
National 4/5

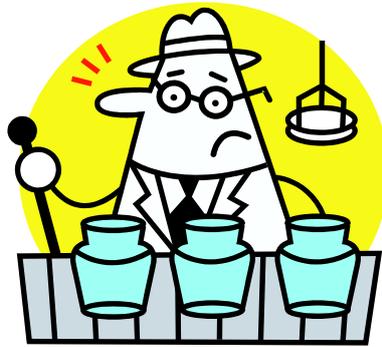
Business Management

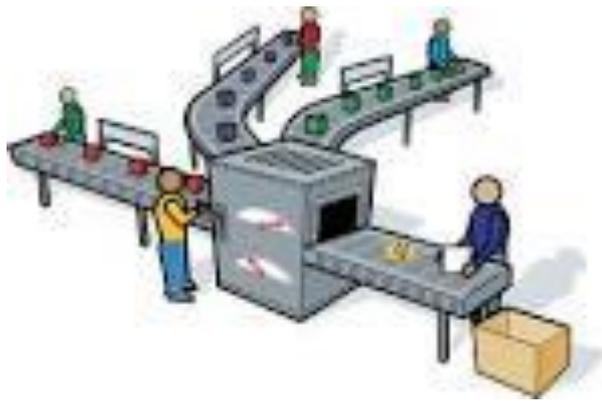


S4 HOME STUDY PACK



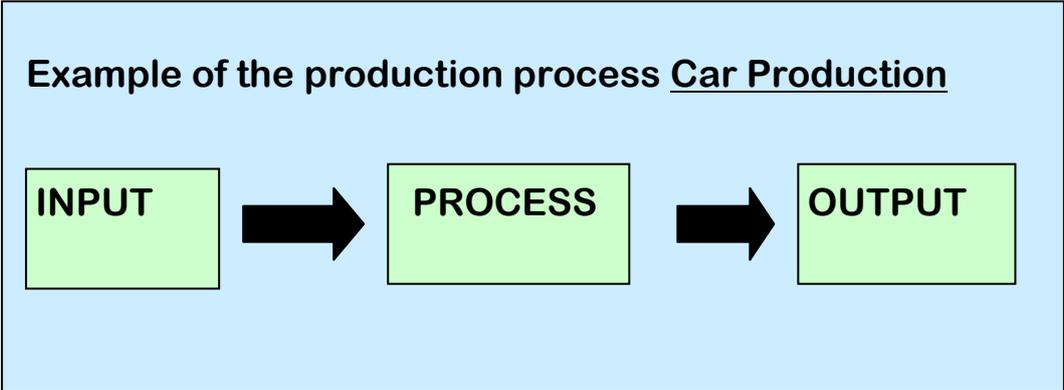
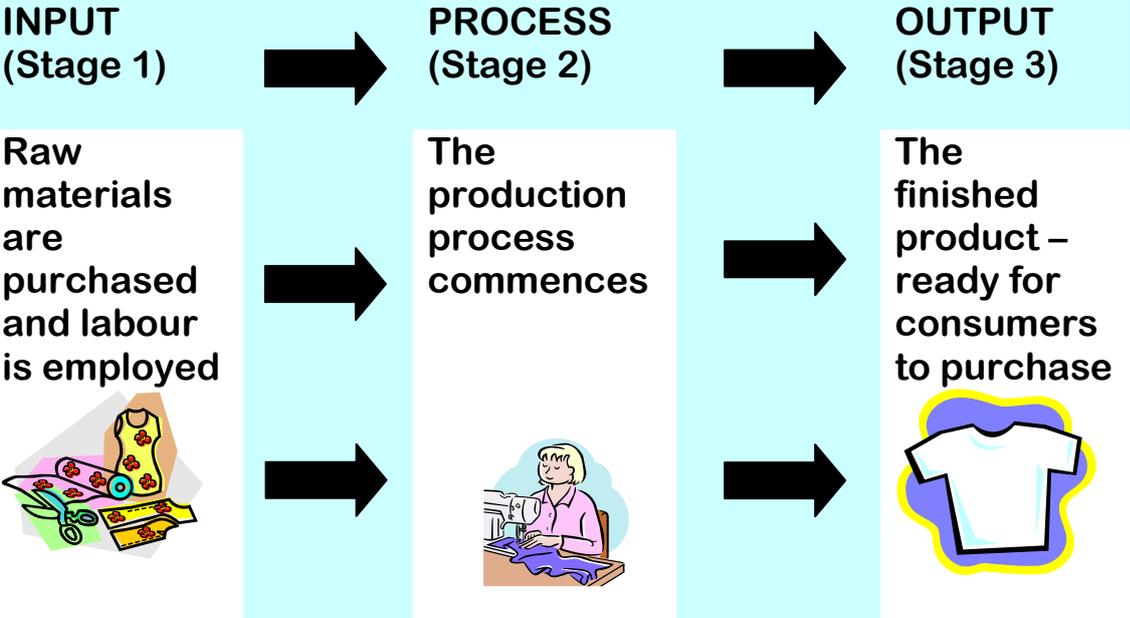
OPERATIONS, HUMAN RESOURCES AND FINANCE UNITS





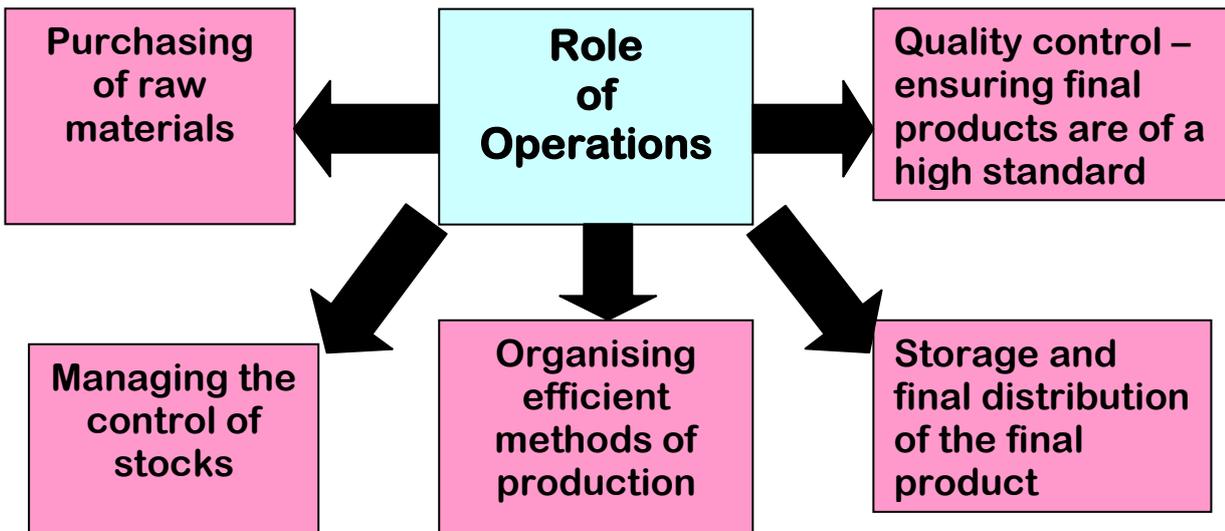
Today most goods are produced using the production line method – labour and machinery are used to complete different stages of a product

Depending on the type of product which the organisation produces, there will be a mix of labour and machinery used to produce it. There are three main stages in the system of operations:





What does the Operations Department do?



Purchasing of Raw Materials

The first task for the Operations Department is to purchase the raw materials required for the production of the business' product/s or service/s. The Operations Department must buy the correct quantities of raw materials (and other resources), at the correct time and from the most suitable and reliable supplier. Raw materials must be in place or production simply will not happen. This could result in a loss of customers and so a reduction in profits.

Angry Customers



Falling Profits



The quantity of stock to be ordered depends on the:

- current stock of raw materials available to the business
- amount of finance (money) available to purchase raw materials
- storage space available to store raw materials, for example, the size of the warehouse
- delivery/lead time – time between placing the order and the goods being delivered to the warehouse
- daily usage – the amount of raw materials used each day in the production process
- potential demand from customers for the businesses products

Selecting a Supplier of Raw Materials

An important part of purchasing is selecting a suitable supplier to buy raw materials from. When choosing a supplier, the following factors should be taken into account by the Operations Department:

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Quality	Consideration should be given to the quality of the raw materials on offer from each supplier. Is the quality of a satisfactory standard?
Quantity	Any potential supplier of raw materials must be able to meet the quantities required by the Operations Department.
Time	Potential suppliers of raw materials should be able to deliver by the date requested by the Operations Department.
Dependability	Potential suppliers must be dependable, respectable, likely to stay in business and have reliable delivery systems in place.
Price	The lowest price for the quality desired should be sought to ensure value for money. Discounts should be requested for good custom and bulk buying.
Location	If the supplier is not close by there could be expensive delivery charges.

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Progress Check 1

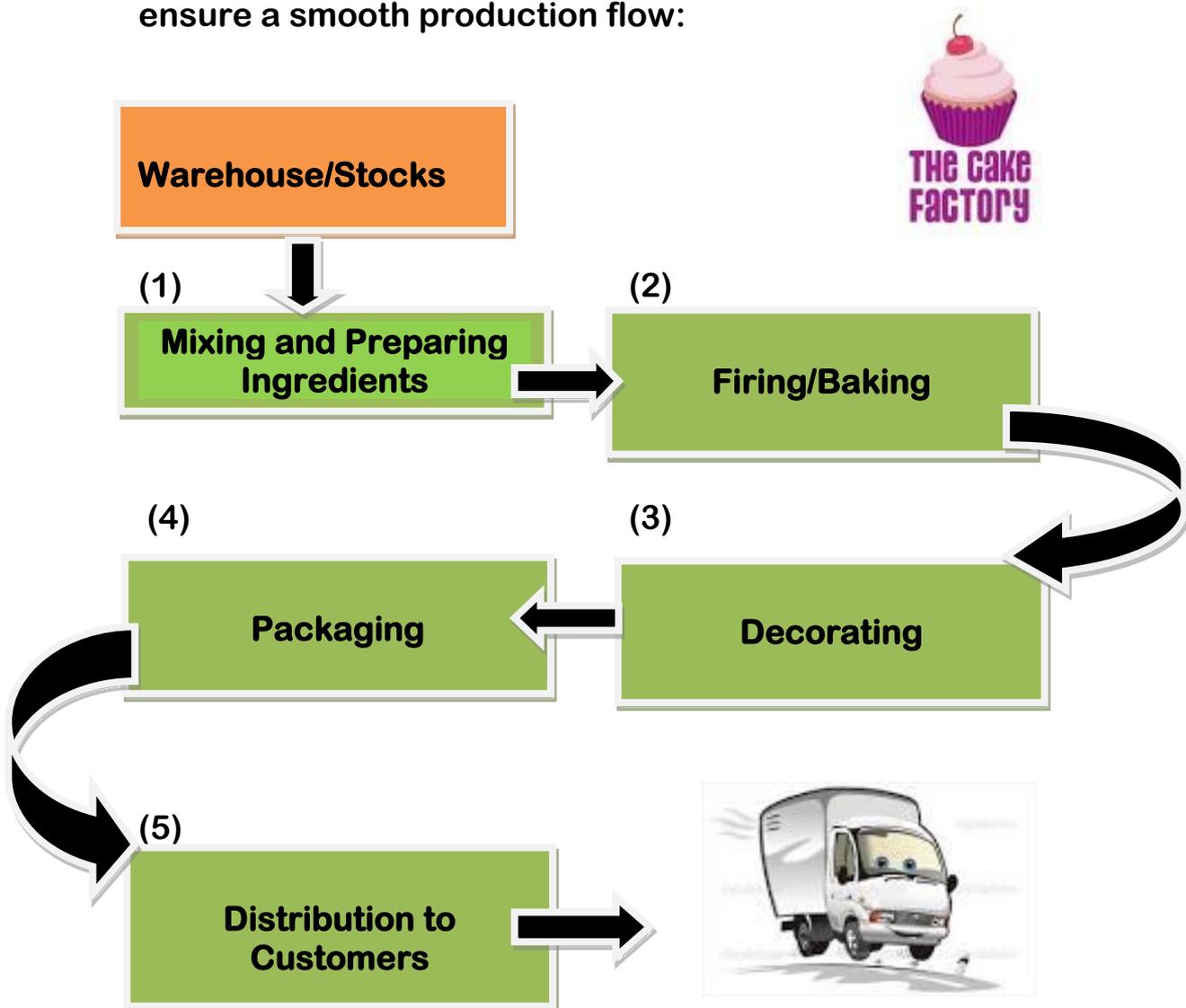
Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain what is meant by the term 'Operations'?	2
2	Outline the main areas of work that an Operations Department is concerned with.	5
3	Using examples, explain what is meant by raw materials.	2
4	Outline the potential consequences for a firm of not having sufficient raw materials in place.	2
5	Describe the factors that should be taken into account when ordering raw materials.	6
6	Choosing the correct supplier of raw materials is crucial. Outline the factors which should be taken into consideration prior to purchasing stock.	6
7	What is a quotation?	1
8	When you finally decide to purchase raw materials from a supplier, what document should you complete?	1
Total Marks		25

System Design – Layout of a Factory/Production Process

Operations managers have to decide on a layout of the factory and production processes that will ensure an efficient flow of work between different production areas. They also have to plan what staff are required and for what purpose, whether production will be labour intensive or capital intensive and what machinery and robots that will be used.

Below is how a factory baking bread and cakes may be laid out to ensure a smooth production flow:



The Operations department must decide on whether investment in machinery, rather than humans, is the best investment for the business in the long run.



Capital-intensive Production

Some companies like Coca Cola employ very few people but have high output levels, as they are automated. This means machines do the work instead of people. They use the latest computer controlled equipment. These firms often produce items which are the same or very similar, and are known as capital intensive firms.

This method is used when:

- A standard product is being produced – like a 2 litre bottle of coca cola.
- Large scale production is required.
- A high and consistent quality is required.
- When the product is easier produced by machine rather than labour.

Other companies use humans rather than machinery to produce goods – particularly where a single product or a few of the same types of product are being produced, for example, designer dresses. This is known as the labour intensive system.

This method is used when:

- The product requires craftsmanship or special expertise.
- Standard, similar products are not being produced.



Stock Management

The Operations Department must control stock levels to ensure that the correct quantity is available at all times to keep production going.

Careful decisions have to be taken about the quantity of raw materials or components to buy and which suppliers to use.

Storage of Stock

Stock is an expensive item which should be stored properly to avoid deterioration of stock. Usually the Operations department use the oldest stock first.

Stock should be stored in an area which is:

- dry
- well lit
- well ventilated
- locked



Items of stock should be:

- Clearly labelled
- Stored with the oldest stock to the front

Stock levels should be recorded on stock record cards or held on a computer spreadsheet. These record stock used or issued to departments, and received from suppliers. The balance on the stock record card should match the actual stock levels on the shelves.

The Operations Department also have to consider 4 important factors relating to stock control:

- what is the **MAXIMUM STOCK** they should hold?
- what is the **MINIMUM STOCK** they should hold?
- at what level should they **RE-ORDER STOCK**?
- what should the **RE-ORDER QUANTITY** be?

MAXIMUM STOCK

This is the level of stock which should be held for the organisation to minimise the costs of storing stock. When setting this level the business should take into account the storage space available, security measures in place, cost of storage facilities, eg employing warehouse staff and the amount of finance (money) that will be tied up in stock. Money tied up in stock cannot be used for other things!

MINIMUM STOCK

A minimum stock level is the level that stock must not fall below as shortages in raw materials may result in reduced output and customers' orders not being met. When setting minimum stock levels a business should take into account delivery times of their suppliers, eg, can suppliers deliver next day?

RE-ORDER LEVEL

This is the point at which new stock should be ordered. As items are taken from stock, the amount left for use reduces and at some point new stock has to be ordered. This is calculated by considering average daily usage and the time taken to receive new supplies - (this is known as lead time).

RE-ORDER QUANTITY

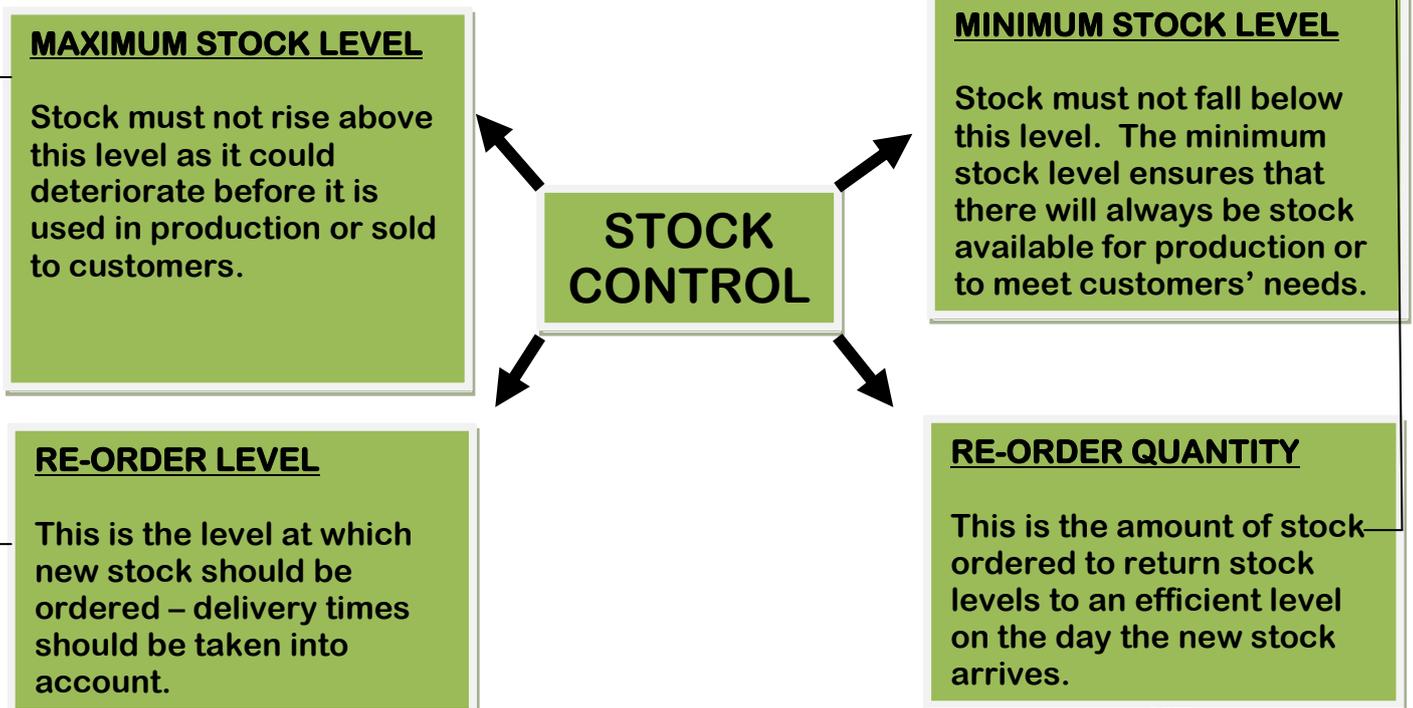
Once the re-order level is reached, a standard quantity is automatically requested. When this new stock is received the maximum stock level should be restored.

An example of a stock record card is shown on the next page.

Stock Card - Example

Stock Card						
Item: Flour		Maximum: 100 sacks				
Supplier: Shipton Mill		Minimum: 20 sacks				
		Re-order Level: 40 sacks				
		Re-order Quantity: 80 sacks				
DATE	RECEIPTS		ISSUES		BALANCE	
	Quantity	£	Quantity	£	Quantity	£
25/4	100 sacks	£400			100 sacks	£400
27/4			20 sacks	£80	80 sacks	£320
28/4			40 sacks	£160	40 sacks *	£160
30/4			20 sacks	£40	20 sacks	£80
2/5	80 sacks	£320			100 sacks	£400

* As the re-order level of 40 sacks has been reached an order for 80 sacks (the re-order quantity) would be submitted on 28 April 20..



Disadvantages of holding too much stock:

1	High storage costs, eg, employing warehouse staff.
2	High security costs, eg, a security guard may have to be employed.
3	High insurance costs, especially if stock has a high value.
4	Large amounts of space could be required for storage.
5	Money is tied up in stock which could be used elsewhere in the business.
6	Stock could deteriorate, become obsolete or spoiled before it is used in production or sold to customers.
7	There is also a danger of theft from employees.



Disadvantages of holding too little stock:

1	A business may not be able to cope with an unexpected order from customers if stocks are low. This may upset customers who may take their business somewhere else.
2	If the delivery of new stock is delayed the business could run out of stock and production may have to stop. Customers may become dissatisfied.
3	Holding low amounts of stock means firms have to place orders more often – this causes high administration costs. The firm may also lose out on discounts from bulk buying.
4	A firm may gain a bad reputation if it cannot satisfy customers' demands.



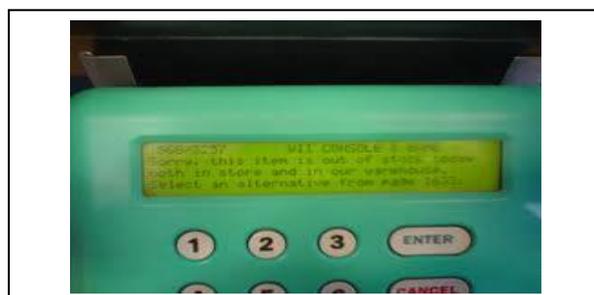
Computerised Stock Control

Many organisations hold their stock details on a computer database or spreadsheet. This helps keep balances up-to-date after stock has been received and issued. Some are programmed to order more stock automatically as the re-order level is reached. Computerised stock control can be costly to set up and operate due to hardware, software and maintenance costs.

COMPUTERISED STOCK CONTROL – ARGOS

When you visit an Argos store you can check whether the item you want is in stock as the store has an up to the minute computerised record of what is in the store. Where stocks have fallen below a given level, an automatic re-order code is fed into Argos's distribution system so that it will be very unlikely to have items out of stock. This effective automated stock control system saves Argos millions of pounds simply by making sure the organisation never has too much or too few items in stock.

Another advantage of the system at Argos is that customers can actually check stock availability themselves!



INTELLIGENT STOCK CONTROL SYSTEMS -SUPERMARKETS

Today, supermarkets such as Tesco and Asda use intelligent stock control systems to give them a competitive edge over their rivals. Supermarkets use **bar codes** to help with stock control. As each item is scanned at the checkout, it is taken from the recorded stock level. This allows the manager to check stock levels for each item of stock, total stock levels in the store and the store's sales easily at any time of the day. Best selling items of stock and slow moving items can also be easily identified.

Supermarkets generally buy stocks on credit, perhaps paying for them a month or even longer after they have been delivered to their premises. Using automated stock control systems, they can get the stock on the shelves and into the customer's trolley almost immediately before they have even had to pay for them. The supermarket is never out of pocket.



As each product passes through the checkout, stock levels are automatically updated.



Each item of stock will have its own unique bar code similar to the ones shown above.

JUST IN TIME (JIT)

Just in Time (JIT) Production is a Japanese approach to production that involves keeping the stock levels (therefore costs) to a minimum. Stock is ordered and arrives just in time to be used in production. Goods are NOT produced unless the firm has an order from a customer. To be successful this system depends on:

- reliable suppliers
- good quality control
- a team of committed and skilled workers

STORAGE OF STOCK

Supplies of stocks can be held in one central storage area (centralised) or be located in different areas – ie, in or close to the areas where they will be used in production (decentralised).

Advantages of Centralised Storage of Stock	Advantages of Decentralised Storage of Stock
Improved security of stock when all stock is stored in the same area/room.	Stock is always at hand when needed and there is no time lost collecting stock from the central storage area.
Specialist Stock Room staff can be employed who will ensure that stock levels are controlled.	Easier for each department to order and keep track of their own stock levels – orders of new stock will reflect the stock usage.
May be cheaper to insure stock if it is all held in the one area.	May prevent the deterioration of stock when different storage areas are used.

Labour intensive v Capital intensive

Most manufacturing companies use a mix of labour-intensive and capital-intensive (machine-intensive) production.

Labour Intensive	
Advantages	Disadvantages
Some manual labour is cheap to employ.	Skilled labour can be expensive to pay and train.
Some workers are highly skilled or offer expert craftsmanship.	Labour may only be suitable for small scale production. Labour on its own may not be able to mass produce.
Labour may be more suitable when the business cannot finance expensive machinery or equipment.	Staff absence may mean production stops and so orders may not be filled.
Capital Intensive	
Advantages	Disadvantages
Machines are more efficient when a standard product is being produced.	Purchase, set-up costs and maintenance of machines can be very expensive.
Machines are more attractive when labour is scarce or expensive.	Lost production due to machine failures can be very costly to the business.
Machines are suitable for large scale production of identical items like Coca Cola.	Individual customer specifications cannot be met as machines only produce standard products.

It must also be remembered that employees who operate machines all day can find the work repetitive and boring and this leads to a lack of motivation.

Progress Check 2

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain the difference between Minimum Stock and Maximum stock.	2
2	Outline 2 problems for an organisation of having too much stock.	2
3	Outline 2 problems for an organisation of not 'holding' sufficient amounts of stock.	2
4	Compare and contrast labour-intensive methods of production with capital-intensive methods of production.	4
5	Describe 2 advantages to an organisation of using computerised stock control methods.	4
6	State why it is important for an Operations Department to design and organise a suitable factory layout.	1
7	Describe 2 advantages and 2 disadvantages of labour-intensive methods of production.	4
8	Describe 2 advantages and 2 disadvantages of capital-intensive methods of production	4
Total Marks		23

METHODS OF PRODUCTION

Production is the process in which raw materials, components and finished goods are converted into new goods or services. This can be done in different ways depending on what is being produced.

Job Production

Job production is where a single product is custom-made to a customer's own specification. Bridges, wedding cakes and wedding dresses are made using job production.



Fitted Kitchens



Wedding Cakes



Wedding Outfits

Advantages	Disadvantages
Firms can produce one-off orders to exactly meet the customer's needs.	Expensive to hire highly skilled staff.
High prices can usually be charged so high profits can be earned.	A wide variety of expensive tools, equipment and machines may be required.
Workers are more motivated as there is likely to be a variety of work and skills required.	One-off orders may take several months to complete, from the order being placed to delivery to the customer.

Batch Production

Batch production is the production of groups of similar products. No item in a group goes on to the next stage until all are ready. For example, Heinz may produce a batch of soup, and all 20,000 cans of soup will be started in production, finished and distributed to customers at the same time.



Advantages	Disadvantages
All products in the batch are identical and so there should be no quality differences – all customers should receive exactly the same product.	Staff may be less motivated as they repeat the same task – batch after batch.
There is a reduced need for highly skilled and costly staff as work is broken down into simple stages and is fairly repetitive.	The business may have to purchase very expensive machinery which can also be costly to maintain.
Machinery and robots can be used to complete a lot of the production which may reduce costs in the long run.	Workers and machines may be sitting idle between batches of production if there is any fall in demand from customers.

Flow Production

Flow production is a process in which the production of items moves continuously from one operation to the next. Each part of the process contributes to the eventual production of the final product. Usually machinery or robots are employed to reduce labour costs. Products are produced to a standard specification. Examples would include the production of cars, soft drinks and TV's.



Car Production

Coca Cola

TV Production

Advantages	Disadvantages
Huge quantities of goods can be produced.	Very expensive to purchase machinery and equipment.
Machinery can work 24/7.	Individual customer requirements cannot be met.
The process often makes use of machines and robots, which reduces labour costs and human mistakes.	Workers tend to find the jobs boring and repetitive and so they become bored very quickly.
Because items are being produced in huge quantities, the costs can be spread over a great output which reduces the cost for the customer.	If machines break down or develop faults – production usually has to stop.

Shown below is a list of words/phrases associated with the Operations Department:

- Stock
- Job production
- Batch production
- Flow production

Enter one of these words/phrases in the boxes provided to show what each statement below is referring to.

1. This method of production involves making a single item, usually according to a customer's specification.

2. This involves the continuous production of a large quantity of items on a production line, where each worker does the same job as the goods flow past on a conveyer belt.

3. Materials that a business holds either to be used in the production process or as finished goods waiting to be sent to customers.

4. This involves the production of similar products in large quantities which are started in production, finished and distributed to the customer at the same time.

QUALITY

“It's not just food, its M&S food.”



MARKS &
SPENCER

Business organisations in the UK use a variety of measures to ensure that their products/services meet a high level of quality.

A customer may view a quality product as one that:

- uses a high quality of materials
- has a high standard of workmanship
- works perfectly well
- is reliable
- meets the specification stated on the packaging



If a business develops and manufactures a quality product, it may find it easier to:

- satisfy customer demands
- meet safety standards and legal requirements
- ensure the product works properly or can be repaired easily
- charge a premium price
- have a high status and a good reputation in the market



Quality Control Procedures

A manufacturer passes a sample of their raw materials and/or the final product through a quality control check. Any unacceptable products are then discarded as waste or sent back for reworking. This ensures that substandard products are not sold to customers. Quality control procedures will ensure a good reputation for a company and higher profits from having more satisfied customers. A downside of quality control could be that more workers are needed to carry out quality control and this costs time and money.



Quality Assurance Procedures

At certain points in the production process, products are checked to ensure that they meet agreed quality standards. All aspects of the production process are looked at to ensure errors do not occur. There is more emphasis on workers self-checking rather than checking by inspectors.



Advantages are:

- Costs are reduced because there is less wastage having to scrap completed poor quality products – mistakes are spotted early and dealt with!
- It can help improve worker motivation as workers have more ownership and recognition for their work. Workers are encouraged to take pride in their own work.
- It can help break down 'us and them' barriers between workers and managers as it eliminates the feeling of workers being checked up on by managers.

Benchmarking

Identifying a benchmark is used as a method of improving the quality of production of a good or service by copying the best techniques used by another organisation regarded as 'the best' in the industry. Setting a benchmark as a target can be very motivating for staff as it highlights the high standards to aim for. However companies must ensure that they continue to review their performance even after they have exceeded the benchmark.

Quality Circles

These involve small groups of workers meeting at regular intervals to discuss where improvements can be made in the production process. By including them in quality circles, workers should become more motivated, more productive and more willing to introduce new production methods.

Total Quality Management (TQM)

Total Quality Management is the most complete form of quality control. It tries to create a “quality culture”, encouraging everybody – from the Managing Director to the cleaners to think about quality in everything they do. Every employee sets out to satisfy the customer. Customers are placed at the centre of the production process. Providing customers with the best quality product/service are the focus of every stage in the process, from initial order to despatch of the final good.



ADVANTAGES OF TQM	DISADVANTAGES OF TQM
<ul style="list-style-type: none">• Every worker is involved so they feel responsible and can also be held accountable for their work.	<ul style="list-style-type: none">• Takes a lot of time to constantly check the standard of work at all stages of production.
<ul style="list-style-type: none">• Establishes a “quality culture” ensuring quality is at the centre of everything the business does.	<ul style="list-style-type: none">• All staff must be trained in TQM which can be very costly for the business.

Staff Training

Ensuring all employees are well trained to do the job they are employed to do is essential if the business wishes to produce a high quality product or service. Staff should regularly undertake a skills scan or SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis to ensure that future training and development needs are met.



The benefits of training staff include:

- It ensures new employees gain the necessary skills, knowledge, qualities and qualifications for the job they will be doing.
- It makes it easier for new employees to reach the level of performance expected of them by the business.
- Long term costs can be reduced due to factors such as reducing waste and increasing the productivity/output of each worker.
- Helps improve the image and reputation of the business because customers will have more confidence in well trained employees that are capable and reliable.

Costs associated with training staff include:

- It can be very costly to put staff through training courses.
- Output and production may be lost while members of staff are being trained.

ENVIRONMENTAL ETHICS

Recycling

Recycling is processing used materials (waste) into new products to prevent waste of potentially useful materials.

Recyclable materials include:

Glass	Paper
Metal	Plastic
Textiles	Electronics



Materials to be recycled are either brought to a collection center or picked up from your business then sorted, cleaned, and reprocessed into new materials bound for manufacturing.



Recycling has both economic and environmental benefits. The government and other organisation's promote recycling as it creates 'resource efficiency', and can help reduce damage to the environment.



Recycling also makes perfect business sense – businesses who carefully and successfully manage their resources enjoy:

Increased Profits

Recycling helps you cut the costs associated with waste disposal. Also when a business becomes resource efficient there can be lots of cost savings such as gas and electricity costs, labour costs and transportation costs.

In Scotland, businesses have to apply for a special license to deal with waste disposal. This license costs money and therefore recycling becomes an attractive alternative to many businesses.

Competitive Advantage

When a business is known to be resource efficient and recycle, it improves their relationship with their customers. Customers, more than ever, seek assurance that their suppliers are environmentally friendly.

Compliance

Scotland's Zero Waste Plan sets out the Scottish Government's vision for a zero waste society where:



- all waste is seen as a resource;
- waste is minimised;
- valuable resources are used efficiently and replaced where possible;
- waste is sorted, leaving only limited amounts to be landfilled.

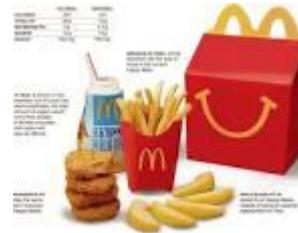
A business who is resource efficient and recycles will be the most well equipped to adapt to the forthcoming changes to legislation (law).

PACKAGING PRODUCTS

What is packaging?

Packaging is anything that is used to contain and protect raw materials or a product and thrown away after the product is consumed (opened).

Look at some of the packaging below.



Sometimes, businesses make packaging very attractive to help market their products and make them look attractive to consumers. However, this can often mean that an unnecessary amount of resources are being used!

However there are rules to minimise packaging and make sure that most of it can be recovered or recycled.

Packaging Designers

Everyone designing packaging must follow environmental regulations:

- 1. Keep it to a minimum** - you must make sure that the packaging you design only has the minimum weight and volume needed to keep the product safe and hygienic.
- 2. Hazardous substances** - packaging must not contain high levels of noxious or hazardous substances.
- 3. Recyclable packaging** - packaging must be designed so that a certain percentage of the materials used are recyclable.

-
4. **Packaging for energy recovery** - packaging designed to be disposed of through burning must contain at least 50% of organic materials that burn naturally, eg paper, wood, cardboard.
 5. **Biodegradable packaging** - packaging designed for composting must be biodegradable.
 6. **Reusable packaging** - reusable packaging must be designed so that it can be used several times, eg, glass bottles.

Progress Check 3

		Marks
1	Describe 3 different methods of production that a business can use to manufacture (make) products.	6
2	For each method of production identified in your answer to question 1, outline one advantage and one disadvantage of each method.	6
3	Identify 3 factors that a customer may consider when deciding if a product is of a high quality.	3
4	Outline the advantages to a business of developing a high quality product.	3
5	Explain what is meant by the term "Total Quality Management (TQM)".	4
6	Outline the benefits to a business and in particular the Operations Department of ensuring that all workers are trained to a high standard.	4
7	Explain the benefits that participating in recycling can bring to a business.	3
8	Outline any 4 factors that a business should consider when designing packaging for their products.	4
Total Marks		33

MANAGEMENT OF PEOPLE (HR/PERSONNEL) UNIT



HUMAN RESOURCE MANAGEMENT

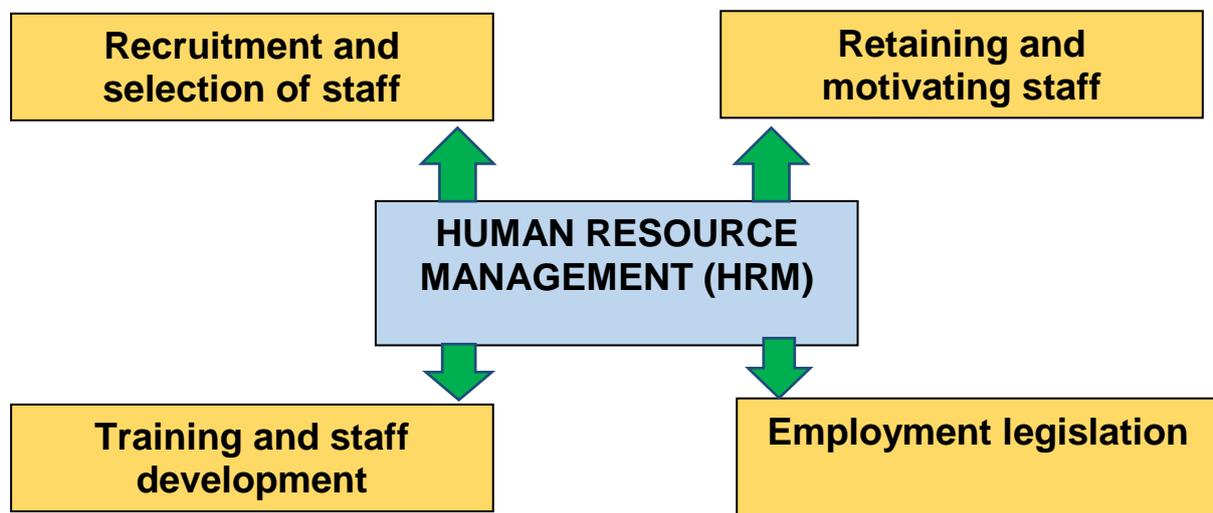


Human Resource Management (HRM) refers to that part of an organisation's activities which aim to attract, train, develop and maintain an effective workforce.



No matter the size or objectives of an organisation, the most valuable **resource** it possesses is its **workforce**. Without workers who are both **efficient** and **effective**, the long-term success of an organisation is not likely to be achieved. The human resources of an organisation is its entire **workforce** – from the managing director to part-time cleaner. Each person is employed to perform specific tasks which play their part in the overall success or failure of an organisation.

Therefore **Human Resource Management** is about getting the right people, in the right place at the right time. Human Resource Management can be split into 4 main areas:



RECRUITMENT AND SELECTION



The recruitment and selection process commences when the business realises that there is a vacancy in the organisational hierarchy which needs to be filled.

People leave their posts due to:

- getting promoted
- getting a job with another organisation
- getting fired
- retiring or taking a career break due to personal circumstances

When a vacancy does occur within an organisation, the position may be filled internally or externally.

Internal recruitment looks to find a suitable candidate from within the organisation – someone who already works there. The new job may offer them a chance to move departments or gain promotion with more responsibility. These posts may be advertised on notice boards within the business or on the company intranet.

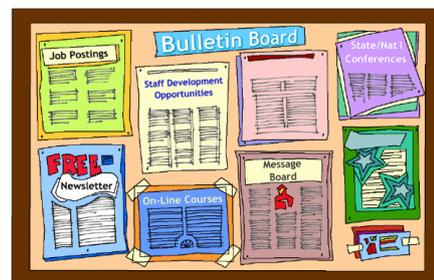
External recruitment looks to find a suitable candidate from outside of the organisation. The job might be advertised in the press, job centres or on websites – anywhere lots of people are likely to see it.



External



Internal



Advantages of Internal Recruitment	Advantages of External Recruitment
The person is already known to the organisation and so there is less chance of appointing the 'wrong' person.	There is a wider pool of candidates to select from and so more opportunity to select the best candidate for the vacancy.
It is cheaper – the cost of advertising in newspapers etc. can be avoided.	Staff appointed from outside the organisation can bring new skills and ideas to the organisation.
The opportunity of gaining promotion with an organisation can motivate employees.	Workers who have already been trained by other organisations can be attracted to the business and so there will be a saving on training costs.
If the organisation has spent time and money training a member of staff, this will not be lost if an employee has to leave an organisation to gain promotion.	Provides an opportunity to 'head hunt' candidates with a proven track record.

There are a number of methods which can be used for recruiting staff from outside the organisation:

<p>Job Centres Employment Agencies Internet</p>	<p>Newspapers Trade magazines Schools, colleges and universities</p>
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TASK 1

PROGRESS CHECK 1

Answer the following questions in sentences in your jotter.

Question		Marks
1	Outline the main function of Human Resource Management.	3
2	Why is the workforce an important resource to a business organisation?	1
3	List the four main areas of work that Human Resources is concerned with.	4
4	Suggest three reasons why a vacancy may arise in a business organisation.	3
5	Outline the difference between internal and external recruitment.	4
6	Outline any three advantages of recruiting internally.	3
7	Outline any three advantages of recruiting externally.	3
8	List the possible methods which can be used for recruiting staff from outside the organisation.	4
TOTAL MARKS		25

Self Assessment

√

Peer Assessment

√

Overview of the Recruitment Process

- Step 1 Prepare a Job Analysis**
- Step 2 Job Specification/Description**
- Step 3 Person Specification**
- Step 4 Advertise Jobs**
- Step 5 Issue Application Forms**
- Step 6 *Applications Received***
- Step 7 Short List Candidates**
- Step 8 Interviews/Selection Techniques**
- Step 9 Training**

Job Analysis

Undertaking a Job Analysis is the first stage in the recruitment process. When a member of the workforce leaves the organisation, it may be that their work can be shared among the remaining employees or the job role is no longer needed – so there is no need to fill the vacancy at all.

Remember, wage costs are one of the biggest expenses a business has to pay and so paying wages unnecessarily will lead to reduced profits.

Job Specification/Description

If the job analysis results in the identification of a vacancy, then a job specification/description must be drawn up. A **job specification/description** lists all of the duties that will be involved in the role. It should include:

- job title
- pay
- holiday entitlement
- line manager
- location of work
- hours of work
- conditions of work
- duties and responsibilities
- what decision-making powers the employee will have.



The job specification/description will then be used to produce an advertisement for the job.

Person Specification

A **person specification** describes the ideal candidate that you want to do the job. A person specification will outline the skills, qualifications, experience and qualities that the ideal candidate should possess.

Examples could be, 'Must hold a university degree', 'Must be able to work as part of a team'. It should include:

- experience (essential or preferred)
- education and qualifications
- character and personality
- level of intelligence
- special skills required
- training that should have been undertaken

An example of a person specification is shown below.

PERSON SPECIFICATION FOR A JUNIOR ADMINISTRATIVE ASSISTANT		
Criteria	Essential	Desirable
Skills, Knowledge and Abilities	Ability to accurately key in data Ability to create and edit word-processed documents Ability to create and edit spreadsheets Confident at using email and Internet Ability to file accurately Ability to deal with visitors to the organisation	Ability to create and edit databases Knowledge of prioritising workloads in order to meet deadlines Ability to learn new ICT skills quickly Ability to work on own initiative
Qualifications	National 5 Administration & IT or equivalent	N5 English, Maths, Administration & IT or Business Management
Experience		Previous work experience at junior administrative level
Personal Qualities	Excellent verbal and written communication skills, including good telephone manner Ability to quickly follow verbal and written instructions Willingness to undertake training to improve skills	Good organisation skills Good time management skills

Below is an example of a job description for a junior Administrative Assistant. Study the job description and then answer the questions which follow in your jotter.

**JOB DESCRIPTION
JUNIOR ADMINISTRATIVE ASSISTANT**

DUTIES:

- Accurately key in data
- Answer incoming telephone calls and operate switchboard
- Reception duties
- File records both manually and electronically
- Operate reprographic equipment
- Deal with incoming and outgoing mail

BENEFITS:

- A salary of £14,500 per annum
- Five weeks holiday in addition to public holidays
- Company pension scheme
- Comprehensive training package
- Hours – 8.45 am – 4.45 pm

LINE MANAGER:

- The Junior Administrative Assistant will be responsible to the General Office Manager

LOCATION:

- Head Office (Glasgow)

Advertise Job Vacancy

The Human Resource Management (HRM) Department will then need to write an advertisement for the job and to place it in a variety of media:

- newspapers
- job centres
- job agencies
- internet
- radio
- internal notice-boards



The aim is to get as many people as possible to apply for the vacant position.

The advertisement will include:

- hours of work
- pay and fringe benefits
- job title
- relevant experience and qualifications required
- name and address of person that prospective applicants should contact

It is likely that the job will be advertised within the business (internally) as well as through external media. The advantages of recruiting from within the existing workforce include the fact that a shorter training and induction period is necessary, as well as less time and money being spent on the whole process.

(EXAMPLE)

Administration Assistant

Are you an independent worker with administration experience?

Robinson-Bell Construction Ltd may have the job for you!

You will be responsible for providing administrative support, including

- **answering telephone enquiries**
- **managing and updating creditors**
- **maintaining customer job cards**
- **other general administrative duties**

Send your C.V. to:

Robinson-Bell Construction Ltd
304 Lakeview Ave
Hamilton

Application Form and Curriculum Vitae (CV)

The Human Resources Department will then need to send out application forms to, and/or request Curriculum Vitae (CVs) from, all those people who write to the business expressing a desire to apply for the vacant job.

It is vitally important that the application form is tailored to the specific post that is being advertised, as well as asking questions that are relevant, legal, inoffensive and essential. Once these application forms have been completed and returned to the business (often with a CV and a covering letter) then the short-listing process will ensue. This involves analysing the CVs and the application forms and deciding which applicants appear to be most suitable for the



post. Once this is done, then the H.R.M. Department will contact the successful applicants and ask them to attend an interview.

All **Application Forms** will contain basic information such as:

- name, address, telephone number
- education and qualifications
- work experience
- interests, hobbies
- referees (names and addresses of people who will supply a reference on the job applicant)

Curriculum Vitae means “Life history”. CVs are prepared by most job applicants and provide a short summary of the applicant’s career achievements to date. Some businesses may ask applicants to send a copy of their CV together with a letter of application, **instead** of an application form.

An example of a completed standard Application Form for the position of Junior Store person is shown on the next page.

STANDARD APPLICATION FORM		POSITION: Junior Store Person		MARKS & SPENCER	
PERSONAL DETAILS					
Surname	Smith	First Name	John		
Address	21 Stirling Drive, Burnside, Glasgow				
Postcode	G73 0SA	Tel No	0141 582 4654		
E-mail	John.Smith@yahoo.co.uk	Nationality	British		
EDUCATION					
Name of School	Stonelaw High School	From	2008	To	2013
Examination Results (N4, N5 and Higher Grade etc)					
<u>Awaiting Results</u>					
I am currently waiting on the following results:					
English, Higher Grade					
Mathematics, Higher Grade					
Computing, Higher Grade					
<u>Examinations Passed:</u>					
I have already passed the following examinations:					
English, National 5					
Computing, National 5					
Mathematics, National 5					
Interests and Hobbies					
I enjoy music and sport, particularly football. I am a member of the school orchestra and the under 18 football team.					
Other Relevant Information					
I currently hold a full clean driving licence. I have been employed by Asda on a part-time (evenings and Saturdays) for the past 2 years.					
Referee 1			Referee 2		
Mr J Alan, PT (Pastoral Care)			Mrs L Reid		
Stonelaw High School			HR Manager, Asda Store		
Rutherglen, Glasgow, G73, 2CB			Toryglen, Glasgow G73 8NJ		

PROGRESS CHECK 2

Answer the following questions in sentences in your jotter.

Question		Marks
1	Explain why it is necessary to carry out a job analysis when a job becomes vacant.	2
2	Explain the difference between a Job Description and a Person Specification	2
3	Outline four pieces of information that you would expect to find in a Job Description.	4
4	List 4 ways a business may advertise a job vacancy.	4
5	State 4 pieces of information that you would expect to find on an advertisement for a job vacancy.	4
6	State 2 reasons why it may be better to recruit internally rather than externally.	2
7	Outline 4 pieces of information that should be gathered from an application form.	4
8	What is a Curriculum Vitae?	2
TOTAL MARKS		24

Self Assessment

√

Peer Assessment

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Curriculum Vitae shown below

Curriculum Vitae

Name: John Carruthers
Address: 14 Main Street, Rutherglen, Glasgow, G73 0JH
Telephone: 0141 583 2636
E-mail: JohnCarruthers@yahoo.co.uk

Profile of skills:

Through participation on the school pupil council at Stoneburn High School, I have developed skills in the areas of leadership, communication and team work.

Education:

School: Stoneburn High School, Glasgow

I am currently studying five subjects at National 5 and will sit my final exams in 2014. These subjects and expected grades are outlined below:

Subject	Expected Grade
English	A
Mathematics	B
Computing Science	B
Business Management	A
Geography	A

Work Experience:

August 2013-August 2014 Sales Assistant – Asda – duties involved customer service, stock Control and checkout operator.

Achievements and other information:

Have achieved the Duke of Edinburgh Bronze Award. I have also won several awards for debating and public speaking.

Hobbies and interests:

I enjoy swimming, football, reading and amateur dramatics. I am a member of the Eastfield Amateur Dramatic Society.

References:

Mr J Gregg, Principal Teacher (Pastoral Care) Stoneburn High School, Glasgow, G73 9KL
Mrs S Bedford, Store Manager, Asda, Toryglen, Glasgow, G73 7YD

Shortlist for Interview

It is very likely in the current climate (high unemployment) that many application forms or CV's will be received in response to the advertised vacancy. It would not be practical to interview everyone who applies for a job and therefore a 'short list' of those deemed most suitable for the post and so to be interviewed will be drawn up.

The HRM Department will compare the application forms and/or CV's received to the job description and person specification to determine which appear to match. This will determine what applicants make it on to the short list to be interviewed.

INTERVIEW SHORT LIST

POST: Warehouse Manager

9.00 am – 9.30 am	Mr John Miller
9.45 am – 10.15 am	Mrs Susan Hill
10.30 am – 11.00 am	Mr Harry McLean
11.15 am – 11.45 am	Mrs Joyce Keen

Interviews

(ONE-TO-ONE)

Interviews are the most common form of making a final decision on who the successful candidate should be.

Interviews can be done face to face, over the phone and more often nowadays using videoconferencing.

Interview formats can be:

- one-to-one - where one individual interviews one candidate
- a panel (a group of people) - interviewing one candidate



➤ a panel – interviewing a group of candidates

The interview process is very time-consuming but is, nevertheless, an essential factor in getting the 'right' person appointed to the job.

The interview can range from being totally *unstructured*, to carefully designed beforehand, that is, completely *structured*. The most structured interviews have characteristics such as standardised questions, trained interviewers, specific question order, controlled length of time, and a standardised response evaluation format.

At the other end of the spectrum, a completely unstructured interview would probably be done "off the cuff," with untrained interviewers, random questions, and with no consideration of time.

Good interviewers will bring the best out of each candidate by being open-minded and unbiased towards all the candidates. Candidates should be made to feel welcome and relaxed and the interviewer should control the interview to ensure that all the relevant information is gained and given.

Some applicants however, may be highly experienced at interviews, especially if they have applied for many jobs in the past. In this situation, the candidate may actually perform better at the interview than they would actually doing the job!

Because of this problem, other selection strategies have been devised to assist in the recruitment process.

TASK 11

PROGRESS CHECK 3

Answer the following questions in sentences in your jotter.

Question		Marks
1	State 4 pieces of information that you would expect to find on a job advertisement.	4
2	Both an application form and a curriculum vitae can be used to apply for a job. Explain the difference between these 2 documents.	2
3	State 4 pieces of information that you would expect to find on a CV	4
4	Explain what is meant by an interview shortlist.	1
5	Outline the difference between a one-to-one interview and a panel interview.	2
6	Explain the difference between a structured and unstructured interview.	2
7	Outline one problem of using an interview as the main method of recruiting a new employee.	4
TOTAL MARKS		19

Self Assessment

√

Peer Assessment

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Offer of Appointment

Only one applicant can be successful and once the **interviewers** come to an agreement, one of the **interviewees** will be offered the position either by telephone or letter subject to reference checks. A starting date will be agreed. Once the candidate has accepted the offer he/she should receive a Contract of Employment within 2 months. The Contract of Employment outlines:

- title of job, hours of work and holiday entitlement
- rate and timing of payment of wage or salary
- sickness pay and allowances
- pension scheme
- disciplinary procedures
- notice required if employee intends to give up the job



Reference Checks

Reference checks are often used to verify (check) education, employment history, and achievement records already provided by the applicant in some other form, such as during an interview or on a CV or application form. This is mainly done for professional or management jobs.

Reference checks do not help separate good workers from poor workers. This is because they almost always result in positive reports. However, checking references serves an important purpose -

They provide an incentive to applicants to be more honest with the information they provide .

Methods of assessing candidates

KNOWLEDGE TESTS	These involve specific questions to determine how much the individual knows about particular job tasks and responsibilities. Traditionally they have been administered in a paper-and-pencil format, but testing on computer is becoming more common. Banks sometimes use these prior to deciding who will be interviewed.
WORK-SAMPLE OR PERFORMANCE TESTS	These require the individual to actually demonstrate or perform one or more job tasks. These tests generally show a high degree of job-relatedness. For example, an applicant for an office-machine repairman position may be asked to diagnose the problem with a malfunctioning machine – indeed the applicants may be asked to repair it.
ASSESSMENT CENTRES	<p>Candidates are generally assessed with a wide variety of instruments - these could include interviews, ability tests, personality measures, and a range of management activities and problem-solving exercises. Trained assessors rate how well each candidate performs.</p> <p><u>In-basket tasks</u> - candidates are asked to look through a manager's "in-basket" of letters, memos, mail, and reports describing problems to be addressed. Candidates are then asked to examine them, prioritise them, and respond appropriately with problem-solving strategies.</p> <p><u>Role-play exercises</u> - candidates are asked to pretend that they already have the job and must interact with another employee to solve a given problem. The other employee is usually a trained assessor.</p>

Continued

ASSESSMENT CENTRES (Continued)	Leaderless tasks are group exercises in which a group of candidates are asked to respond to various kinds of problems and challenges, without a designated group leader. Candidates are evaluated on their behaviour in the group discussions. This might include their teamwork skills, their interaction with others, or their leadership skills.
APTITUDE TESTS	These tests measure how good the applicant is at a particular skill such as mathematical skills, keyboarding skills, shorthand speeds or driving ability etc.
PSYCHOMETRIC TESTS	These tests are designed to measure the personality, attitudes and character of the applicant. These are usually timed, multiple-choice tests, taken under exam conditions. They are designed to measure the intellectual ability of the applicants.
PERSONALITY TESTS	These aim to determine whether the applicant is a team player or not, and what team role or roles they perform best, for example are they a team leader or do they contribute specialist skills to a team.
PHYSICAL ABILITY TESTS	Physical ability tests, often used by the police, fire brigade and army focus on testing strength, endurance and physical speed and co-ordination.

Staff Training

Staff training is the process of teaching an employee how to do their job or to do their job more efficiently.

Once a new employee has been appointed to a business, it is likely that they will receive **induction training** in order to help them settle into the new job and or the organisation. This induction training covers the basics of the new employee's job, as well as the background details and the history of the business for example:

- a tour of the premises and the facilities eg canteen, toilets
- introductions to other employees
- company policies eg absence procedures
- health and safety training eg fire escape routes
- the job – how to carry out the role and the day-to-day duties involved in the job
- background information on the organisation eg, business objectives

However, training is not limited to the new employees of a business. Training courses are likely to be targeted at all employees in the business at various stages in their career (e.g. management training courses, training on how to use new machinery and technology).

There are many reasons for the extensive use of training across the workforce of a business:



1. Training can improve employee productivity.
2. Training can create a multi-skilled, flexible workforce.
3. Training can increase the levels of job satisfaction and motivation of the employees.
4. Training employees increases the chances of promotion for employees.

How does an organisation plan suitable training?

A **skill scan** is a document that is completed by the employee and the employer. It allows both parties to consider the performance of the employee – any strengths and any weaknesses - and to compare how each other views the work that is being done. Skill scans are often completed at or prior to an annual appraisal with your line manager and aim to:

- assess what your current skills are
- set realistic targets for your future development and identify ways to achieve them eg **training**
- review the targets to see what progress you have made

This process should help employees stay motivated and may lead to promotion within the organisation.

Here is an example of a skill scan for an Administrative Assistant:

Knowledge skills required	Know/can do	Know/but with help	Have to learn about	Target date
<i>How to key in business letters</i>	✓			
<i>How to organise meetings</i>		Yes, with help	Must speak with boss to clarify this task	Next week (Friday)
<i>How to file the minutes of meetings</i>	✓			
<i>How to send emails</i>			Not used the company email yet. Must ask to be shown.	I am being trained next month

Appraisal

This is a report on how well an employee is progressing. It is usually carried out at regular intervals (at least once a year) by the employee's line manager. The process may require the completion of an appraisal form by both parties which is then followed up with a formal interview. It is important that the employee does not feel that they are on trial, otherwise an element of distrust/resentment will arise. The appraisal may highlight training needs or on the other hand the potential of an employee for possible promotion within the organisation. A successful appraisal could even lead to an employee receiving a bonus or moving up the pay scale. A formal appraisal system should be used to:



- evaluate the performance of employees
- identify strengths and weaknesses of individual employees
- identify employees who may be ready for promotion
- assess the effectiveness of the recruitment and selection process – are the best people being employed
- increase the motivation of employees
- improve communications between management and staff
- identify training needs
- award salary increases
- set future performance targets for individual employees



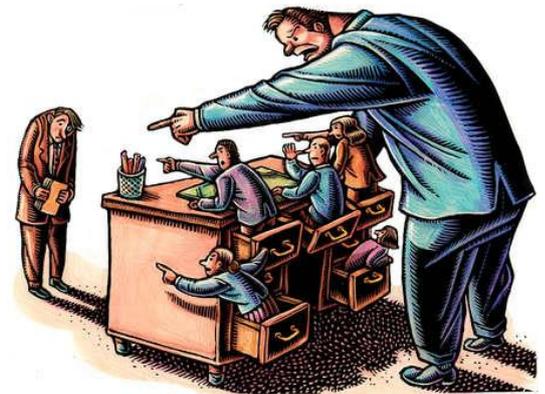
Advantages of an Appraisal System

Appraisals should encourage regular discussions between employers and employees and so they will both have the opportunity to discuss any issues or concerns. This improves communication and working relationships within the business. Positive feedback to employees on their strengths and identifying their training needs shows that the business is interested in them. Employees will feel more valued, committed to their job and so should work harder.



Disadvantages of an Appraisal System

Sometimes employees feel very threatened by an appraisal process. They may feel that the person appraising them is not fair or does not like them and so do not feel confident discussing issues. Some staff also feel that appraising staff is the management's way of "getting rid" of them. Employees may also lack confidence in speaking out at an appraisal meeting and as a result do not say how they really feel.



Training

Training can be classified as either '**on-the-job**' or '**off-the-job**'.

'On-the-job' training involves the employees receiving their training at the place of work (using such techniques as work-shadowing, apprenticeships, and mentoring).

'Off-the job' training involves the employees attending courses away from their workplace (e.g. at local colleges, conference centres and universities).

Other types of training include:

1. **“Sitting next to Nellie”** – a task is demonstrated by an experienced employee and then the trainee undertakes the task. The experienced employee supports the trainee until they are totally competent at the task.
2. **Coaching** – a trainee is taken through tasks step by step by a trainer. The trainer is always on hand to support and coach the trainee. The idea is that the ‘coach’ will pass on their skills and knowledge to the trainee by being a mentor.
3. **Job Rotation** – a trainee learns tasks in different departments/jobs. Supermarkets usually train employees by rotating them round different departments, eg, checkout, clothing, home products, bakery and electrics etc.
4. **Self-paced/distance learning** – a trainee receives resources (eg, training manuals) and works on their own, usually at home.
5. **Apprenticeships** – a trainee undertakes a combination of on-the-job and off-the-job training where the apprentice will work and train in the workplace for most of the week and will attend college for the remaining time.

It is important that all training courses that are attended by employees are evaluated in order to determine if the training course provides value for money for the business. This evaluation is often carried out by asking the employees to complete short questionnaires and provide feedback to the H.R.M. Department following attendance at training courses.

Task 14

Most large and successful organisation will invest heavily in staff training to ensure a well-trained and efficient workforce.

PROGRESS CHECK 4

Answer the following questions in sentences in your jotter.

Question		Marks
1	State 4 pieces of information that you would expect to find in a contract of employment.	4
2	Explain why you think it is important for employers to ask for and check references.	2
3	State 2 types of jobs where applicants may be asked to take a physical fitness test.	2
4	Explain what is meant by an aptitude test.	1
5	Explain what is meant by Induction Training and outline some activities that may be included in an Induction Training Programme.	4
6	Outline why it is important to offer training to all employees on an on-going basis.	4
7	What information may be gained when an employee undertakes a skills scan?	2
TOTAL MARKS		

Self Assessment

√

Peer Assessment

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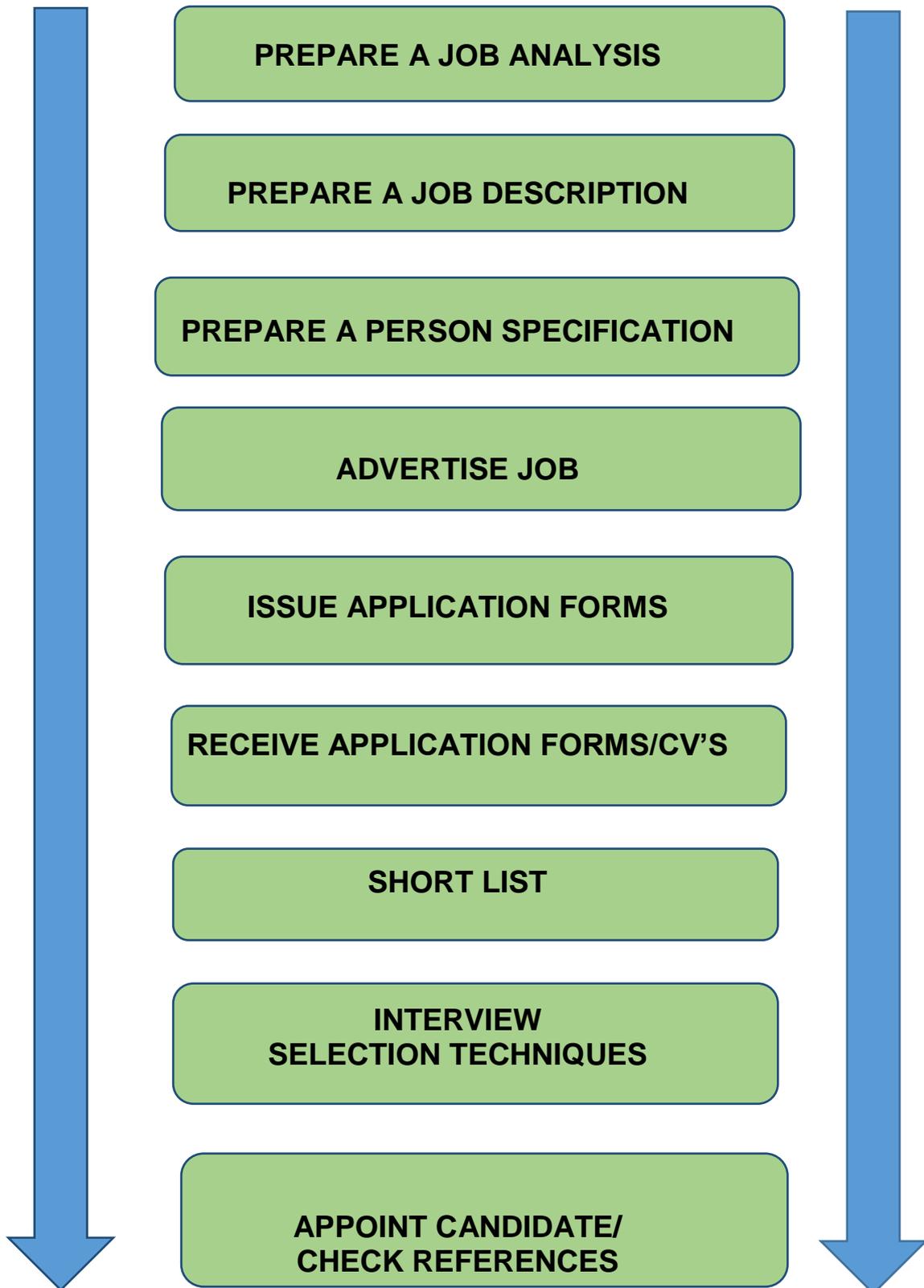
Benefits of Staff Training

Employee Flexibility	Employees who possess a wide range of skills are more flexible and adaptable, and so should find it easier to undertake a range of different roles within the business.
Managing Change	When an organisation invests in training and developing their staff, the organisation should find it much easier to introduce change with much less opposition from employees.
Up-to-date Skills	The changing environment faced by many organisations means that workers of all kinds must regularly update and improve their skills, for example, in ICT.
Increased Employee Satisfaction	Training and development may help the workforce to become more motivated because they will have the chance to make use of a wider range of skills.
Promotion	Trained and highly skilled workers are better prepared to undertake promoted posts.
Motivation and Productivity Improve	An organisation with a satisfied, well trained and well-motivated workforce may perform more effectively than one where this is not the case.
Improved Image and Reputation	A good training and development programme may help an organisation attract new members of staff. Also, the business may gain a good reputation with customers, especially where staff have undergone training in customer service.

Costs of Staff Training

Financial Costs	The cost of the course itself plus travel and other expenses, for example, overnight accommodation may be required. When a large number of employees require to attend the course, it can become very expensive.
Specialist Training Staff	If the organisation employs/hires specialist trainers to run a training and development service or run training courses etc, the organisation will have to pay their salaries and provide accommodation for them etc.
Loss of Output	When people are away from their job, for example, to attend a training or development activity, they will not be producing any output. In some cases, the organisation may have to employ other workers on a temporary basis to fill in for the employees who are away at training courses.

Recruitment - Summary



Retaining and Motivating Staff

Motivation

Having a happy and motivated workforce is vital for most business organisations, since it can lead to:

- higher rates of productivity or output
- better quality output
- low rates of absenteeism
- low rates of labour turnover – staff leaving the organisation

When an organisation invests time and money recruiting and training staff, it is important that these employees stay with the business for as long as possible. Where there are high levels of staff turnover the business may be losing highly trained staff to business competitors. In addition the business will have to spend more time and money recruiting and training replacement employees.

The main factors which affect the motivation of workers are:

- pay levels
- job security
- promotional prospects
- being given responsibilities
- working conditions
- fringe benefits like company cars, private health care etc
- participation in decision-making
- working in a team and being valued by team members



Why is it important to retain employees?

Company Health. If the workforce is stable, management can invest its energy in moving the company forward. Management are not distracted by the need to continually hire new (replacement) employees, so they can concentrate on other areas like marketing new products, finding new suppliers and researching new methods of production.

Workers. With a stable workforce, employees are surrounded by co-workers who know their jobs, know each other, and know what they're all striving to do together as a company. They're able to focus on productivity and customer satisfaction instead of continually showing new employees how to do their jobs.

Customers. If a business has an unstable workforce, customers may have a nagging feeling that inadequate workers will miss critical deliveries or provide a product/service that is not up to standard. If customers don't have confidence in their suppliers, customers will seek to purchase from another business.

Investors. Increasingly, 'savvy' investors monitor workforce stability in companies where they invest - or are considering investing. Stability is vital to them. Continually pumping resources into recruitment, training, and rebuilding the workforce is not the best use of shareholders money.

The Industry. Recruiting new workers into an industry is essential for the continued health of all businesses in the industry. Well trained/educated workers look for career paths that show promise of personal and professional opportunity, with good working conditions and rewards. Constant instability across the industry workforce may send loud signals that this career path is not a wise decision and qualified workers will seek employment in other industries. This could lead to a skills shortage across the entire industry.

Financial methods of motivating and retaining staff

There are many different methods of payment that a business can choose from, each of which can have different effects on the level of motivation of the workforce. The main methods are:



Time-rate ('flat rate') schemes	This payment method involves the employee receiving a basic rate of pay per time period that he works (e.g. £5 per hour, £50 per day, £400 per week). The pay is not related to output or productivity.
Piece-rate schemes	This payment method involves the employee receiving an amount of money per unit (or per 'piece') that he produces. Therefore his pay is directly linked to his productivity level.
Commission	This is a common method of payment for salesmen (e.g. insurance and double-glazing). The employee receives a very small percentage (say 0.5%) of the value of the goods/service that he manages to sell in a period of time.
Profit sharing	This involves each employee receiving a share of the profit of the business each year. It aims to increase the levels of effort, motivation and productivity of each employee, since they stand to gain a share of any profit made.
Performance-related pay (PRP)	This is a method of giving pay rises on an individual basis, related to the employee achieving a number of targets over the past year. This is common with managerial and professional workers.

Non-financial methods of motivating and retaining staff

There are many methods which are used by different managers to achieve the goal of a motivated and satisfied workforce. These include:

Delegation	This occurs when managers pass a degree of authority down the hierarchy to workers on the 'shop floor'. Allowing workers to make decisions for themselves shows that managers respect and trust them. Employees feel more valued and are likely to work harder.
Job rotation	This involves the employees performing a variety of different tasks as part of their job to make it more interesting and avoid repetitive tasks day in and day out. This leads to higher levels of motivation. Supermarkets also rotate staff round different areas of work (clothing, fruit and vegetables, bakery and fresh meats) to offer more challenge, interest and opportunity.
Worker participation	This refers to the participation of workers in the decision-making process, asking them for their ideas and suggestions. Workers feel more valued by the organisation.
Team-working	Arranging workers to work in teams creates a sense of commitment and responsibility from each individual worker towards the team. As a result the team is likely to be more successful in achieving targets. Team achievement is likely to motivate workers.
Job enlargement	This involves increasing the number of tasks which are involved in performing a particular job. The aim is to make the job more challenging and less repetitive in order to motivate and multi-skill the employees.

Fringe Benefits

These are benefits in addition to wages or salary given to the employee by the employer. Examples include:

Gym membership Health insurance
Company car Employee discounts
Childcare assistance Cafeteria vouchers

MOTIVATION PROBLEMS WITHIN A BUSINESS

Symptoms

Symptoms of poor motivation amongst the workforce include high rates of:

- absenteeism
- labour turnover – staff leaving
- poor timekeeping
- waste and spoiled output
- low quality output
- disciplinary problems and grievances



Solutions

When a poor level of motivation exists in a workforce, then the management should:

- build a strong team-spirit
- review pay levels to ensure employees are being paid fairly
- design more challenging jobs for employees
- give praise and recognition to employees for their efforts and achievements



TASK 17

PROGRESS CHECK 5

Answer the following questions in sentences in your jotter.

Question		Marks
1	Outline 2 benefits and 2 costs of staff training to an organisation.	4
2	State 4 benefits to a business of having a motivated workforce.	4
3	Outline the factors which can contribute to a motivated workforce.	4
4	Outline any 3 reasons why it is important for a business to maintain a stable workforce.	3
5	Explain the difference between financial and non-financial methods of motivating staff.	2
6	Explain, using examples, what is meant by fringe benefits.	2
7	Outline the symptoms that may highlight poor motivation within a workforce.	4
TOTAL MARKS		23

Self Assessment

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Peer Assessment

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EMPLOYMENT LEGISLATION

The Human Resources Department must make sure that all of the organisations policies and procedures are in line with current laws. These laws are constantly changing and being up-dated and so the Human Resources Department must make sure that all managers within the organisation are aware of these laws and any changes to ensure they remain within the law. There are 3 main pieces of legislation:

- Health and Safety at Work Act 1974
- Data Protection Act 1998
- Freedom of Information (Scotland) Act 2002



Health and Safety at Work Act 1974 (HASAWA)

This Act applies to all workplaces and the people working there. It states that **employees and employers** have responsibilities. It is an umbrella act which covers all premises and everyone at work. Under the umbrella are a variety of other acts and regulations which cover specific subjects such as first aid, fire and VDUs.

Responsibilities of Employers	Responsibilities of Employees
Provide and maintain a suitable working environment	Take reasonable care for their own safety and the safety of others
Provide staff with training and safety information	Cooperate with employer on health and safety matters
Provide staff with protective clothing/equipment if needed	Do not misuse or tamper or interfere with equipment eg fire extinguishers
Provide a Health and Safety Policy	



👉 *The HASAWA also covers basic health, safety and welfare such as heating, lighting, ventilation, space and toilet facilities*

Data Protection Act 1998

This law was created in 1984 to protect computer-based information but paper-based information was added in 1998.

All **data users** must register with the Data Protection Registrar so that they can monitor:

- the nature of the data (**WHAT**)
- the reason for the data being kept (**WHY**)
- the method used to collect the data (**HOW**)
- the parties/people data will be passed on to (**WHO**)



Data Protection Act 1998

1998 CHAPTER 29

If an organisation is dealing with personal data (information about people eg age, address, occupation) they must keep to the principles of good practice. **The principles of good practice** state that personal data:

- should be obtained fairly and lawfully
- shall be used for the registered purpose only
- shall not be disclosed for any other reason than is given to the Registrar
- shall be relevant, adequate and not excessive for the purpose
- must be accurate and kept up-to-date
- shall not be kept for longer than is needed
- should be available to the data subject and should be changed if it is not accurate
- should be secure. There must be steps taken to keep it safe from unauthorised access or from being lost

If an organisation goes against these principles or fails to register with the Registrar, they may be prosecuted and face fines of up to £5,000. The information may be taken away from them. Subjects who feel the data stored about them is not accurate can complain or request compensation for distress caused.

Freedom of Information Act (Scotland) 2002

The Freedom of Information Act has made it possible for members of the public to request, from a public body, (for example the National Health Service NHS) information that is held about them. People must now be told if the public body holds information about them and they have the right to see it within 20 days from when requested. Some information may, however, under the Act, be withheld from the person or organisation requesting to see it, if it is concerned with national security or if it would mean breaching the Data Protection Act outlined above.

TASK 21

Question		Marks
1	Why is it important that the Human Resources Department ensures that all managers are aware of current legislation?	1
2	Outline the main responsibilities of employers under the Health and Safety at Work Act 1974.	4
3	Outline the main responsibilities of employees under the Health and Safety at Work Act 1974.	3
4	The Data Protection Act 1998 states that all organisations must adhere to the Principles of Good Practice. List any 4 of these principles.	4
5	What might the consequences be for an organisation that fails to follow the 'Principles of Good Practice'?	1
6	Under the Freedom of Information Act (Scotland) 2002, what type of organisation must disclose information to the public on request?	1
TOTAL MARKS		14

Below is a list of other important employment legislation:

- The Sex Discrimination Act 1975
- The Equal Pay Act 1970
- The Race Relations Act 1976
- Disability Discrimination Act 1995
- Display Screen Equipment Act – Health and Safety at Work Act 1992
- Control of Substances Hazardous to Health Regulations Act

Complete the table below by entering the name of the employment legislation (from the list given above) which best matches the description given. The first one has been completed for you.

Employment Legislation Description	Name of Act
This act ensures that women and men are paid the same if they are doing the same job	<i>Equal Pay Act 1970</i>
This act ensures that a person is not treated less favourably on the grounds of their gender	
This acts ensures that a person is not looked on unfavourably on the grounds of their colour, race or nationality	
This acts ensures that a person is not discriminated against because of a disability	
This acts ensures that employees who work with hazardous substances are given detailed information and training	
This act deals with employees who work on a computer for long hours	

MANAGEMENT OF FINANCE UNIT





MANAGEMENT OF FINANCE

Management of finance is important to **every** organisation (from small sole traders to large public limited companies) because all organisations have to deal with money. However, different types of organisations have different financial objectives.

- Sole Traders and Partnerships will aim to earn sufficient profit to justify the risk of being in business. If a sole trader or partners can earn more for simply working for someone else, then employment may be the less risker option.
- All companies in the private sector have the financial objective to earn profit. Indeed, shareholders and other investors will expect a healthy profit each year and may actually vote to remove a board of directors when this is not the case.
- Charities and voluntary sector organisations may have the financial objective to raise as many donations/funds as possible. They must also use their funds as effectively as they can to further their cause or to help as many people in need as possible.
- Public funded organisations will aim to manage their spending in line with the limited budget that they have been allocated from central or local government.

Good financial management is crucial to ensure the success of any organisation. For example, every organisation must make sure that it:

- has enough money to pay the wages and salaries of its employees
- monitors how much it is spending to ensure efficiency - organisations which have high costs are often unsuccessful
- has sufficient money to pay its bills for supplies of raw materials, stock from suppliers, electricity, advertising and insurance etc
- has enough money to invest in developing new products and services or it may be overtaken by competitors
- has identified and organised additional sources of funds should it require access to these in the future

Why does a business need finance?

1. Initially to set up a business – money (or capital) will be required to finance the purchase of premises, machinery, fixtures and fittings and equipment etc
2. Money is needed to finance day-to-day business activities, for example, purchasing stock from suppliers, paying wages to employees and paying business expenses such as heat and light, insurance and advertising costs
3. Expansion – most businesses start small and grow. Growth can only be achieved when a business has access to the necessary finance
4. Research into new products/services – if a business wishes to be a market leader and stay ahead of the competition, finance will be required for the research, development and marketing of new products/services
5. To deal with external factors (**PESTEC**). When the economy is in recession, a business may temporarily require access to additional finance to cope with a fall in normal sales levels



Sources of Finance

Finance is essential at all stages in the life of a business, whether it is a relatively inexperienced entrepreneur just starting up or a long standing business with a successful history and a proven track record. There are a range of sources of finance available from which a business can obtain funds. However, access to these sources of finance will depend on a number of factors:

- What is the finance for? Starting a new business or expanding a successful existing business?
- How much finance is required? Small amounts of finance may be more readily available. However, when large amounts of finance are required lenders and/or investors may be more reluctant to provide the necessary finance.

- If and when will the money need to be paid back. Some sources of finance can be paid back over many years. Other sources will require fairly quick repayment, for example, within one month or within one year. When money has to be repaid, it is more than likely that interest will have to be paid in addition.
- The size of the organisation. Large organisations with a good credit history may be in a better position to obtain finance. They may also have expensive machinery and equipment which they can offer lenders/investors as security, should they fail to repay. New and relatively smaller organisations may appear less attractive to lenders and investors
- The history of the business. An established well-known business with a good reputation and proven track record may be able to secure finance more easily than a relatively new, inexperienced and un-known business



Types of Finance

Short-term Finance – these are aimed at dealing with short-term cash flow problems, for example over a 3-6 month period but no longer than one year.

Source of Finance	Advantages	Disadvantages
Bank Overdraft	An overdraft allows the business to overdraw their bank account, ie spend more than it has up to an agreed amount. As such the business can continue to pay business expenses despite having no money in their bank account.	Banks charge high rates of interest on overdrawn amounts so this can work out very expensive if used for a long period of time. Also banks can withdraw the overdraft facility at any time.
Trade Credit	Trade credit, allows a business to buy goods and pay for them at a later date. The main advantage is that it gives a business time to sell stock at a higher price and earn a profit before the bill from the supplier has to be paid.	The main disadvantage is that cash discounts for prompt payment to suppliers is likely to be lost. Also if payment is not made within the agreed credit period, suppliers will be reluctant to offer credit to the business in the future.
	Most businesses offer credit	The business does not receive

N4

Factoring	facilities to their customers. A high percentage of customers may be either <u>late</u> with their payment or attempt <u>not to pay</u> at all. In this situation the business can use a factoring service. The factor buys the customers debt for a <u>reduced amount</u> and the factor then takes responsibility for collecting (chasing up) the amount owed from customers. The main advantages are that it provides the business with the cash it needs quickly without the hassle of trying to collect the money from customers.	the full amount owing from their customers so overall less money is 'flowing in' to the business. Also, factors are only likely to offer their services when there are large amounts of debts owing from the businesses customers.
Source of Finance	Advantages	Disadvantages
Grant	This is money given to a business by central or local government, the EU or from the Princes Trust for things such as the purchase of new machinery or training of staff. It is often used to persuade businesses to locate in areas of high unemployment. The main advantage is that it does not have to be paid back.	Grants can be complicated to apply for and many conditions need to be met before the grant is awarded. Also they are one-off payments that once received are not usually repeated.
Retained Profits	An established business will usually 'hold' profit from previous years in the business. Retained profits can be used, if and when necessary, to buy more stock or to take advantage of bulk buying which should increase future profits.	When a business has to continually use retained profits to solve short-term cash flow problems, the business is often unable to grow and expand at the speed it would like to.

Medium-term Finance – these are normally used over a 1-5 year time period.

Source of Finance	Advantages	Disadvantages
Bank Loan	The bank may grant a loan for a fixed amount, to be paid back over a fixed period of time (5 years) in fixed monthly instalments. The main advantages are that the business can easily budget for the monthly re-payments and the business is able to purchase essential machinery or equipment straight away.	The main disadvantages are that interest has to be paid in addition to the loan itself. Also new and relatively small businesses may find it difficult to convince lenders to provide them with a loan.
Leasing	A business can ‘rent’ vehicles or other equipment from a leasing company. The main advantages are that the business does not have to use its limited financial resources (money) to purchase expensive assets. Also the leasing company are responsible for the maintenance and upgrading of the equipment.	The business will never actually own the asset. Also, renting costs soon mount up and it may actually have been cheaper to purchase the asset in the first place.
Hire Purchase	Hire purchase allows a business to buy an asset such as a delivery van and pay it back over say 36 months. An initial deposit is required followed by monthly payments. The main advantage is that it allows a business to purchase expensive equipment with only an initial deposit.	The main disadvantages are that the business does not legally own the asset until the last hire purchase payment has been made. Also if interest rates are high then this can be an expensive form of borrowing.

Long-term Finance – these are normally used over a 5-20 year time period and are used to expand the business.

Source of Finance	Advantages	Disadvantages
Owners Personal Finance	This can be from personal savings or money from family and friends who are willing to support and finance a new business or an existing business which wants to expand. The main advantage is that borrowing is reduced and the owner/s maintain control of the business.	All savings and money belonging to family and friends could be invested in a business which does not succeed. The owner could lose all his personal money (capital) if he or she has unlimited liability.
Share Issue	This source of finance is available to companies. This can be a good method of raising large amounts of capital. People who buy shares (shareholders) will receive an annual dividend in return for their investment. The main advantage of a share issue is that the money does not have to be repaid.	The main disadvantage is that shareholders become part owners of the business. Also advertising shares for sale and all the legal aspects of this can be very expensive and time consuming.
Debenture	This is a source of finance used by Public Limited Companies (PLCs). Debentures are a type of long-term loan. Lenders receive a fixed rate of interest each year. After 20-25 years the business can repay the loan. The main advantage is that large amounts of money can be raised. Debentures (loans) may be given by investors for projects that the banks have not been prepared to support.	The main disadvantage is that debenture interest must be paid each year even if the business makes a loss. If the business fails, debenture holders have the right to sell assets (machinery, equipment and motor vehicles etc) in order to retrieve the money they lent the business.

Mortgage	<p>A common method of financing the purchase of land and premises is to take a mortgage from a bank. This is a type of long-term loan secured against the title deeds of a property, ie land or buildings. In other words the bank or other mortgage provider retains ownership of the land or premises until the entire mortgage has been repaid.</p> <p>The main advantage is that you are generally given a long period (20-25 years) to repay the mortgage.</p>	<p>The main disadvantage is if the borrower doesn't meet the monthly mortgage re-payments, the lender can claim ownership of the property and sell it to retrieve the money they lent the business. Also in addition to the actual mortgage repayments, interest will be charged for the duration of the mortgage. This can work out very expensive.</p>
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Task 3 – Progress Check 1

Question		Marks
1	Compare the financial objectives of sole traders and partnerships to the financial objectives of charities and voluntary organisations.	2
2	Suggest any 3 reasons why good financial management is important to all business organisations.	3
3	A business may require finance in order to grow and expand. State any other 3 reasons why a business organisation may require access to finance.	3
4	Outline the factors that may be taken into account by lenders when considering lending money to a business.	5
5	Long-term sources of finance are usually used to finance the expansion of a business. Describe any 2 sources of long-term finance.	4
6	Some businesses may opt to lease a piece of machinery rather than buying it. Outline any 2 advantages to a business of leasing.	2
7	Explain the advantages to a business of using a factor to recover debts owed from customers.	2
8	Explain what would happen if a business failed to keep up monthly mortgage repayments.	2
TOTAL MARKS		23

Read each of the financial scenarios outlined in **column A** in the table shown below.

In **column B** suggest an appropriate source of finance.

Column A	Column B
<p>John Burrows is looking to open his own business selling sportswear. Unfortunately he does not have sufficient money to buy the ideal premises which are currently up for sale.</p>	<p><i>John should pay a visit to the bank and look at taking out a mortgage to purchase the premises.</i></p>
<p>Sally Smith and Jenny Craig are in partnership. They have insufficient cash funds to pay some of this months business expenses. They are sure things will be fine next month.</p>	
<p>Charlie Cummings has insufficient cash funds to purchase a very expensive piece of machinery. He does not wish to take on any more hire purchase agreements or loans.</p>	
<p>Ben Matheson finds that more and more of his customers are either late in paying or refusing to pay what they owe him. This is causing Ben a lot of extra work.</p>	
<p>Jean McWalters is wondering if she can access a source of finance that would not involve her repaying it.</p>	

CASH BUDGETS

A budget is a **plan** of how much money you have and how you will spend it.



The Accountant and the Finance Department are responsible for managing the money/cash within a business. A **Cash Budget** shows the money that comes in and goes out of the business during the year. Preparing a Cash Budget should mean that:

- the business finances are better controlled and money is spent wisely
- the business can see where problems in its cash flow will arise. For example, if there is likely to be a shortage of cash one month then an overdraft can be arranged in advance. If the cash shortage will last for some time, a loan can be arranged to cover the cash shortage during this time
- decisions can be taken about the best time to make a big outlay of cash for example to purchase machinery or equipment



As a Cash Budget is prepared ahead of time sometimes, due to unexpected factors, the budget does not go completely to plan and so it will have to be adjusted or revised.

Preparing a Cash Budget

A Cash Budget begins with the **opening balance**. This is the amount of money expected to be available to the business at the start of the month. The next step is to anticipate the money likely to be received for the month and add this to the opening balance. Then all expected payments to be made by the business during the month are taken away. This gives the **closing balance**. This is the amount of money left at the end of the month. The **closing balance** for one month becomes the **opening balance** for the next month.

The following example explains and illustrates a Cash Budget. The information is for Jack Clark, who is a sole trader and applies to the first quarter of the year:

<u>Cash Budget for Jack Clark</u>				
	Jan	Feb	March	April
Opening Cash Balance	6,000	-2,200	-5,400	-2,850
<u>Money In</u>				
Cash Sales	600	600	650	700
Credit Sales	4,000	4,000	5,400	5,400
	<u>10,600</u>	<u>2,400</u>	<u>650</u>	<u>3,250</u>
<u>Money Out</u>				
Purchases	2,000	2,000	2,500	3,000
Advertising	300	300	300	300
Wages	500	500	500	500
Rent	6,000			
Fixtures and Fittings	4,000			
Delivery Van		5,000		
Electricity			200	
	<u>12,800</u>	<u>7,800</u>	<u>3,500</u>	<u>3,800</u>
Closing Cash Balance	-2,200	-5,400	-2,850	-550

Jack can now use the Cash Budget to plan ahead and to make decisions that will not run the risk of not being able to pay his bills. For example, Jack has decided that in February he wants to buy a new delivery van for the business.

The total cost will be £5000. By planning ahead and looking at his cash budget, Jack realises that he cannot afford it just now as he does not have enough cash to buy it. Therefore, to ensure his business does not get into cash flow problems, Jack could consider:

- arranging a bank loan to purchase the van. This would allow Jack to purchase the van straight away without having to ‘fork’ out a large amount of money in one month. The total cost of the van could be spread over a number of months. However, interest would have to be paid to the bank in addition to the repayments for the loan.



leasing a van. Jack could simply rent a van from a leasing company. This way he gets his van but without having to ‘fork’ out large sums of money in any one month. Jack would simply make monthly rental payments.



The Cash Budget is therefore used to help with decision making in a businesses. A cash budget shows whether there is enough money for the business to do what it plans to do. More importantly, it can show whether a business needs to find cash from somewhere else.

Cash Flow Problems

Cash flow problems can arise even if the firm is successful in selling a lot of its goods. If goods are being sold on **credit**, customers **do not pay** for their goods straight away. Indeed, some customers may take longer than expected to pay and some may not even pay at all (as they themselves may be having financial difficulties). This can lead to cash flow problems as the company is having to pay for their stock and expenses like heat, light, petrol, rent and wages before their customers are paying for the goods.

Methods of improving Cash Flow

RAISING ADDITIONAL CAPITAL	Re-investing profits in the business, issuing shares to the public and injecting more personal finance into the business will create a healthy cash inflow.
TAKING OUT LOANS	Organising a loan from a bank (or in the case of sole traders) from family or friends will create a cash inflow. However repayments with interest will represent a cash outflow.
TIGHT CREDIT CONTROL	The business should ensure that it collects money owing from customers as quickly as possible. This will improve the inflow of cash to the business.
DELAY MAKING PAYMENTS	The business should take longer to pay bills for business expenses and to the suppliers of stock. By doing this, the organisation will reduce the outflow of cash until cash has been received from customers.
EFFICIENT STOCK CONTROL	The business should ensure that cash is not tied up in holding large amounts of stock. This will ensure that cash outflow is kept at a sensible level.
SPREADING PURCHASE	The business can avoid making large one-off

N4

COSTS

payments for the purchase of equipment and machinery. Hire purchase or leasing allows the cost to be spread over several months.

BREAK-EVEN ANALYSIS

Break-even analysis is a useful tool to any profit-making business. It may help a business answer some very important questions:



1. Is producing or selling a certain product going to be profitable?

If no profits are likely to be made from making/selling a product it is unlikely that the business will continue to make/sell the product. Time and resources are likely to be switched into other more profitable products.

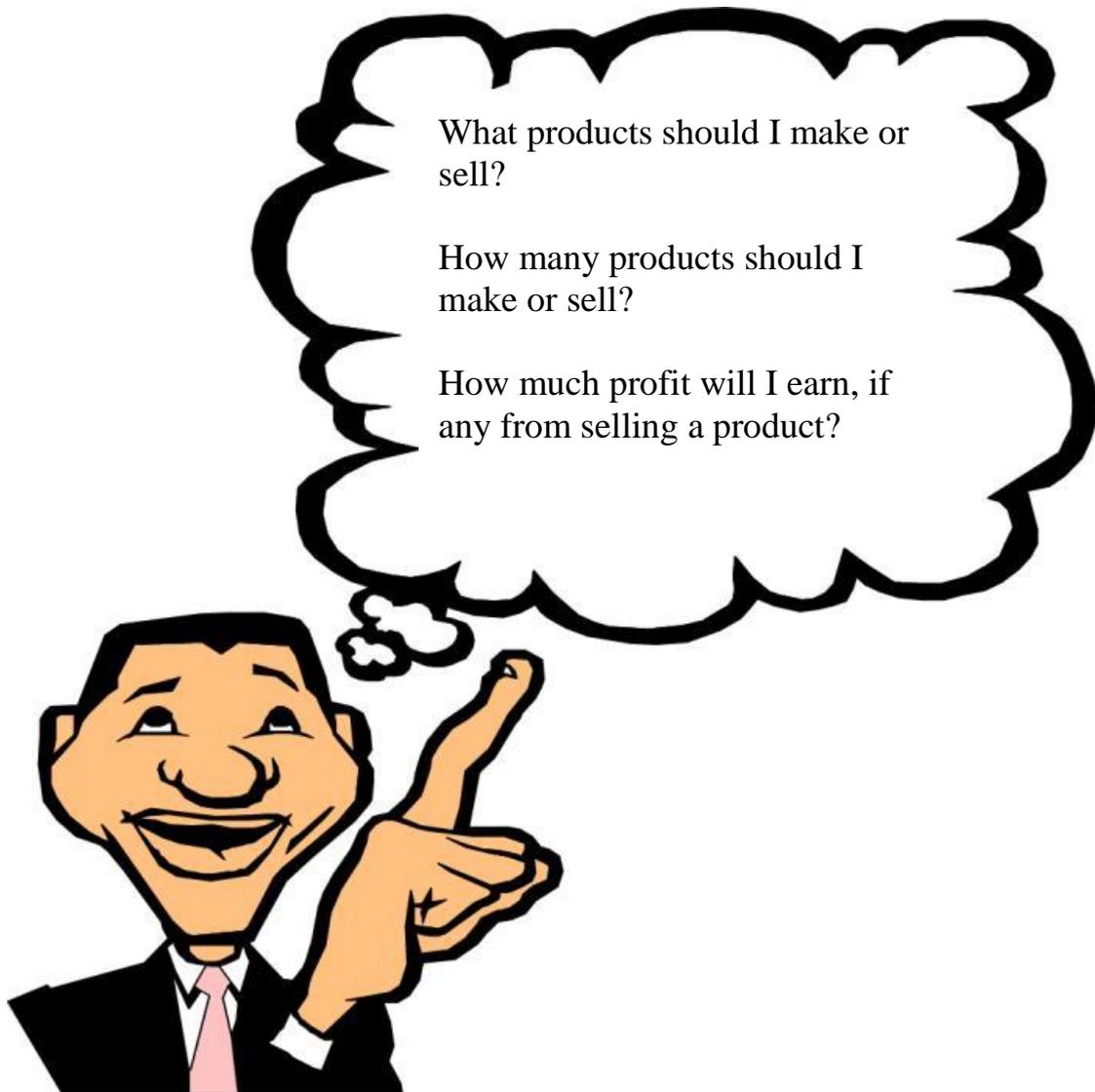
2. How many units of a product would have to be sold before any profit is made?

A business may only produce/sell a certain product if it can do so on a very large scale. Making or selling only a small quantity may prove to be very costly and unprofitable.

3. What will the profit be at various levels of output?

A business will wish to forecast and plan for the future. As such it will require an indication of profit at various levels of output/sales.





All businesses need to cover their costs. Costs are the payments made for materials, wages, expenses, rates, insurance, etc. Some costs are fixed and some costs are variable.

Fixed Costs

These are costs that do not change with changes in production or sales. For example, if production is 2000 units the fixed costs are the same as when production 10,000 units. Even if no output is made, these costs will still have

to be paid. Examples of fixed costs would include rent, insurance and loan interest.

Variable Costs

These are costs that do change directly with any changes in production or sales. If no output is made then variable costs will be nil. Examples of variable costs would include costs of material used to make the product being produced and electricity used to power machines.

Total Costs

Total costs are simply Fixed Costs and Variable Costs added together.

$$\text{TC} = \text{FC} + \text{VC}$$

A business must pay all their costs before they can make a profit.

As Total Costs include some of the variable costs then Total Costs will also change with any changes in output/sales. For example, if output/sales rise then so will Total Costs. If output/sales fall, then Total Costs will also fall.

Let's look at some examples – Example 1.

Jim Bannerman, makes and sells Cup Cakes. He has Fixed Costs of £600 per annum.

Variable Costs of making each Cup Cake include:

Materials – 15p per unit
Electricity – 60p per unit

} 75 p



N4

Jim Bannerman sells each unit of output (Cup Cake) for £1 each.

Calculate the profit or loss at each of the various levels of output shown on the table below. The first one has been done for you.

Output	Sales Revenue	Fixed Costs	Variable Costs	Total Costs	Profit/Loss
	Output x £1		Output x 75p	FC+VC	SR-TC
0	£0	£600	£0	£600	£600 Loss
400	£400	£600	£300	£900	£500 Loss
800					
1200					
1600					
2000					
2400					
2800					
3200					

Questions

At what level of output does Jim Bannerman not make a profit or a loss?

This level of output is called _____

At what level of output does the business first make a profit?

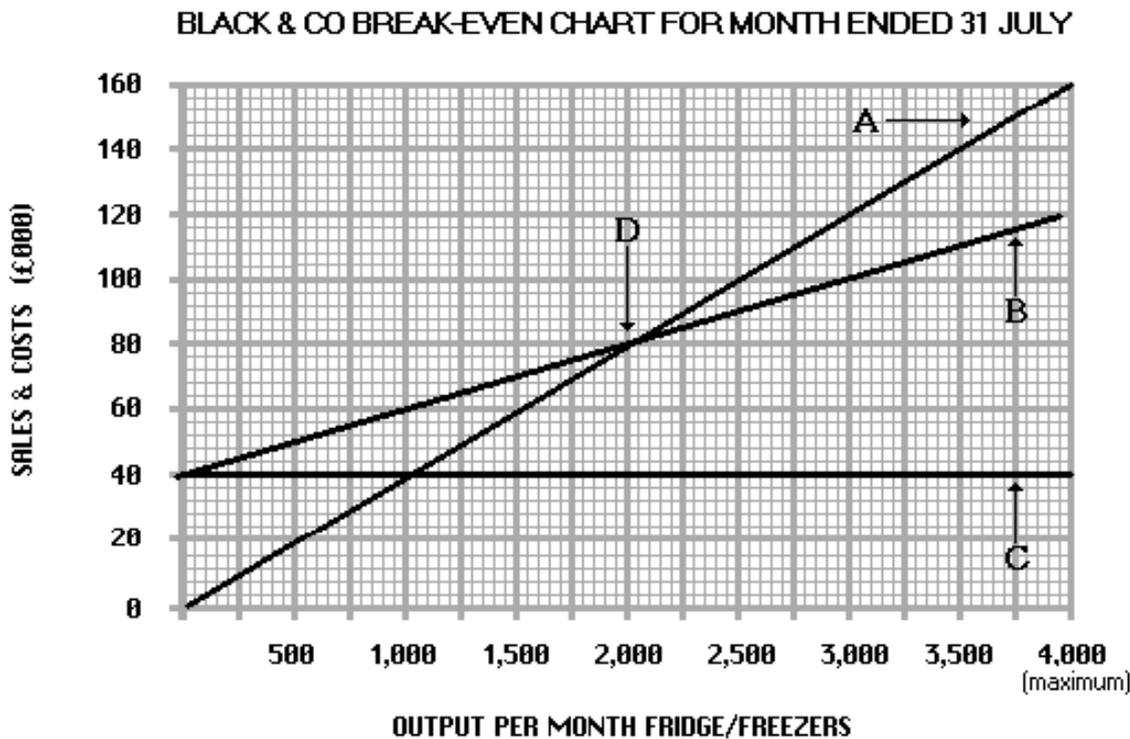
What is the business incurring below break-even point, ie, when it is making an output of 2000 units?

The level of production where Total Costs = Total Revenue, ie, no profit or loss is made is known as break-even point.

Remember - the **Break-even Point** is where total costs and total income (revenue) are the same. At this point the business has not made any profit or loss.

The break-even Point (BEP) is calculated so the firm can forecast the level of profit or the level of loss at a given number of items being produced. It is also useful to help decide the selling price of a product and the different effects changing the selling price will make!

Break-even can be shown in the form of a chart like the one below:



Have a look at the breakeven chart above. There are 3 lines on each breakeven chart. In this example:

A	This represents the total revenue (income received by the business) and always starts at 0 because if you sell nothing, you earn no revenue. As sales increase then so does total revenue.
B	This represents the total cost at each level of production or output. (Total Costs is fixed costs and variable costs added together). Therefore, because total cost includes variable costs, total costs will increase with output.
C	This shows the fixed costs which must be paid even if no products are sold. Fixed costs remain the same no matter the level of output and that's why it is shown as a straight line.
D	This is the BREAK-EVEN POINT – the point at which total costs and total revenue are the same and cross on the chart. At break-even point no profit or loss is made.

The area of profit or loss at any level of output can be measured between the sales revenue and total cost lines:

- The area of **profit** in the above chart is that to the right of point D
- The area of **loss** in the chart above is the left of the point D



The advantages to a business of using break-even analysis

A business can use break-even analysis to:

- calculate the break-even point in terms of units or sales revenue for each product it makes/sells
- estimate the profit or loss that will result at any given level of output or sales of a product
- find the level of output or number of sales that must be made to achieve the desired profit the business wants to earn

The disadvantages of break-even analysis

- break-even analysis assumes that there is only one product – most businesses produce/sell a range of products. Relying on one product would be very risky
- selling price remains the same for long periods of time. Selling price can change frequently (up or down) due to factors out with the businesses control. This can make break-even facts unreliable
- all costs can be classified as fixed or variable. Some can't. For example telephone charges has an element of both fixed and variable costs



Task 13 – Progress Check 2

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Outline the main advantages to a business organisation of preparing a cash budget.	3
2	State three examples of business expenses that a business could expect to pay.	3
3	Explain, using examples, the difference between fixed costs and variable costs.	4
4	State how a business calculates total costs.	1
5	Explain what is meant by break-even point.	2
6	On a break-even chart, explain what is meant by the area of profit and the area of loss.	4
7	Outline any one advantage to a business of using break-even analysis.	2
8	Outline any one disadvantage to a business of using break-even analysis.	2
TOTAL MARKS		21

HOW DO BUSINESSES KNOW IF THEY ARE MAKING A PROFIT

Trading and Profit and Loss Accounts

Profit is the difference between the money (revenue) received from the sale of a good or service and the cost of providing the good or service.

Everyone with money invested in a business, whether a sole trader, partner or a shareholder in a company will be interested in knowing how much profit their business is making and how much they are likely to receive in return for the money they have invested.

At the end each year a business will prepare a **Trading and Profit and Loss Account** which will outline how well the business has performed. The Trading and Profit and Loss Account is split into 2 sections:

The Trading Account

The Trading Account shows the profit or loss made from purchasing goods at one price (the cost price) and selling them at a higher price (the selling price). Therefore the aim of the Trading Account is to calculate Gross Profit.

The Profit and Loss Account

After the Gross Profit has been calculated in the Trading Account, the next step is to prepare the Profit and Loss Account where all the current year's expenses (for example, rent, wages, advertising and heat and light etc) are deducted from Gross Profit. The resulting figure is called the Net Profit.

The figures for the **Trading and Profit and Loss Account** will have been taken from accurate records kept on every transaction the business makes from selling goods to paying the phone bill!

Look at the example shown on the next page.

SMITH PLC		
TRADING, PROFIT AND LOSS ACCOUNT		
FOR YEAR ENDED 31 DECEMBER 2---		
	£	£
Sales		33,778
Less Cost of Sales		
Opening Stock	4,345	
Add Purchases	7,444	
	11,789	
Less Closing Stock	4,883	
COST OF SALES		6,906
Gross Profit		26,872
Less Expenses		
Rent	1,123	
Rates	555	
Telephone	366	
Salaries	9,077	
Light and Heat	1,743	12,864
Net Profit		14,008

The **Cost of Goods Sold** is subtracted from **Sales** to calculate **Gross Profit**

Total **expenses** are subtracted from **Gross Profit** to calculate real or **Net Profit**

All businesses prepare a Trading and Profit and Loss Account at least once per year. However **public limited companies** must also publish their Trading and Profit and Loss Account for shareholders, investors and members of the public to examine.

Preparing Trading and Profit and Loss Accounts

The following tasks require you to prepare Trading and Profit and Loss Accounts for small sole trader businesses. You can complete these manually, (on paper and using a calculator) or you can use a spreadsheet to complete each task.

The purpose of a profit and loss account is to calculate the Net Profit for a business.

What use will be made of profits?

- A **sole trader** gets to keep all the profits once tax has been paid on them. This is his/her reward for taking a risk and achieving success.
- In a **partnership** the profits will be distributed between the partners in a ratio agreed by the partners when the business was set up.
- In a **limited company**, the Board of Directors will decide what percentage of profits will be distributed as a **DIVIDEND** to each shareholder.
- Most business are likely to retain some profit in the business as a safe guard against possible poor profits or even losses in future years.

How to avoid making a loss

If a business is making a loss, which means their costs are greater than their turnover (sales) it can be the result of several factors. Businesses must use their **trading and profit and loss account** to help them make decisions to improve the future profitability of the business.

The table below outlines some of the reasons for a business making a loss and the action which can be taken to address them.

REASON FOR LOSS	ACTION TO BE TAKEN
Selling price of the stock is too low	Increase selling price but not too high as customers would be lost and therefore sales would fall.
Purchase price of stock is too high	Look for cheaper supplier, but do not sacrifice on quality, as customers could be lost and therefore sales would fall.
Too much stock left over at the end of the year	The business should undertake market research to ensure they are purchasing stock that is popular with their customers.

Expenses are too high

Find ways to control expenses, eg encourage employees to limit phone calls and use email instead, switch off lights or heaters when they are not required, find more cost-effective ways to promote and advertise their products.

Task 24 – Progress Check 3

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain why a business prepares a trading and profit and loss account at the end of each year.	2
2	Outline the difference between gross profit and net profit.	2
3	List any 3 expenses that you could expect to see in a trading and profit and loss account.	3
4	State what type of business organisations are required by law to publish their trading and profit and loss account.	1
5	Suggest some measures that a business could take when expenses are too high.	2
6	Explain why it is meant by retained profits.	2
7	Why would shareholders in a public limited company be interested in the company's end of year trading and profit and loss account?	2
TOTAL MARKS		14