Selected economic and financial risks

Topic 5: Capital risks

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Aim of the topic

- The aim of the topic is to acquaint students with the management of selected financial and economic risks in the company

Content

- Capital
- Introduction to business theory
- Costs and their management
- Production factors and their classification
- Combination of production factors
- Consumption of production factors
    - The concept of costs in accounting
    - Type classification of costs
    - Cost classification
- Economic result and its monitoring
- Business result - revenues and profit / loss
- Breakeven point analysis
- The essence financial analysis
    - Indicators
- Cash management model
    - I Baumol's model
    - II Miller a Orrův model
    - III Cash Pooling

Capital

- Capital in economics can be understood in various forms, as:
    - capital goods (physical capital), which are goods that are not consumed in production (or are consumed gradually - they wear out);
    - financial capital, ie money and so-called financial assets;
    - human capital is perceived as a store of knowledge and skills embodied in the labor force of the economy.

- The decision-making of an entity entering the capital market is significantly affected by the movement of the price level. Each entity entering the capital market will have to address at least two issues:
    - how much of the income it uses to purchase goods for its consumption, ie deciding on consumption over time;
    - how much money they spend to buy capital, ie, investing.

- Consumer income se consists of:
  - expenditure;
  - Savings.
- Consumer decisions therefore consist of determining how much money is spent on consumption and how much on savings, with such decisions being influenced, for example, by interest rates and inflation

Introduction to business theory

- Business economics = a scientific discipline focused on one of the subjects of a market economy - enterprise.
- Business has 4 basic components:
  - basic the motive is to make a profit;
  - profit is achieved by satisfying needs customers;
  - needs The customer satisfies the customer with his products and services through the market → risk;
  - on At the beginning, the entrepreneur invests capital in the company

- **Types of markets:**
    - Perfect competition
    - Monopoly
    - Oligopoly
    - Monopolistic competition

Costs and their management

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Production factors and their classification

- VF from national economic theory of work, soil, capital.
- VF from a business point of view
  - dispositive work (business management)
  - executive work
  - tangible fixed assets (land, buildings, machines, tools)
  - materials (raw materials, auxiliary and operating substances)

Combination of production factors

- The dispositive factor of work is the management, which effectively (what is efficiency) connects and combines HF into an effectively functioning unit.
- differentiation of enterprises according to the predominant factor of production
  - investment (capital) demanding
  - labor intensive
  - materially demanding

Production consumption factors

- When we have resources, we consume them = cargo
- Monetary consumption VF
- expediently and earmarked funds.

Costs (costs) can be defined as ***purposeful and effective*** spending resources and work.

Costs - monetary consumption of HF purposefully spent on revenue generation (concept of costs in financial accounting).

The concept of costs in bookkeeping / Accounting

- Associated with the concept of accrual of costs and revenues
    - Deferred costs - Expenditures are made on products that will be produced in future periods
    - prepaid expenses - products made in the current period, but also incur costs in future periods
- Difference between FA and MA

Cost classification

Species classification costs

The income statement combines a double classification of costs - by activity - operating, financial and extraordinary costs and by cost kinds:

- based on production factors
- areas of activity: operational, financial, extraordinary
- basic cost types: consumption of materials, energy and external services, personnel costs, depreciation of tangible and intangible fixed assets, financial costs
- is recorded in financial accounting

Purposeful classification of costs

= according to department or performance

- It is a classification of costs according to the purpose of their use according to the performance provided by them.
- Internal departments = centers
- Centers = locally defined parts of the enterprise (cost centers)

Calculating breakdown of costs

= direct and indirect

For the needs of calculation, ie cost assignment / evaluation of the calculation unit.

Costs depending on changes in production volume

= fixed and variable

N = F + (bxq)

Further breakdown of costs

- costs according to functions can be divided into: acquisition, storage, production, administration, sales
- costs according to the origin of the consumed inputs.
- incremental costs
- marginal costs
- sunk costs
- relevant costs / irrelevant
- dependent / independent costs
- opportunistic (alternative) costs
- explicit / implicit

The economic result and its monitoring

revenues and profit / loss

$$T = \Sigma pc \cdot q$$

- T - sales
- q - volume of product sales
- pc - prices of individual products

In general:

PROFIT = (revenues - costs) - taxation

LOSS = revenues lower than costs

Z = T - N

Result enterprise

- Distribution profit
- Loss settlement

Point analysis reversal

Use of cost functions by managers to make decisions:

- effective form of economy - by expanding production within fixed fixed costs, unit costs are reduced
- economical form of economy - rationalization of production reduces unit variable costs

- The turning point is graphically the intersection of the sales / revenue line and the line costs

q (BZ) = F / (jpc - jvn)

$$q\left(BZ+Z^{+}\right)=\frac{F+Z^{+}}{p-b}$$

The essence of financial analysis

- It represents the process of investigating and drawing conclusions from the financial results of a person's past or future periods, including identifying his strengths and weaknesses, testing individual financial parameters and verifying their true explanatory power.
- FA = creation a system of warning signals about the existence or possible emergence of certain problems in a certain area, such as the cost or binding nature of current assets.

Indicators

- Indicators profitability
- Indicators liquidity
- Indicators indebtedness
- Indicators activities
- Market value indicators

Cash management model resources

I Baumol's model
II Miller a Orrův model
III Cash Pooling

Resources on the topic

- MAREK, Petr. *Study guide to business finance*. Prague:Ekopress, 2006. ISBN 80-86119-37-8.
- SOUKUPOVA, Jana. *Microeconomics*. 3rd add. ed. Prague: ManagementPress, 2002. ISBN 80-7261-061-9.
- SYNEK, Miloslav. *Business Administration*. 3.rework. a dopl. Prague: CH Beck, 2002. Beck's economic textbooks. ISBN 80-7179-736-7.
- *Managementmania* [Cited: 17. 06. 2020]. Available at: https://managementmania.com/

Tasks and questions on the topic:

1. What forms of capital do we know from the point of view of various economic theories?
2. What are the production factors of the company according to Wöheho theory?
3. What is included in tangible fixed assets?
4. How can we characterize fixed and variable costs in relation to the company's activities?
5. What is a species classification of costs and what is it based on?
6. How does the turning point relate to profit and loss?
7. What are the main characteristics Baumol model?
8. What are the main characteristics Orro and Miller's model?

Thank you for your attention