

# Study Notes

Financial Accounting: An Introduction to Concepts, Methods, and Uses, 14e  
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## 1 Overview of Business Activities

Understanding **financial reports** requires an understanding of the **activities of the business**:

- Establish corporate goals and strategies.
- Obtain financing.
- Make investments.
- Conduct operations.

### 1.1 Establish Corporate Goals and Strategies

**Goals** are the end results toward which the firm directs its energies, and **strategies** are the means for achieving those results.

Establishing corporate goals and strategies does not directly affect the firm's cash flows. The other three business activities—obtaining financing, making investments, and conducting operations—either generate cash or use cash.

### 1.2 Obtain Financing

To carry out their plans, firms require **financing**, that is, funds from **owners** and **creditors**.

- **Owners** provide funds to a firm and in return receive ownership interests.
- **Creditors** provide funds that the firm must repay in specific amounts at specific dates.
  - **Long-term creditors** require repayment from the borrower over a period of time that exceeds one year.
  - **Short-term creditors** require payment over the next year.

Each firm makes financing decisions about the proportion of funds to obtain from:

- owners;
- long-term creditors, and;
- short-term creditors.

### 1.3 Make Investments

A firm makes investments to obtain the **productive capacity** to carry out its business activities.

**Investing activities** involve acquiring the following:

- Land, buildings, and equipment.
- Patents, licenses, and other contractual rights.
- Common shares or bonds of other firms.

- Inventories.
- Accounts receivable from customers.
- Cash.

## **1.4 Conduct Operations**

Management operates the **productive capacity** of the firm to generate earnings.

**Operating activities** include the following:

- Purchasing.
- Production.
- Marketing.
- Administration.
- Research and development.