches are paid first. When monthly mortgage payments are not made, payments may not reach holders of lower-rated tranches.



Video 15

- [The Financial Crisis](#)

Excursion: Credit and limits

- Credit may be used for:
 - Investment: e.g. machinery, building, infrastructure
 - Consumption: e.g. payment of salaries
- Maximum credit:
 - 60% of GDP for EURO States (Maastricht criteria)
- Ongoing case: Greece
 - Credits up to 180% of GDP
 - No chance of ever paying back
 - Most credit given by banks
 - Haircut
 - Banks risks -> Market risks -> Companies risks (less credit) .> less investment -> less innovation -> less employment
 - State risks -> Public dept growing -> Increase of taxes -> less buying power -> less consumption

Chapter 7: Business ratios and performance figures



Why ratios?

- Important instrument for the planning and control
- Ratios show in short the most important company figures
- Ratios can be absolute or proportional figures

Ratio Equations

- Profitability:
 - Return on assets (ROA) = Net income/total assets
 - Return on equity (ROE) = Net income/Total Owners' Equity
- Short Term Solvency
 - Current ration = Total current Assets/Total current Liabilities
- Debt Ratio
 - Debt Ratio = Total Debt/Total assets
 - Debt to Equity Ratio = Total Debt / Total Owners' Equity

Return on Investment

- To measure how much return the company has generated:

$$ROI = \text{Earnings} / \text{Average Investments}$$

Also:

Time needed till initial investment is returned to investor

Other performance ratio

- Payback period:

$$\textit{Payback} = \frac{\textit{Original investment}}{\textit{Annual Net Cash Flows}}$$

Evaluation of Performance

- Profitability (Wirtschaftlichkeit)
 - The efficiency of a company or industry at generating earnings (being compared with competitors)
 - Indicates the ratio between financial input and output (expenditure and revenue (Aufwand und Ertrag)).
- Profitability = Revenue/expenditur
 - or *revenue/costs*
 - or *actual costs/targeted costs*

Productivity

- Indicates the Efficiency of a company. The amount of output per unit of input (labor, equipment, and capital).
- There are many different ways of measuring productivity. For example, in a factory productivity might be measured based on the number of hours it takes to produce a good, while in the service sector productivity might be measured based on the revenue generated by an employee divided by his/her salary.
 - relation between Output and Input (also compared to competitors)
- **Productivity = Output/Input (Quantity)**
- Specific productivity
 - Labor productivity = Produced quantity/Quantity work hours

Case study: cost efficient / profitable



Cie „A“ produces TV sets in China



Cie „B“ produces more or less identical TV sets in UK

Case study: cost efficient / profitable

Company	Price/Piece	Costs/piece	Result
Standard situation: Two companies in competition with an identical product:			
A	10,-	6,-	Profitable, cost-efficient
B	10,-	8,-	Profitable, non cost-efficient
New situation: Company A lowers its price:			
A	8,-	6,-	Profitable, cost efficient
B	8,-	8,-	Non-Profitable, non cost-efficient
Final situation: Company sells at self cost:			
A	6,-	6,-	Non-Profitable, cost efficient
B	6,-	8,-	Non-Profitable, non cost-efficient, at risk

Other abbreviations

- COGS = Cost of goods sold, or cost of sales.
- EBIT = Earnings before interest and taxes
- EBITDA = Earnings before interest, taxes, depreciation, and amortization
- EPS = Earnings per share

Definition liquidity

- Liquidity is the ability of a company to fulfill requests for payment at any moment
- Liquidity means not only cash positions, but also assets convertible into cash



Liquidity

- Liquidity 1. Grade =
 - Means of payment/short term obligations
- Liquidity 2. Grade =
 - Means of payment + short term receivables/short term obligations
- Liquidity 3. Grade =
 - Means of payment +short term receivables + stocks/ short term obligations

Liquidity ratios

Current ratio (Working Capital Ratio)

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Acid-test ratio (Quick ratio)

$$\frac{\text{Current Assets} - (\text{Inventories} + \text{Prepayments})}{\text{Current Liabilities}}$$

Cash ratio

$$\frac{\text{Cash and Marketable Securities}}{\text{Current Liabilities}}$$

Operation cash flow ratio

$$\frac{\text{Operating Cash Flow}}{\text{Total Debts}}$$

Chapter 8: Human Resources



Employer

- An employer is a person or institution that hires employees or workers. Employers offer wages to the workers in exchange for the worker's labor power.
- Employers include everything from individuals hiring a babysitter to governments and businesses which may hire many thousands of employees. In most western societies governments are the largest single employers, but most of the work force is employed in small and medium businesses in the private sector.
- Note that although employees may contribute to the evolution of an enterprise, the employer maintains autonomous control over the productive base of land and capital, and is the entity named in contracts. The employer typically also maintains ownership of intellectual property created by an employee within the scope of employment and as a function thereof. These are known as "works for hire".
- Within large organizations the management of employees is often handled by Human Resources departments. On the national scale employers can be organized in employers' organizations.

Employee

- An employee contributes labor and expertise to an endeavour. Employees perform the discrete activity of economic production. Of the three factors of production, employees usually provide the labor.
- Specifically, an employee is any person hired by an employer to do a specific "job". In most modern economies the term employee refers to a specific defined relationship between an individual and a corporation, which differs from those of customer, or client. Most individuals attain the status of employee after a thorough process of interviews with several departments within a company. If the individual is determined to be a satisfactory fit for the position, he is given an official offer of employment within that company for a defined starting salary and position. This individual then has all the rights and privileges of an employee, which may include medical benefits and vacation days. The relationship between a corporation and its employees is usually handled through the human resources department, which handles the incorporation of new hires, and the disbursement of any benefits which the employee may be entitled, or any grievances that employee may have. An offer of employment, however, does not guarantee employment for any length of time and each party may terminate the relationship at any time. This is referred to as at will employment. While the terms accountant, lawyer and photographer might refer to professions, they are not employee titles, which may include Senior Developer, Executive Assistant, or Regional Sales Manager and the like.

Duties of HR

- Objectives of Human Resources Department are:
 - The management of the personnel
 - The recruitment of Personnel
 - The payment of personnel,
 - The qualification of personnel,
 - The availability of personnel,
 - The motivation of personnel
 - The satisfaction of personnel with its work-place

Human Resource Management (HRM)

- Human Resource Management (HRM) is both an academic theory and a business practice that addresses the theoretical and practical techniques of managing a workforce. The theoretical discipline is based primarily on the assumption that employees are individuals with varying goals and needs, and as such should not be thought of as basic business resources, such as trucks and filing cabinets. The field takes a positive view of workers, assuming that virtually all wish to contribute to the enterprise productively, and that the main obstacles to their endeavors are lack of knowledge, insufficient training, and failures of process.
- HRM is seen by practitioners in the field as a more innovative view of workplace management than the traditional approach. Its techniques force the managers of an enterprise to express their goals with specificity so that they can be understood and undertaken by the workforce, and to provide the resources needed for them to successfully accomplish their assignments. As such, HRM techniques, when properly practiced, are expressive of the goals and operating practices of the enterprise overall.
- The field also encompasses the sometimes arcane details of what is traditionally referred to as personnel management. Personnel management as a term describes those activities that are necessary in the recruiting of a workforce, providing its members with payroll and benefits, and administrating their work-life needs. In many locales, these activities can require a considerable amount of regulatory knowledge and effort, and many enterprises can benefit from the recruitment and development of personnel with these specific skills

Types of Work Contracts

- Limited/unlimited work contract
- Temporary job (Aushilfstätigkeit)
- Apprenticeship (Berufsausbildungsverhältnis)
- Worker/ employee (Arbeiter/Angestellter)
- Executive (Leitender Angestellter)
- Dependant contractor (Scheinselbstständigkeit)
- Members of the Boards in corporations
- Employees bound by instruction (Weisungsgebundenheit)

Employment contract

- **EMPLOYMENT AGREEMENT**

- Employment Agreement, between _____ (the "Company") and _____ (the "Employee").

1. For good consideration, the Company employs the Employee on the following terms and conditions.

2. **Term of Employment.** Subject to the provisions for termination set forth below this agreement will begin on _____, 20____, unless sooner terminated.

3. **Salary.** The Company shall pay Employee a salary of €_____ per year, for the services of the Employee, payable at regular payroll periods.

4. **Duties and Position.** the Company hires the Employee in the capacity of _____. the Employee's duties may be reasonably modified at the Company's discretion from time to time.

5. **Employee to Devote Full Time to Company.** the Employee will devote full time, attention, and energies to the business of the Company, and, during this employment, will not engage in any other business activity, regardless of whether such activity is pursued for profit, gain, or other pecuniary advantage. Employee is not prohibited from making personal investments in any other businesses provided those investments do not require active involvement in the operation of said companies.

6. **Confidentiality of Proprietary Information.** Employee agrees, during or after the term of this employment, not to reveal confidential information, or trade secrets to any person, firm, corporation, or entity. Should Employee reveal or threaten to reveal this information, the Company shall be entitled to an injunction restraining the Employee from disclosing same, or from rendering any services to any entity to whom said information has been or is threatened to be disclosed, the right to secure an injunction is not exclusive, and the Company may pursue any other remedies it has against the Employee for a breach or threatened breach of this condition, including the recovery of damages from the Employee.

7. **Reimbursement of Expenses.** The Employee may incur reasonable expenses for furthering the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Employee for all business expenses after the Employee presents an itemized account of expenditures, pursuant to Company policy.

8. **Vacation.** The Employee shall be entitled to a yearly vacation of _____ weeks at full pay.

9. **Disability.** In the event that the Employee cannot perform the duties because of illness or incapacity for a period of more than _____ weeks, the compensation otherwise due during said illness or incapacity will be reduced by _____ (_____ percent) . The Employee's full compensation will be reinstated upon return to work. However, if the Employee is absent from work for any reason for a continuous period of over _____ months, the Company may terminate the Employee's employment, and the Company's obligations under this agreement will cease on that date.

- **10. Termination of Agreement.** Without cause, the Company may terminate this agreement at any time upon ____ days' written notice to the Employee. If the Company requests, the Employee will continue to perform his/her duties and may be paid his/her regular salary up to the date of termination. In addition, the Company will pay the Employee on the date of the termination a severance allowance of \$_____ less taxes and Social Security required to be withheld, without cause, the Employee may terminate employment upon _____ days' written notice to the Company. Employee may be required to perform his or her duties and will be paid the regular salary to date of termination but shall not receive severance allowance. Notwithstanding anything to the contrary contained in this agreement, the Company may terminate the Employee's employment upon _____ days' notice to the Employee should any of the following events occur:
 - (a) The sale of substantially all of the Company's assets to a single purchaser or group of associated purchasers; or
 - (b) The sale, exchange, or other disposition, in one transaction of the majority of the Company's outstanding corporate shares; or
 - (c) The Company's decision to terminate its business and liquidate its assets;
 - (d) The merger or consolidation of the Company with another company.
 - (e) Bankruptcy or chapter 11 reorganization.
- **11. Death Benefit.** Should Employee die during the term of employment, the Company shall pay to Employee's estate any compensation due through the end of the month in which death occurred.
- 12. Restriction on Post Employment Compensation.** For a period of _____ (____) years after the end of employment, **the Employee shall not control, consult to or be employed by any business similar to that conducted by the company**, either by soliciting any of its accounts or by operating within Employer's general trading area.
- 13. Assistance in Litigation.** Employee shall upon reasonable notice, furnish such information and proper assistance to the Company as it may reasonably require in connection with any litigation in which it is, or may become, a party either during or after employment.
- 14. Effect of Prior Agreements.** This Agreement supersedes any prior agreement between the Company or any predecessor of the Company and the Employee, except that this agreement shall not affect or operate to reduce any benefit or compensation inuring to the Employee of a kind elsewhere provided and not expressly provided in this agreement.
- 15. Settlement by Arbitration.** Any claim or controversy that arises out of or relates to this agreement, or the breach of it, shall be settled by arbitration in accordance with the rules of the American Arbitration Association. Judgment upon the award rendered may be entered in any court with jurisdiction.
- 16. Limited Effect of Waiver by Company.** Should Company waive breach of any provision of this agreement by the Employee, that waiver will not operate or be construed as a waiver of further breach by the Employee.
- 17. Severability.** If, for any reason, any provision of this agreement is held invalid, all other provisions of this agreement shall remain in effect. If this agreement is held invalid or cannot be enforced, then to the full extent permitted by law any prior agreement between the Company (or any predecessor thereof) and the Employee shall be deemed reinstated as if this agreement had not been executed.
- 18. Assumption of Agreement by Company's Successors and Assignees.** The Company's rights and obligations under this agreement will inure to the benefit and be binding upon the Company's successors and assignees.
- 19. Oral Modifications Not Binding.** This instrument is the entire agreement of the Company and the Employee. Oral changes have no effect. It may be altered only by a written agreement signed by the party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.

Signed this ____ day of _____ 20____.

Days: different definitions

A calendar day is any day of the week, including weekends. It relates to any day of the week, month or year.

It contrasts the weekday, which usually means any day of the week except the weekend days, which in most parts of the world are Saturday, Sunday or both. Consequently, two weeks may consist of 10 or 12 weekdays depending on local usage of the term weekday, but they always consist of 14 calendar days. The term calendar day is useful in situations where "weekday" can be mistaken to mean any day of the week.

The calendar day also contrasts the working or business day, which excludes holidays of all sorts, but in some cultures may include one of the weekend days, e.g. Saturday, although it is not considered a weekday. Also, a calendar day always runs 24 hours (except for DST changes) from 00:00 through 24:00, whereas a business day may be constrained by work or opening hours and may span over midnight.

Payments - Salary

- Monetary compensation for work done
 - Wage (worker)
 - Salary (employee)
 - Functionary/Public officer
 - Salary in function of performance
- Wage groups:
 - Tarif (e.g. BAT)
 - Non tarif
- Non wage labor costs (Lohnnebenkosten)
 - about 80% of the salary brut
 - Leave pay (Urlaubsgeld)
 - 13. salary
 - Christmas bonus
 - Employers contribution to social security
 - Ex-gratia payment (Freiwillige Leistung)
 - Pension scheme (Altersversorgung)

Social Benefits

- Dismissal protection (Kündigungsschutz)
- Social security (Sozialversicherung)
 - Health insurance (Krankenversicherung)
 - Social Pension Fund (Rentenversicherung)
 - Unemployment insurance (Arbeitslosenversicherung)
 - Casualty insurance (Unfallversicherung)
 - Nursing Care Insurance (Pflegeversicherung)

Social Security (2009)

	Contribution in %	Ceiling (Beitragsbemessungs- grenze)	Maximum Contribution in EUR <small>50% by employee +50% by employer</small>
Retirement	19,9 %	5.400 EUR	1.074,60
Health	15,5 %	3.675 EUR	569,63
Unemployment	2,8 %	5.400 EUR	151,20
Nursing	1,95 %	3.675 EUR	71,66
Social Security Costs p.m. (maximum):			1.867,09

Tariff TVöD Bund

Tarifvertrag für den Öffentlichen Dienst

Tabelle TVöD Bund

ab 1.1.2009

Entgelt- gruppe	Stufe 1	Stufe 2	Stufe 3	Stufe 4	Stufe 5	Stufe 6
15	3.639,58	4.038,10	4.186,48	4.716,41	5.119,16	
14	3.296,19	3.656,54	3.868,52	4.186,48	4.674,02	
13	3.038,64	3.370,38	3.550,56	3.900,31	4.387,85	
12	2.723,86	3.020,62	3.444,57	3.815,52	4.292,47	
11	2.628,47	2.914,64	3.126,61	3.444,57	3.905,62	
10	2.533,08	2.808,65	3.020,62	3.232,60	3.635,35	
9	2.237,38	2.480,09	2.607,28	2.946,43	3.211,40	
8	2.094,30	2.321,11	2.427,10	2.522,49	2.628,47	2.695,24
7	1.960,76	2.172,73	2.310,51	2.416,50	2.495,99	2.570,19
6	1.922,60	2.130,33	2.236,32	2.337,01	2.405,90	2.474,80
5	1.842,05	2.040,25	2.140,93	2.241,63	2.315,82	2.368,81
4	1.750,90	1.939,56	2.066,74	2.140,93	2.215,12	2.258,58
3	1.722,29	1.907,76	1.960,76	2.045,55	2.109,14	2.167,44
2	1.588,74	1.759,38	1.812,37	1.865,37	1.981,95	2.103,84
1		1.415,99	1.441,42	1.473,22	1.502,89	1.579,20

* A 13: Rat (z. B. Regierungsrat)

* A 14: Oberrat (z. B. Oberregierungsrat/Regierungsoberrat)

* A 15: Direktor (z. B. Regierungsdirektor)

* A 16: Leitender Direktor (z. B. Leitender Regierungsdirektor)

Federal Tariff (2009)

Gültig ab 1. Januar 2009

Anlage IV

1. Bundesbesoldungsordnung A

Grundgehaltssätze (Monatsbeträge in Euro)

Besoldungsgruppe	2-Jahres-Rhythmus				3-Jahres-Rhythmus				4-Jahres-Rhythmus			
	Stufe											
	1	2	3	4	5	6	7	8	9	10	11	12
A 2	1615,86	1653,60	1691,35	1729,09	1766,83	1804,59	1842,35					
A 3	1681,05	1721,20	1761,36	1801,52	1841,70	1881,87	1922,04					
A 4	1718,01	1765,32	1812,59	1859,89	1907,17	1954,46	2001,73					
A 5	1731,47	1792,02	1839,07	1886,10	1933,15	1980,20	2027,24	2074,29				
A 6	1771,22	1822,88	1874,54	1926,18	1977,83	2029,49	2081,16	2132,80	2184,45			
A 7	1846,74	1893,15	1958,15	2023,15	2088,15	2153,15	2218,16	2264,56	2310,97	2357,42		
A 8		1959,11	2014,64	2097,93	2181,23	2264,51	2347,83	2403,36	2458,87	2514,42	2569,94	
A 9		2083,80	2138,45	2227,34	2316,23	2405,13	2494,03	2555,12	2616,26	2677,36	2738,49	
A 10		2241,19	2317,12	2431,00	2544,93	2658,82	2772,72	2848,65	2924,58	3000,50	3076,42	
A 11			2575,42	2692,12	2808,81	2925,53	3042,24	3120,05	3197,84	3275,67	3353,48	3431,27
A 12			2765,75	2904,90	3044,02	3183,17	3322,31	3415,08	3507,82	3600,58	3693,37	3786,11
A 13			3106,43	3256,68	3406,95	3557,19	3707,44	3807,61	3907,78	4007,95	4108,12	4208,29
A 14			3230,91	3425,77	3620,61	3815,44	4010,29	4140,18	4270,07	4399,96	4529,86	4659,76
A 15						4190,48	4404,69	4576,08	4747,45	4918,83	5090,20	5261,58
A 16						4622,71	4870,46	5068,67	5266,89	5465,07	5663,27	5861,48

A2 – A5: Einfacher Dienst

A5 – A9 Mittlerer Dienst

A9 – A13 Gehobener Dienst

A13 – A16 Höherer Dienst

„Höherer Dienst“

A 13 Akademischer Rat, Arzt, Legationsrat, Konservator, Studienrat, Regierungsrat,

A 14: Akademischer Oberrat, Chefarzt, Konsul Erster Klasse, Landesanwalt, Legationsrat Erster Klasse, Mitglied der Geschäftsführung einer Agentur für Arbeit, Oberarzt, Oberkonservator, Oberkustos, Oberregierungsrat, Oberrat,

A 15: Akademischer Direktor, Regierungsdirektor, Bibliotheksdirektor, Botschafter, Botschaftsrat, Bundesbankdirektor, Chefarzt, Dekan (kirchlicher Beamter), Direktor, Kriminaldirektor, Polizeidirektor, Generalkonsul,

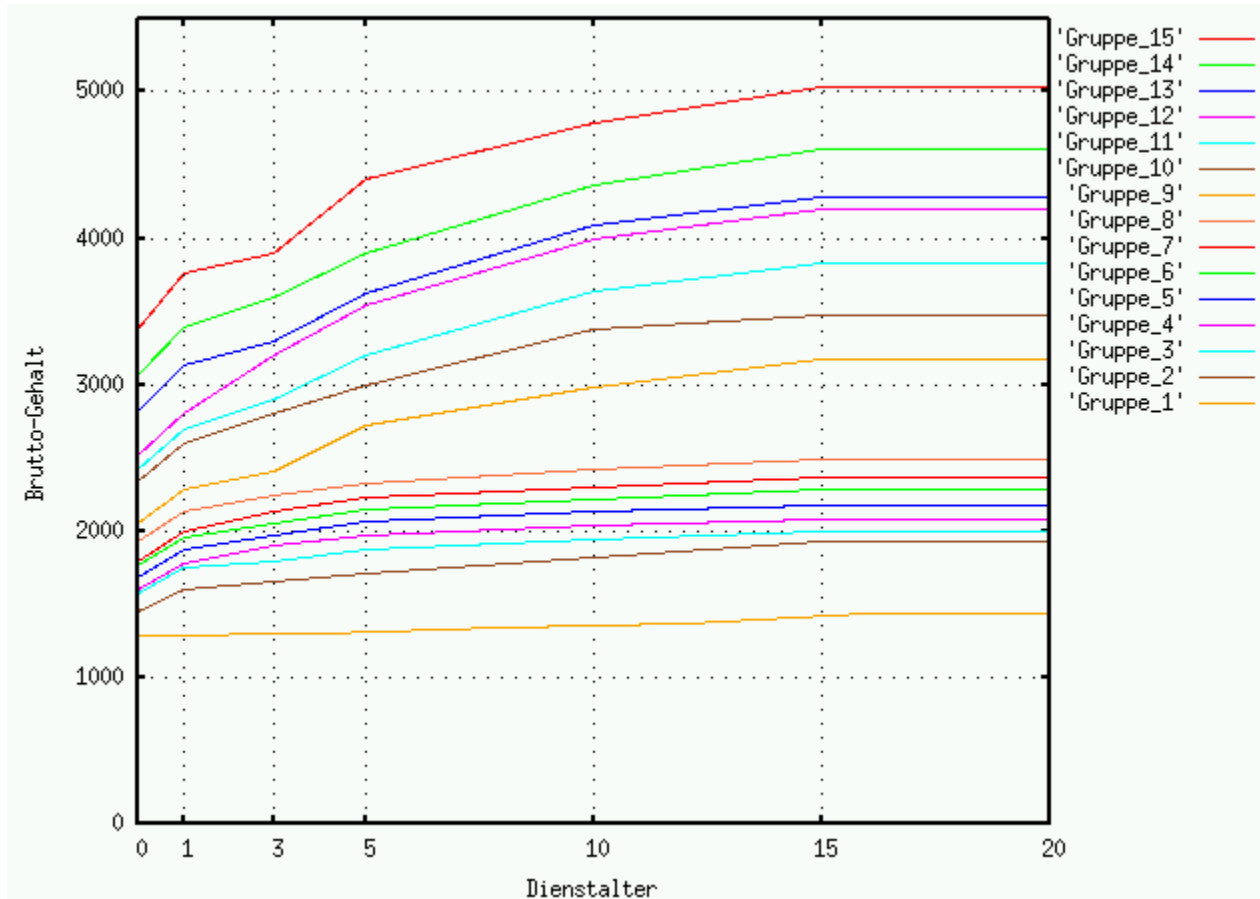
A 16: Abteilungsdirektor, Abteilungspräsident, Botschafter, Botschaftsrat Erster Klasse, Leitender Bundesbankdirektor, Leitender Regierungsdirektor, Leitender Bibliotheksdirektor, Leitender Kriminaldirektor, Leitender Polizeidirektor, Chefarzt, Dekan

Tariff in group B

need an academic degree

- B 1: [Direktor und Professor](#) (innerhalb von Behörden mit wissenschaftlichen Aufgaben)
- B 2: Abteilungsdirektor, [Ministerialrat](#) (oberste Landesbehörden), [Senatsdirektor](#)
- B 3: [Botschafter](#), [Senatsdirektor](#), [Ministerialrat](#) (oberste Bundes- und Landesbehörden, Bundeseisenbahnvermögen), [Oberst](#) (in herausgehobener Stellung, z.B. Referatsleiter im Bundesverteidigungsministerium)
- B 4: Erster Direktor (nur bei einigen wenigen Behörden), Leitender Ministerialrat (oberste Landesbehörde), [Präsident](#) kleinerer Bundesämter
- B 5: Generaldirektor (Leiter weniger Behörden), [Präsident](#) kleinerer Bundesämter, [Ministerialdirigent](#) (oberste Landesbehörden)
- B 6: Präsident mittlerer Bundesämter, [Ministerialdirigent](#), [Brigadegeneral](#)
- B 7: Präsident größerer Bundesämter, [Generalmajor](#)
- B 8: Präsidenten der größten Bundesämter, [Regierungspräsident](#), Direktoren bei großen Behörden
- B 9: [Ministerialdirektor](#) (als Abteilungsleiter in Bundesministerien), Präsident großer Bundesbehörden, [Staatssekretär](#) (teilweise im Landesbereich), [Generalleutnant](#)
- B 10: Direktor beim Deutschen Bundestag, [General](#)
- B 11: Staatssekretär (oberste Bundes- und Landesbehörden)

Comparison of all tariff groups in TVÖD – age/income



Tariff European Commission

€	1	2	3	4	5
16	15255.00	15896.04	16564.01		
15	13482.88	14049.45	14639.82	15047.12	15255.00
14	11916.61	12417.36	12939.16	13299.15	13482.88
13	10532.30	10974.88	11436.06	11754.22	11916.61
12	9308.79	9699.96	10107.56	10388.77	10532.30
11	8227.42	8573.15	8933.40	9181.94	9308.79
10	7271.67	7577.23	7895.64	8115.30	8227.42
9	6426.94	6697.01	6978.42	7172.57	7271.67
8	5680.34	5919.04	6167.76	6339.36	6426.94
7	5020.47	5231.44	5451.27	5602.93	5680.34
6	4437.26	4623.72	4818.01	4952.06	5020.47
5	3921.80	4086.60	4258.32	4376.79	4437.26
4	3466.22	3611.87	3763.65	3868.36	3921.80
3	3063.56	3192.29	3326.43	3418.98	3466.22
2	2707.67	2821.45	2940.01	3021.81	3063.56
1	2393.13	2493.69	2598.48	2670.77	2707.67

Hours of labour and holidays

- Before the Industrial Revolution, the workday varied between 11 and 14 hours. With the growth of capitalism and the introduction of machinery, longer hours became far more common, with 14-15 hours being the norm, and 16 not at all uncommon. Use of child labour was commonplace, often in factories. In England and Scotland in 1788, about two-thirds of person working in the new water-powered textile factories were children.
- The eight-hour movement's struggle finally led to the first law on the length of a working day, passed in 1833 in England, limiting miners to 12 hours, and children to 8 hours. The 10-hour day was established in 1848, and shorter hours with the same pay were gradually accepted thereafter. The 1802 Factory Act was the first labour law in the UK.
- After England, Germany was the first European country to pass labor laws; Chancellor Bismarck's main goal being to undermine the Social Democratic Party of Germany (SPD). In 1878, Bismarck instituted a variety of anti-socialist measures, but despite this, socialists continued gaining seats in the Reichstag. The Chancellor, then, adopted a different approach to tackling socialism. In order to appease the working class, he enacted a variety of paternalistic social reforms, which became the first type of social security. The year 1883 saw the passage of the Health Insurance Act, which entitled workers to health insurance; the worker paid two-thirds, and the employer one-third, of the premiums. Accident insurance was provided in 1884, whilst old age pensions and disability insurance were established in 1889. Other laws restricted the employment of women and children. These efforts, however, were not entirely successful; the working class largely remained unreconciled with Bismarck's conservative government.

Dismissal

- Under **United Kingdom** law, specifically section 95(1) of the Employment Rights Act 1996, three events can constitute "Dismissal". These events are where:-
 - The employer terminates the employee's employment contract with or without notice;
 - a time-limited contract expires and is not renewed
 - The employer's conduct (e.g. where the employer fundamentally breaches the employee's employment contract) allows the employee to terminate the contract without notice. This is popularly known as "Constructive Dismissal".
 - Dismissal can be "fair" or "unfair". An employee who has been unfairly dismissed has a right to statutory compensation and further compensation for financial loss sustained in consequence of the dismissal. Such questions are dealt with by employment tribunals.
- For a dismissal to be "fair", an employer must give at least one potentially fair reason for the dismissal. Reasons recognised as being fair are stated in s.98(2) Employment Rights Act 1996:
 - relates to the capability or qualifications of the employee for performing work of the kind which he was employed by the employer to do,
 - relates to the conduct of the employee,
 - is retirement of the employee, (effective 1st October 2006)
 - is that the employee was redundant,
 - Some other substantial reason of a kind such as to justify the dismissal of an employee holding the position which the employee held,
 - is that the employee could not continue to work in the position which he held without contravention (either on his part or on that of his employer) of a duty or restriction imposed by or under an enactment.

The function and origins of labour law

- Labour law arose due to the demands of workers for better conditions and the right to organise, and the simultaneous demands of employers to restrict the powers of workers' organisations and keep labour costs low. Employers costs can increase due to workers organising to win higher wages, or by laws imposing costly requirements, such as health and safety or equal opportunities conditions. Workers' organisations, such as [trade unions](#), can also transcend purely industrial disputes, and gain political power - some people in society may be opposed to this. The state of labour law at any one time is therefore both the product of, and a component of the conditions for, struggles between different interests in society.
- For example, workers' and trade union legal rights in the [United States](#) are relatively restricted, compared to most European countries. However, the compartmentalization between different laws systems mean that [illegal aliens](#), for example, may work in the same sectors as full [citizens](#) (although they most often work in difficult and tiring jobs which natives don't want). As a counter-example, if labor laws are more protective in [France](#), due to social, historic and cultural differences, illegal aliens may not be legally contracted. Thus, they have a more difficult time finding jobs and often work in the [underground economy](#)

Legal Background of HR Management

- The relationship between employer and employee is highly regulated in Germany: by legislation and by tariffs between employers federation and labor unions. How complex and regulated the German labor market is shows the following selection of laws only related to that subject:
- The individual work contract *Arbeitsvertrag* ,
 - To be respected the „*Tarifvertrag*“ *agreement on tariffs*
 - On top in house agreements (*Betriebsvereinbarungen*) *between employer and the in-house representation of the employees* (Mitbestimmung (Betriebsverfassungsgesetz),)
 - *Legislation to protect the employees (Arbeitnehmerschutzgesetzen)*, such as Arbeitszeitgesetz, Lohnfortzahlungsgesetz (Entgeltfortzahlung im Krankheitsfall bis zu sechs Wochen), Kündigungsschutzgesetz, Arbeitssicherheitsgesetz, Mutterschutzgesetz, Ladenschlußgesetz, Jugendarbeitsschutzgesetz or Bundesurlaubsgesetz,
 - The social legislation (*Sozialrecht*), *including the social insurance system*.
- The legislation is dominant versus tarification agreements.

Institutions

- Workers council (Betriebsrat)
- Labor union (Gewerkschaften)
- Employers federation (Arbeitgeberverband)
- Tariff autonomy (Tarifautonomie)
- Area Tariff Agreement (Flächentarifvertrag)
- strike

The right for strike

Strike action is the weapon of the workers most associated with industrial disputes, and certainly among the most powerful. In most countries, strikes are legal under a circumscribed set of conditions.



Minimum wages

- There may be law stating the minimum amount that a worker can be paid per hour. Both France, Britain and the USA have a law of this kind, though the figure provided for in the USA is so low as to sometimes be insufficient for the means of a worker's subsistence. This explains the [working poor](#) phenomenon. In response to this, [Living wage](#) ordinances have been passed by many city authorities in the United States, which define a minimum wage for employees of those authorities, and sometimes for the employees of companies with which the authority contracts. These, therefore, constitute law, albeit not law which restricts businesses in general.
- The minimum wage is usually different from the lowest wage determined by the forces of [supply and demand](#) in a [free market](#), and therefore acts as a [price floor](#). Each country sets its own minimum wage laws and regulations, and while a majority of industrialized countries has a minimum wage, many developing countries have not.

Mitbestimmung

- The Mitbestimmung had been defined in the Betriebsverfassungsgesetz from 1952/1972/2001 .
- In contrary to the workers participation in the Supervisory Board the main objective of the codetermination is the regulation of the conditions of the work-places between employer and employee.

Anti-Discrimination Legislation

- In UK an important number of anti-discrimination acts exist:
 - Equal Pay Act 1970
 - Sex Discrimination Act 1975
 - Race Relations Act 1976
 - Disability Discrimination Act 1995
 - Protection from Harassment Act 1997
 - Public Interest Disclosure Act 1998
 - Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000, SI 2000/1551
 - Fixed-Term Employees (Prevention of Less Favourable Treatment) Regulations 2002, SI 2002/2034
 - Employment Equality (Religion or Belief) Regulations 2003 SI 2003/1660 (in effect from 2nd December 2003)
 - Employment Equality (Sexual Orientation) Regulations 2003 SI 2003/1661 (in effect from 1st December 2003)
 - Employment Equality (Age) Regulations 2006, SI 2006/1031
- Since 2006 an EU Regulation enforces the 27 EU Member States to revise their anti-discrimination legislation

Excursion: Recruitment

- Objective 1
 - To take the youngest
- Objective 2
 - Academic graduation
 - As much as possible professional experience
 - Experience in management of human resources
 - Experience in technical skills
 - Experience with team-working
 - Reliability
 - International experience
- Objective 3
 - Low salary

Adaptation of HR to the Economic Situation

- Increase
 - Unlimited employment
 - Limited employment
 - Temporary worker (Leiharbeiter)
 - Time work (Zeitarbeit)
 - Increase working time/overtime
 - Qualification of workers/employees
 - Apprenticeship
- Decrease
 - dismissal
 - Decreasing working time/overtime
 - relocation
 - Part-time work
 - To be on short hours (Kurzarbeit)
 - Early retirement
 - Hiring freeze (Einstellungsstop)
 - Flexible work hours
 - Social plan

The Legislator has introduced a number of laws to protect the employees/workers

- Law of obligations (Schuldrecht)
- Insolvency law (Insolvenzrecht)
- Social security (Sozialversicherung)
- Agreement on tariffs (Tarifverträge)
- Vacation law (Gesetz über Urlaub)
- Continuation of wages (Lohnfortzahlung)
- Dismissal protection (Kündigungsschutz)
- Workers co-determination (Mitbestimmung)
- Framework for the rights of workers (Betriebsverfassungsgesetz)
- Law on competition (Wettbewerbsbeschränkung)
- Protection of environment (Umweltschutz)

Theories on motivation

- Definition and description of motivations
- The development of instruments to measure the degree of motivation
- Investigation of individual differences in motivation
- Link between the power of a motive and the actions of the individual
- Origin and conditioning of motives (inheritance, education, learning)

Masslows Hierachy of Needs

1. Self-realization (growth need)
2. Appreciation by others and by one-self
3. Contact with other, love, friendship
4. Security
5. Physical needs

Self Realization

- A painter must paint
- A musician makes music
- A poet must write
- to be happy.
- The need is the „self-realization“.

MOTIVATION Factors

- Job Context factors
 - Business policy
 - Relation to the superior
 - Inter-personnel relations
 - Salary
 - Status
 - Security
- Job Content factors (Motivators)
 - Leadership
 - Recognition
 - The work place
 - Promotion
 - Development of skills

Chapter 9: The Management of a company



Core duties

- Corporate management defines the fulfillment of executive functions
- Representation
- Management operates through various functions, often classified as planning, organizing, staffing, leading/directing, controlling/monitoring and motivation.
- Core duties:
 - **Leadership**
 - **Conduct the business**
 - **Planning:** Deciding what needs to happen in the future (today, next week, next month, next year, over the next five years, etc.) and generating plans for action.
 - **Organizing:** (Implementation) pattern of relationships among workers, making optimum use of the resources required to enable the successful carrying out of plans.
 - **Staffing:** Job analysis, recruitment and hiring for appropriate jobs.
 - **Leading/directing:** Determining what needs to be done in a situation and getting people to do it.
 - **Controlling/monitoring:** Checking progress against plans.
 - **Motivation:** Motivation is also a kind of basic function of management, because without motivation, employees cannot work effectively.

Corporate objectives for the management

- The real objective is to maximize the benefit

Objectives of managers

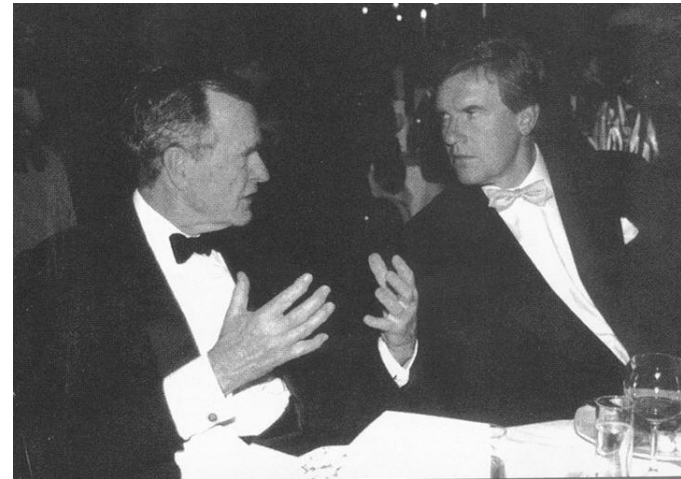
- Strong exigency for performance, merits and repute
- Exigency for power and independency
- Represents the interests of the owners
- High income, high level of living:
 - Company car, Representation, missions, office size, number of personnel subordinated

Leadership types

- Personality, Charisma
- Behavior
- Authoritative/democratic leadership
- Participative Leadership
- Situative Leadership
- Collaborator oriented leadership (Consideration)
- Duty oriented leadership (initiating structure)

Charisma

A quality of an individual personality, by virtue of which he is set apart from ordinary men and treated as endowed with supernatural, superhuman, or at least specifically exceptional powers or qualities.



Management: Basic functions

Interpersonal: roles that involve coordination and interaction with employees.

Informational: roles that involve handling, sharing, and analyzing information.

Decisional: roles that require decision-making.

Skills

Political: used to build a power base and establish connections.

Conceptual: used to analyze complex situations.

Interpersonal: used to communicate, motivate, mentor and delegate.

Diagnostic: ability to visualize most appropriate response to a situation.

Technical: Expertise in one's particular functional area.

Mission, Vision, Policy, Strategy

The mission of the business is the most obvious purpose—which may be, for example, to produce and to sell chocolate.

The vision of the business reflects its aspirations and specifies its intended direction or future destination.

The objectives of the business refers to the ends or activity at which a certain task is aimed.

The business's policy is a guide that stipulates rules, regulations and objectives, and may be used in the managers' decision-making. It must be flexible and easily interpreted and understood by all employees.

The business's strategy refers to the coordinated plan of action that it is going to take, as well as the resources that it will use, to realize its vision and long-term objectives. It is a guideline to managers, stipulating how they ought to allocate and utilize the factors of production to the business's advantage. Initially, it could help the managers decide on what type of business they want to form.

Implementation

- All policies and **strategies must be discussed** with all managerial personnel and staff.
- Managers **must understand where and how they can implement** their policies and strategies.
- A **plan of action** must be devised for each department.
- Policies and strategies** must be **reviewed regularly**.
- Contingency plans** must be devised in case the environment changes.
- Assessments of progress** ought to be carried out regularly by top-level managers.
- A good environment and team spirit is required within the business.
- The **missions, objectives, strengths and weaknesses** of each department must be analysed to determine their roles in achieving the business's mission.
- The **forecasting method** develops a reliable picture of the business's future environment.
- A **planning unit** must be created to ensure that all plans are consistent and that policies and strategies are aimed at achieving the same mission and objectives.
- All policies must be discussed with all managerial personnel and staff that is required in the execution of any departmental policy.
- Organizational change**

Top level Managers

Consists of **board of directors, president, vice-president, CEOs**, etc. They are responsible for controlling and overseeing the entire organization. They develop goals, strategic plans, company policies, and make decisions on the direction of the business. In addition, top-level managers play a significant role in the mobilization of outside resources and are accountable to the shareholders and general public.

The following skills are needed at the top managerial level:

- Broadened understanding of how: competition, world economies, politics, and social trends effect organizational effectiveness .

•The role of the top management can be summarized as follows :

- Top management lays down the objectives and broad policies of the enterprise.
- It issues necessary instructions for preparation of department budgets, procedures, schedules etc.
- It prepares strategic plans & policies for the enterprise.
- It appoints the executive for middle level i.e. departmental managers.
- It controls & coordinates the activities of all the departments.
- It is also responsible for maintaining a contact with the outside world.
- It provides guidance and direction.
- The top management is also responsible towards the shareholders for the performance of the enterprise.

Middle Management

Consist of **general managers, branch managers and department managers.**

- They are accountable to the top management for their department's function.
- They devote more time to organizational and directional functions. Their roles can be emphasized as executing organizational plans in conformance with the company's policies and the objectives of the top management, they define and discuss information and policies from top management to lower management, and most importantly they inspire and provide guidance to lower level managers towards better performance.
- Some of their functions are as follows:
 - Designing and implementing effective group and intergroup work and information systems.
 - Defining and monitoring group-level performance indicators.
 - Diagnosing and resolving problems within and among work groups.
 - Designing and implementing reward systems supporting cooperative behavior.

Corporate objectives

- The existence and profile of long term objectives are the pre-conditions for consistent decisions and for the motivation of the employees

Conflict of objectives

- Creditor
 - To pay interest and loan-redemption on time
- Consumer
 - High quality of products at lowest prices, on time delivery, amiability (Kulanz)
- Supplier
 - To keep long term customer relation, who pays high prices on time

Conflict employer – employee - state

- Employees
 - Good working conditions, high salary, challenging job, secure working contract
- Employers
 - Low salaries, flexible working contracts, low tax payment, good infrastructure offered by the State
- State
 - Create new work places, generate tax revenues, no demand for infrastructure, no environmental pollution

Conflicts

- Conflicts if
 - Closing of company
 - Dislocation of the company
 - Rationalisation
- In periods of economic success managers avoid conflicts. No unpopular decisions

Discussion

- *Can hinder these workers protection laws economic growth and development?*
- *Can compromises between political, macro-economical and micro-economical interests lead to economic paralysis?*

Chapter 10: Corporate planning



Planning

- Planning is a theoretical anticipation for future action
- Decision follows the Planning

Planning, Decision, Control

- Duties of the Management
- Entrepreneurial Objectives
- Entrepreneurial Planning
- Decisions taking
- Control
- Controlling

Planning

- Marketing Planning
- Production Planning
- Procurement Planning
- Financial Planning
- Investment Planning
 - Top down Planning
 - Bottom up Planning

Investment planning

- Enlargement of the company
- Dislocation of the production
- Acquisition of companies
- New technologies
- New departments
- External procurement or self-production
- Merger & Acquisition

Objectives

profit	high
costs	low
Motivation workers	high
publicity	high
independency	high
taxes, public charges	low
Environmental pollution	low

Excursion: Please comment the following:

Good managers don't take decisions

Work-places and profit are of equal importance

Profit is more important than market share

Excursion: How do you decide?

- Complexity of decision making: Example:
 - *Uncertainty/Probability*: Should one take a full-risk insurance for the company cars or should the company save costs?
 - *Decision when buying a new car, what is relevant: price, quality, shipment time, service, design ...*
 - *Recruitment of personnel, what is relevant: age, gender, recommendations, graduations, assessment, price*
 - *Stock planning – the “Garden-Café-Dilemma”*: How many pies and cakes should the owner of a garden-café hold in stock for the upcoming week-end? Does the weather forecast have an influence?

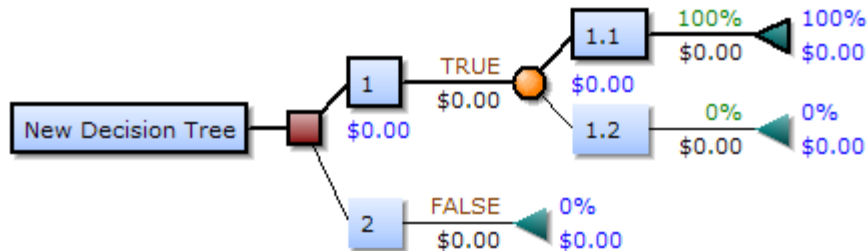
Excursion:

Decision matrix: A new product has been developed in your company, what product will go in production?

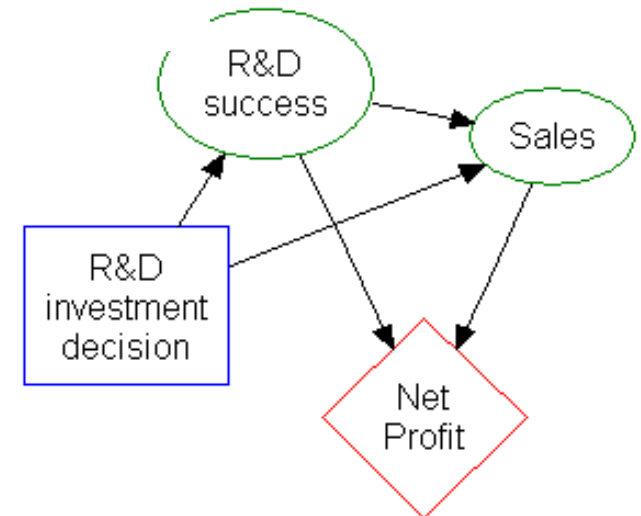
Case	Design	Functionality	Recycling	Costs
A	8	6	6	40 €
B	9	7	5	50 €
C	6	5	4	20 €

Decision Tools

- A **Decision Tree (or tree diagram)** is a decision support tool that uses a graph or model of decisions and their possible consequences, including chance event outcomes, resource costs, and utility. A decision tree is used to identify the strategy most likely to reach a goal. Another use of trees is as a descriptive means for calculating conditional probabilities.



A decision tree can be represented more compactly as an **Influence Diagram**, focusing attention on the issues and relationships between events.



Complex decisions

● Complex decisions

- Other areas of decision theory are concerned with decisions that are difficult simply because of their complexity, or the complexity of the organization that has to make them. In such cases the issue is not the deviation between real and optimal behaviour, but the difficulty of determining the optimal behaviour in the first place.

● Paradox of choice

- Observed in many cases is the paradox that more choices may lead to a poorer decision or a failure to make a decision at all.

● The boss decides

● Compromise

- In arguments, compromise is a concept of finding agreement through communication, through a mutual acceptance of terms—often involving variations from an original goal or desire

Control

● Control

- Is one of the managerial functions like *planning, organizing, staffing* and *directing*. It is an important function because it helps to check the errors and to take the corrective action so that deviation from standards are minimized and stated goals of the organization are achieved in desired manner. According to modern concepts, control is a foreseeing action whereas earlier concept of control was used only when errors were detected. Control in management means **setting standards, measuring actual performance and taking corrective action**. Thus, control comprises these three main activities.
- The direction for **organizational control** comes from the goals and strategic plans of the organization. **General plans are translated into specific performance measures** such as share of the market, earnings, return on investment, and budgets.
- The process of organizational control is to review and evaluate the performance of the system against these established norms.
- In contrast to organizational control, **operational control** serves to regulate the **day-to-day output relative to schedules, specifications, and costs**.

Evaluation - Monitoring

- **Evaluation** is systematic determination of merit, worth, and significance of something or someone using criteria against a set of standards.
- **Benchmarking** is the process of comparing the cost, time or quality of what one organization does against what another organization does. The result is often a business case for making changes in order to make improvements.
- Also referred to as "**best practice benchmarking**" or "process benchmarking", it is a process used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice, usually within their own sector.
- **Assessment** is the process of documenting, usually in measurable terms, knowledge, skills, attitudes and beliefs. Assessment (either summative or formative) can be subjective. Objective assessment is a form of questioning which has a single correct answer. Subjective assessment is a form of questioning which may have more than one correct answer.
- **Competitor analysis** in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats.

Cost Benefit

- **Content analysis** is a methodology in the social sciences for studying the content of communication
- **Cost-Benefit Analysis** involves, whether explicitly or implicitly, weighing the total expected costs against the total expected benefits of one or more actions in order to choose the best or most profitable option. The formal process is often referred to as either CBA (Cost-Benefit Analysis) or BCA (Benefit-Cost Analysis).
- A **Feasibility Study** is a preliminary study undertaken to determine and document a project's viability [1] or the discipline of planning, organizing, and managing resources to bring about the successful completion of specific project goals and objectives.
- A **Field Experiment** applies the scientific method to experimentally examine an intervention in the real world (or as many experimental economists like to say, naturally-occurring environments) rather than in the laboratory.
- An **Interview** is a conversation between two or more people (the interviewer and the interviewee) where questions are asked by the interviewer to obtain information from the interviewee.
- An **opinion poll** is a survey of public opinion from a particular sample. Opinion polls are usually designed to represent the opinions of a population by conducting a series of questions and then extrapolating generalities in ratio or within confidence intervals.

Quality Management

- **Project management** is the discipline of planning, organizing and managing resources to bring about the successful completion of specific project goals and objectives. A project is limited by scope, time and budget. A project is a carefully defined set of activities that use resources (money, people, materials, energy, space, provisions, communication, motivation, etc.) to achieve the project goals and objectives.
- **quality control and quality engineering** are used in developing systems to ensure products or services are designed and produced to meet or exceed customer requirements.
- **Quality management** is a method for ensuring that all the activities necessary to design, develop and implement a product or service are effective and efficient with respect to the system and its performance. Quality management can be considered to have three main components: quality control, quality assurance and quality improvement.
- A **questionnaire** is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Although they are often designed for statistical analysis of the responses, this is not always the case.

Statistics

- **Statistics** is a mathematical science pertaining to the collection, analysis, interpretation or explanation, and presentation of data. It also provides tools for prediction and forecasting based on data.
- **Strategic planning** is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including **SWOT analysis** (Strengths, Weaknesses, Opportunities, and Threats) and **PEST analysis** (Political, Economic, Social, and Technological analysis) or **STEER analysis** involving Socio-cultural, Technological, Economic, Ecological, and Regulatory factors.
- **Total Quality Management (TQM)** is a business management strategy aimed at embedding awareness of quality in all organizational processes. TQM has been widely used in manufacturing, education, call centers, government, and service industries, as well as NASA space and science programs.
- **Game theory** is a branch of applied mathematics that is used in the social sciences (most notably economics), biology, engineering, political science, international relations, computer science (mainly for artificial intelligence), and philosophy. **Game theory attempts to mathematically capture behavior in strategic situations, in which an individual's success in making choices depends on the choices of others.** In economics Game Theory helps to analyze a wide array of economic phenomena, including auctions, bargaining, duopolies, fair division, oligopolies, social network formation, and voting systems.

Controlling

- Manager need information for decision making on Planning- and Management issues
- The design and maintenance of the information system is called „Controlling“
- MIS – Management Information System

Chapter 11: The Organization



Organization

- Organization comprises the total of procedures and rules in a system
- We distinguish:
 - Company organization structure (Aufbauorganisation)
 - Process organization (Ablauforganisation)
- The global competition and the increasing labor costs force many companies to evaluate and to optimize their production and management process

Creation of workplaces

- Organizations gain efficiency through:
 - Labor division:
 - Functions
 - Objects
 - Delegation of power of decision making

Scientific Management

- Origin of Theory of Organization in 19th century in frame of the industrial realization
- Markets and production output grew rapidly
- The organization of the companies became an important issue

Problems of large companies in the 19th century

- Organization and Coordination of the production process
- Motivation of labor force
- To stand up against concurrence

Frederick Winslow Taylor

(1841 – 1925)

- He developed the „Scientific Management“
- Linked inseparably with the Organization theory
- Characteristics:
 - Idea of man (Menschenbild) of the homo oeconomicus
 - Man is a mean of production
 - Introduction of technical-physical methods of measuring the work-flow and performance
 - Time and motion studies -> REFA
 - Standardization and labor division
 - All activities are documented
 - Specialization of the management functions
 - Principle of mastering functions
 - Performance related wages
 - piecework wages (Akkordlohn)

Band conveyor – Assembly line

- Henry Ford introduced the assembly line in automobile production
- Division of management functions and kind of work
- Criticism of the methods of Taylors had been forwarded by the labor-unions
 - Job performance is over-directed (fremdbestimmt) and dehumanizes the jobs
- Business Reengineering is the recent model of Taylor
 - Perfection of workflows by the use of informatics

Sociological methods

- Max Weber: Exertion of Dominance by bureaucrats. In all societies Dominance (power) is practiced. This is legal, if recognized and accepted by all persons involved
- Three types of domination:
 - Legal domination
 - Acceptance of the system of legislation. Orders and instructions are accepted.
 - Traditional domination:
 - Leadership by tradition, as kings etc
 - Charismatic domination:
 - Based on the personality

Bureaucrats work by the following principles:

- Standardization of duties and labor independently from individuals
- Hierarchy and definition of competences
 - Precise definition of subordination, power of instruction, control. Superiors are not allowed to execute the work of subordinated.
- Direction procedures
 - Official channel (Dienstweg). Instruction is objectively justified
- Emphasis on objective competence
 - In the hierarchy of an administration one can be promoted in frame of a defined career
- Principle of file records
 - All activities are recorded in files

Lean Management

- Taylors method promotes the bureaucratic procedures
- Today new methods try to counteract bureaucratic procedures, e.g. by lean management

Organization by Fayol

- Optimal Organization if:
 - Principle of uniformity of instruction:
 - Each member of an organization has only one superior, who instructs him
 - Principle of optimized control
 - No superior should instruct more subordinates than he can supervise

Cybernetics - doctrine of self and automatic control of systems

- Concept of the closed loop
 - By a regulator the process is controlled in such a way, that he acts against affects from the exterior
 - Without regulation from outside to stabilize a defined value or status
- Learning aptitude
 - To learn from recorded data from the past and to adapt future procedures

Decision taking methods

- Linear Optimization
 - Approximation procedure (Heuristic), that calculates complex systems of linear equations, e.g. Production programs
- Non linear Optimization
 - Uses linear equations and non linear equations. The complexity increases
- Game theory
 - Founded by John v. Neumann/Morgenstern. Calculates models of behavior in real situations. Assumption: Models can only be described by probability calculation.

Company organization structure

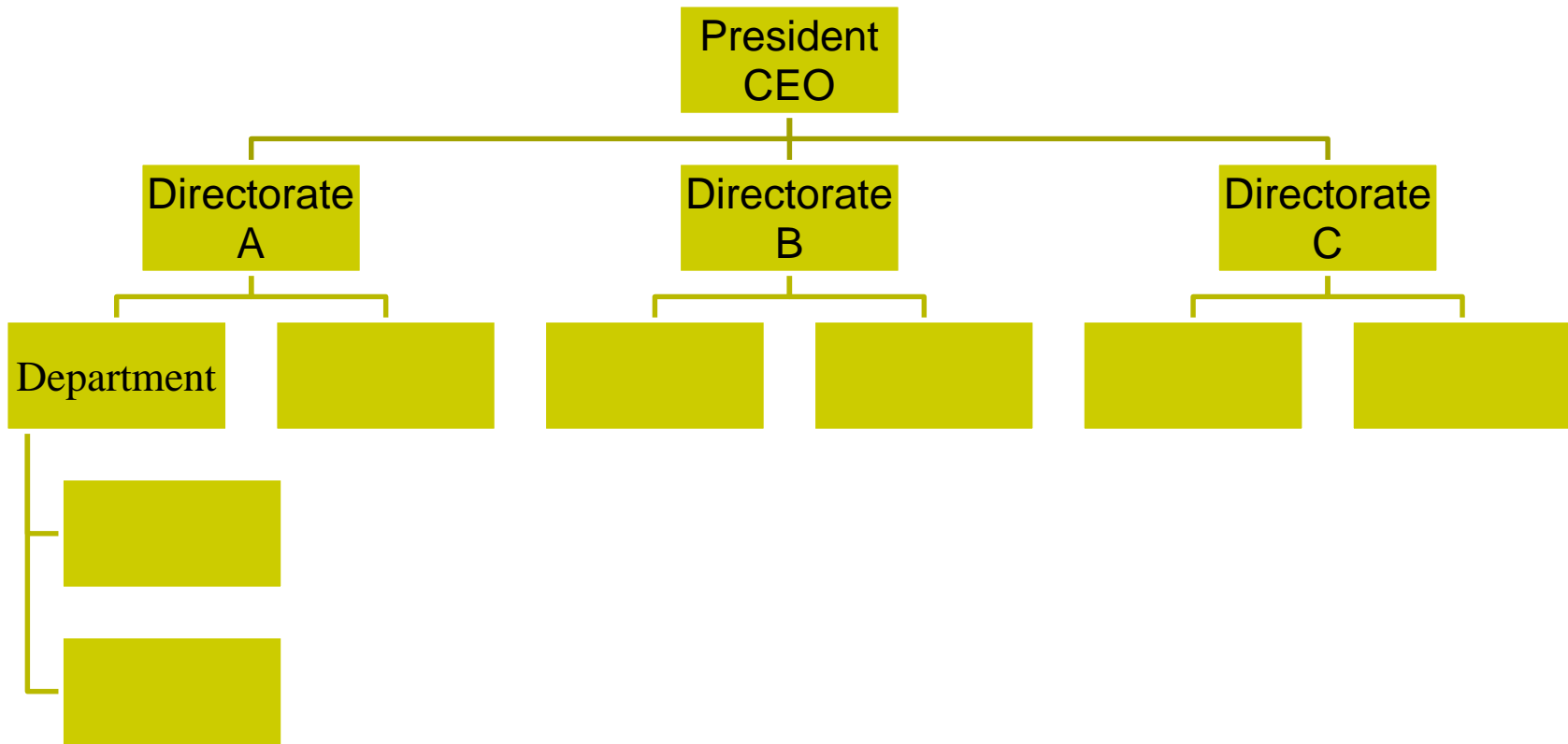
- Each company is based on organizational unit
- These units are structured hierarchal
- In some cases the hierarchy is instructed by law: Supervisory board and board of directors in companies by shares

Company hierarchies

possible hierarchies		
Level	Organizational unit	Description
CEO, President, Directors	Entire company	To lead the entire company
Head of direction	Direction	large and important unit in large companies
Head of department	department	Large unit in companies
Head of subdivision	subdivision	Subdivision of a department
Head of unit	unit	Unit with limited number of staff
Head of group	group	Unit with limited number of staff and specific duty
Collaborator, worker	position	Smallest function

Organizational structure/Organigram

One Line System

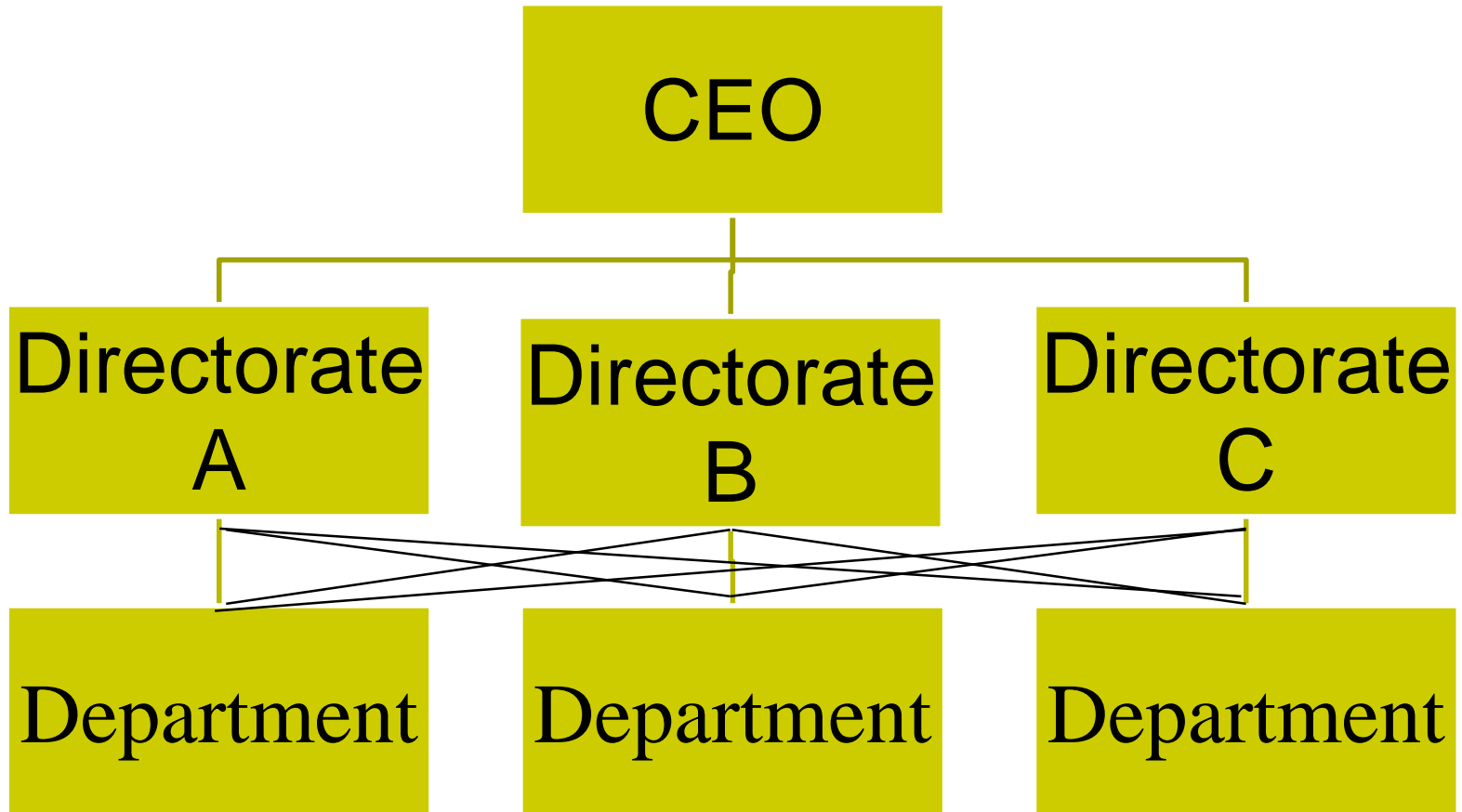


Advantage and Disadvantage

- Advantage:
 - Precise definition of duties and responsibilities
 - Precise definition of subordination
 - Uniform communication line
 - Clearly arranged
 - Power of decision in hands of superiors
 - Simple instruction flow to collaborators
- Disadvantage:
 - In larger companies overstress of collaborators
 - Teamwork difficult
 - Cumbersome and bureaucracy
 - Little quality in decision power
 - Promotes „Beamtenmentalität“

Organigram

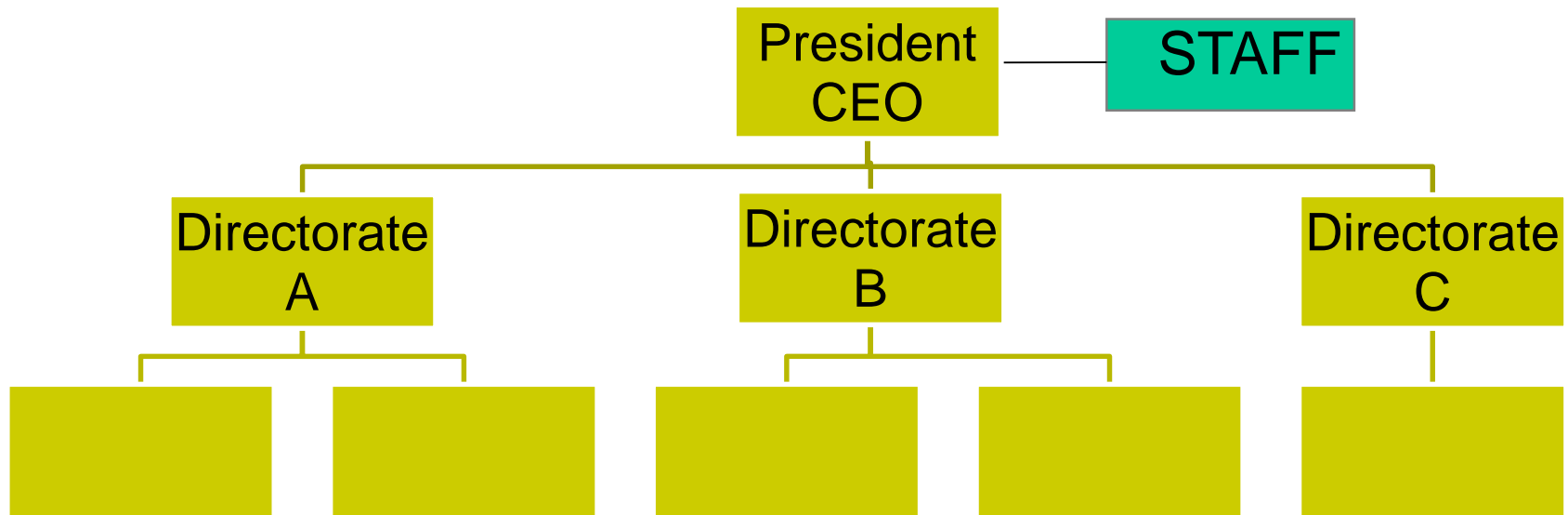
Multi line model



Advantages – Disadvantages Multi Line Model

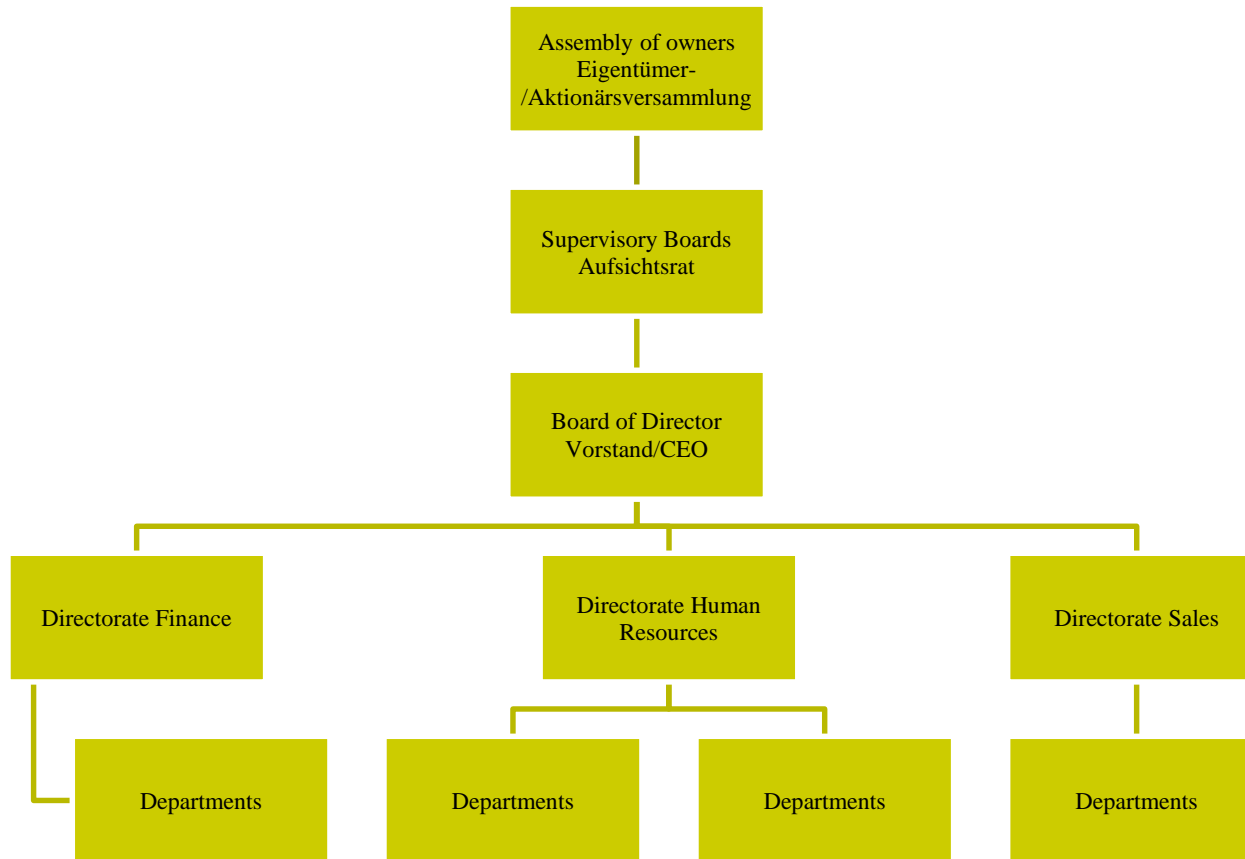
Advantage	Disadvantage
<ul style="list-style-type: none">● Less hierarchy● Short communication flow● Better decision making thanks to integration of more views and meanings	<ul style="list-style-type: none">● Too much communication● Dispute on competences● Real responsibility un-clearer● Collaborator has more than one superior

Staff Units Organigram (Stabliniensystem)



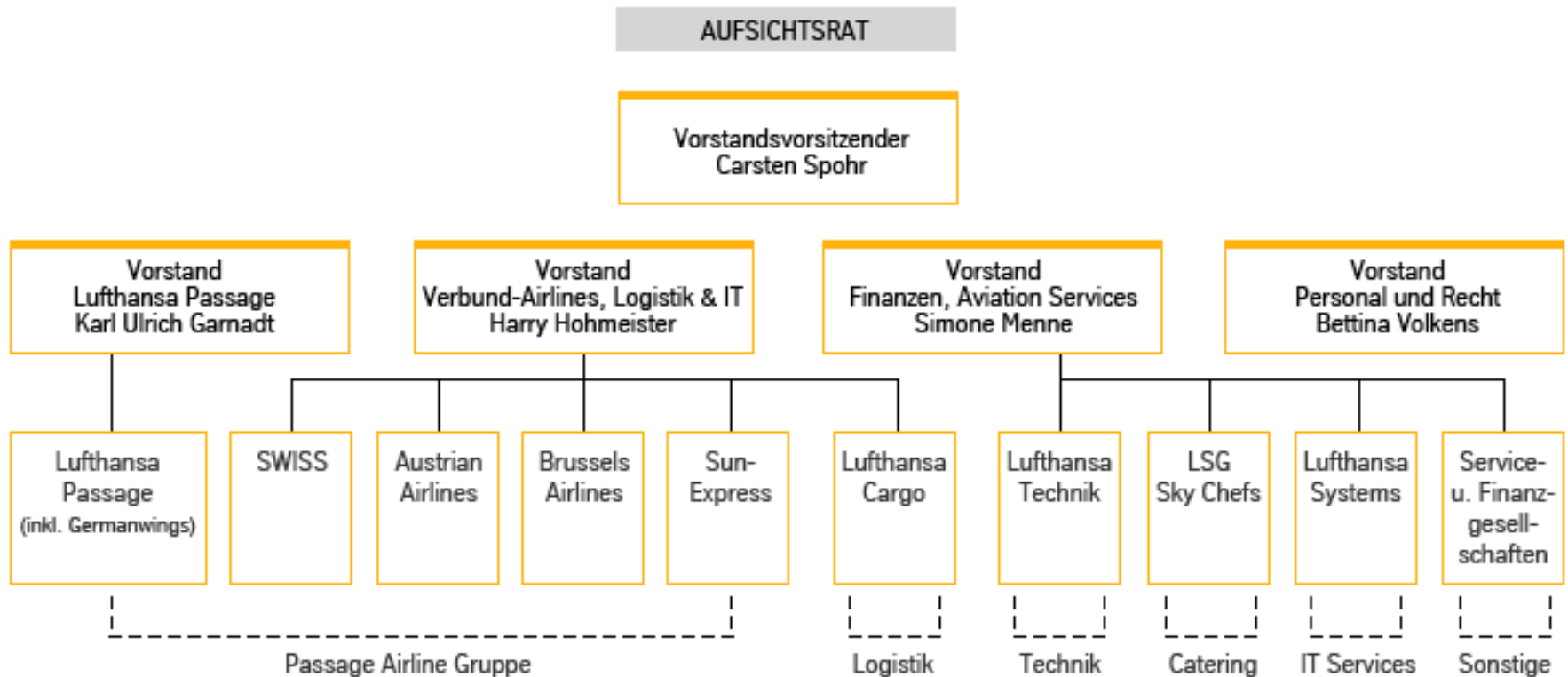
Staff units assist the organizational units, without having any power of decision

Typical Organigram German Corporation



Lufthansa: Organigramm (2015)

Konzernstruktur





Projektgruppe Digitale Wirtschaft	
Prof. Dr. Kollmann (Beauftragter für die Digitale Wirtschaft)	348
RBe Nussbauer	290
MR Dr. Scholz	357
RBe Schumacher, F.	436
RBe Schwaiger	151
RD in Währlich	298
ORR Hehmann	253
BGr-Min: RBe Piccolo	131

Minister Garrett Duin	
BGr-Min: RBe Philippen TA: RBe Hazzi	100/101, Fax: 700 210
Staatssekretär Dr. Günther Horzetzky	
BGr: RBe Dr. Kolzowald BGr-Min: RBe Henniger TA: RBe Fabianstein	370 102/103, Fax: 701 449

Pressesprecher RBr Kietzmann	
	204
MD 1 Fernlicher Referent NN RR Goraschewik	
OAR Sailer RBe Gabeler RBe Hecht RBe Over	431 437 152 157 152
MD 2 Arbeitsprogramm der Landesregierung, Strategische Planung, Kommunikation und Öffentlichkeitsarbeit	
LMR von der Hude (vgl. LMD) RBe Gudeat RBe Föllmer RBe Dittich RBe Samet	446 225 412 207 458
MD 3 Kabinetts- Fachminister MR Kle RR in H RR in H RR in H RR in H	
	446 225 412 207 458

Ministerbüro LMR von der Hude (vgl. LMD)	
Vorz.: RBe Bale Stellvert. Beamt.: RBe Hech	

Abteilung I Zentralabteilung	
RBr Burmeister	
BGr-Min: RBe Förster (vgl. I B 1) BStellvert. Beamt.: RBr Pfeiffer	201/306 Fax: 770 340
Gruppe I A Wirtschaftswachstum	Gruppe I B Organisation, Haushalt, Personal, Innere Dienst
MR Siebert (m.d.W.d.G.) BGr-Min: RBe Wellert (vgl. I A 2)	LMR Leitold Vorz.: RBe Bestler (vgl. TA I B 2)
115 224 Fax: 745	345 354 Fax: 770
Referat I A 1 Grundsatzzfragen der Wettbewerbsordnung, Vergaberecht, Prüfbehörde TVpG - NRW	Referat I B 1 Informations- und Kommunikationstechniken, Innere Dienst
MR in Dellwig RR Jularik RR in Dr. Rieder RAB Hofbach ROI Ennenmeier ROI Ulbrich	LMR Leitold RBR Gies ORR in Köhnen RBR Epping RBR Krüger, M. RBe Markus (vgl. I B 4) RAB Krüger, P. TA: RBe Philipp
157 218 190 163 837-2274 837-2276	345 249 196 285 277 229 142 407 Fax: 757
RBe Schmitz, P. RBe Bank RBe Förster (vgl. VZ AL 1) RBe Scher RBR Stenzel RBR Klein RBe Barobal RBe Blierbeck (Stellvert. Beamt.) RBe Gellier	345 249 196 285 277 229 142 407 Fax: 757
837-2409	
Referat I A 2 Schutz des geistigen Eigentums, Handels- und Gewerbeschutz, Kammernsicherheit, allg. Wirtschaftswachstum	Referat I B 2 Haushalt, BDIH
MR Siebert RR in Münster RD in Schradt, P. RBR Bonnkamp AR in Robbel TA: RBe Wellert (vgl. Verz. Gl. I A)	MR Bente OAR Schmitz, A. RBR Köppen ROI Wiedemann
115 Fax: 782	335 326 230 342
Referat I A 3 Landesprüfungsbehörde, Europäische Stellenkontrolle	Referat I B 3 Personal, Aus- und Fortbildung
MR in Dr. Rabanus RBe Dr. Thierne RBe Dufkowitz OAR Menemann OAR Schult RBe Merk	MR in Weik ORR in Dr. Hagen RBR Dufkowitz OAR in Krämer-Holschheim OAR in Lindau RBe Kaden-Martens AR in Pfeiffer TA: RBe Kerner RBe Kobnen RBe Michel RBe Bestler (vgl. Verz. Gl. I B)
435 286 227 118 170 251 Fax: 731	147 281 241 426 456 375 340 373 402 242 354
Referat I A 4 Zentrale Vergabestelle, Justizrat	Referat I B 4 Organisation, Stellungsverwaltung
MR in Schmitz, A.	MR in Dr. Schumacher, A.
302	

Abteilung II Wirtschaftspolitik	
MD Noll	
BGr-Min: RBe Gabeler BStellvert. Beamt.: OAR Beck	455/559 Fax: 725 363
Gruppe II A Wirtschaftspolitik, Europa	Gruppe II B Fortschritt NRW, Förderprogrammkoordination
LMR Kolmar Vorz.: RBe Gartz	RBR Rinker RBR Stankovic
245 230 Fax: 735	292 149 Fax: 735
Referat II A 1 Vollwettbewerbliche Grundsatzzfragen und Analysen	Referat II B 1 Förderprogrammkoordination, Controlling
MR Dr. Wassmann RR Beck RBR Ortmar	RBR Rinker RBR Schneider (vgl. II B 2) AR Mohr
457 355 155	292 317 324
Referat II A 2 Wirtschaftsbezogenes Umweltschutz, Wirtschaft und Umwelt	Referat II B 2 Fortschritt NRW, Gesellschaftliche Verantwortung
MR Dr. Nagel OAR Knobloch OAR Währlich	RBe Schwalm-Schäfer TA: RBe Rieger
334 404 329	343 440
Referat II A 3 Arbeits- und Sozialpolitik, Arbeitskräfteangebot in NRW	Referat II B 3 NRW BANK, Grundsatzzfragen des Kapital- und Finanzmarktes, Unternehmensbeteiligungs- gesellschaften
LMR Kolmar OAR in Friedel AR Steinle TA: RBe Steinle (vgl. II B 4)	MR Münster RBR Schneider (vgl. II B 1) OAR Plessentin OAR in Wanka TA: RBe Remmel (vgl. II A 4)
248 252 123 247 Fax: 781	271 317 385 272 309
Referat II A 4 Grundsatzzfragen des Europarechts, EU-Koordination	Referat II B 4 Steuern und Bilanzierung, ÖPP
MR Dr. Feldmann RBR Dör OAR Schwaiger TA: RBe Remmel (vgl. II A 3)	RBR Schröder OAR Beck OAR Schwaiger TA: RBe Steinle (vgl. II A 3)
415 145 205 200 Fax: 761	451 363 247 311 Fax: 761
Referat II A 5 Demografie, Integration, Wirtschaftspolitikliche Kommunikation	Referat II B 5 Informations- und Telekommunikationswirtschaft
RBR Gröbebaum	MR Schumacher, F.
351	436

Abteilung III Standortpolitik Industrie, Dienstleistungen, Cluster	
MD Bütof	
BGr-Min: RBe Lütges BStellvert. Beamt.: AR Winkens	455/107 Fax: 792 304
Gruppe III A Industrie, Zukunftsmärkte	Gruppe III B Dienstleistungen, Handel
RBR Dr. König BGr-Min: RBe Hoppe (vgl. TA III B 2)	LMR Dr. Rabenack BGr-Min: RBe Schmitz, M. (vgl. TA III B 2)
278 114 Fax: 792	391 274 Fax: 774
Referat III A 1 Grundsatzzfragen der Branchen- und Industriepolitik	Referat III B 1 Messpolitik, Inlandmesswesen, Kongresse
RBR Dr. König RR Oetel OAR in Späth TA: RBe Piccolo	LMR Dr. Rabenack RR Rowder RBR Oppenberg
278 170 330 131	391 162 388
Referat III A 2 Kreativwirtschaft	Referat III B 2 Handel, Dienstleistungen und Logistik
RBe Nussbauer RBR Ewers OAR in Steinhoff RBe Scher TA: RBe Kowalscher	MR Dr. Scholz ORR in Dr. Stoeckh RBe Zimmermann OAR in Fibig OAR Bergmann TA: RBe Schmitz, M. (vgl. Verz. Gl. II B)
290 309 289 354 442	357 132 244 307 257 274
Referat III A 3 Maschinen- und Anlagenbau, Produktionstechnik, Automobilbau, Neue Werkstoffe, Luft- und Raumfahrt	Referat III B 3 Gesundheitswirtschaft, Ernährungswirtschaft, Meer- und Eichwesen, Metallprüfung
RR Dr. Bauerdick OAR in Seidemann OAR Winkens TA: RBe Garmy RBe Reinartz (vgl. Gl. 70)	MR Blase RD in Dör AR in Stolpe RBe Prinz-Blum
166 428 250 330 183	216 279 175 430
Referat III A 4 Chemie, Kunststoff, Elektronikindustrie	Referat III B 4 Tourismus
MR in Kitzel RBe Mauer RBe Neumann, B.	RBR Jacobs RD in Anastasiadou ORR Schulz TA: RBe Görg
181 367 130	414, Fax: 783 322 386 177
Referat III A 5 Möbel, Textil, Papier, Steine und Erden	Referat III B 5 Informations- und Telekommunikationswirtschaft
MR in Dr. Bracht RD in Dr. Rehmann-Hölschenbusch OAR Ahle	MR Schumacher, F. RD in Dieck RD Flaig ORR Hehmann TA: RBe Buchberger
133 214 346 253 156	436 214 346 253 156

Abteilung IV Strukturpolitik, Mittelstand und Handwerk	
MD Dr. Henze	
BGr-Min: RBe Niedzial BStellvert. Beamt.: OAR Papner	186/336 Fax: 738 374
Gruppe IV A Strukturpolitik und Wirtschaftsförderung	Gruppe IV B Mittelstand und Handwerk
LMR Deltmer BGr-Min: RBe Wessing (vgl. TA IV A 2)	RBR Neuser Vorz.: RBe Abel
411 365 Fax: 794	417 337 Fax: 750
Referat IV A 1 Grundsatzzfragen der Förder- und Finanzierungsförderung, Konvention	Referat IV B 1 Grundsatzzfragen des Mittel- standes und des Handwerks
LMR Deltmer OAR Cammin RBe Kinde (vgl. IV A 2)	RBR Neuser RBe Schwaiger RBR Wölke, K.
411 347 192	417 151 252
Referat IV A 2 Regionale Wirtschaftsförderung, KMU-Kredite	Referat IV B 2 Mittelstand und Gründungen
MR in Paschmann ORR in Böhm OAR in Beyer OAR Papner (vgl. IV A 4) AR in Voigt RBe Kinde (vgl. IV A 1) TA: RBe Gölke RBe Jürgens	MR in Weichhard-Hilgers ORR in Beyer (vgl. IV B 4) RR in Dr. Lunweg OAR Döbel-Berger OAR in Rohde RBe Kalmes
421 173 291 374 331 192 250 168	171, Fax: 748 376 206 200 350 182
Referat IV A 3 Finanzwirtschaft, Bürgerhaushalt	Referat IV B 3 Handwerk, Freie Berufe, Gewerkschaften
MR Dr. Elbold RD in Währlich OAR in Carstenberg	MR Dr. Cloby RD Volmrecht OAR Kauken RBR Raymann
119 258 267	289 403 137 195
Referat IV A 4 Europäische Territoriale Zusammenarbeit	Referat IV B 4 Unternehmensnachfolge und -nachfolge, Unternehmens- betreuung
RBe Malzel OAR Papner (vgl. IV A 2) RBe Raach	MR in Kocks (m.d.W.d.G.) ORR in Beyer (vgl. IV B 2) ORR Schubert
167 374 325	447 376 194
Referat IV A 5 Regionale Entwicklung, Landes- planung, Regionale Aufstiege	Referat IV B 5 Informations- und Telekommunikationswirtschaft
MR Botanhoff RD in Zauner RBR Bohnen RBe Böhm	MR Schumacher, F. RD in Dieck RD Flaig ORR Hehmann TA: RBe Buchberger
135 301 243 377	436 214 346 253 156
Referat IV 1 Verwaltungsbehörde für den EFRE, Ziel "Wachstum und Beschäftigung", Europäische Struktur- und Investitionsfonds (ESI-Fonds)	
MR Dr. Roth-Harding MR Koch, M. RR in Lingrös OAR in Kemias RBe Heilmann RBe Landart RBe Soychevs RBe Kiewer RBe Meyer RBe Rosenbaum RBe Klug RBR Lohmann, K.	387, Fax: 788 223 165 129 316 221 245 353 321 429 202 378

Abteilung V Energiepolitik, Kerntechnik und Sicherheit	
RBR Gellner	
BGr-Min: RBe Balke BStellvert. Beamt.: RBR Guth	
Gruppe V A Energiepolitik und -technik	Gruppe V B Energiepolitik und -technik
LMR in Diaphaus BGr-Min: RBR Metzowick (vgl. TA V B 2)	MR in Kötter RR Dr. Ing. Kugeler ORR Falke SVR Janis RBR Fuchs
172 412 Fax: 752	398 422 213 425 452
Referat V A 1 Grundsatzzfragen der Energiepolitik	Referat V B 1 Grundsatzzfragen der Energiepolitik
MR in Diaphaus RR Dr. Ing. Kugeler ORR Falke SVR Janis RBR Fuchs	MR in Kötter RR Dr. Ing. Kugeler ORR Falke SVR Janis RBR Fuchs
172 412 213 425 452	398 422 213 425 452
Referat V A 2 Kraftwerks- und Netztechnik	Referat V B 2 Kraftwerks- und Netztechnik
MR Iven OAR in Higer TFAM Heger	MR Iven OAR in Higer TFAM Heger
409 236 453	409 236 453
Referat V A 3 Kernkraft, Energiehandel, Vertriebsprodukte	Referat V B 3 Kernkraft, Energiehandel, Vertriebsprodukte
MR in Krater RBR Mouswick TA: RBe Habel	MR in Krater RBR Mouswick TA: RBe Habel
371 150 306	371 150 306

Registrierung Abt. II: RBR Olson 379

Assistenzcenter Abt. IV: ...

Registrierung Abteilung V: RBe Schulte

Chapter 12: Marketing - Sales



Marketing/Sales

- Marketing is the activity of companies towards customers and markets
- Marketing is not just advertising or sales promotion A Market is the place where offer and demand of goods and services meet. Goods and services offered on the market are in short supply
- The exchange of goods is voluntary.
- Supplier and customer agree on the price.

Strategic and operative Marketing

- Strategic Marketing:
 - To serve which markets, which clusters of customers. Who is concurrent, what will be new products and trends. What are products, prices and distribution chain of concurrents
- Operative Marketing
 - What will be the design of the products
 - What will be the Communication and distribution strategy
 - Price policy

Marketing Concepts

- Production-Concept
 - Easily available products at low process
- Product Concept
 - Products with superior quality
- Sales Concept
 - Improved sales promotion activities
- Early Marketing Concept
 - Over-supply with goods. Saturation of consumption
 - Lifestyle- Event Marketing
 - Promote Awareness of live

Classification of the Suppliers

- Polypoly
 - Many small suppliers meet many small customers
- Monopoly
 - A single big supplier meets many small customers
- Monopsony
 - A single big customer meets many small suppliers
- Oligopoly
 - Some bigger suppliers enter into competition against each other. All represent market power.

Type of buyers and Product types

- Market for consumer goods
 - The need for consumption of private consumers is served to:
 - Analytical consumers
 - Price evaluating and hesitating consumers
 - Consumer abstinence
 - Ad hoc buyers
 - Prestige buyers
 - Suggestible Consumer-Fans

Classification of consumer goods

- Convenience goods
 - Cheap products for daily need and consumption
 - Special goods
 - Complex buyers decision process
- Shopping goods
 - More expensive products not for immediate consumption (clothing)

Economical principle

- To realize the highest profit with almost smallest input (*Mit geringst möglichem Aufwand ein möglichst maximales Ergebnis zu erreichen*)
- Profit is if revenue exceeds the total cost of its inputs
- net profit (before tax) is the revenue of the firm less costs such as wages, rent, fuel, raw materials, interest on loans and depreciation
- To operate economically means to satisfy the demand of the market for products by economic activity

Needs

- Basic needs
 - Nutrition, clothing, housing, health, education,
- Social needs
 - car, leisure, TV, music, culture
- Luxurious needs
 - Jewellery, exclusive leisure and clothing

Communication/PR

- Advertising
- Individual sales promotion (B2B)
- General sales promotion
- Public relations

Market research

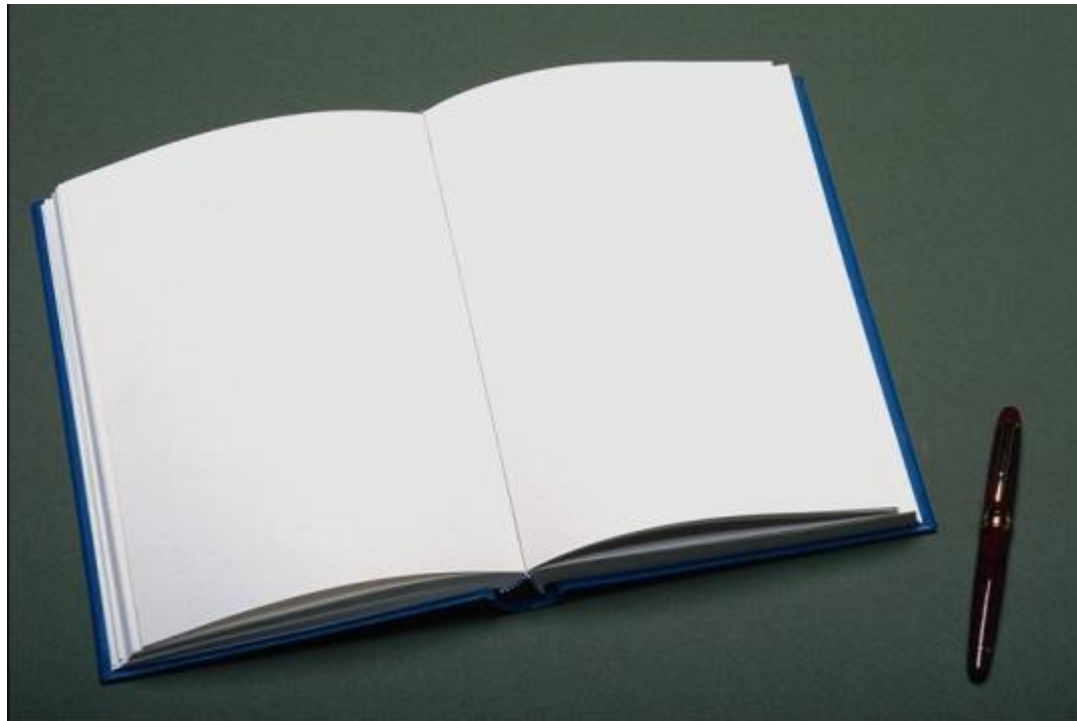
- Market research is the systematic collection and interpretation of market data
- Is need to orientate the supply of the producers to the needs of the consumers and market

Digital Marketing

Online Marketing



Chapter 13: Accounting Book Keeping



Business accountancy

- Duties and objectives
- Balance
- Profit, Profit & Loss
- Annual statements/company accounts

Bookkeeping

Bookkeeping is simply the recording of financial transactions.

Transactions include purchases, sales, receipts and payments by an individual or organization.

In the normal course of business, a document is produced each time a transaction occurs. Sales and purchases usually have invoices or receipts.

After a certain period, typically a month, the columns in each journal are each totaled to give a summary for the period. Using the rules of double entry, these journal summaries are then transferred to their respective accounts in the ledger, or *book of accounts*

Double Bookkeeping

A double-entry bookkeeping system is a set of rules for recording financial information in a financial accounting system in which every transaction or event changes at least two different nominal ledger accounts.

The name derives from the fact that financial information used to be recorded using pen and ink in paper books – hence "bookkeeping" and that these books were called journals and – and that each transaction was entered twice (hence "double-entry"), with one side of the transaction being called a debit and the other a credit.

Cash Account

1904		Dr.	Cr.
Jan. 1	Cash on hand,	234	17
	Paid Jan. rent to C. L. Isaac		15
3	Cash sales,		260
14	Recd. from E. D. Williams, in full,	115	
23	" " B. S. Johns, on act.,		8
28	Paid to S. J. Keen, on account,		8225
	" wages for January,		12750
31	<i>Balance forward to Page 18.</i>		<i>13502</i>
		35977	35977

GENERAL LEDGER		ACCOUNT		DATE		BALANCE	
DATE	DESCRIPTION	DEBIT	CREDIT	DATE	DESCRIPTION	DEBIT	CREDIT
1900	Balance forward			1900	Balance forward		
1901				1901			
1902				1902			
1903				1903			
1904				1904			
1905				1905			
1906				1906			
1907				1907			
1908				1908			
1909				1909			
1910				1910			
1911				1911			
1912				1912			
1913				1913			
1914				1914			
1915				1915			
1916				1916			
1917				1917			
1918				1918			
1919				1919			
1920				1920			
1921				1921			
1922				1922			
1923				1923			
1924				1924			
1925				1925			
1926				1926			
1927				1927			
1928				1928			
1929				1929			
1930				1930			

ASSETS
 LIABILITIES
 CAPITAL
 EQUITY
 DIVIDEND

Accountancy

Accountancy has two areas:

- Management accounting (Internes Rechnungswesen)
 - Cost accounting and control of profitability
- Financial reporting (Externes Rechnungswesen)
 - Each company has to publish (by law) at the end of each accounting year its annual statements and financial reports
 - This is also to render account to the owners of the company
 - Serves as basis for taxation
 - Serves to investors on stock-exchange

Economic vs. accounting profit

- If a firm is receiving economic losses (negative economic profits), the owners are receiving less income than could be received if their resources were employed in an alternative use.
- In the long run, we'd expect to see firms leave the industry when this occurs

Balance

- The balance sheet is one of the financial statements that limited companies and PLCs produce every year for their shareholders. It is like a financial snapshot of the company's financial situation at that moment in time. It is worked out at the company's year end, giving the company's assets and liabilities at that moment.
- It is given in two halves - the top half shows where the money is currently being used in the business (the net assets), and the bottom half shows where that money came from (the capital employed). The value of the two halves must be the same - Capital employed = net assets, hence the term balance sheet..
- Die Bilanz ist die Gegenüberstellung der in Geld bewerteten Vermögensgegenstände und des Kapitals. Kapital setzt sich aus Schulden und Reinvermögen zusammen.
- Reinvermögen ist die Differenz zwischen Vermögen (Aktiva) und Schulden (Passiva)
- Daher muss die Bilanzsumme immer ausgeglichen sein (auf beiden Seiten gleich)

Assets

- The money invested in the business may have been used to buy long-term assets or short-term assets. The long-term assets are known as **fixed assets**, and help the firm to produce. Examples would be machinery, equipment, computers and so on, none of which actually get used up in the production process.
- The short-term assets are known as **current assets** - assets which are used day to day by the firm. The current assets may include cash, stocks and debtors.

Balance (top)

- The top half of the balance sheet will therefore be made up of the total of the fixed and current assets, less any current or long-term liabilities the firm may have (creditors, loans and so on). It may look as follows:

	Million EUR	Million EUR
Fixed assets		200
Current assets- stock	40	
- debtors	50	
cash	20	
TOTAL	110	
less Current liabilities	- 40	70
NET ASSETS		270

Balance (bottom)

The bottom half of the balance sheet then looks at **where this money came from**. This depends on how the business was originally funded. The main source of money for a limited company starting up is the issue of shares. This is termed the share capital - the money the original shareholders put into the business.

From then on the assets of the company may be built up by ploughing profit back into the business. This is called **retained profit**, and is the other source of money usually included in the bottom half of the balance sheet. This may therefore look as follows:

Share capital	100	
Retained profit	170	
CAPITAL EMPLOYED	270	

Balance Sheet

Example: Opening Balance

Balance at 31.12.200x			
Assets		Liabilities	
Car	12.500	Credit from Grand'ma	2000
Furniture	5.200	Share capital	17.285
Debit against Friend	300		
Cash	1.285		
TOTAL	19.285	TOTAL	19.285

Definitions Balance

- Debt is bank credit or similar and other liabilities
- Share capital are proper funds (Eigenkapital)
- Liability shows from where the capital is coming
- Asset shows how the capital is used

Structure Company Balance Sheet

- Assets (Aktiva):
 - Fixed assets
 - Property
 - Plant and equipment
 - Intangible assets
 - Current assets
 - Inventories
 - Accounts receivable
 - Stock papers
 - Cash + equivalents
 - Less accumulated depreciation
- Liabilities (Passiva)
 - Stockholders equity
 - Preferred stock
 - Common stock
 - Capital surplus
 - Current liabilities
 - Accounts payable
 - Notes payable
 - Long term liabilities
 - Long term debt
 - Deferred taxes
 - Accumulated retained earnings
 - Less treasury stock

Chapter 14:

Values and ethics

A code of ethics is a vital document for any business, as breaches of ethics can land companies in serious trouble with consumers, other organizations or government authorities. Creating a code of ethics makes decision-making easier at all levels of an organization by reducing ambiguity and considerations of individual perspectives in ethical standards.

Companies formulate their own rules, such as:

- Code and Standard
- Rules of Compliance
- Code of Ethics
- Corporate responsibility

Standards of Professional Conduct may include:

- Are about: Integrity, competence, diligence, and respect.
 - Knowledge of the law
 - Independence and objectivity
 - No misrepresentation
 - No misconduct
 - No market manipulation
 - No misuse of information
 - Loyalty, prudence, and care
 - Fair dealing
 - Suitability Performance presentation (ensure that presentations are fair, accurate and complete)
 - Avoid conflict of interest

Code of Conduct for the International Red Cross

Code of Conduct for the International Red Cross and Red Crescent Movement and NGOs in Disaster Relief

Principle Commitments:

- The Humanitarian imperative comes first.
- Aid is given regardless of the race, creed or nationality of the recipients and without adverse distinction of any kind. Aid priorities are calculated on the basis of need alone.
- Aid will not be used to further a particular political or religious standpoint.
- We shall endeavour not to act as instruments of government foreign policy.
- We shall respect culture and custom.
- We shall attempt to build disaster response on local capacities.
- Ways shall be found to involve programme beneficiaries in the management of relief aid.
- Relief aid must strive to reduce future vulnerabilities to disaster as well as meeting basic needs.
- We hold ourselves accountable to both those we seek to assist and those from whom we accept resources.
- In our information, publicity and advertising activities, we shall recognise disaster victims as dignified human beings, not hopeless objects.

Transparency international

One global movement sharing one vision: a world in which government, business, civil society and the daily lives of people are free of corruption.

In 1993, a few individuals decided to take a stance against corruption and created Transparency International. Now present in more than 100 countries, the movement works relentlessly to stir the world's collective conscience and bring about change. Much remains to be done to stop corruption, but much has also been achieved, including:

- the creation of international anti-corruption conventions
- the prosecution of corrupt leaders and seizures of their illicitly gained riches
- national elections won and lost on tackling corruption
- companies held accountable for their behaviour both at home and abroad.

Transparency International: Case of Siemens

Transparency International (TI) welcomes the announcement by the World Bank on the resolution of its investigation into allegations of bribery by Siemens AG. TI also endorses the strong message conveyed by the Bank that companies will suffer severe penalties for engaging in corruption on World Bank financed projects.

“The precedent set by Siemens’ payment of US \$100 million sends a stark warning to companies that those found engaging in corrupt practices on World Bank financed projects will face monetary consequences in addition to debarment,” said Christiaan Poortman, TI Director of Global Programmes.

The Siemens case serves as a landmark, both in terms of the systemic and pervasive extent of the corrupt activities, and the far-reaching reform efforts that the company has undertaken to prevent future occurrences; including overhauling management completely, boosting compliance staff and training and compliance monitor oversight for four years. In formulating their settlement decision, the World Bank recognised the “robust and comprehensive compliance program” undertaken by the company, given the importance of remediation to prevent future occurrences.

Siemens: Compliance

Corporate Responsibility

Siemens is committed to exercising responsibility for society in every country in which it operates, so as to help create a secure future for all. Corporate responsibility is one of the levers which Siemens seeks to promote sustainable business development.

Responsible corporate leadership is a prerequisite for being accepted by society and achieving lasting success. We are a global player whose activities have a broad impact on customers, employees, shareholders, the environment and society as a whole. For us Corporate Responsibility means that we ensure the success and the future of our company by taking into account economic, social, ethical and environmental aspects, and that we establish clear and transparent standards for our company.

Corporate responsibility is a top priority at Siemens and is firmly embedded in our strategy. It encompasses four main areas:

- **Compliance**
- **Corporate Governance**
- **Sustainability**
- **Corporate Citizenship**

Code of good governance for universities (Netherlands)

1. Compliance and enforcement of the Code of good governance	4
2. The executive board	4
2.1 Task and method of working	5
2.2 Remuneration and appointment	6
2.3 Conflicts of interest	7
3. Board of trustees	7
3.1 Task and method of working	7
3.2 Independence	8
3.3 Expertise and composition	8
3.4 Remuneration for members of the board of trustees	9
4. Financial management	10
4.1 Financial reporting	10
4.2 The external auditor	10
4.3 The relation with the university's governing bodies	11
4.4 Market activities	11
5. Social accountability	11

Considerations

Codes of ethics take on additional importance and complexity in the international arena.

Ethical standards differ between countries and regions; international businesspeople must have an understanding of each culture's ethical standards to be most effective, and the company's code of ethics either be written to compromise with foreign ethical standards or to uphold a single code in all countries.

Thank you



- Thank you. I hope you have acquired basics in Economics, Business Administration and Organization. Though I hope you have discovered Economics and Management.
- An engineer who intends to become a manager or an executive of a company needs the study of Economics and Management
- Work and live cost efficient
- I wish you success with the continuation of your study and in your profession.