UNIT 4

ECONOMIC-ADMINISTRATIVE FUNCTION IN A COMPANY

PART I: ACCOUNTING

Carlos J. Riquelme

1. ACCOUNTING: BASIC NOTIONS

1.1. Information and fair value accounting

Once we start a business, we will have to make other decisions related to the day-to-day business.

The main function of accounting is to provide information to the company's manager so he/she can make timely decisions. Accounting is the main business information and control mechanism.

The relevant information for accounting is everythig that is related to the **valuation of business assets**: bank accounts, buildings, computers, merchandise, bank loans…

In order to register information related to the composition and valuation of corporate assets, accounting uses a series of **predetermined standards** which are established by law.

Accounting information must be carried out in the most **objective** way. It must be **reliable**, ie, free from manipulation of data and material errors. In this sense, accounting information should present the **fair value of the company's equity** (patrimonio), and the **results (losses or profits) derived from its activity**, according to legislation.

One of the principles used is named ***relative importance.*** According to this principle, it is only necessary to record those events that are relevant. Events that are insignificant (for example to lose a pencil) in relation to business size will not be counted.

In Spain, the **General Accounting Plan** (Plan General Contable, PGC in spanish) is the accounting reference text that regulates the information contained in the accounting books.

The General Accounting Plan in force in Spain is that of **2008**, a plan designed to make Spanish and European accounting more similar to other countries. This fact facilitates international comparison of accounting in an increasingly globalized world.

In Spain, there are **two accounting plans**, depending on the size of the company.

- **General PGC:** for companies that have Assets equal to or greater than € 2,850,000, their annual turnover is equal to or greater than € 5,700,000 and have more than 50 employees.
- **PGC for SMEs** (Summary Annual Accounts, Cuentas Anuales Abreviadas): whose Assets are less than € 2,850,000, turnover less than € 5,700,000 and have 50 or fewer workers.

To choose the second one is necessary to collect, at least two of the characteristics described above, throughtout a period of two years.

1.2. Annual Accounts (Cuentas Anuales)

One of the most important parts of the PGC, is that which refers to the Annual Accounts. As its name indicates, Annual Accounts **summarize the information** referred to a period of time (normally one year) and are **formed**, among others, by the **Balance Sheet** (Balance de Situación) and the **Income Statement** (Cuenta de Resultados o Cuenta de Pérdidas y Ganancias).

The Annual Accounts are documents or accounting statements that summarize the information regarding the business assets, the financial situation and the results of each year.

In addition to the Annual Accounts we have to consider the Inventory of the company, a kind of detailed balance sheet, where the assets are arranged in a single column.

Both of them form the Inventory and Annual Accounts book, that is mandatory according to Trade and Accounting Standards. It is composed, among others, by the following documents:

- **Balance sheet** (Balance de Situación)

- **Income Statement** (Cuenta de pérdidas y ganancias)

- Schedule (Memoria)

- Statement of changes in net assets

- Cash Flow Statement (Only in companies with general PGC)

We will analyze the most important ones: Balance sheet and Income statement.

Each of the periods of time, normally a calendar year (año natural), in which companies divide their activity is called a ***period*** (ejercicio económico) to determine whether the management has responded as expected.

In order to prepare the Annual Accounts, which usually happens every December 31, coinciding with the end of the calendar year, it is necessary an annotation mechanism that previously registers the information. This important function corresponds to the Daily book (Libro Diario), the other mandatory book according to the Code of Commerce. In the Daily book are registered all the business operations.

2. COMPANY EQUITY (Patrimonio empresarial)

Accounting records everything that has to do with business equity, which we represent as a set of elements of a different nature (goods or assets in general, rights and debts or liabilities) susceptible to valuation.

Business equity = Assets + Rights - Liabilities

An asset (or good) is any element necessary for the development of business activity (machines, transport, goods, money ...). For its part, rights are, in general, amounts of money pending collection (pendientes de cobro) (for example, an invoice, una factura). Instead, liabilities are amounts of money still to be paid (for example, taxes). The difference in value between the assets and the rights you own and the liabilities you have constitutes the reliable (real o fehaciente) equity of the company. In Accounting, this difference is called Net or Equity and is what the company is really worth (su valor real).

Net (Equity) = Assets (Goods) + Rights – Liabilities (Debts)

From the Net formula it is possible to establish new groups:

Assets (Goods) + Rights = Net + Liabilities

Since the transformation of goods and rights into money supposes wealth for the company, they are called as an active set or **Assets** (Activo). On the other hand, all debts, as they constitute a burden (una carga), are called Liabilities (Pasivo) if you have to return to others and Net (Neto), if you do not have to return to anybody.

Assets = Net + Liabilities

This equality is known as the **fundamental equity equation** and is overall used to represent the equity of companies. Each of these groups (assets, net or liabilities) receives the name of **equity mass** (masa patrimonial)

Example:

If the only asset you have is a house valued at € 300,000 but that was acquired with a bank loan (préstamo bancario) of € 200,000, the net or equity is worth € 100,000.

House (€ 300,000) = Net (€ 100,000) and Bank Loan (€ 200,000)

Assets (€ 300,000) = Net (€ 100,000) + Liabilities (€ 200,000)

2.1. The balance sheet

The fundamental equity equation allows us to relate the origins and applications of funds (el origen y la aplicación de los fondos) at a glance, through the Balance sheet.

The **Balance sheet** is a document that summarizes the overall situation of the company at a given moment of time by presenting its assets, rights and liabilities valued.

ASSETS **Investments**	**EQUITY (NET) AND LIABILITIES** **Sources of funding**
Assets (Goods) *Rights (to be collected)* (Applications of funds)	*Equity (Net)* *Liabilities (Debts)* (Sources of funds)

Example

If we wanted to represent by means of a balance sheet the personal assets that we used as a model in the previous section, this would be the result:

ASSETS **Investments**	**EQUITY AND LIABILITY** **Sources of funding**
House € 300.000	Equity € 100.000 Debts € 200.000

Comment: The net and liabilities break down (desglosan) the sources of own financing (€ 100,000) and bank financing (€ 200,000) that have made possible the investments (house) present in the assets.

Each of the elements that make up the company equity are called **accounts** (**cuentas**) and they are gathered in different **submasses**, that we are going to study later. The name of each account is determined in PGC.

We are going to study now the structure of the Balace sheet. The diffents groups of elements that we are going to describe can be considered as equity submasses:

A. ASSETS (ACTIVO)

Assets show the investments that the company needs to make in order to carry out its business activity, ordered according to the length of stay in the company. In this sense, assets are classified as non-current assets (with a permanence of more than one year) and current assets (with a permanence of one year or less).

- **Non-current assets (Activo No Corriente).** It is made up of those assets linked to the company for more than one year. The most important groups are:

  - **Intangible Assets (Inmobilizado Inmaterial).** They are those goods that the company needs to produce but that do not have physical materiality. Example: an industrial property (a patent or a trademark (marca)) or a computer application.
  - **Tangible Investments (Inmobilizado Material).** It is made up of those tangible and corporeal assets owned by the company, which the company uses for its productive activity during a series of periods. Example: Land, Buildings, Machinery, Information technology equipment, Furniture or Motor vehicles.
  - **Financial Investments (Activo Financiero).** It is made up of those investments, temporary or permanent, that finance the activities of other private or public companies. Example: Permanent investments in other companies (shares (acciones) acquired with

the intention of controlling another company) or Fixed Income Securities (valores de renta fija) that generate a fixed interest.

Amortization

Most non-current assets lose value over time due to **wear** (uso) and **tear** (desgaste) or obsolescence. This fact is reflected in the accounting through the concept of amortization.

Amortization reflects the irreversible value losses suffered by the various elements of the Non-Current Assets. They appear with a negative sign in the Balance Sheet.

For example, imagine the case of a van that the company purchased for € 120,000. In five years it does not have the same value due to its wear and tear.

Obsolescence is the loss of utility of machinery or other types of goods due to technological change. For example, the typewriter that was replaced by the computer.

Each year the amortizations must appear as an expense (gasto) in the Income Statement. You must bear in mind that **it is an expense that does not imply outflow of money** in the company. However, the reported profit decrease because the difference between expenses and income is smaller.

- **Current Assets (Activo Corriente):** It is made up of those elements that are in constant rotation, i.e., that are renewed several times in the same financial period. The fundamental submasses of this type of asset are inventories, realizable and available (cash):
  - **Inventories (Existencias).** They are composed of those materials that are used in the production of the product or the goods already manufactured that constitute the company's own activity. All these assets have to undergo (sufrir, experimentar) a transformation or sale to become liquid after a period of time. They are the raw materials, the containers or the goods.
  - **Trade Receivable (Realizable).** These are invoices pending to be paid by Clients (due to sales of merchandise) or by debtors (deudores) (due to the provision of services). People who owe money to the company are called in general Debtors or Receivables (Deudores). If we have a bill of Exchange (letra de cambio) against a client, that we will charge in a periodo of time we say that we have *Trade receivables, trade bills receivable (clientes, efectos a cobrar)*
  - **Cash (Disponible).** It is composed by those elements that, due to being liquid, have immediate availability. There are mainly two: Cash, and Banks and financial institutions (money in bank accounts).

EQUITY MASS	EQUITY SUBMASS 1	EQUITY SUBMASS 1.1.	ACCOUNT PGC
ASSETS	NON-CURRENT ASSETS	INTANGIBLE ASSETS	Industrial property
		MATERIAL INVESTMENTS	Land, Buildings…
		FINANCIAL INVESTMENTS	Fixed Income Securities…
	CURRENT-ASSETS	Inventories	Merchandise…
		Trade receivable	Clients…
		Cash	Cash, Bank accounts…

B. NET (EQUITY) (NETO) AND LIABILITIES (PASIVO)

We are going to study both given their similarity. Net is referred to the own resources of the company. However, liabilities are resources that belong to third parties. Net and non-current liabilities are classified as long-term (permanence greater than 1 year), while in the short term (permanence equal to or less than 1 year) only current liabilities are included.

- **Net (Equity) (Neto o Patrimonio Neto)** It is made up of resources that do not have to be returned throughout the life of the company. They are the most stable funds of the company, since they are not required by third parties. Examples of Equity are Capital (contributions from individual entrepreneurs), Share Capital (Capital social) (contributions from partners in corporate companies), Reserves (undistributed profits that are used to increase the own resourcess) and Profit/Loss pending distribution or application (Beneficios o pérdidas pendientes de distribución).
- **Non-current liabilities (Pasivo No Corriente):** It is made up of those debts with a repayment term greater than one year. A very common example is long-term debt with financial institutions (bank loans).
- **Current liabilities (Pasivo Corriente).** Also called short-term enforceable (exigible a corto plazo), it is made up of those debts whose repayment period is equal to or less than one year. These are debts pending payment with Suppliers (proveedores) (of merchandise), Creditors (Acreedores) (for supplies, called other payables) or public entities such as Social Security or Taxation authorities (Administración Tributaria).

Observe: If we owe a bill of exchange (letra de cambio) to a supplier that we will return within a period of time, it is called Suppliers trade bills payable (proveedores, efectos a pagar).

Submass	Equity element	PGC (Accounts)
NON-CURRENT ASSETS	Computer programs	Computer software
	Land, mines, quarries (canteras)	Land and natural resources
	Flats, commercial premises, warehouses	Buildings
	Machines for production	Machinery
	Furniture and non-electronic office furniture	Furniture
	Computers and electronic devices	Information Technology Equipment
	Vehicles with which the company develops its activity	Motor vehicles
CURRENT ASSETS	Goods acquired by the company for sale without transformation	Merchandise
	Rights on sales of the product that constitutes the main activity of the company	Trade receivables (Clients)
	Bills of exchange pending to be collected (Letras de cambio pendientes de cobro)	Trade receivables, trade bills receivable (Clientes, efectos a cobrar)
	Money in bank accounts	Banks and financial institutions
	Cash availiability	Cash
NET (EQUITY)	Own resources of individual entrepreneurs	Capital
	Own resources in corporate companies	Share Capital
	Undistributed profits	Reserves
NON CURRENT LIABILITIES	Long-term bank loans	Non-current debt with financial institutions
CURRENT-LIABILITIES	Debts with habitual suppliers	Suppliers
	Debts with service providers	Payables for the rendering of services (Deudas por prestación de servicios)
	Bills of exchange pending to be paid	Suppliers, trade bills payable (Proveedores, efectos a pagar)
	Contributions pending to be paid to Social Security	Social Securty, payables
	Debts pending payment with the Tax Agency (Hacienda)	Output VAT (Value Added Tax) IVA a ingresar

Exercise

The assets of the company Scaece, S.A. are composed by the following elements:

- Business premises (Locales de negocio) valued at € 500,000.
- A truck that was purchased for € 58.000.
- Several computers valued at € 4.700.
- Business management software valued at € 800.
- Goods ready for sale for an amount of € 7.500.
- € 12700 in a bank current account.
- € 3.490 in cash.
- Several clients owe the company € 4.700.
- Scaece, S.A. owes € 208.000 to the Logroño Bank that must pay in 10 years
- Scaece, S.A. owes € 15.700 to Caja de la Rioja that must be paid in 10 months and € 8.900 euros to suppliers of merchandise.
- The loss of value of tangible assets, due to obsolescence and wear and tear, was € 14.700.
- The owners contributed € 344.590.

Describe the **Balance Sheet.**

ASSETS (Assets or goods, and rights pending to be paid)
Non-Current Assets 548.800
Computer software € 800
Business premises € 500.000
Motor Vehicles € 58.000
Information Technology Equipment € 4.700
Amortization € -14.700
Current Assets 28.390
Merchandise € 7.500
Clients € 4.700
Banks and financial institutions € 12700
Cash € 3.490
TOTAL ASSETS 577.190

NET AND LIABILITIES
Equity or Net 344.590
Capital € 344.590
Non-current Liabilities € 208.000
Long-term bank loan € 208.000
Current Liabilities € 24.600
Short-term bank loan € 15.700
Suppliers € 8.900
TOTAL NET AND LIABILITIES 577.190

3. INCOME STATEMENT (CUENTA DE PÉRDIDAS Y GANANCIAS O CUENTA DE RESULTADOS)

Accounting also discloses the results obtained by the company during a certain period of activity, which depend on good or bad business management.

From an accounting point of view, **business management** is expressed through the difference between **income and expenses**. If incomes are greater than expenses, the **results** of the exercise will be positive. Otherwise they will be negative.

The division of business management into periods of activity is more than logical: in addition to assess if the management obeyed what was expected in order to adopt the appropriate measures, it is necessary to pay taxes on profits, and to present Annual Accounts. Remember that the Income Statement is a document of the Annual Accounts.

3.1. Most common expenses and income

Expenses:

- Purchase of merchandise. Provision of goods that constitute the usual actitivity of the company.
- Leases (arrendamientos). Rental expenses.
- Services of independent professionals. Amount paid to professionals for the services provided. Example: Lawyers, consultants (asesores) or notaries.
- Banking services. Expenses for bank commissions.
- Utilities (Suministros). Non-storable (no almacenable) consumption expenses. Example: Light, water or gas.
- Other tributes. Amounts paid for taxes different to Corporation Tax (Impuesto de Sociedades). For example, the Real Estate Tax (el Impuesto sobre Bienes Inmuebles)
- Corporation Tax. Main tax on the profits of corporate companies which, in general, 25%.
- Wages and salaries. Personnel salaries.
- Social Security payable by the company. Contributions paid for company's workers.
- Other financial expenses. Interest on payables (intereses de deudas). They are interest on debts with financial institutions (like a bank accounts against the company).
- Allowances (Dotaciones) for amortization. Quantification of the depreciation experienced by intangible and tangible assets during the year. Remember that the expense is recognized but it does not imply an outflow of money from the company.

Income:

- Sales of merchandise: Income derived from the sale of the goods that constitute the normal activity of the company.

- Provision of services: Income whose origin are services rendered by the company.
- Another financial income: Interest on bank accounts in favor of the company.

The Income Statement is the document that summarizes the results of the company's financial year by presenting expenses and income.

3.2. Presentation template

Expenses and income are arranged, depending on their nature, into 4 groups:

- **Result from operating activities (Resultado de Explotación).** Results related to the typical activity of the company.
- **Net Finance Income/(Expense) (Resultado financiero).** Results related to the financing of the company.
- **Profit/(Loss) before Income Tax. (Resultado antes de Impuestos).** Sum of operating and financial results.
- **Profit/(Loss) for the period (after tax). (Resultado del Ejercicio).** In the case of companies, the final result is what remains after deducting the Corporation Tax.

A) Result from operating activities	+ Income (sales or services rendered) - Expenses (purchases, supplies (utilities), salaries ...)
B) Net Finance Income/ (Expenses)	+ Financial Income - Financial expenses
C) Profit/(Loss) before Income Tax (A + B)	
- Income Tax	
D) Profit/(Loss) for the period	

Example:

Design S.A., is a company dedicated to the production and sale of furniture. In 2020, the company presents the following data:

- Total sales: € 453.000.
- Salaries: € 170.000.
- Merchandise purchases: € 290.000.
- Interest on debts: € 2.200.
- Financial income: € 130.
- Profits from the sale of a company building: € 57.900.
- Amortizations: € 2.200.

Sales of merchandise	453.000
Merchandise purchased	-290.000
Personnel Expenses (Salaries)	-170.000
Amortizations	-2.200
Profits from the sale of a company building	57.900
A) Result from operating activities	**48.700**

Financial Income	130
Financial Expenses	-2200
B) Net Finance Income/ (Expense)	**-2070**
C) Profit/(Loss) before Income Tax (A + B)	**46.630**
Income Tax (25%)	11.657,50
D) Profit/(Loss) for the period	**34.972,50**

4. ACCOUNTING ANALYSIS

We have learned to classify accounting information. Now, we are going to analyze and interpret it.

1. Balance Sheet Analysis: Financial balance (equilibrio financiero) and working capital (fondo de maniobra)

Any company has debts that it must face. To do this you must have financial resources that allow you to pay your debts.

The company is in a **financial balance** (equilibrio financiero) if it can pay its short-term debts when they must be paid.

There are various **situations** of the company regarding its financial balance:

- **Maximum stability**

The company has no Liabilities. Therefore, Assets is financed with Equity (Net). The *company is not at financial risk*.

- **Ordinary (Normal) financial situation**

Total Assets of the company are greater than Liabilities. Furthermore, Current Assets are greater than current liabilities.

It is said that in this case the company has a **Working Capital (Fondo de Maniobra)**. The Working Capital is the difference between Current Assets and Current Liabilities.

In this case, the company has *sufficient short-term resources to deal with its short-term debts.*

- **Financial instability (provisional insolvency)**

Total Assets are greater than Liabilities. But the Current assets are less than the Current liabilities. In this case the Working Capital is negative.

The company may have *difficulty paying* back its *short-term debts,* because it lacks sufficient liquidity. This can lead to legal problems.

- **Financial instability (final insolvency)**

Total Assets are less than Liabilities. The company is unable to pay all its debts, even if all its Assets are sold. It is said that the company is in a *bankruptcy situation* and will have to sell all its Assets.

- **Maximum financial instability (final insolvency)**

Assets are 0. Liability is greater than zero. *The company does not keep any Assets and no creditor will be able to collect its debts.*

Example

The Balace Sheet of a company is the following:

ASSETS		**EQUITY AND LIABILITIES**	
Non-current Assets	**870**	Equity	328
Current-Assets	**490**	Non-current Liabilities	630
Merchandise	240	Current-Liabilities	402
Debtors	160		
Cash	90		
Total	**1360**	**Total**	**1360**

We are going to calculate Working Capital

Working Capital = Current Assets – Current Liabilities = 490 – 402 = 88

We observe that it is positive, so that we can affirm that this company is in a **normal financial situation a**nd is stable from a financial point of view.

2. Ratios of financial balance

Other way to analyze and interpret accountig is through ratios.

A **ratio** is a quotient (cociente) between two related quantities

The characteristics of the calculation of ratios as an analysis technique are:

- A **numerical indicator** that summarizes information on the business situation.
- As the company is not an isolated entity but rather operates in a specific sector where it competes with other companies, the ratios **must be accompanied by other data and indicators** that allow an objective interpretation. In this sense, it is common to compare its own ratios with those of other benchmark companies in the sector to examine possible differences.
- The company is a dynamic being, so ratios can also be used to **compare them with those of another period** and thus observe the **evolution of the business** performance.
- As the ratios **analyze partial aspects of the company**, it is necessary to **complement the results** in order to gain perspective.

2.1. Financial ratios

The financial ratios analyze the ability of the company to pay off its debts within the previously established deadlines. Being a good payer is a fundamental rule of start-up businesses.

Ratio	Calculation	Meaning	Optimal guideline value
Treasury	T = Cash / Current Liabilities	Immediate Liquidity	(0,8 – 1,2)
Solvency	S = Current Assets / Current Liabilities	Working capital	(1 – 2)
Liquidity	L = (Current Assets – Merchandise)/ Current Liabilities	Short-term solvency	(1,5 – 1,8)
Guarantee	Assets / Total Liabilities	Long-term solvency	(1,7 – 2)

- **Treasury (Disponibilidad):** this ratio only considers the most liquid asset. If it is very close to zero, it means that the company may have difficulies paying its debts in the short term.
- **Solvency:** This ratio includes the concept of Working Capital. Its value is considered to be between 1 and 2. With these values, the company foresees that part of the Current Assets cannot be used to meet short-term debts (for example, due to customer defaults). If the value is less than 1, the Working Capital is negative and the company may have problems paying its debts in the short term. If it is higher than 1, the Working Capital is positive.
- **Liquidity:** It verifies what is the capacity of the company to pay back its debts in the event that it cannot sell its stocks (merchandise). It is called the *acid test*. If its value is less than 1 it is a worrying situation.
- **Guarantee:** It aims to verify the guarantee that the company offers to creditors. If its value is less than 1, the company is permanently insolvent.

Example:

We are going to study how to apply ratio technique to the other company that we have described before:

Treasury: Cash (90)/ Current Liabilities (402) = 0,224

Being much less than 1 indicates that the company may have short-term financial problems.

Solvency: Current Assets (490)/ Current Liabilities (402) = 1,219

It is greater than 1, that is, the company is in financial balance.

Liquidity:

Current-Assets (490) – Merchandise (240) / Current Liabilities (402) = 0,622

It is less than 1 and this is concerning. This is so because the company could run into liquidity problems if it cannot sell and collect its stocks on time.

Guarantee: Assets (1360) / Total Liabilities (630 +402) = 1,318

It is higher than 1, that is, the company offers sufficient guarantee to creditors.

3. Return on Assets (Rentabilidad Económica) and Return on Equity (Rentabilidad financiera)

From the figures included in the Balance Sheet and in the Income Statement, the financial and economic profitability of the company can be determined.

- ***Return on/over Assets (ROA, Rentabilidad Económica)***

It expresses the yield (rendimiento) that could be obtained from the means used (Assets) and the operations of the company, regardless (con independencia de) of who finances this investment. It can be calculated through this formula:

ROA = Profit before interest and taxes / Total Assets

- ***Return on Equity (ROE, Rentabilidad Financiera):***

The financial profitability or profitability of the owners of the company measures the return that the owners receive for their investment. It can be calculated through this formula:

ROE= After-Tax Profits / Net (Equity)

Example:

The Total Assets of Caroma S.A. are € 985,400 and its Net are € 346,290 euros. We also know the profit before tax, which is € 91,840. Profit after tax is € 26,260.

ROA = Profit before interest and taxes (91,840) / Total Assets (985,400) = 0.0932 = 9.32%

ROE = Profits after taxes (26,260) / Equity (346,290) = 0.0758 = 7.58%

UNIT 4

ECONOMIC-ADMINISTRATIVE FUNCTION IN A COMPANY

PART II: FUNDING AND INVESTMENT

1. FUNDING OF THE COMPANY

Funding consists of providing money and resources for the acquisition of goods and /or services that the company needs to carry out its business activity (either for its maintenance or enrichment).

Source of funding is understood as the ways or mechanisms by which the company obtains funding.

Funding sources are a fundamental element for the favorable economic development of any company. In fact, the success or failure of a business model depends largely on the choice of funding.

According to its origin, the **funding** is classified as:

- Own funding
- External funding

The difference between them is the obligation to return (or not) the money.

A. OWN FUNDING (Financiación Propia)

Self-funding is made up of those financial resources that reach the company in different ways and that it is not obliged to return.

There are two types: internal and external funding

A.1. Internal Financing

a) Contributions from the employer or partners.

a.1. Initial contributions to create the capital stock of the company. It is the first step in order to set up the company: determining how much money the partner (s) is going to contribute to the project.

a.2. Expansion of share capital. If the company plans to grow with new investments and projects, it may be necessary to increase the resources available. These resources can be increased by following the option of new contributions by the partners of the company to the company's capital stock.

b) Company contributions: self-funding.

Self-funding is made up of the resources generated by the company itself, that have its origin in the commercial activity of de company.

b.1. Reserves. Reserves are profits obtained by the company, that have not been distributed among their owners.

b.2. Amortization. Any permanent asset, tangible or intangible, that becomes part of the structure of the activity of a company suffers as a result of the passage of time, a depreciation or loss of value. This loss of value can occur for two reasons:

- The good deteriorates due to its use.

- The asset suffers a technological obsolescence as a result of the appearance of new equipment or procedures that leave our asset obsolete.

This loss of value of the permanente assets of the company is reflected in accounting and taxation by applying a series of adjustments in their value: these are called **amortizations.**

These amortizations, as we have seen in the Balance Sheet, reduce the tax base of the Corporation Tax or Direct Estimate of the Personal Income Tax, producing significant tax savings. For these reasons, when an asset or a good is incorporated into the equity of the company, we must decide the amortization system that we are going to use. It is an important decision since the repayment installments (cuotas de amortización) vary and, therefore, the tax savings also vary.

Amortization systems: we have to assign a percentage of the amortizable value to the total of the useful life of the asset. To calculate the amount we assign to each year, different methods can be used, depending on the amortization process that you want to obtain:

o ***Linear or fixed-fee method.*** This method consists of amortizing the same amount each year of useful life. This system has the advantage of being very simple, although it assumes that the good is always used with the same intensity.

o ***Functional amortization method.*** This method calculates the depreciation in proportion to the intensity of the good's use (hours of use, in the case of machines; distance traveled for transport elements;….).

b.3. Provisions. They are used to cover possible obligations or losses, of which it is not known exactly if they will materialize or not, and / or in what amount (for example, payment of taxes, future rehabilitation of a premises, etc.).

A.2. External financing within Own Funding. Investment contributions

External funding is obtained from other sources that do not belong to the company: **contributions from investors**

a) Family and friends.

Many of the entrepreneurs when they begin their business career turn to the help of family and friends. It is also known as the 3 F's (Family - Friends - Fools: Familiares - Amigos - Locos). These contributions are considered external own financing if the money obtained does not have to be returned, but if, on the contrary, it must be returned, then we will be talking about external financing (short or long term).

b) Venture Capital Companies (Sociedades de Capital Riesgo, SCR).

Venture capital companies are public limited companies whose main corporate purpose consists of taking temporary shares in the capital of non-financial and non-real estate companies that, at the time of taking the share, are not listed on the first market of Stock and have a high growth potential.

The business of this type of company consists of the investment achieving rapid success and then selling its participation and thus obtaining profits.

c) Business Angels

They are individuals who have experience in business management and are also willing to deliver financial resources (capital, reserves, participating loans, etc.) to companies that have an investment project. This double circumstance means that the Business Angels can contribute, to the company, not only financial resources, but also knowledge or contacts related to management. The double objective that BAs seek when entering a company is to live an experience, by collaborating in the management of a young company with the aim of consolidating it, and earn money especially from the sale of their participation when leaving the company (capital gain, plusvalía), since their collaboration in the company is usually limited in time.

d) Crowdfunding

Crowdfunding can be defined as the funding of a project collectively through the internet. That is, it is a funding mechanism by which a promoter requests help or financing for their project publicly over the internet and in which people who wish can make their financial contribution through a specialized crowdfunding platform. When the person who contributes the funds does so altruistically, it is called micro-sponsor (micro-mecenas) and if it has an economic interest it is called a microinvestor (and in this case we would be talking about short or long-term external funding).

e) Subsidies.

A subsidy is considered to be any free patrimonial attribution (without there being an obligation to reimburse it) in favor of natural or legal persons intended to promote a certain activity or behavior of public or social interest (for example, the set-up of a company).

B. EXTERNAL FUNDING

The sources of external funding of a company are resources that **have to be returned**. They can be classified into two large groups: short-term financial sources and long-term sources. The distinction between the two is important, since the procedure for obtaining them, the entities that grant them and even their destination are very different.

In principle, **short-term financial resources** should be used to finance the typical or ordinary activity of the business activity (purchase of raw materials, payment of supplies, etc.), while **long-term resources** should finance the permanent structure of the company (elements of permanent assets, such as the acquisition of a transport element or computer equipment). It is very convenient that part of the company's long-term resources finance part of that typical activity of the company. This is what is usually known as the **working capital** (Fondo de Maniobra)

B.1.- Long-term funding

a) Loan

They are contracts that formalize the delivery of money by a financial company. The company agrees to return the amount loaned plus accrued expenses (gastos devengaddos, i.e., interests or commissions) over a specified period. Depending on the return period, they can be short or long term, so that they could be included in one or another classification.

b) Leasing and Renting

They are similar to rent a asset. Both of them allow access to an important asset for the business (vehicles, computer equipment, etc.) without having to buy it or assume its depreciation. The provider is paid a monthly fee during the agreed term. They are favorable modalities because the asset is used during the best period of its useful life and they have tax advantages.

Renting	Leasing
Only on movable property	On movable and inmovable property
The maintenace falls on the landlord	The maintenance falls on the tenant
There is no purchase option	Offer option to purchase

c) Reciprocal Guarantee Companies (Sociedades de Garantía Recíproca)

Small and medium-sized companies often run into a lot of obstacles when applying (solicitar) for a loan. Likewise, entrepreneurs generally arrange and design large projects, but when applying for financing, they do not receive any type of support. Reciprocal guarantee companies are non-profit making entities (sociedades sin ánimo de lucro). The have a mutual structure and they are directly controlled by the Bank of Spain.

The objective is to facilitate access to credit for SMEs and the self-employed. This task is done in two ways:

- Being as a guarantor (avalista) of operations before banks and administrations.

- They are able to get better financial conditions thanks to the agreements they usually sign with certain financial institutions.

d) Loans (Empréstito)

A bond (bono, obligación) is a kind of an obligation. It is a document issued by an entity that recognizes its holder as creditor of the same for the amount indicated in the document at the maturity agreed upon (vencimiento acordado), at the time of issue (cuando se emitió). Usually, it recognizes the right to receive periodic interest (coupons), issue premium (primas de emisión), redemption premium (primas de reembolso), convertible bonds, etc. A disadvantage that can be underline is that it is used by companies with a high initial launch cost.

e) Public aid (Ayudas públicas)

In this case, it is a question of public aid that must be returned (unlike subsidies). For example, the credit of the public commercial entity of the Official Credit Institute (ICO). It is a public bank with the legal form of a public business entity (Entidad Pública Empresarial), attached to the Ministry of Economy and Business through the Secretary of State for the Economy and Business Support

B.2. Short-Term Funding

a) Credit

The financial institution makes a limited amount of money available to its client for a specific period. The company only returns and pays interest on the capital it has used. It is usually returned in the short term, and is included in this section, but it must be borne in mind (debe tenerse en cuenta) that there are also lines of credit whose repayment is long-term.

b) Payment to suppliers (pago a proveedores)

Negotiating with suppliers represents a type of non-bank financing. We can distinguish two types of financing by providers: when the payment term is extended and when a discount is obtained for prompt payment (pronto pago). Regarding the first, the company can negotiate with its suppliers the extension (prórroga) in the term of their payments (30, 60 or 90 days). Another way of financing by providers is discounts for prompt payment: the possibility of paying less if payment is made just after receipt of the order (recepción del pedido). The possibilities of obtaining funding for these procedures will depend on the market situation, and on the company's management capacity.

c) Factoring

The company delivers to the factoring entity the credits originated by the sales (payment of the invoices of its clients) and the factoring company anticipates the amount of said credits, discounting a commission and the remaining interests (intereses que restan por cobrar) until maturity (hasta el vencimiento).

d) Confirming

It is the inverse mode of factoring. What companies offer their customers is the management of the payment of their purchases, seeking the highest possible credit. In return, they offer creditors a discount line to advance payment, but under the conditions set by the financial institution.

e) Commercial discount

It consists in that a bank advances the amount that it has to receive from a client. The supporting document is made through receipts, Bills of Exchange (letras de cambio) and promissory notes (pagarés).

2. INVESTMENTS

Sometimes the words “investment” and “expense” are confused.

An “**expense**” reduces capital to the company and that capital is not recovered. The “investment” also reduces capital, but it is expected that this amount will be returned and increased, reporting a benefit to the business.

Investments are goods that a company buys (for example, machinery) that are necessary to obtain the product (good or service) that it manufactures or offers. Investments are used and not sold; so that they will remain in the company for the long term (more than a year) in the company. An expense is the purchase of a good, a service or a right that the company is going to consume (to “spend”) imminently, so that its use is less than one year (short term).

Example of investments: premises, facilities, furniture, machinery, tools, supplies, vehicles, computer equipment, computer programs, patents, trademarks, etc.

Example of expenses: initial expenses of constitution and start-up, rent of a premises, workers' salaries, supplies, stocks, office supplies, etc.

3. THE BREAK-EVEN POINT (PUNTO MUERTO) OR PROFITABILITY THRESHOLD (UMBRAL DE RENTABILIDAD)

An important concept in business management is the **Break-even point** or Profitability Threshold.

To get there we are going to remember some concepts that we have studied into Accounting.

If you remember the company, as a result of its activity, it obtains income from the sales of its products. We can call them as **revenues** (ingresos).

If the company makes these products, it has borne **costs** (ha soportado unos costes). The cost indicates the amount of money that a company dedicates to the creation or production of goods or services.

The cost is part of the value of the product and it could be **classified i**n different ways.

Thus, it is posssible to distinguish between **fixed costs and variable costs.** Fixed costs are maintained over time (for example, the payment of the rent of a premises). Variable costs vary depending on the level of production (for example, labor or raw materials).

Likewise, and depending on time, there are **long-term costs** (more than a year) and **short-term costs** (less than a year)

Finally, we have to consider **direct costs** (which are directly related to the manufacture of the product, such as raw materials); or **indirect costs** (when they do not have that direct relationship, such as the cost of electricity)

The **profitability threshold** or **break-even point** is the amount of goods or services that a company has to sell in order to cover its costs (zero profit). Since this amount of goods or services the profit is positive (profit)

Revenues and Costs are equal at break-even point. From this one, everything that is sold above will mean profits for the company. If, on the other hand, sales fall below the break even point, the result will be losses.

Let's express these ideas numerically:

At the **Profitability threshold**, it is fulfilled that:

Total Revenues = Total Costs

IT = CT

Total Revenues = Price * Quantity of product

IT = P * Q

The Total Costs are obtained by adding the Fixed Costs and the Variable Costs

CT = CF + CV

Variable costs come from multiplying the variable cost of a single unit (which is called unit variable cost) by the number of units produced (Q):

CV = CVu x Q

Taking into account the above

CT = CF + CVu x Q

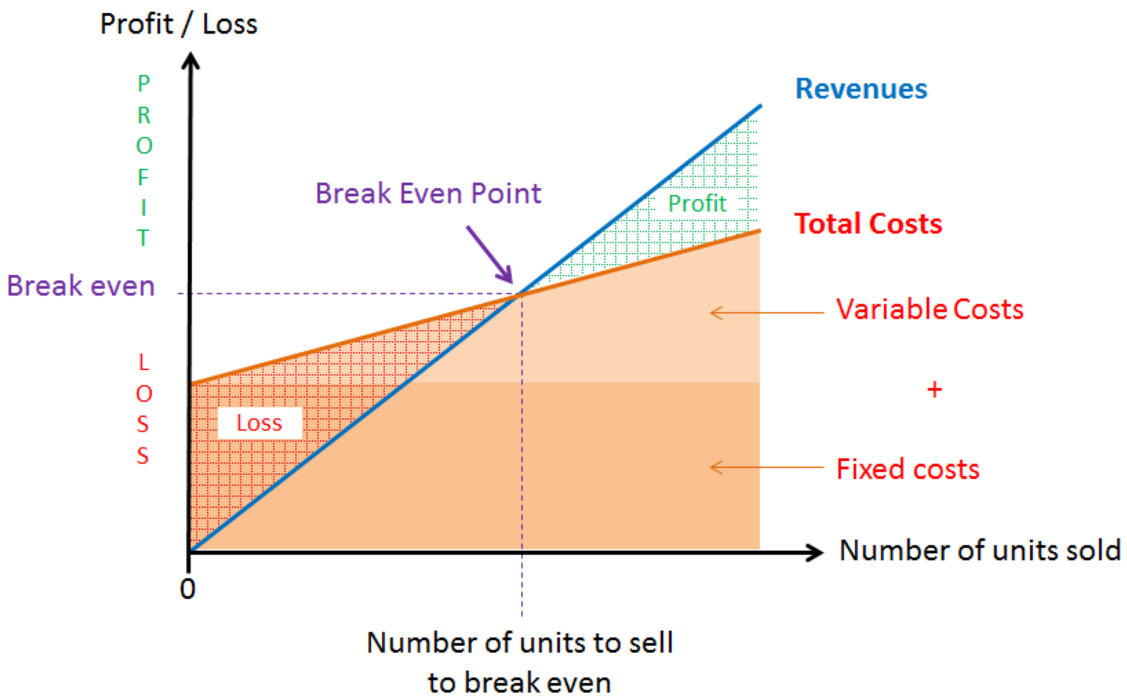
As we know, Total Income is equal to Total Costs, so:

P X Q = CF + CVu x Q

Solving for Q we obtain the formula to find the Profitability Threshold or Break-even point in product units:

Q (Break-even point) product units = CF / (P - Cvu).

This would be its graphic representation:



The profitability threshold is the break-even point at which a business becomes profitable (rentable). This threshold is reached when the total cost to run (desarrollar o gestionar) your business is equal to its total revenues. Above this threshold, the business is deemed to have reached the profit zone. Below this threshold, the business will struggle (tendrá problemas) to generate a profit, or survive over the long term or haul (largo plazo). The value of this threshold can be expressed in the number of units of a product sold, in revenue received or in periods of time (months or years, for example).

If we calculate it in **Monetary Units** we would use this formula:

Break-even point = Fixed Costs / (1 - Total Variable Costs / Sales Amount)

Example:

Mauro Products distributes a single product, a woven basket whose selling price is €15 and whose variable expense is € 12 per unit. The company's monthly fixed expense is € 4,200

The equation method yields the break-even point in unit sales,Q, as follows:

Break-even point = 4200 / (15 – 12) = 1400 baskets.

UNIT 4

ECONOMIC-ADMINISTRATIVE FUNCTION IN A COMPANY

PART III. TAX OBLIGATIONS OF THE COMPANIES

1. TAXES

From an economic point of view, taxes are contributions that citizens must pay to the Public Authorities (Tax Office and others) so that they can redistribute them in an equitable way or according to the needs of each moment. Except for some cases, taxes are paid through monetary benefits.

In Spain, taxes are established by Acts (Leyes) that are approved in the national Parliament or in the regional parliaments. The taxes are collected and managed by the State, the Autonomous Communities and the Local Entities (Provincial Councils and municipalities)

Reasons to pay taxes

- In the first place, to **sustain public expenses**. The main source of public revenues (ingresos) is taxes.

- Second to **redistribute income**. For this, an obligation to pay based on economic capacity must be established. The richest should be those who pay the most proportion of their income in taxes.

- Third, to achieve **greater efficiency in the economy**. For example, taxes can levy (gravar) activities that cause damage to people who do not participate in the decision to carry out that activity.

- Fourth, **smooth out crisis situations** (suavizar situaciones de crisis). Fiscal policy can be an instrument of economic policy.

For a person to be obliged to pay a tax, the so-called **taxable event** (hecho imponible) must be carried out. It is a fact that, once carried out, generates the birth of the obligation to pay the tax.

Taxable events can be of various types. For example, in Personal Income Tax (Impuesto sobre la Renta) it is the obtaining of income by the taxpayer (contribuyente), arising the obligation to pay the tax.

Types of taxes

Taxes (Tributos) can be grouped into three categories: fees (tasas), contributions, and taxes.

FEES *(or Taxes, tasas)*

Fees are economic contributions made by users of a service provided by the Public Authorities at their different levels: state, regional or local. The fees are paid in exchange for something. For example, they are paid in exchange for some service or some use of the public domain.

Some types of fees would be, for example, the water supply, a permanent vehicles entrance (vado), or court fees (costas procesales). It should be noted at this point that the fee is not a tax, but a type of tax (tributo). The fees are paid for the use of a service, therefore, if the service is not used, there is no obligation to pay.

SPECIAL CONTRIBUTIONS

They are another type of tax whose taxable event consists of obtaining by the taxpayer a benefit as a result of the increase in value of their assets (bienes), due to the fact that a public work is carried out or a public service is expanded. The reason for paying them is that the owner of an asset receives a benefit. An example of this could be a underground stop that revalues a piece of land, the paving of a street or the construction of a square. Likewise, the income collected must be used to defray (sufragar) the expenses of the work or service done.

TAXES

They are a type of tax in which the citizen, when he pays it, does not receive anything concrete in return. Taxes contribute to the general support of public expenditures, receiving those who pay them a benefit in a generalized way like the rest of citizens.

Taxes can be classified into:

1.- **Direct** (such as personal income tax) and **indirect** (such as VAT). The difference between direct and indirect taxes is the basis on which they are applied. While direct taxes tax people's wealth, indirect taxes levy how this wealth is used.

2.- **Personal** (because the taxpayer pays for his overall capacity, such as personal income tax) and real (the taxpayer pays for a fact that shows his capacity, for example, for having a property).

3**.- Objective** (they do not take into account the taxpayer's capacity, such as VAT) and **subjective** (they do take it into account, such as personal income tax).

4.- **Periodic** (they are paid more than once, yearly, such as personal income tax) and **instantaneous** (they are paid once for certain events, for example the ITP for the purchase of a house).

5.- A **proportional** tax is a type of tax whose tax rate (tipo impositivo) or percentage is always the same, it does not vary depending on whether the tax base (base imponible) to be taxed increases or decreases. For example, the Corporation Tax.

A **progressive** tax is one that increases as income increases. The citizen who receives more income must pay higher taxes. For example, Personal Income Tax is considered a progressive tax because people with higher income must pay more.

We are going to study below the main taxes that companies pay.

2. PERSONAL INCOME TAX (Impuesto sobre la Renta de las Personas Físicas)

What is personal income tax and what is taxed?

Personal Income Tax (PIT) is a personal tax that is levied on the revenues that the person obtains throughout a financial year (normally, one year)

This revenues have several components:

- Earnings from work, which are basically wages, but also other income, such as from pensions.
- Returns on movable capital (savings, stock dividend, account interest, etc.) and on real estate capital (real estate leasing).
- Income from economic activities (sole proprietor, professionals, etc.).
- The profits (less losses) that are produced in personal assets. For example, by sell goods.., etc.

What are their characteristics?

Personal income tax is a tax:

- Personal: it refers to the person and does not fall on the goods.

- Direct: tax directly to the person.

- Subjective: it does not tax all people in the same way, but each case is taken as particular.

- Progressive: the higher the income level, the higher the retention percentage is applied according to a scale.

- Periodic: it is applied every year.

- Analytical: the origin of each one of the revenues is analyzed, each one having special characteristics.

Who pays the personal income tax?

It is paid by natural persons (human beings) resident in Spain. A resident in Spain is considered to be someone who lives most of the time in Spain, regardless of their origin or nationality. Thus, people of Spanish nationality residing abroad (with exceptions such as diplomats) do not have to pay it. And foreigners residing in Spain have to pay PIT, even if they do not have Spanish nationality.

In the case of companies, it is paid by the Sole Proprietor (Empresario Individual) or each partner in a Joint Ownership (Comunidad de Bienes).

How much do you pay?

Being a progressive tax, the more you earn, the more you pay

Tax Basis	Withholding
Base imponible	**Tipo a aplicar**
Desde 0 € hasta 12.450 €	19%
Desde 12.450 € hasta 20.200 €	24%
Desde 20.200 € hasta 35.200 €	30%
Desde 35.200 € hasta 60.000 €	37%
Desde 60.000 € hasta 300.000 €	45%
Más de 300.000 €	47%

Personal income tax regimes

The personal income tax regimes are the different possibilities that the Public Authorities offer to calculate the net profit of the annual turnover. Companies rely on one system or another according to their interests.

- ***NORMAL DIRECT ESTIMATION (ESTIMACIÓN DIRECTA NORMAL)****:* it is the most complicated and difficult regimen to carry. It applies to self-employed persons not covered by the simplified modality or the objective estimation regime. The turnover of all activities must exceed € 600,000 per year in the previous year. It applies if the simplified direct estimation is waived (renunciado).

- ***SIMPLIFIED DIRECT ESTIMATION (ESTIMACIÓN DIRECTTA SIMPLIFICADA):*** it is a relatively simple regime to carry out and is applied to the self-employed when their activities are not covered by the objective estimation regime. In the previous year, the net amount of the turnover for all the activities carried out did not exceed € 600,000. You must not have given up on this regimen. None of your activities should be in the normal direct estimation regime.

- ***OBJECTIVE ESTIMATION:*** It hardly requires formal requirements, making it a simpler regime to manage. To calculate its amount, the regulations establish, depending on the activity, some modules according to the number of workers, the square meters of the premises, etc., and set a value for each module. Then the number of units of each module is multiplied by its value.

How do you pay?

To understand how personal income tax is paid, two aspects must be analyzed: income tax withholding (retención) and personal income tax regimes (which has been analysed previously).

INCOME TAX WITHHOLDING (RETENCIÓN)

Personal Income Tax is an annual tax, that is, it is paid once a year for the income obtained in the previous year. However, the Treasury (Hacienda) requires that, every three months, the sole proprietor makes a payment on account of personal income tax (pago a cuenta del Impuesto sobre la Renta), that is, advance a part of the payment. This is what is called withholding.

During this year the percentage of personal income tax for a self-employed person is 15% (as a general rule, then there are exceptions). Therefore, the amount proportional to 15% of everything that has been invoiced in a quarter is paid to the Tax Office.

If you are a new self-employed and no professional activity has been carried out in the past year, 7% is applied during the first three years.

When is it paid?

The tax settlement (liquidación de impuesto) is carried out between May 1 and June 30 of the following year. As a self-employed person, you must file (presentar) quarterly returns (declaraciones trimestrales) (withholdings) electronically, that is, over the Internet, using the so-called 24-hour PIN.

3. CORPORATE TAX (IMPUESTO DE SOCIEDADES)

What is the Corporate tax and what is levied?

It is a tax that is applied on the net profit that companies obtain from their activity. Revenues obtained by the company during the year (which may or may not coincide with the calendar year) is taxed.

What are the main characteristics of Corporate Tax?

- Direct.

- Personal.

- Periodic.

Who pays the Corporate Tax?

The taxpayers for this tax are (with some exceptions) the subject with legal personality (corporations, limited companies, etc.).

Taxpayers are entities with tax residence in Spain. For tax purposes, an entity is resident if it has been incorporated in accordance with Spanish law, it has its registered office (domicilio social) in Spain and it has its effective management in Spain.

How much do you pay for the Corporate Tax?

At present, a general tax rate (tipo impositivo) of 25% is applied to the tax base or basis (base imponible). On the other hand, a rate of 15% is applied in the case of newly created companies in the first year that they make a profit and the next. There are other percentages for special cases

When is it paid?

Corporate Tax must be settled (liquidado) every 12 months; the vast majority of companies make it coincide with the calendar year.

As personal income tax, companies are required to make quarterly payments on account (hacer pagos trimestrales a cuenta)

How do you pay Corporate Tax?

**** Step 1**

Result of the profit/loss

+

Negative results from previous exercises

____

= Tax base

**** Step 2**

Tax base x Tax rate = Full fee (cuota íntegra)

**** Step 3**

Full fee

-

Deductions (bonuses, withholdings, installment payments (pagos fraccionados), etc.)

____

= Differential fee (cuota diferencial) to deposit or return

4. ECONOMIC ACTIVITIES TAX (IMPUESTO DE ACTIVIDADES ECONÓMICAS)

Any person, natural or legal, who develops a professional, business or artistic activity in Spain has the obligation to register (darse de alta) with the Economic Activities Tax (IAE). This is a tax whose tax period is the calendar year.

However, natural persons are exempt from paying this tax in any case and only entities that obtain a net annual turnover equal to or greater than 1,000,000 euros will have to face it financially. And even in the latter case there is a payment exemption during the first two years of activity.

In case of having to pay, it must be taken into account that its collection (recaudación) corresponds to the Local Treasuries (Entidades Locales), so it will be the City Council that sets the deadlines (plazos) for the voluntary payment period.

5. VALUE ADDED TAX (VAT) (IMPUETO SOBRE EL VALOR AÑADIDO).

VAT is an indirect tax levied on the consumption capacity of individuals based on the product or service sold, which is not the same in all. Therefore, there are several types of VAT:

- **Super-reduced VAT of 4%:** applies to basic needs such as basic food (milk, bread, eggs, fruits, vegetables, etc.), paper publications (books, newspapers, magazines), medicines, prosthetics, internal implants and vehicles for people with disabilities.
- **Reduced VAT of 10%:** applies to food and goods for agricultural, forestry or livestock (ganadero) use, veterinary drugs, water, purchase of housing and garages, housing reforms, passenger transport, sports services, social assistance, fairs and congresses .
- **General VAT of 21%:** applied to all other goods and services that are not included in the two previous categories.

The peculiarity of VAT is that companies are not subject to the payment of this tax (since the taxable person is the final consumer), but companies are responsible for charging (aplicar) the tax to their customers when they invoice (facturar) the operations and then pay it in the Public Treasury (Hacienda).

When a company buys from its suppliers, it must pay the VAT charged by its supplier, this VAT is known as **input VAT** (IVA soportado)

When the company sells its products, it charges its customers the corresponding VAT; This VAT is called **output VAT (IVA repercutido)**

OUTPUT VAT - INPUT VAT =

+ deposit in (ingresar) the Tax Agency

- The Tax Office returns (devuelve)

As PIT and Corporate Tax, there are quarterly payments of VAT.

A number of special regimes have been created to help businesses that have limited administrative resources meet formal VAT requirements: one of them is based on the **equivalence surcharge (recargo de equivalencia)**

What is the Equivalence Surcharge?

The equivalence surcharge is a special VAT regime, mandatory for retail traders (minoristas) who do not carry out any type of transformation in the products they sell, that is, for self-employed traders who sell to the end customer. It applies both to natural persons registered as self-employed and to Joint Ownership (Comunidad de Bienes. For the retailer (minorista), it means paying a VAT somewhat higher than normal in exchange for not having to submit VAT returns (no presentar declaraciones de IVA) to the Treasury.

- 5.2% for articles that have a VAT at the general rate of 21%.

- 1.4% for articles that have a VAT at the reduced rate of 10%.

- 0.5% for items that have a VAT at the reduced rate of 4%.

- 0.75% for tobacco.

6. OTHER TAXES.

Real Estate Tax (IMPUESTO DE BIENES INMUEBLES).

You pay for owning a property. It is a percentage (%) of the cadastral value and is paid annually.

Tax on motor vehicles.

Taxes the vehicles owned by the company. It is collected by the City Council and paid based on the type of vehicle and its power.

Tax on buildings, installations and works.

To obtain the building or urban planning license.

Tax on Patrimonial Transmissions and Documented Legal Acts (ITPyAJD).

Taxes onerous patrimonial transfers, corporate operations and documented legal acts.

Tax on the increase in the value of urban land.

Taxes the increase in the value of urban land. It is municipal

7. TAX CALENDAR

To know the tax calendar of each year:

Calendario fiscal 2021 para autónomos y pymes (infoautonomos.com)

Modelo 202 del Impuesto sobre Sociedades (infoautonomos.com)

UNIT 4

ECONOMIC-ADMINISTRATIVE FUNCTION IN A COMPANY

PART IV. ADMINISTRATIVE TRADE PROCESS

(BUYING AND SELLING)

The **contract of sale (or purchase agreement)** (contrato de compraventa) is a contract in which one of the parties (buyer) acquires a good or service, and the other party (seller) delivers that good or performs that service in exchange for an economic benefit (the price for which he obtains a profit).

A company plays, in the development of its activity, both as a seller and as a buyer. On the one hand, it plays as a seller of its goods or services to its customers (thus making a profit). But on the other hand, it also plays as a buyer, by buying the goods and services it needs for the development of its activity from its suppliers.

I. DOCUMENTS INVOLVED IN THE BUYING AND SELLING PROCESS

1. ORDER FORM (PEDIDO)

An order form (purchase order or order note) is a document issued by the buyer to request goods from the seller.

It is useful for the buyer, since it helps him to know the type and amount of the expense that he is going to make. And it is also useful for the seller, to be able to prepare the order and make invoices (in case of accepting the order). When the order form is accepted, there is a contract between the two parties.

Parts of the order form:

- Contact details and address of the buyer.
- Contact information and address of the seller.
- Date and place of issue of the order.
- Name, quantity, price and description of the products to be purchased.
- Terms of payment (mode of payment) and delivery of the order (when and how the product will be received).
- Total cost of the order and shipping costs (costes de envío).
- Authorized signature.

Purchase Order Form

SHIP FROM:	
SHIP TO:	
DELIVERY IINSTRUCTIONS:	

Customer Number:	
Delivery needed by:	
PO Number:	
Sales Rep:	
Ship Method:	
Buyer:	
Terms:	

ITEM	QUANTITY	DESCRIPTION	COUNT PER UNIT	UNIT PRICE	TOTAL
				TOTAL:	
				S/H:	
				TAX:	
				FINAL TOTAL:	

NOTES:	

SIGNATURE:	
TITLE:	
DATE:	

SampleWords

2. DELIVERY NOTE (ALBARÁN)

It is the commercial document that certifies the delivery of an order. At the time of delivery, the recipient of the merchandise must sign it to certify that a purchase has been correctly received. Not signing the delivery note means that you are not agree with what you received.

Its use is not mandatory, but it is recommended because it proves the correct delivery and receipt of an order. However, the fact that the delivery note is not a mandatory document does not mean that it lacks legal and commercial implications.

The delivery note is also an important document for the transport company or delivery company since, once it gets the recipient's signature, it is already free from possible incidents detected later or any claim. Hence (Por ello) the advice is to carefully supervise all merchandise before signing it.

Parts of the delivery note:

- Place and date of issuance of the delivery note.
- Document code or number.
- Details of the buyer and seller.
- Place and date of delivery.
- Signature and stamp of the recipient.
- Product description.

DELIVERY NOTE

To : ______________________ Your Order Number : ______________________

Address : ______________________ Date Sent : ______________________

______________________ Per Invoice Number : ______________________

______________________ Our Contact Person : ______________________

Attention : ______________________ Telephone : ______________________

Quantity Delivered	Description

Goods received in good order
Name : ______________ Signature : ______________ Date : ______________

Your LOGO here

Your Company

Your Street
Your Town
Your County, Postcode
Your Telephone Number
Your Fax Number
Your Email Address
Your Website Address

CUSTOMER NAME & ADDRESS:

DELIVERY/COLLECTION NOTE

DATE:	
SALES PERSON:	
DOCUMENT No.	

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL

SUBTOTAL £	
V.A.T. £	
TOTAL £	

Signature: ______________________ Date: ______________

RESERVATION OF TITLE: TITLE OF GOODS DOES NOT PASS UNTIL PAID FOR IN FULL. TERMS: 30 DAYS NET.

3. INVOICE (FACTURA)

An invoice is a commercial document that records the information related to the acquisition of a good or the contracting of a professional service and the amount thereof, that is, a sales relationship.

It is mandatory to issue an invoice for the deliveries of goods and services that are made in the development of the commercial activity, as well as to keep a copy of it.

Parts of the invoice:

- **Identifying data** of the professional or company that provides the goods and / or services: name and surname, address and ID Card.
- **Invoice number**: the invoices that are issued must be numbered consecutively. No jumps or omissions can be made in the series.
- **Title:** The series number is preceded by the title with the word 'Invoice' specifying the character of the document. For example: Invoice: 787.
- **Issue date**: the dates of the invoices must also be according to their numbering so that, following the previous example, invoice No. 787 must have a later date than No. 786.
- **Information of the company or person to whom the invoice is addressed**: this part also refers to the name and surname, registered name (razón social) and ID Card of the recipient responsible for payment.
- **Information on the issuer**: name and surname (or registered name), ID Card/ and postal address of the issuer of the invoice deserving of payment.
- **Object of the invoice**: this section briefly describes the services provided (or goods delivered) easily identifiable by the recipient.
- **Tax base** (base imponible): the tax base is specified, this refers to the remuneration that will be obtained without putting the different types of taxes. That is, the gross amount without applying withholdings of any kind. For example: € 1,000.
- **Personal Income Tax Withholding** (retención de impuesto sobre la renta) (if applicable): corresponds to the money deducted on each invoice for Personal Income Tax (IRPF). The retention, in most cases, is 15%. Continuing with the previous example, from the € 1,000 before taxes, € 150 would have to be deducted.
- **Amount of VAT** (IVA): in this section it must be remembered that there are professional activities exempt from paying VAT; if this is the case, it is advisable to specify on the invoice that it is exempt from VAT.
- The **VAT percentage** that is applied must be indicated, as well as the result of applying that percentage (it must be calculated and subtracted from the net or the tax base).
- **Total amount to receive**. It will be the result of subtracting personal income tax withholding from the net and adding the amount of VAT.

Other important aspects regarding the invoice:

- ***Electronic invoicing:*** its implementation begins to gain followers among SMEs and the self-employed. Speed in shipping, cost savings and greater efficiency and control when managing the company are three of his arguments for its implementation.

  It is important **no to confuse the delivery note with the invoice**: the delivery note does not replace the invoice. The big difference between the two is that, for its part, the delivery note does not have tax functions and is not mandatory in a commercial transaction. Instead, the invoice is. That is, the invoice is the document that justifies the payment of a commercial operation and has tax effects. That is why the invoice must contain different information, such as the tax data of the buyer and seller, the quantity of the product or service that is the object of the operation or the VAT applied.

- ***Proforma invoice:*** it should not be confused with an ordinary invoice. The proforma invoice is a provisional document that is issued so that the client has all the necessary information about the products or services to be invoiced. The proforma invoice is similar to a budget and is very useful for the buyer (client) to confirm their data and the sale operation.
  What is the difference with a commercial invoice? The main difference between them is that the commercial invoice has tax validity and is a definitive document. For this reason it cannot be modified. The proforma invoice, on the other hand, is a document prior to the issuance of a commercial invoice and has no tax validity.

- ***Corrective invoice:*** it is a document that is issued to correct an original invoice. Using a corrective invoice is mandatory if the original invoice does not meet the requirements or when an error has occurred when calculating the quantities.

PARCEL 2 SHIP

PROFORMA INVOICE

P2S ORDER NO:______ _____

DATE: __/__/____

SENDER:

Name:
Street Address 1:
Street Address 2:
City:
County:
Postcode:
Tel:

RECIPIENT:

Name:
Street Address 1:
Street Address 2:
City:
State:
Post / Zip Code:
Tel:

WAYBILL NUMBER	CURRENCY	VAT NUMBER	TYPE OF EXPORT	REASON FOR EXPORT	TERMS OR TRADE
	GBP	NOT VAT REGISTERED			D D U

QUANTITY	DESCRIPTION	COUNTRY OF ORIGIN	UNIT WIEGHT	UNIT VALUE	TOTAL
	SHIPPING CHARGES				£
	TOTAL INVOICE AMOUNT				£

I/WE HEREBY CERTIFY THAT THE INFORMATION ON THIS INVOICE IS TRUE AND CORRECT AND THAT THE CONTENTS OF THIS SHIPMENT ARE AS STATED ABOVE.

SIGNATURE:………………………………… NAME:……………………………………… DATE:…………………

Thank You for Shipping with www.Parcel2ship.co.uk

Company Name

VAT Invoice

Invoice No.

Invoice Da 28.5.16

Customer :
Name
Street Address
City, ST ZIP Code
E-mail
Phone No.
VAT No.

Company:
Name
Street Address
City, ST ZIP Code
E-mail
Phone No.
VAT No.

Date	Description	Qty	VAT %	Price w/out VAT	Price Euro	Total w/out VAT	Total Euro	VAT	Net Euro
10.6.04	Case of soda	10	10.0	€ 100.00	€ 110.00	€ 1,000.00	€ 1,100.00	€ 100.00	€ 1,000.00

Total	€ 1,000.00
VAT Amount	€ 100.00
Total with VA	€ 1,100.00
Payment	
Balance Due	€ 1,100.00

VAT Analysis:

VAT %	ET Eur	T Euro
10.00	######	##

Irish sales company name

Address
City, State ZIP
Phone
Registration#

TAX INVOICE

DATE:
INVOICE:

BILL TO: *(#)* C1011
Name Test Customer 1
Address Test Customer 1 Address
City, ST ZIP
Phone
VAT # Customer1VATID

Ship To:
Name
Address
City, ST ZIP
Contact

P.O.	Sales	Despatch	Method	Terms	Due Date

DESCRIPTION / TAXABLE		PRICE (ex. VAT)	QTY	DISCOUNT (%)	VAT RATE (%)	TOTAL (NET)	TOTAL (inc. VAT)
Test Product 1	☑	100	1.00	5.00%	7.00%	95.00	101.65
Test Product 2	☑	200	2.00	6.00%	6.00%	376.00	398.56
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-
	☐					-	-

NET TOTAL	471.00
DELIVERY CHARGE	-
VAT TOTAL	29.21
TOTAL	500.21

your web site, email, phone numbers

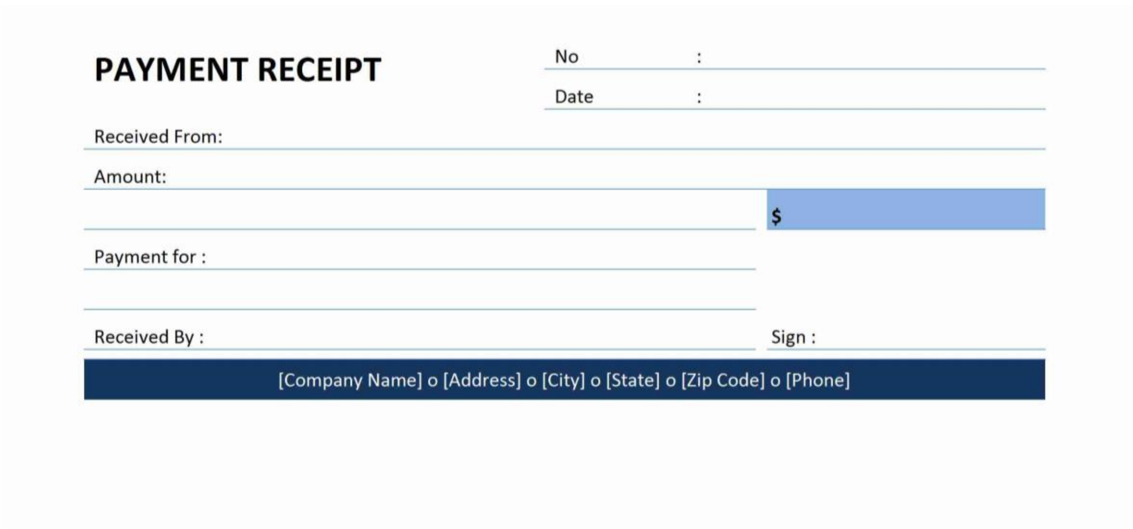
THANK YOU FOR YOUR BUSINESS

4. PAYMENT RECEIPT (RECIBO)

A payment receipt is a document that certifies payment for a service or product. This is issued by the creditor or the person who generated the invoice and, therefore, provides the service or product and is directed to the recipient of said good or service.

Parts of the receipt:

- Title: It must be a receipt or receipt of payment to indicate the nature of the document.
- Mention of the invoice or the concept to which it has been paid.
- Amount that has been collected.
- Outstanding amount (cantidades pendientes de cobro) (if any).
- Date the payment was received.
- Name and company name of the issuer (other elements such as the logo, e-mail or even the telephone number of the issuing company are also relevant when identifying the issuer).


PAYMENT RECEIPT

No :

Date :

Received From:

Amount:

$

Payment for :

Received By :

Sign :

[Company Name] o [Address] o [City] o [State] o [Zip Code] o [Phone]

II. PAYMENT PROCESS

The buying and selling process ends when the buyer makes pays the seller. The buyer gets the product or service and the seller has collected their money.

We must differentiate between cash payment and deferred payment (pago aplazado)

- **In cash payment:** payment is made at the same time of sale. It can be done with cash or through payment in the bank account.
- **The deferred payment (pago aplazado):** it is a payment that is made after the delivery of the good or service, for example, through installment payments (pago fraccionado)

It has already been seen that, to justify the collection (el cobro), the receipt payment is used, but… what other documents are used in the payment?

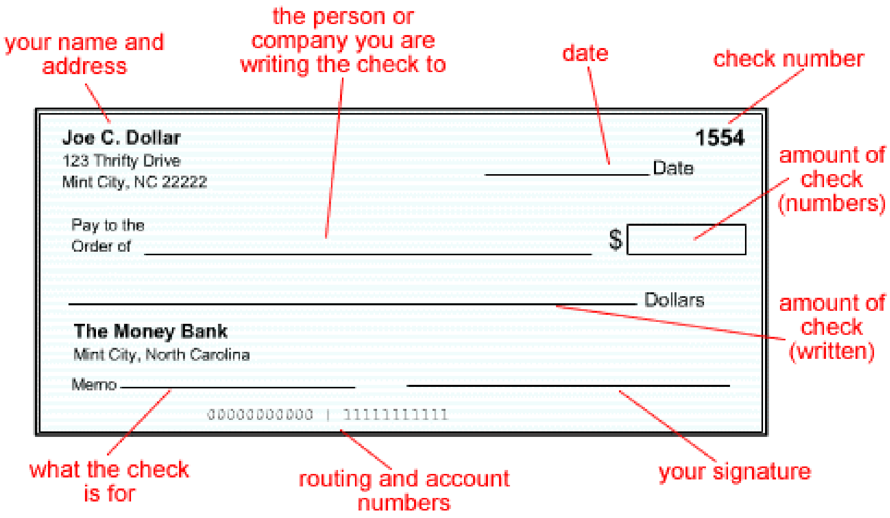
Payment can be made in cash or through a bank transfer. Payment can also be made through some documents. Think that cards, internet, online banking, smartphones, etc. they have not always existed. What has existed (for a long time) is the need not to always carry money and the habit of keeping it in financial institutions. Let's see those documents that are still valid.

1. CHECK (US) CHEQUE (UK) (CHEQUE)

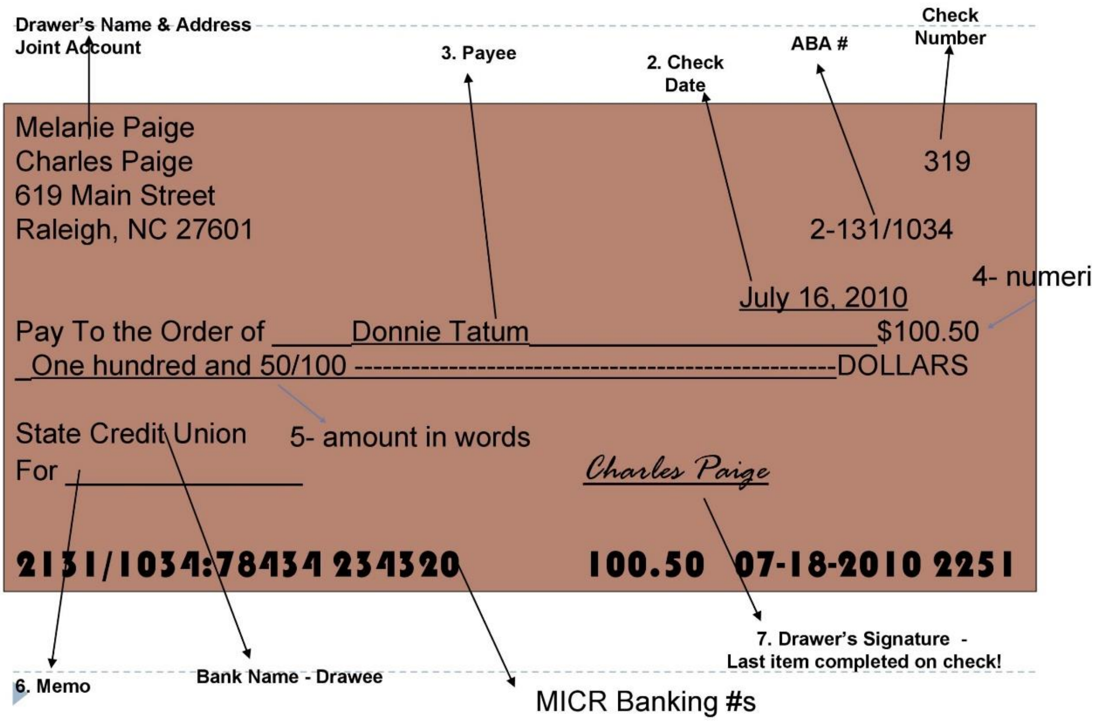
A check is a document used as a mean of payment by which a person (the drawer, librador) orders a bank (the drawee, librado) to pay a certain amount of money to another person or company (the beneficiary or check-holder). Unlike a bill of Exchange (letra de cambio) or promissory note (pagaré), you don't have to wait for any expiration date (fecha de vencimiento) to collect it.

A check can be issued in diferente ways:

- ***Bearer cheque or check (cheque al portador)***: Anyone who presents this type of check has the right to cash it. You have to be very careful because if you lose it, anyone can collect it.
- ***Nominative bank cheque or Order check (cheque nominativo):*** In this case, only the person or company whose name appears on the check will be able to collect it. nobody apart from the payee can receive the funds. This makes it the most recommended form of common checkbooks However, there is the possibility of transferring the collection right to a third party through what is called the "endorsement" (endoso). To endorse a check, the beneficiary writes on the back (or reverse) of the document the name of another person (and his/her ID Card), who becomes the new beneficiary, and signs it.
- ***Barred or crossed cheque (cheque cruzado):*** a check is crossed when two parallel diagonal lines are drawn on its face. In this way it can only be collected in a certain bank, so that it in turn collects it in the drawee entity (de forma que esta entidad bancaria lo pueda cobrar a su vez en la el banco librado). Checks can be "crossed", either by the drawer or by the holder.
- ***Check to pay into account (cheque a abonar en cuenta):*** If a check has the expression "pay into account" written on it, it means that the money cannot be withdrawn in cash, but must be deposited into a bank account.
- ***Certified check (Cheque conformado):*** It is a check in which the bank that has to pay (the drawee) ensures that there are funds and that therefore it will be paid. To guarantee the operation, the bank retains that amount from the drawer's account, in addition to the commission that is usually charged for that service.



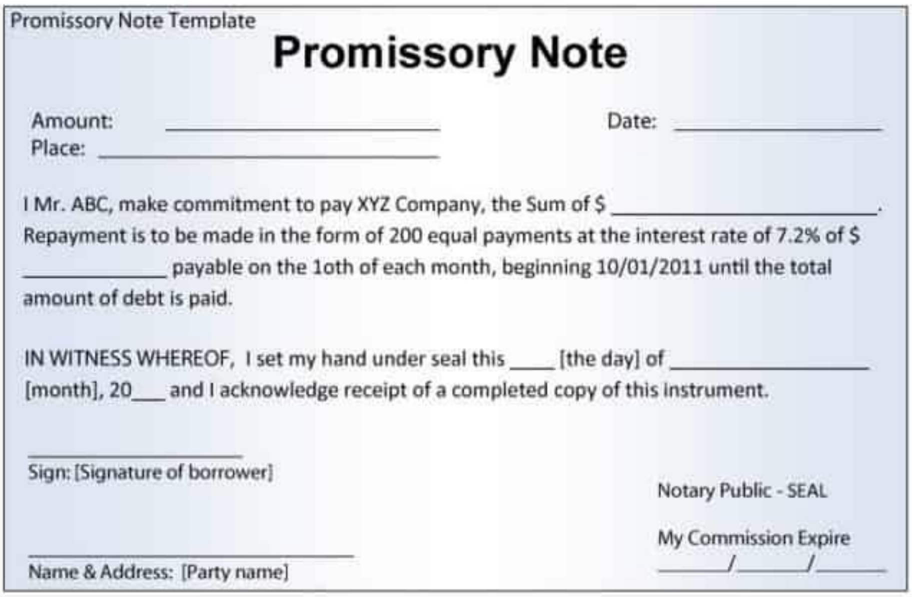
Parts & Parties to a Check/Share Draft



2. PROMISSORY NOTE (PAGARÉ)

It is a document by which a natural or legal person agrees to make the payment of a specified amount at a future date. It is therefore a promise to pay. As it is a commitment to pay, and not a payment order such as a check, it implies that the promissory note does not imply the recognition of the debt with the beneficiary.

However, when it comes to a commercial operation, the Bank of Spain says that the character of this document is similar to that of a bill of exchange.



Promissory Note Template

Promissory Note

Amount: ____________________ Date: ______________

Place: ____________________

I Mr. ABC, make commitment to pay XYZ Company, the Sum of $ ____________________.
Repayment is to be made in the form of 200 equal payments at the interest rate of 7.2% of $ __________ payable on the 1oth of each month, beginning 10/01/2011 until the total amount of debt is paid.

IN WITNESS WHEREOF, I set my hand under seal this ____ [the day] of ______________ [month], 20___ and I acknowledge receipt of a completed copy of this instrument.

____

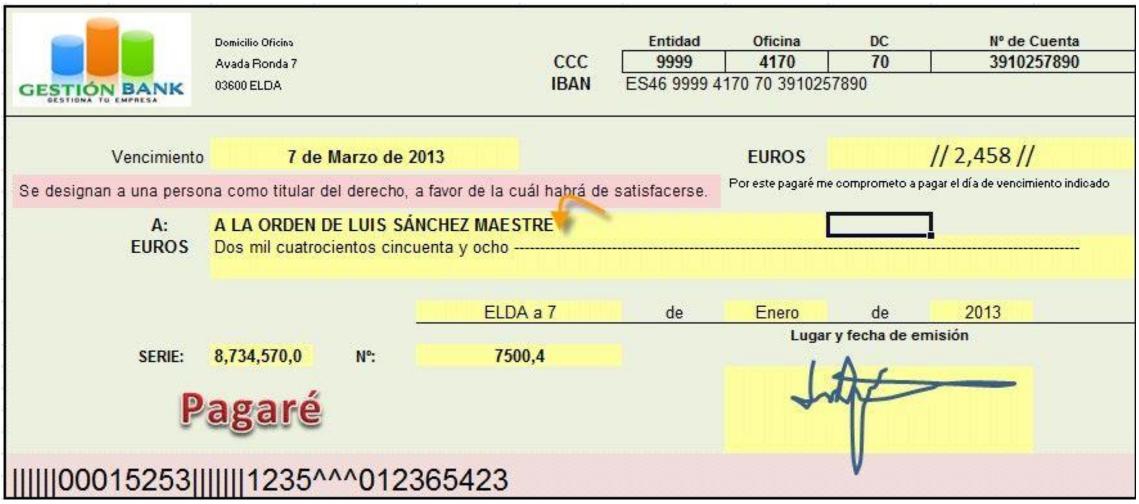
Sign: [Signature of borrower]

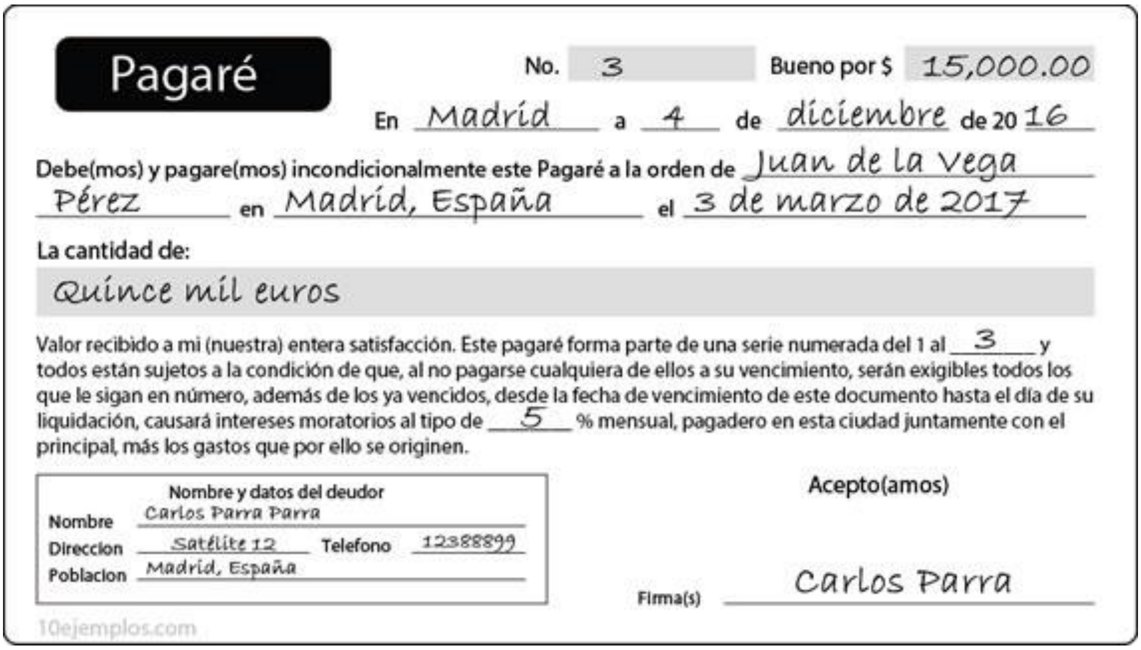
Notary Public - SEAL

____

Name & Address: [Party name]

My Commission Expire
_____/_____/_____

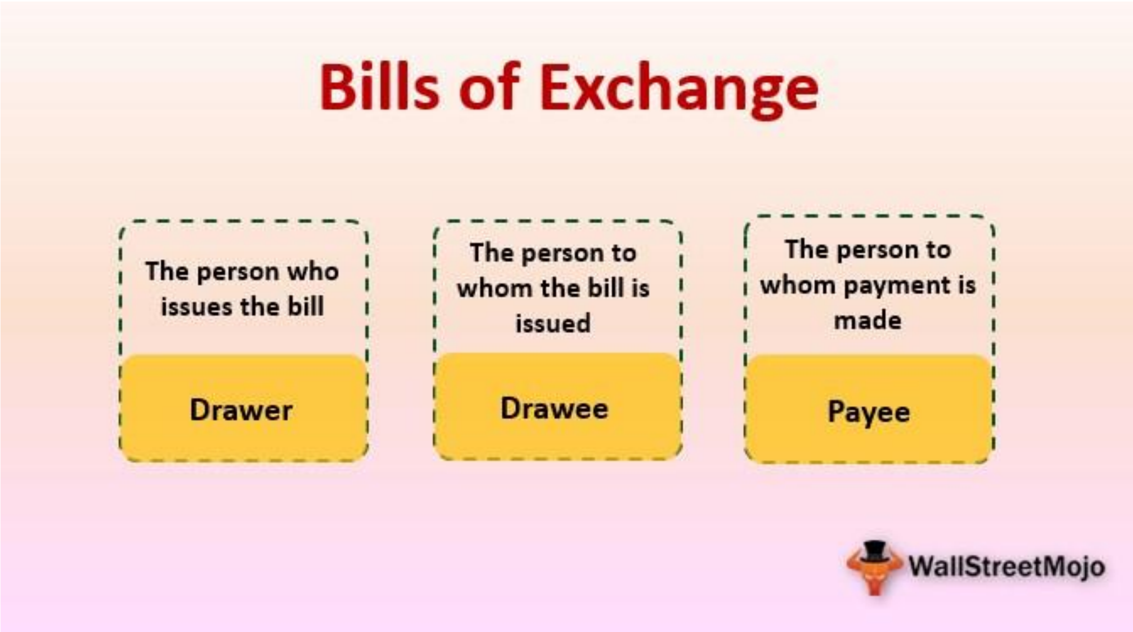


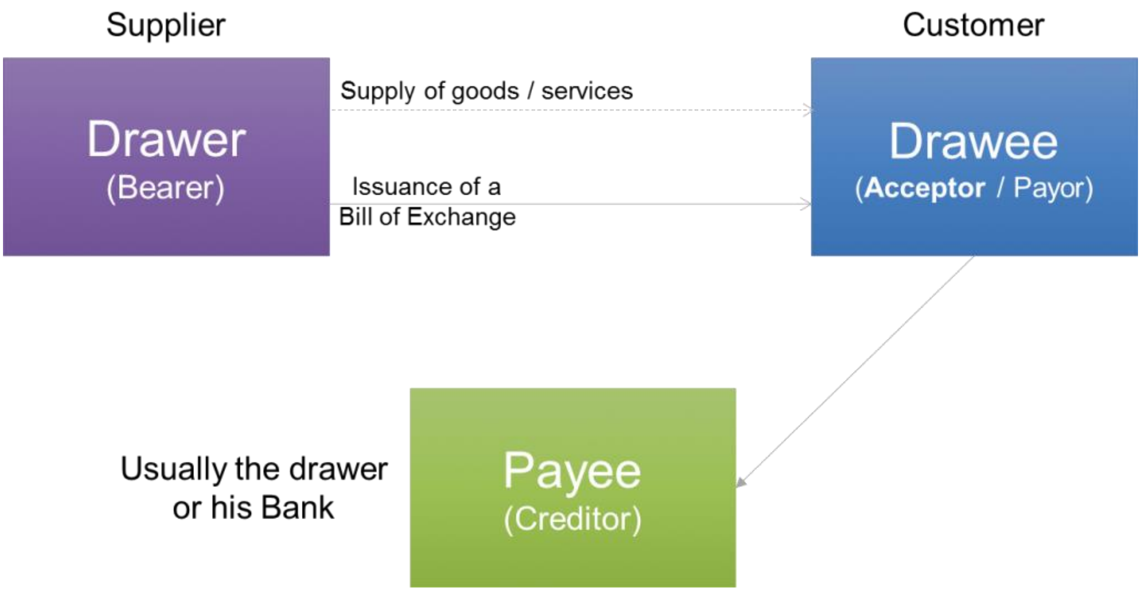


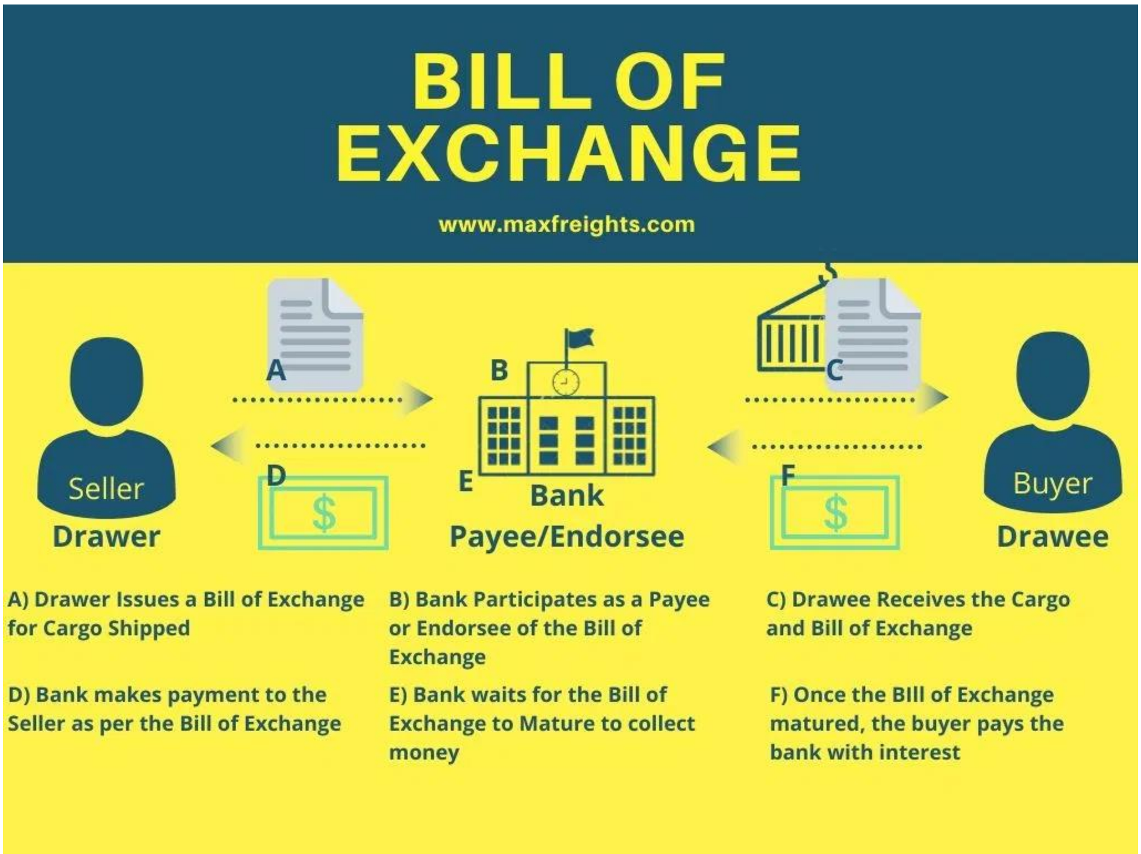
3. THE BILL OF EXCHANGE (LETRA DE CAMBIO)

The Bill of Exchange is a document that contains a payment order. Several people intervene:

- **Drawee (Librado):** it is the client. It is the person to whom the payment order is addressed (debtor).
- **Drawer (Librador):** is the seller. It is the person who issues the bill of exchange (creditor) giving the payment order to another person (debtor).
- **Payee or Holder (Tenedor):** is the person who has to collect the bill of exchange. Usually it is the bank.

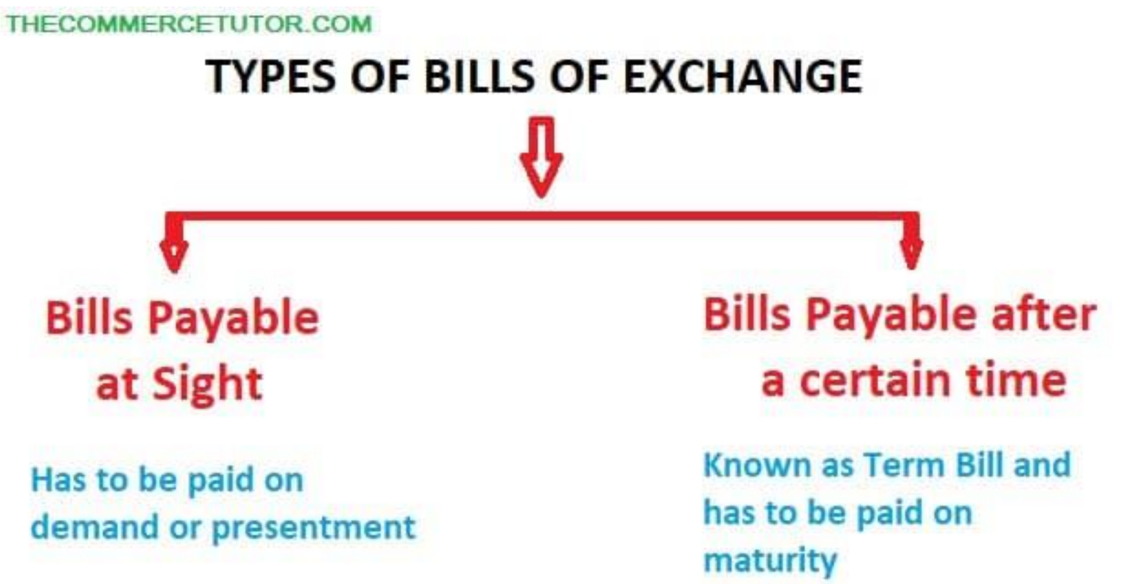

Bills of Exchange
The person who issues the bill
Drawer
The person to whom the bill is issued
Drawee
The person to whom payment is made
Payee
WallStreetMojo

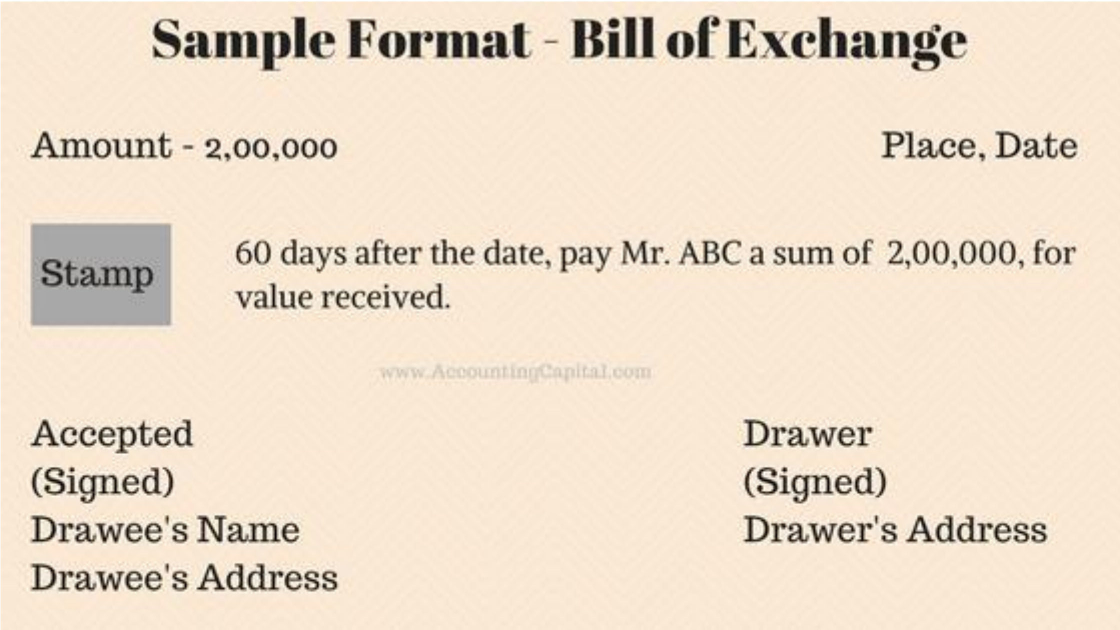

Supplier
Customer
Drawer
(Bearer)
Supply of goods / services
Issuance of a
Bill of Exchange
Drawee
(Acceptor / Payor)
Usually the drawer
or his Bank
Payee
(Creditor)

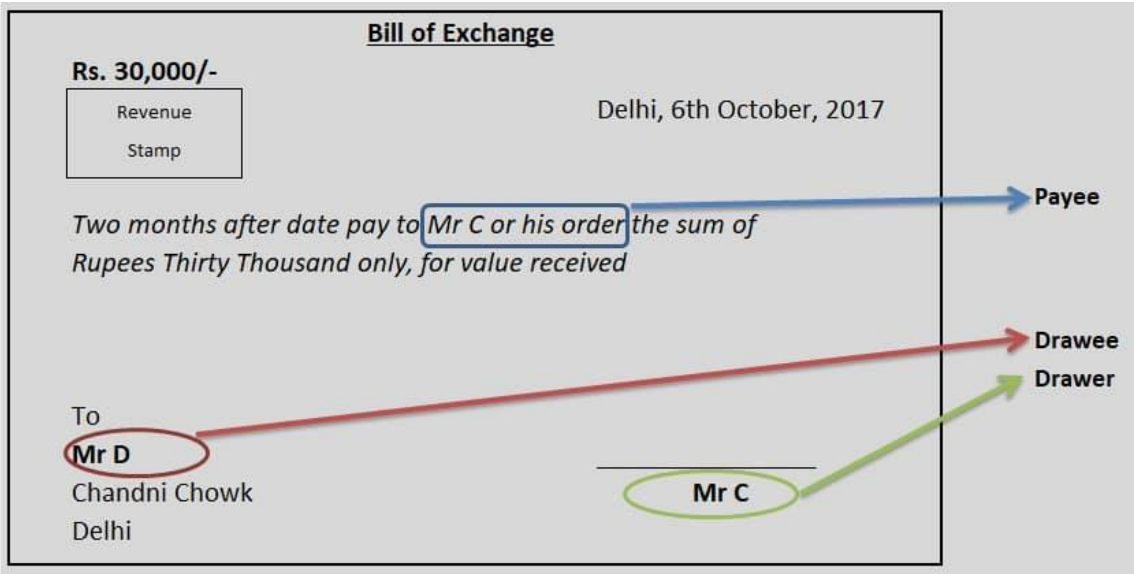


They can also intervene:

- **Endorser** (Endosante): creditor (original or later) who transmits his right to collection.
- **Endodor** (Endosatario): person (current creditor) to whom the collection right has been transferred.
- **Guarantor** (Avalista): person who guarantees, in whole or in part, the payment of **guarantee** (avalado)







Maturity (Draft of Promissory Note payable)	Legal Regulation in Article I BECA	Model Clause
At sight	Section 34	"at sight", "at presentation", "after sight", "on demand"
At a fixed period after sight	Section 35	"one month after sight"
At a fixed period after the date of drawing	Section 33	"pay in a month after drawing"
On a fixed day	Section 33	"on 4^{th} January 2005"

Lugar de libramiento MADRID

MONEDA EURO

IMPORTE 350,03

CLASE 14ª

Por esta LETRA DE CAMBIO pagará usted al vencimiento expresado a

Fecha de libramiento: Día Mes Año 01 01 2017

VENCIMIENTO 60 DÍAS / A LA FECHA

la cantidad de (Importe en letra)

TRESCIENTOS CINCUENTA EUROS CON TRES CÉNTIMOS

0 A 161440

Persona o entidad: BANCO ABC
Dirección u oficina: C/ DEL PAGARÉ, 10
Población: MADRID

en el domicilio de pago siguiente:
CÓDIGO CUENTA CLIENTE (CCC)

Entidad	Oficina	DC	Núm. de cuenta
0000	0000	00	0000000000

ACEPTO
Fecha 01/01/2017
(Firma)

Cláusulas:

LIBRADO
Nombre: ANTONIO GARCÍA GARCÍA
Domicilio: C/ DESCUENTO, 10
Población: MADRID
C.P.: 28000 Provincia: MADRID

LIBRADOR:
(Firma, nombre y domicilio)
REFORMAS, S.L.
C/ DEL SOL, 1
28000 MADRID

UNIT 5

COMMERCIAL FUNCTION OF THE COMPANY

I. THE MARKET

1. CONCEPT

Traditionally, the market has been the place where buyers and sellers met to carry out their commercial operations. This concept of the market was linked to a geographical place but, as a result of progress and communications, this term has exceeded its local character.

At present we define the market as the set of buying and selling acts associated with a specific product or service at a certain point in time, without reference to a specific place.

The market is made up of all the supply and demand for products and services. In it we can find all the competition of companies that fight to gain a foothold in it, and also all the people who demand these products.

As the market is very competitive, it is difficult for the company to reach all consumers. Therefore, it is divided into MARKET SEGMENTS to which it is most effectively directed.

2. TYPES OF MARKET

Markets can be classified in different ways based on a number of elements. Some of the classification criteria are as follows:

1) According to the volume:

- **Wholesale markets:** with a high volume of sales.
- **Retail markets:** low sales volume.

2) According to the number of offerers:

- **Monopoly:** there is only one single supplier of a service or product that is in high demand by the market. A company controlls exclusively the market and can establish the conditions and prices of sale.
- **Oligopoly:** there are few suppliers of a product, so they agree to establish conditions and prices. That way there will be no competition between them.
- **Perfect competition:** it is the most appropriate situation, as there are many sellers and buyers. None of them have an influence on the operation of the market, so it will be easier to achieve more beneficial prices for the customer.

3) According to transactions on services or goods:

- **Goods market:** merchandise and articles are acquired and traded.
- **Service market:** refers to contracts.

4) According to regulation:

- **Regulated markets:** the authorities are in charge of controlling the conditions of sale and prices.
- **Non regulated markets:** it is the market itself that is responsible for setting prices according to supply and demand, without the participation of the state.

5) According to the agents involved:

- **Consumer market:** which is supplied by retailers.
- **Retail market:** which is supplied by semi-wholesalers.
- **Semi-wholesale market:** which is supplied by wholesalers.
- **Wholesale market:** which is supplied by producers or manufacturers.

Taking this last classification as a reference, we are going to make a brief analysis of the agents that intervene in the market.

3. AGENTS INVOLVED IN THE MARKET

A) MANUFACTURERS OF GOODS AND SERVICE PROVIDERS

A manufacturer is a person or a registered company that makes finished products from raw materials.

The provision of services refers to the execution of tasks based on the experience, training and professional training (capacitación profesional) of a person in a certain matter.

B) DISTRIBUTION CHANNELS

The distribution channels are the set of means that the company uses to get the product from the manufacturer to the end customer.

C) THE PRESCRIBERS (ADVISORS)

A prescriber (prescriptor) is the person who has the ability to influence a certain audience when they share their opinion or assessment of a product, service or brand. Think for example on the "influencers", or the recommendation that a friend can make you.

D) BUYERS

These are the final recipients of the product or service. The way you buy (what, how, when ...) influence the final structure of the market.

4. TARGET MARKET (MERCADO OBJETIVO): MARKET SEGMENTATION AND SUBSEQUENT STRATEGY.

If a company is trying to sell "to everyone", it is most likely that in the long term it will end up not selling to anyone.

The market is too large and consists of different customers with different purchasing needs. **Market segmentation** divides the market into groups with similar characteristics and needs in order to offer a differentiated and adapted offer to each of the target groups. This allows you to optimize resources and use your marketing efforts effectively.

To **segment a market**, various **variables** must be taken into account:

- **Geographic:** countries, regions, cities or postal codes.
- **Demographic:** gender, age, income, education, profession, social class, religion or nationality.
- **Psychographic:** lifestyle and personality.
- **Behavioral:** frequency of use of the product, search for profit, level of loyalty, attitude towards the product.

Market segmentation allows companies to use and design various types of strategies, depending on the type of product and the characteristics of the clients.

Types of Strategies

Three types of strategy are usually differentiated:

1) Differentiated marketing strategy. Companies design different marketing actions, each one aimed to a specific segment of the population. It is one of the most advantageous strategies, since there are different groups of consumers. However, it involves more expenses as different sales methods have to be designed for each group.

2) Undifferentiated or massive marketing strategy. On many occasions, companies decide to implement a common strategy for the entire market as they do not find significant differences among their consumers or there are no different segments. Although the company saves costs, the competition can appear more easily.

3) Concentrated marketing strategy. This type of strategy is very common in highly specialized companies. It is characterized because the company focuses on a certain segment of the market and designs a specific strategy for them. The downside is that focusing on a single market can be a risk factor if the market size is small.

II. THE MARKETING

Many people associate marketing with advertising and with the different strategies that companies use to convince consumers to buy their products. However, the concept of marketing is broader and we can say that it affects the entire company, from the production department to senior management.

In the 50s of the 20th century, marketing began to develop and today a company cannot be understood if it does not incorporate marketing into its organization.

For Philip Kotler, guru on this subject, marketing is "a social and administrative process through which groups and individuals obtain what they need and want through it, generating, offering and exchanging valuable products with their peers." From this definition, 3 characteristics are important:

1º.- **Two parts** intervene in the process, whether they are groups or individuals.

2º.- Both parties have **desires or needs** to satisfy.

3º.- An **exchange of supply and demand** is generated that satisfies the needs of both.

Today two **Types of Marketing** are distinguished:

- **Strategic marketing:** focuses on systematically and constantly analyzing market needs in order to develop profitable products that differentiate a company from its most immediate competitors, thus obtaining a competitive advantage. Its orientation is long-term.
- **Operational marketing:** refers to the activities of organizing sales and communication strategies, in the short and medium term, which aim to make the distinctive qualities of the products offered by the company known and valued to potential buyers.

Therefore, the difference between one and the other is that **strategic marketing** is a **system of ideas and market research**; while **operational marketing** is a **set of actions that allows the product to be brought closer to consumers**. Despite this, the objective of both is the same: to satisfy the needs of the clients.

In both cases, marketing uses a series of tools such as market research, advertising, promotion, distribution channels, pricing policies or communication instruments.

III. THE MARKETING-MIX

The marketing-mix is one of the classic elements of marketing. It was created by McCarthy in 1960 and is used to encompass (englobar) its four basic components: product, price, place (distribución) and promotion (comunicación).

These four variables are also known as the 4Ps because of their Anglo-Saxon meaning (product, price, place and promotion).

The 4Ps of marketing (the marketing mix of the company) can be considered as the traditional variables that an organization has to achieve its commercial objectives. It is necessary that the four variables of the marketing-mix be combined with total coherence and work together to complement each other.

Marketing mix- 4P's (1)

1. PRODUCT

Products are the goods and / or services offered by the company to satisfy a need or desire demanded by consumers.

The success of the company depends on offering a good product. Thus, for its design it is necessary to analyze the market to know if it needs that product or not. Having a good product (Good (bien) and / or service) is not a guarantee of the company's success, but it is a requirement to achieve it.

Types of products

- **Depending on whether or not they can be perceived by the senses**, a distinction is made between tangible and intangible products.

- **Depending on their duration**, we can speak of perishable (perecederos) and non-perishable products. And, within non-perishable products, long or short-lived products. Or, what is the same, durable or non-durable products.

Depending on whether or not they are produced within the borders of a certain country, we speak of national or imported products.

- **Depending on the destination of the products**, or who buys them, two classes of products can be distinguished. On the one hand, the so-called **consumer products**. And, on the other hand, **products intended to be reincorporated in a production process or for resale**, or products intended for a company or business.

  Analyzing this last criterion:

- **Consumer products.** These are products purchased by the end consumer, merely for domestic use. Taking into account how the purchase is made, the following types of consumer goods can be distinguished:

  - **Convenience products for the consumer:** those that, due to their low price, the consumer will not waste much time deciding which product to definitely buy. They can be considered *commodities* and are chosen based on geographic proximity or other criteria related to convenience.

  - **Comparison products:** are those in which, due to their considerable price, the consumer finds it interesting to carry out a comparative analysis of qualities, characteristics, prices or others, before deciding on one in particular.

  - **Special goods (or specialty):** those in which, due to the identification with the brand or the desire to possess products with unique or special characteristics, a percentage of consumers are willing to pay a higher price for them.

  - **New products, or accessory or alternative products,** that do not cover a need in themselves, and to which the customer arrives as a result of advertising.

- **Products intended for a company or business.** These types of products are not acquired by the final consumer of the same, but are acquired to return to the market again, whether or not they are subject to a transformation. Within this type of products can be distinguished:

-
  - **Capital goods (bienes de capital)** when they are related to the company's production processes. They can be equated to machinery, facilities and tools. However, tools usually consist of smaller tools.
  - **The goods that are incorporated into the production process** are the raw materials, whether animal, mineral or vegetable; and supplies. Previously

processed materials and components may or may not be incorporated into said processes.

Product characteristics

The main factors that define the personality of a product are:

- **Core:** physical, chemical and technical properties of the product, which make it suitable for certain functions and uses.
- **Quality:** assessment of the elements that make up the core, based on standards that must appreciate or measure the qualities and allow them to be compared with the competition.
- **Price:** last acquisition value. This characteristic has acquired a strong role in the current marketing of products and services.
- **Packaging:** protection element with which the product is equipped and which, together with the design, has a great promotional and image value.
- **Design, shape and size:** they allow, to a greater or lesser degree, the identification of the product or the company and, generally, they configure its own personality.
- **Brand, names and graphic expressions:** they facilitate the identification of the product and allow its memory associated with one or another characteristic. Today it is one of the main assets of companies.
- **Service:** set of values added to a product that allows us to be able to establish differences with respect to the others. Nowadays, it is what the market values the most, hence its development through the so-called *perception marketing*.
- **Product image:** global opinion that is created in the mind of the consumer according to the information received, directly or indirectly, about the product.
- **Image of the company:** global opinion in the memory of the market that positively or negatively intervenes in the criteria and attitudes of the consumer towards the products. A good company image supports, in principle, newly created products; as well as a good brand image consolidates the company and the rest of its products.

Levels of a Product

A product is much more than something tangible and physical; it satisfies a set of customer needs. According to Kotler, "a product is everything that is offered to the market to capture their buying attention, and that, in addition, satisfies a need or desire", being possible products a service, a store, a person, or a simple idea. For this reason, this author proposes different levels that are part of a product, among which we highlight:

- ***BASIC PRODUCT:*** The main and intrinsic characteristics of the product. It is normal or the most basic for what the product serves. For example, a vehicle to drive.

- ***EXPECTED PRODUCT:*** It is one that is made from the basic product and covers the conditions and characteristics expected by the consumer. It involves aspects such as quality, brand, design, packaging, style. For example, that power, safety, comfort, etc.
- ***INCREASED PRODUCT:*** Product planned from the basic and expected product, where the characteristics of the product are amplified. For example, that the car has an adequate after-sales service.
- ***POTENTIAL PRODUCT:*** Includes all the improvements and transformations that the product could incorporate in the future. Add value in the future. For example, innovations of the same vehicle model.

Product Life Cycle

1. Introduction

The product is launched for the first time on the market. We are facing a stage full of uncertainty and risk. In addition, it is the stage that entails a higher cost, since it is the first approach of the product to the consumer, so it is necessary to carry out a market study and invest in communication campaigns and promotional marketing actions.

Strategies: The key in this stage of the life cycle of a product consists in defining and working on the positioning and investigating the market's response to the product, in order to react quickly and reorient the strategies if necessary.

2. Turbulence

Strong upheavals (convulsiones) can occur in the product's trajectory, both by external or market pressures and internal by the company itself in its political and personnel struggles.

Strategies: Try to domain the circumstances that produce them since the solution will come soon.

3. Growth

The product is positioned in the defined segment, and begins to be accepted by consumers. This causes sales and therefore profits to increase.

Strategies: The key in this stage is to strengthen (reforzar) the positioning and make modifications to be able to adapt the product to the growing demand.

4. Maturity

It Occurs when the product has reached the top in terms of market share. Sales continue to increase, but at a slower and declining rate, until it reaches the point that they stabilize and subsequently begin to stop.

Strategies: At this stage, competition is already considerable, so it is not only necessary to compete in prices, but also other relevant factors for consumers must be identified and worked on, to achieve a product and a differentiated value proposition.

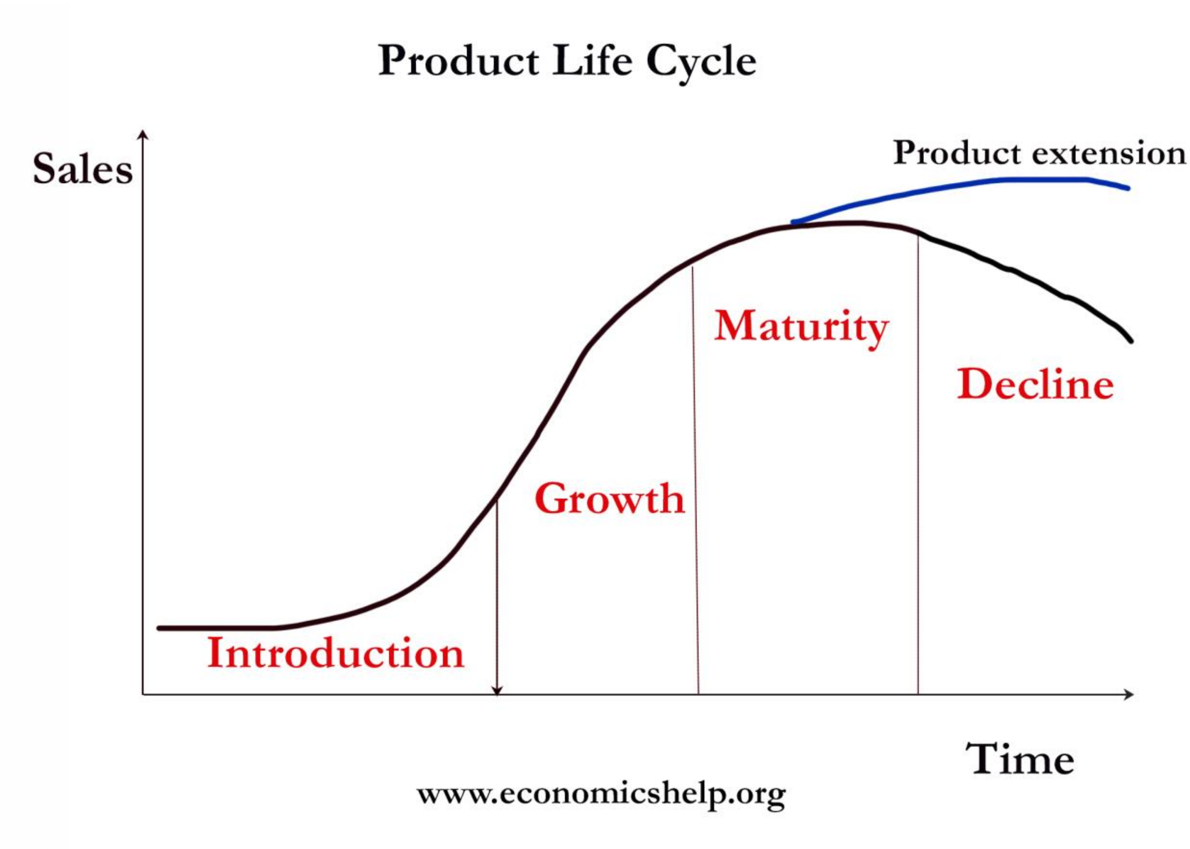
The key in this stage is to anticipate the drop in sales, looking for proposals and innovations that make the product attractive again in order to sustain sales.

5. Decline

No company wants to reach the decline phase, since it is the last stage of the life cycle of a product. Sales gradually begin to decline as the product has been replaced by other more attractive options for consumers.

Profits can turn into losses and, therefore, that the product stops being profitable for the company, if the necessary measures are not taken.

Strategies: The key at this stage is to minimize investment and plan actions where different aspects are taken into account: replace the product or modify it to focus it on the market again.



2. PRICE.

Price is a marketing variable that synthesizes the commercial policy of the company. For the potential customer, the value of the product is manifested in objective and subjective terms, since it has a very particular scale when assessing the different attributes of which it is composed.

We can define the price as the quantitative estimate that is made on a product and that, translated into monetary units, expresses the acceptance or not of the consumer towards the set of attributes of the product, taking into account the ability to satisfy needs.

Pricing methods (Métodos de fijación de precios)

- **Pricing based on margins.** The price is set by margins or percentages on the total cost. This system ignores competitors' prices, current demand, and the value that consumers assign to the product, in addition to the perceived value.
- **Pricing method: target price.** This system is also calculated on the cost. By analyzing the Break-even point (punto muerto) we can know the amount of product that we have to sell at a certain price to cover all the fixed and variable costs related to the manufacture and sale of products.
- **Pricing method: based on demand.** This type of method takes as a starting point the price that consumers would be willing to pay for a good or service, this can be done:
-
    - *Determination of the price from the demand.* First, the price that the demand is willing to pay is calculated and then it is studied if with the costs we have we can have benefits.

    - *Determination of the price by chain margin.* The price that the demand is willing to pay is calculated, then the percentage that the distributors take and finally the cost of the product.

- **Pricing method: based on competition.** After an investigation on the competition, a price is assigned to the products based on the prices established by the competing companies.

- **Pricing method: value based.** They offer the consumer the greatest possible value. By value we understand the proportion between the benefits that the consumer obtains from a product and the sacrifice represented by acquiring it. The maximum that the consumer is willing to pay marks the price limit.

Price types

Price types refer to the different strategies used to define the value of a product or service within the market. In the process of defining prices, a wide range of factors is considered (production and distribution costs, the supply of the competition, the state of the economy).

- ***PREMIUM PRICE.*** This pricing strategy involves launching the product with a higher price than the competition to achieve a premium positioning.

  - In these cases, it is necessary that the good or service being promoted has differentiating characteristics that justify the extra cost: superior quality, packaging, or even the decoration of the establishments.

- ***PENETRATION PRICES.*** This type of pricing is usually applied in order to capture a customer base during the first stage of a product's life.

  - The strategy is to enter the market at a lower price than competitors to attract the attention of potential customers.
  - This can be a strategy that gives good results in the long term, however, it can represent losses in the first life cycle of the product.

- ***PRICE OF THE ECONOMY.*** This is a type of price that aims to attract those consumers who focus their attention on prices. This strategy aims to reduce the costs associated with production and marketing in order to offer a lower priced product.

  - These are goods that are consumed in a common way and not as a luxury item. This can be very convenient for certain companies because it ensures a constant cash flow.

- ***"DESCREMADO" PRICE.*** It is a strategy designed to maximize the benefits that the company receives during the launch of new products and services.

  - This method involves keeping prices high during the introductory phase. However, subsequently the company gradually reduces prices as competitors appear on the market.

  - This pricing strategy seeks to allow companies to maximize profits in the first life cycle of the product.

- ***PSYCHOLOGICAL PRICE.*** Psychological pricing refers to techniques that salespeople use to encourage customers to respond emotionally, not in a logical or practical way.
    - Its objective is to increase demand by creating an illusion of greater benefit to the consumer.
    - An example of this strategy is when an item is priced at 9.99 instead of 10. Although the difference is not significant, this trend works because consumers pay more attention to the first number instead of the number. latest.

- ***PACKAGE PRICES.*** This type of price is based on the sale of several items within a package to offer it to users at a lower price than if they bought them individually. This strategy is effective for mobilizing products that take the longest time to sell. However, it also helps customers perceive a greater benefit, as they feel that they receive something for free.

    - Package prices are most effective for companies that sell complementary products. For example, a restaurant can take advantage of this strategy by including dessert on each plate.

- ***GEOGRAPHICAL PRICES.*** It refers to the variation in prices according to the geographical location where the products are offered. It is usually influenced especially by changes in the currency as well as the inflation processes of each country.

3. PLACEMENT (DISTRIBUTION)

It is an instrument of the marketing-mix through which the exchange between the producer and the consumer is performed.

The distribution can be simple or channel level 0, when there is no intermediary, the contact is direct (physical, telephone or virtual) or the most normal is that it is complex, that is, when a distribution network is used with intermediaries.

The intermediary is a subject outside the product, normally he / she has his own objectives and performs functions (bringing the product closer to the consumer) for which he / she receives remuneration. The appearance of intermediaries gives rise to distribution channels:

- **Short or level 1 channels:** There is only one intermediary. This intermediary, no matter what size it is, is a retailer (it has a direct relationship with the consumer).
- **Long channel or level 2:** When there are at least 2 intermediaries, a wholesaler or warehouseman and a retailer.
- **There may also be higher-level channels**, level 3 for example, when there is also an importer.

Intermediaries perform functions of transport, storage, financing, installation, repair, training, creation of assortment (surtido), optimization of travel, etc. Generally, all these functions increase the price of the product; So, the more intermediaries, the higher the price.

The elements that intervene when deciding whether to use one channel or another are:

- Number of consumers: the more consumers a long channel will be used.
- Technical products usually use a short channel.
- Repetitive purchase products use a long channel.
- Rational purchase products use a short channel.
- High volume products tend to have short channels.
- Agricultural products have long or extra-long channels.

Types of intensity of distribution:

- **Exclusive distribution:** when only the establishments of a certain chain have that product for sale (typical of high-end products).
- **Selective distribution:** the producer selects the intermediaries who are going to sell his product.
- **Intensive distribution:** we try to reach all the points of sale where it makes sense to sell this product (typical of long channels and repetitive buying).

4. COMMUNICATION (or Promotion).

In marketing, 5 communication tools are usually considered, forming among all what is called "communication mix":

1. Advertising.

2. Sales promotion.

3. Direct marketing.

4. Public relations.

5. Sales force.

A. ADVERTISING.

It is the best known communication tool. It is about presenting and promoting an idea or a service to achieve the desired end and that can be very varied: inform, increase sales, build loyalty, create a brand image, awaken needs, persuade the consumer, etc.

Advertising can be given in various media and formats: television, press, internet, billboards (vallas publicitarias), sporting events, etc. and therefore in video, audio, image format, etc. Its effect is generally long-term. A television campaign begins to take effect on purchases after a month or two: that's why sun cream is advertised in spring and not in summer or children's toys some time before Christmas.

B. SALES PROMOTION.

They are incentives that are given to the consumer at the time of purchase, to stimulate quick or large purchases of a particular product. The most important advantages are: its immediate effect, flexibility since there are many promotion techniques, allows high personalization or segmentation, offers an increase in value. It is aimed at both consumers and suppliers, distributors, etc.

The possible **sales promotion techniques** that we can use are the following:

- **Free samples:** to publicize new products, especially sensory ones. It is quite expensive. It is important to give away the amount of product necessary to test it properly.
- **Discount coupons:** to encourage product testing, to build loyalty, when you want to lower the price of the product without transmitting an image of cheap (because it is not convenient for the brand to appear cheap).
- **Joint offers:** you have to be consistent. The idea is that a hotel and a car rental company get together, for example, and offer joint packs. The image of the other company should benefit and not worsen the image itself.
- **Gifts:** it is very effective, people are excited and loyal.
- **Game shows (Concursos) and raffles (rifas):** they involve the consumer, but his effort must be proportional to the benefit he obtains. The bases must be clear and the prize achievable.

- **Loyalty programs:** customer cards, clubs, VIP customer, etc. It is important to obtain customer information but it should not be abused. It must be made attractive so that people want to participate.
- **Free product:** 3x2. It is very effective and recommended for seasonal or perishable products, since you need to "get rid of them” (quitártelos de encima)
- **Amount of free product:** 20% more in each pot. It is very effective.
- **Successive purchase discount:** "second unit at half price".

C. DIRECT MARKETING.

In this case, the main characteristic is that direct communication between the company and the consumer is used. For example, telephone calls (telephone operators), website with the possibility of participation, mobile phone, etc. The company seeks to contact the consumer, either to provide information or to build loyalty or sell; but always with the aim of receiving instant feedback.

This type of communication allows interactivity and personalization, but care must be taken not to overwhelm consumers.

D. PUBLIC RELATIONS.

They are planned and systematic activities that the company uses to create, maintain and improve the image, relationship and trust of the company towards the general public. It is aimed at public institutions, distributors, clients, the press, workers, opinion leaders, etc.

The best known examples would be the presence at fairs, press conferences, sponsorship of sporting or cultural events, etc. The effect is also usually long-term and will be indefinite in time.

E. SALES FORCE.

It is the information and persuasion work carried out by sales professionals, that is, salespeople. In some sectors, the sales capacity of sellers is crucial to the consumer's purchase decision (for example, in the cars or electronics sector, where buyers are not experts in these áreas and prefer to be recommended). The effect of this tool is immediate, at the time of purchase.

5. EXAMPLES OF NEW TRENDS IN MARKETING

Marketing evolves in a dizzying way (forma vertiginosa). This new dynamic forces brands to take into account the technologies that are trend and associated practices, when planning marketing strategies. We can name:

- **Chatbots.** They are a new and effective way to stay in touch with your audience and followers through artificial intelligence on social networks, to answer questions, transmit offers and even make sales.
- **Voice Search.** Voice searches are based on artificial intelligence tools that interpret the way people speak.
- **Influencer Marketing.** Influencer marketing consists of achieving a series of collaborative links between brands and companies and those people with great visibility and prominence on the internet, who are known as 'influencers'.
- **Artificial intelligence (AI).** AI can create purchase prediction models, such as Customer Journey models based on predicting behaviors that are based on certain events, such as customer scores based on their probability of purchase.
- **Ephemeral Content.** Stories from Instagram, Facebook and WhatsApp statuses are becoming more and more popular on social media. These contents stand out for being ephemeral, disappear after 24 hours, and are characterized by being informal and showing everyday scenes.
- **Video Marketing.** More than 80 percent of the content consumed on the internet is audiovisual. 9 out of 10 Internet users consume videos of the brands they follow on social networks. Video Marketing has a positive impact on sales.
- **Augmented reality.** It allows to generate memorable experiences for consumers. Mix the digital with the real through mobile applications.
- **The future of Retail**. Augmented and virtual reality, digital wallets, the use of robots in stores and deliveries via drones are just some of the trends that will revolutionize the future of the retail industry.
- **Remarketing.** Remarketing is a system that allows you to create tailored or personalized ads for users who previously visited a web page. It is a

solution associated with the objective of achieving a better return on investment (ROI).

- **Small Data.** Small data is data that is small enough for human understanding. It is data in a volume and format that makes it accessible, informative and actionable. The term "big data" is about machines and "small data" is about people.
- **Geomarketing.** It is based on geographic information systems allowing to analyze the situation of a business through the exact location of customers, points of sale, competition and other relevant factors, collecting them on a personalized map for each customer.
- **Onmichannel metrics.** Multichannel marketing refers to the interaction of brands with consumers using the combination of different communication channels. Analyzing the effectiveness of so many channels should be a priority by creating a strategy based on metrics, behavior tracking and comprehensive analytical reports.

IV. FRANCHISES

The franchise is a development system that consists of repeating a formula of proven success. It is an agreement by which a natural or legal person (the franchisor) assigns to another (the franchisee) a business model, transferring all the know-how that the former has experienced, launched, perfected and developed successfully .

It implies:

- The use of a common name or label or other intellectual or industrial property rights and a uniform presentation of the premises or means of transport that are the object of the contract.
- Communication by the franchisor to the franchisee of technical knowledge or know-how, which must be proper, substantial and unique.
- The provision continues by the franchisor to the franchisee of commercial, technical assistance or both during the term of the agreement; all this without prejudice to the supervisory powers that may be contractually established.

What does each of the parts achieve with this model?

The franchisee manages to open a business with a very powerful multinational brand, with products that will be a claim for customers. Just by having this brand, the franchisee will get many more customers than if he opened a neighborhood coffee shop.

For its part, **the franchisor** manages to expand its business and its brand easily, without having to manage each of the stores it owns in the world and, increasing monthly income with the payment of the franchisees. In addition, to pay for the brand, in many franchises, you must also pay for the products, since the provider is the franchisor itself.

UNIT 6

HUMAN RESOURCES IN THE COMPANY

1. THE MANAGEMENT OF HUMAN RESOURCES

One of the most complex aspects in the organization of a group is to achieve the full coordination of all its elements to get the objective. In the company, one of the main objectives is to maximize profit.

A company, depending on its size, can be made up of a large number of workers with different categories, who perform different tasks and who, as individuals, have very different personalities and motivations. Achieving the integration of the worker-man in the organization and linking him to his culture is one of the objectives of people management.

The main objective of **human resource management** (HR) is to generate a corporate culture of its own, effective for business objectives.

Company culture is defined as the set of norms, values and ways of thinking that characterize the behavior of personnel at all levels of the company. It is a way of feeling, thinking, acting and living the shared vision and the set of common experiences in the organization.

This culture responds to a varied **set of factors**: the personality, the management style and the behaviors of its owners and managers, their history, tradition and culture, their size, their position in the market, the nature of their products and their capacity. of change and innovation.

Human resource management and corporate culture are living elements. The **company culture** is represented by a philosophy of conduct and by many external signs: brand, design, color, advertising message, packaging or establishment, and intangibles such as efficacy, safety, quality, service, guarantee or loyalty.

Human resources (HR) are the main factor that contributes to the success of the company and the achievement of its objectives. The organizations that get the greatest achievements in the management of their personnel are those that have clearly defined their culture, respected and transmitted it. The problem with many organizations is that they do not know their culture, they work by inertia without paying attention to this variable.

2. THE FUNCTION OF MANAGING HUMAN RESOURCES IN THE COMPANY

Do you remember when we studied the different types of companies? We analyze how there is a separation between ownership of the company (partners) and management (administrators and managers). In small companies the two functions are in the hands of the same people, but in larger companies there is a clear separation, which means that management functions are left in the hands of professionals who try to ensure that the people who make up the company act in a coordinated manner.

The management of a company mainly develops the following functions:

- **Planning:** consists of establishing and reaching workers, the future objectives of the company and deciding which are the best ways to achieve them.
- **Organization:** consists of designing the structure of the company, executing the policies established in planning, distributing tasks, establishing the different departments, authority relationships and hierarchy, etc., in order to make the best possible use of the resources that the company has.
- **Control:** it is about checking that the company is taking the planned measures and that they are indeed the most appropriate. This function must allow the resolution of errors through the introduction of corrective measures in case the company does not approach the established objectives.

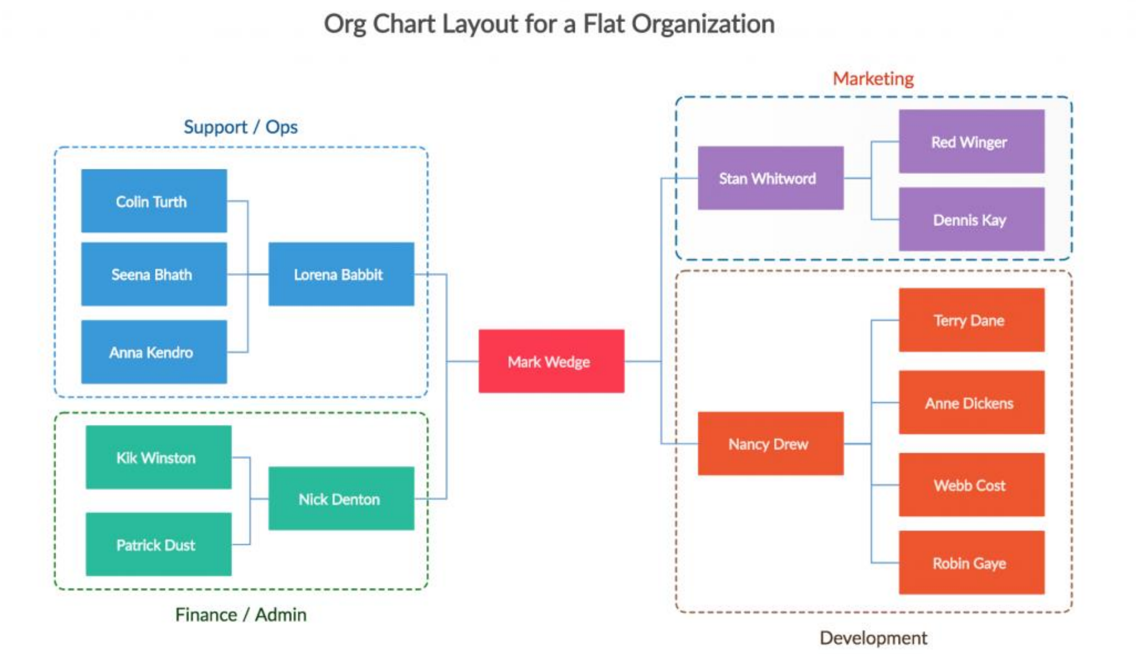
The representation of the business organization: the organization charts

As we have already studied, the organization of the company can be represented graphically by means of an organization chart. An **organizational chart** is the graphic representation of the different functional areas of the company and their functions, the levels of authority and the information transmission channels.

The organizational charts could be of different **types:**

• **Vertical organizational charts.** They aim to highlight the hierarchy of command: The positions that have more authority are located in the highest places and, below them, the subordinate ones. Direct and indirect subordination relationships also stand out.

• **Horizontal (Flat) organizational charts**. They have the same elements as vertical organization charts, but command units are on the left and subordinate units on their right. The objective of this organization is to highlight the importance of the functions on the hierarchy of command.



If people are the most valuable resource of organizations, when designing the organizational structure of the company, the Management must analyze what type of professional profile is necessary for each job and establish a personnel selection process.

3. THE NEEDS OF PERSONNEL: THE PROCESS OF RECRUITMENT AND SELECTION OF PERSONNEL

To carry out the functions explained above, the Human Resources Department is in charge of the selection and training process of the people necessary to achieve the organization's objectives.

a) Analysis of job positions

To carry out an adequate selection of personnel, the following must be carried out previously:

- **An analysis of the job position:** identifying the tasks and elements that comprise it, as well as the characteristics and requirements that the person who covers it must meet.
- **A job description:** specifying the job objectives, responsibilities, required training, relationship to other positions and working conditions.
- **A specification of the job:** where the necessary requirements to fill them are listed in terms of physical, mental and emotional qualities.

Observe: How do you design a job?

The job position is made up of the set of tasks performed by a person in a company, with the consequent authority and responsibility. To structure an organization, it is necessary to group the tasks (set of operations carried out by a person at his job and in a given time). A set of tasks make up a position. The position is designed based on the division and specialization of the workers. The specialization attached to each position gives rise to the different professional categories within the company.

b) Recruitment

Once this analysis is done, recruitment begins. This can be done inside the company (own employees) or go abroad to find candidates (depending on the level, some places or others will be used: universities, companies, advertisements, relatives ...).

Depending on the position and the company, this process includes the previous analysis of the candidates (a pre-selection of the applications received, eliminating those that do not clearly meet the requirements), the performance of psychotechnical tests, professional practical tests and personal or group interviews.

Decision-making on the candidate to be selected will be carried out by the head of the department where the candidate will work together with the head of human resources.

4. OBLIGATIONS OF THE COMPANY IN LABOR MATTERS

a) The hiring of workers and the main employment contracts

The hiring plan defines the type of contract that will bind each of the employees to the company, the general conditions of labor relations and its cost.

Workers will be hired full-time and open-ended (indefinido), but there will be cases in which they are hired part-time, for a season, or during a season of the year.

The employer must reflect on the following concepts:

- The trial period is part of the employment contract, it is included within it. Workers must be registered in the Social Security System before starting work.
- Almost all employment contracts must be in writing, and it is always preferable to do so to avoid the presumption that the worker is permanent and full time.
- The most commonly used temporary contracts are: the contract for an specific work or service, the temporary contract due to production circumstances, the internship contract and the training and apprenticeship contract, which are also temporary.
    - Due to production circumstances, when market circumstances, accumulation of tasks or excess orders require it, even in the case of the normal activity of the company.

- To carry out a specific work or service, carry out specific works or services with their own autonomy and substantivity within the company activity and whose execution, although limited in time, is initially of uncertain duration.
- Work experience contract (contrato en prácticas), which may be carried out with those who have a university degree or professional training of a medium or higher degree, within the five years following the completion of the studies.
- Training and apprenticeship contract, which will have the objective of acquiring the theoretical and practical training necessary for the adequate performance of a trade or a job that requires a certain level of qualification. It may be held with workers over sixteen and under twenty-five years of age who lack the required qualifications to carry out an internship contract.

- **Permanent contracts** must be carried out if jobs that are part of the permanent staff of the company are occupied.
- It is possible to hire part-time workers through a specific contract.

It is essential that the company knows and applies the **Collective Agreement** of the sector. It specifically regulates days of work leave, vacation issues, contract improvements and especially salary by professional category and bonuses, as it regulates the working conditions that must be applied to its workers.

b) Obligations of the company with Social Security

The company is obliged to affiliate the worker in Social Security, in case he is not, and register him. As you know, the company collaborates with the Social Security by collecting and entering the fees that both the worker and the company itself have to pay.

What is the effective cost of hiring a worker?

Let's look at the following example.

Permanent worker

Base Salary € 1,200

2 Annual extra payments: € 200 / month (1200.2 / 12)

Personal income tax withholding: 10%

Premiums: 2%

Cost = Gross Salary + company social security

Worker net salary calculation:

Gross salary = 1,200 + 200 = € 1,400

Social security worker = 4.7% (Common contingencies) + 1.55% (Unemployment) + 0.1% (Professional Training) of BCCC (Coincides with BCCP) = 6.35% of 1,400 = € 88.90

Employee's personal income tax = 10% of 1,400 = € 140

Net salary = 1,400 - 88.90-140 = € 1,171.10

The worker receives a net amount of € 1,171.10

Fees to be paid by the company for the contracted worker's:

- Common Contingencies = 23.6% of 1,400 = € 330.40
- Professional Contingencies = 2% of 1,400 = € 28
- Unemployment = 5.50% of 1,400 = € 77
- Salary Guarantee Fund = 0.2% of 1,400 = € 2.8
- Vocational Training = 0.6% of 1,400 = € 8.4

TOTAL social security paid by the company = € 446.60

What perception does the company have of the cost incurred by the worker?

Net salary to be delivered = € 1,171.10

+ Social security worker = € 88.90

+ Personal income tax of the worker = € 140

+ Social security paid by the company = € 446.60

Total worker cost = 1,846.60, when adding what the worker receives plus personal income tax plus Social Security.

What does the entrepreneur pay as an autonomous?

Likewise, the company pays its share of Social Security, which comes in during the following month. It is noteworthy that the self-employed quota is a percentage that is calculated on the basis of contribution or "theoretical salary" that, as a worker, you estimate that you will have. The **contribution base** has a minimum and a maximum that the Government establishes each year.

The autonomous fee depends on the contribution base you have chosen and the bonuses you can take advantage of.

Since January 2019 there is only one type of contribution for everyone, which is the one that applies to the chosen contribution base. Currently this type of contribution for the self-employed is **30,6%.** This percentage would be divided into:

- 28,3% for common contingencies
- 1,3% for professional contingencies
- 0,9% due to cessation of activity
- 0,1% for professional training

Thus, the self-employed quota is a percentage of the contribution base that has a minimum and a maximum, and within them you can choose the base you want.

The minimum base in 2022 stands at 960.60 euros. The minimum installment to be paid in 2022 is the result of applying 30,6% as a general rate to the minimum base of 960.60 euros that begins the year 2022 intact. In this way, the minimum quota for the self-employed in 2022 is 294 euros and is paid by the majority of the self-employed. As we have already indicated, these 294 euros per month for the self-employed fee cover the self-employed worker in the event of common illness, accident or occupational disease, cessation of activity and training.

Reduction of the autonomous fee

When the activity begins, there is the possibility of availing itself of a flat rate that varies throughout the first months of activity, establishing three reduction sections based on the minimum contribution base and the minimum contribution rate, including temporary capacity. The excess of contribution from the minimum base remains without any bonus, quoting at the general rate of 30%.

- **Tranche 1: First 12 months:** in 2022, 60 euros of the minimum fee for common contingencies or an 80% discount on the minimum base in case of contributing for bases higher than the established minimum (960,60 euros). In the case of the self-employed company (autónomo societario), the minimum contribution base established at 1,234,86 euros, obliges the worker to pay a fee slightly higher than 60 euros.
- **Tranche 2: Months 13 to 18:** 50% reduction in the minimum fee for common contingencies during the second semester. The self-employed, natural person, fee amounts to 143,10 euros per month. The share of the self-employed company stands at 188,93 euros.
- **Tranche 3: Months 19 to 24:** 30% reduction in the minimum fee for common contingencies during the following semester. The fee for the self-employed, natural person, amounts to 200,30 euros, while the fee for the self-employed company io stands at 264,51 euros.
- **Tranche 4: Months 25 to 36:** 30% discount on the minimum fee for common contingencies only for new self-employed men under 30 years of age and self-employed women under 35 years of age. The self-employed, natural person, fee amounts to 200,30 euros, while the self-employed company fee stands at 264,51 euros.
  https://www.infoautonomos.com/seguridad-social/cuota-de-autonomos-cuanto-se-paga/

5. OBLIGATIONS REGARDING TO THE PREVENTION RISKS AT WORK

Prevention risks at work is the activity that aims to promote the improvement of working conditions to raise the level of protection of the health and safety of workers.

The protection of the worker's health is carried out through the so-called **hygiene at work** that includes the techniques developed within the company to avoid occupational diseases, that is, those derived from the performance of the work activity. From a technical point of view, **occupational diseases** are the gradual and slow deterioration of the worker's health produced by continuous and chronic exposure to adverse situations.

The promotion of worker safety seeks to prevent work-related accidents, that is, injuries suffered by the worker in the performance of his or her work as an employee, produced during the time of their employment service, as well as injuries caused during their displacement from their residence to the place of work (*in itinere*).

Prevention risk at workn obliges different agents related to work activity:

- ***Employers*** are obliged to assess possible risks, try to avoid them, applying safety and hygiene regulations in their companies (they are ultimately responsible for their compliance).

- ***Workers*** must ensure their own health and safety and that of third parties. Therefore, they must properly use machines, tools and dangerous substances, use the means of prevention and protection according to the instructions. They must also inform their superiors of situations that may pose risks to their health or safety.

- ***Manufacturers, importers, suppliers of machinery, etc***., must duly inform about the correct use, handling and conservation of the products to avoid risks.

- ***Public Authorities*** must develop actions aimed at preventing work accidents and occupational diseases. In addition, they must stimulate the development of knowledge and activities of employers and workers on occupational risks and their consequences.

6. MANAGEMENT AND LEADERSHIP

A fundamental trait that a manager must have in order for his functions to fulfill the established objectives is leadership capacity. Leadership is essentially about making people in the organization identify with the group's objectives and act to achieve them. In other words, directive tasks can be carried out using principles of authority ("It is done because I say so, that's what I'm the boss for") but surely the guidelines will come better if they are transmitted through a leader who manages to involve everyone group in decision making ("Let's try to get for this month ...").

Manage is related to authority, power and hierarchy, while leading is determined by influence. The leader pays the same attention to external customers (those who purchase the goods and services produced by the company) as to internal customers (workers and collaborators). We should not think that the manager's attitudes are bad and that of the leader good, the art of management is to use both facets well.

Manage people = conduct + lead

	Manager	**Leader**
Origin authority	Formal hierarchy	Informal influence
Goals	External clients.	External clients. Internal clients.
Vision	Short-term Tactics	Long-term strategic.
Main resources	Materials	Emotional
Main task	Control and supervise	Train and advise (Coach)
Real vision	He/she accepts it	He/she questions it

The Human Resources (HR) manager must be able to combine management with leadership; formal authority (hierarchy) with influence in the staff.

Leadership styles

It is the leader's way of behaving before his followers:

- **Autocratic: i**t is based on the strict definition of tasks and procedures, and on the mechanical obedience of subordinates.
- **Democratic:** make subordinates participate in decision making.
- **Laissez-faire:** the leader provides great freedom, provides only information and hardly participates or controls the results obtained.

Style flexibility is an important quality of good leaders, they adapt their style to each situation. It is necessary to understand that every situation requires different styles of leadership.

7. MOTIVATION OF WORKERS

How to get the motivation of the workers? How would a company get you to feel more involved in the work you do? Beyond the theories seen, we will see what are the main factors that can improve employee performance. Surely the first thing that one thinks when talking about motivation is the money that one is paid but as you will see below, the company has to take into account other factors that sometimes work better than the material aspects:

- **Monetary factors:** money acts as a motivator especially while lower needs are not covered. Its effect decreases when these needs are covered and other higher needs appear. In other words, when one begins to work or has only been working for a short time, the salary increases are more appreciated and once a certain level of income has been reached, other measures may be more valued.

  Monetary measures can be carried out directly through salary, supplements, productivity payments or distribution of business profits. But also indirectly through payments in kind such as allowances, travel, rentals or material gifts.

- **Non-monetary factors:** money does not act as the only motivator:

  - ***Job enrichment:*** a job is less motivating the more monotonous and routine it is, therefore job enrichment aims to introduce modifications in the content of the job to meet higher-level needs. A position is enriched by expanding the variety of tasks, giving a global sense or identity to the task so that it can identify the global result of its effort, giving the worker autonomy and favoring his creativity, and so on.

  - ***Delegate authority and responsibility:*** make the worker participate in the decisions that concern her work.
  - ***Use continuous communication*** to better inform workers about what is expected of them or recognize workers for their merits and a job well done.
  - ***Introduce mechanisms for self-evaluation:*** give workers means by which they can know the progress they are making at work, which avoids frequent control by other people, which is a factor that reduces motivation.
  - ***Facilitate the training*** and personal development of workers.
  - ***Incentive and promotion policy*** based on merits and job expectations and the career plan: if the worker's promotion and promotion opportunities are not satisfied, their motivation will be less and less, as a situation of frustration occurs personal.