Business Management

National 5

Management of People and Finance

Core notes
There are 3 units of study in the National 5 course

**Unit 2 – Management of People and Finance**

This unit introduces the internal issues associated with the management of people and finance. We will look at the best way of managing people to maximise their contribution to an organisation, and how to prepare and interpret financial information in order to solve the financial problems which businesses may face.

### Outcome 1

Apply knowledge and understanding of how the management of people contributes to the success of small and medium sized organisations by:

1.1 Describing stages of the recruitment process

1.2 Describing methods of training and outlining their costs and benefits

1.3 Examining methods of motivating staff and their costs and benefits

1.4 Outlining current employment legislation

### Outcome 2

Apply knowledge and understanding of the management of finance contributes to the success of small and medium sized organisations by

2.1 Describing sources of finance and outlining their costs and benefits

2.2 Interpreting a breakeven chart

2.3 Interpreting a cash budget to identify cash flow issues and outlining appropriate solutions

2.4 Preparing a simple profit and loss statement from data provided
**HUMAN RESOURCES**

Human Resources is another name for the people who work in the organisation – the **EMPLOYEES**.

Many people work to earn money to survive, but that is not the only reason why people work. Some people work because they:

- want to have something to do with their time
- want to feel part of the team
- want to have money to put aside for their future
- want to have friends and like being part of a team
- want to have the recognition and status of a particular job
- want to have a sense of satisfaction, that they are using their time wisely

For these reasons every business must help to create an environment which lets its workers achieve their personal goals whatever they are.

Personal goals will vary and it is important for managers to recognise this.

![Maslow's Hierarchy of Needs](image)

A happy, well motivated workforce is a key ingredient of any successful business.
CHANGING PATTERNS ON EMPLOYMENT

Businesses now want as flexible a workforce as possible to allow them to react quickly to changes in the market and technology.

This need for flexibility has led to a growth of:

- part-time workers
- temporary workers
- contract work
- job sharing

Advantages to the workforce:
- single parents are able to work more easily
- job sharing provides work for 2 people
- contract workers are able to look for new opportunities

Disadvantages to the workforce:
- little job security
- lower rates of pay

Many full time permanent jobs have been lost due to the decline in manufacturing industries and also due to the decline in the actual workforce (working population) due to lower birth rate, early retirement etc.

The balance between males and females is also changing. More females are working now than ever before. Full time male employment in the industrial sector is in decline while female part-time service employment is rising.

Whilst the industrial sector is in decline in terms of employment; the service or tertiary sector is on the increase, e.g. more people work in insurance, banking, tourism than do in the car industry. Manufacturing industries which still exist need far fewer workers due to advances in automation and technology.

IT enables more people to work from home or as they travel, and many are employed on a self-employed basis e.g. consultancy.
TYPE OF JOBS

Full time employment - e.g. working Monday to Friday from 0900 hrs – 1700 hrs.

Part time employment - e.g. working less hours than those with full time contracts e.g. 16 hrs per week. Both full time and part-time jobs can last many years or only 2-3 weeks as some are permanent and some temporary.

Permanent - the job will last as long as the business continues trading. If the business fails to attract customers however, employees can be made redundant.

Temporary – the job only lasts for a short period of time. This is often called contract work and is generally used by businesses where they have a particular project underway e.g. building a new road. When the project is completed, these jobs disappear and the employee’s contract finishes.

Flexitime - some employees work flexible hours (flexi-time) this can apply to full and part-time staff and consists of:

A core time when all employees must be at work

Flexi-time when employees can choose when they will be at work

Job Share – where 2 people share one full time job. The 2 people (with management approval) decide upon the division of the work. There must be good communication between the sharers to make sure it operates successfully.

Teleworking - many people now work from home due to the growth in telecommunications and information technology. This saves the employer money; improves worker flexibility; reduces travel difficulties and absenteeism is reduced.

Casual Workers - many people may have more than one part-time job.

Hot Desking – e.g. sales office - instead of everyone having their own desk in an office, you may find 2 or 3 people sharing. They are not expected to sit at their desk and work – they are expected to get out of the office and sell, sell, sell. That way they don’t need their own desk, they only need one when in the office.
It is important for an organisation to balance the costs of maintaining a permanent staff which maintain consistency and good customer service against the costs of using temporary staff as and when required which impacts upon customer service and continuity. Many organisations have a mixture of permanent and temporary staff.

WHAT ARE THE MAIN TYPES OF WORKERS?

Basically they are skilled or unskilled workers.

**Unskilled** Workers (Also known as manual or blue collar workers)

They work in a variety of businesses where they perform manual or repetitive tasks. They have:

- No formal qualifications
- Few work related skills
- Limited work experience

**Skilled** Workers (Also known as professional or white collar workers)

Tend to be multi-skilled and can perform a variety of different tasks. They are expected to be responsible for the quality of their output and to be motivated. Businesses employ large numbers of skilled workers who:

- Have formal qualifications
- Have several skills
- Accept responsibility

Most but not all skilled workers tend to have permanent contracts and can be grouped under the following 2 categories:

Tradesmen/craftsmen e.g. electricians, engineers, joiners, mechanics

Professionals e.g. doctors, lawyers, managers, administrators
**RECRUITMENT CYCLE**

This is the formal process that an organisation will follow to recruit the best person for the job. There are 2 sections to the process.

**Section 1** – the recruitment process – this involves getting the job advertised and receiving the application forms or CVS.

**Section 2** – this is the selection process – looking through the applications, interviewing and selecting the preferred candidate.

<table>
<thead>
<tr>
<th>Vacancy arises</th>
<th>Job analysis</th>
<th>Internal or external recruitment</th>
<th>Prepare advert</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>job description</td>
<td>person specification</td>
<td></td>
</tr>
<tr>
<td>receive application forms or CV</td>
<td>Interviews and aptitude testing</td>
<td>select the person</td>
<td>issue a contract of employment</td>
</tr>
</tbody>
</table>

![Diagram showing the recruitment and selection processes]
THE RECRUITMENT PROCESS

STEP 1 - JOB ANALYSIS

Each time a vacancy comes up the business has an opportunity to carefully analyse what the job actually involves. Identify:

- tasks to be completed
- technology required
- knowledge and skills needed
- inter-personal skills required
- level of initiative needed
- responsibility level of job

One reason for doing this is to check that the job is still actually required. Some jobs are carried out by the same person for years, so when that person leaves, it allows the organisation to identify exactly what they did and to check that a new person is needed to continue this role. Sometimes, the job can be split up, and different parts allocated to existing employees, which means that this particular job is no longer required and the vacancy disappears.

Job analysis is carried out by asking the current job holder what they do; watching what the current job holder does; ask the supervisor/manager what the job ought to entail.

After the job analysis is done, you draw up a Job Description and Person Specification.
STEP 2 - JOB SPECIFICATION

This is a written document which details the ... It is used to send to the potential employee to let them know what the job involves.

The organisation will check application forms and CVs against it to see if the person is suitable for interview.

Essential (must have) and desirable (would like) to have skills, qualifications and qualities that the successful candidate should have.

Skills you can learn but qualities you are born with. For example, you can learn to read, write and type but you are either organised or you are not!

Once you have drawn up your job description and person specification, you need to decide if you are going to recruit the employee from your existing staff – INTERNAL recruitment or a completely new person from outside of the organisation – EXTERNAL recruitment.

PERSON SPECIFICATION

This is also a written document used in the selection process to check that the potential employees have the necessary skills and qualifications required for the job.

For example, if you want to employ an electrician then it is essential that they have an electrical qualification and it would be desirable if they had good interpersonal skills.
### STEP 3 – INTERNAL OR EXTERNAL RECRUITMENT

**METHODS OF INTERNAL RECRUITMENT (WITHIN THE CO)**

- Noticeboards
- Memorandum
- Circulars
- Intranet
- Word of mouth (usually from managers after an appraisal)

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good for existing employees as they can see a career path and are likely to stay with organisation</td>
<td>Better quality people may be excluded – if you don’t look outside the organisation you might miss out on a more suitable candidate</td>
</tr>
<tr>
<td>Good for staff morale if they see people being promoted</td>
<td>Another vacancy within the firm will arise if you promote from within</td>
</tr>
<tr>
<td>Employees are familiar with the business therefore you don’t have to spend money and time training them on the business processes</td>
<td>May cause jealousy and rivalry amongst employees if they see others being promoted. This could affect work rates and morale</td>
</tr>
<tr>
<td>You know them therefore you are aware of their strengths and weaknesses – less risky than taking on a new employee</td>
<td>New ideas are lost – new people bring new ideas with them from their other work experiences</td>
</tr>
<tr>
<td>It is relatively cheap in comparison to external recruitment as you don’t have to spend a lot of money advertising the post</td>
<td>Used for ‘advertising’ posts</td>
</tr>
</tbody>
</table>
## METHODS OF EXTERNAL RECRUITMENT

- Job Centres
- Recruitment Agencies
- Newspapers
- Radio/Television
- Internet
- Specialist Publications
- Shop Windows
- Word of Mouth
- Headhunting

Increasingly businesses are using external agencies to find staff. This saves the business money on advertising and time in interviewing staff as they do not have to have specially trained staff inside the organisation. Matching jobs to people can be difficult.

Many agencies also offer the recruitment and selection of temporary staff.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are selecting people from a much larger pool than internal recruitment therefore you have the chance to get the best candidate</td>
<td>Can cause problems with existing staff if they are overlooked for the position</td>
</tr>
<tr>
<td>Vacancy is filled and it does not impact on existing staff roles</td>
<td>Employees are not familiar with the business therefore it takes them time to settle in which can cost money and time training them on the business processes. Productivity will be slower until they settle in</td>
</tr>
<tr>
<td>New ideas are gained – new people bring new ideas with them from their other work experiences</td>
<td>You do not know them therefore you are unaware of their strengths and weaknesses – more risky than internal recruitment</td>
</tr>
<tr>
<td></td>
<td>Can be very expensive as you need to advertise the post</td>
</tr>
</tbody>
</table>
STEP 4 – THE ADVERT

Now you need to decide how and where to advertise the vacancy. This will depend upon many factors:

- Type of job – if you are looking for a highly paid, professional person then you will be likely to advertise is nationally whereas a newspaper boy is likely to be advertised in a local shop window
- Cost – how much you are willing to spend – recruitment agencies cost money but a newspaper advert might be cheaper
- Specialists – they often read their own specialist publications so it might be a good idea to put an advert in a trade magazine

THE SELECTION PROCESS

The selection process follows on from the job advert. You should now have a list of potential employees, so how do you get the right person for the right job?

Choosing the right person for the right job is only possible if:

- the right people apply for the job

 WHICH HAPPENS WHEN

- the job is advertised correctly and attracts suitable candidates

 AND THEY

- complete and send in a well constructed application form and cv

 WHICH

- results in them getting an interview

 AND IF

- they perform well – the opportunity of employment
**THE SELECTION PROCESS**

A job advertisement tells the applicant about the job and usually what to do next. Normally it will be one of the following:

- send in a letter of application with your CV (Curriculum Vitae)
- request an application form by phone or letter

**STEP 1 – CHECKING CV/APPLICATION FORMS**

Normally, a closing date will be given for receiving applications and references are usually required. Once the business receives all of the application forms or CVS, they are checked against the Job and Person Specifications. This checking ensures that each candidate has the relevant experience, skills and qualifications to carry out the job.

Once the application forms and CVs have all been examined, a short list of candidates is drawn up and they may be invited for testing and if they pass the test, then for an interview.

**NB** Not every role will require some testing to be carried out but it is becoming more widely used today than it was in the past.

Testing can take the form of

- **Aptitude tests** – these tests are practical tests designed to test an applicant’s skills e.g. an electrician might be asked to wire a plug
- **Psychometric tests** – these are tests designed to determine levels of intelligence and personality
- **Group assessment tasks** – these tests are designed to identify particular qualities such as leadership and organisational abilities
- **One day assessment** (often used for apprentices) – this is used to carry out testing on a large group of people at one time and identifies a range of skills, abilities and qualities
STEP 2 – SELECTION PROCESS

An **INTERVIEW** is really an opportunity for the potential employee and employer to meet face to face and discuss the role. The employer will want to ask specific questions to all of the candidates and it also allows the potential employee to ask any questions which they may have about the role.

Interviews can be carried out on a:

One to one basis

Panel interview – where 2 or more people interview the potential employee

Reasons for carrying out an interview

- Relatively cheap to undertake and it lets you get information about the person which you cannot get from a CV or application form, such as:

  Conversational ability- often known as people skills

  Natural enthusiasm or manner of the applicant

  See how applicant reacts under pressure

    - You can make queries on comments or details missing from CV or application form

**REFERENCES** – this is a written statement from previous employers which can act as the final check that all the information given by the candidate is correct.

  - An honest reference from an independent source can also reveal good or bad incidences from the candidate’s past or particular traits that may have been missed.
  - The basic interview can be unreliable as applicants can perform well at interview but not have the qualities or skills needed for the job.
  - Once the best candidate has been selected and agreed to take up the post, the new employee must be given an employment contract.
STEP 3 – SELECT THE PREFERRED CANDIDATE

After all of the interviews and tests have been completed the people who carried out the interviews should meet to discuss the candidates and they should select the person who meets the person specification and had the most successful interview.

STEP 4 – ISSUE CONTRACT OF EMPLOYMENT

This is a written document which most employers issue to employees. Every employee is entitled to a written statement of the main terms and conditions of employment within two calendar months of starting work.

CONTRACT OF EMPLOYMENT

This is includes information on:

- job title
- job description & responsibilities
- date job commences
- hours of work
- rate and method of pay
- period of notice to be given
- holiday arrangements
- pension scheme arrangements
- rights concerning trade unions
- organisations disciplinary procedures
- sickness pay and allowances

Unsuccessful candidates will be told of the bad news usually by letter.
**PAYMENT SYSTEMS**

*Time-rate pay*

Time rates are used when **employees are paid for the amount of time they spend at work.** This is the most common method of payment in the UK.

The usual form of time rate is the **weekly wage** or **monthly salary.** Usually the time rate is fixed in relation to a standard working week (e.g. 35 hours per week). The employment contract for a time-rate employee will also stipulate the amount of paid leave that the employee can take each year (e.g. 5 weeks paid holiday).

Time worked over this standard is known as **overtime. Overtime is generally paid at a higher rate than the standard time-rate** – reflecting the element of sacrifice by an employee. However, many employees who are paid a monthly salary do not get paid overtime. This is usually the case for managerial positions where it is generally accepted that the hours worked need to be sufficient to fulfil the role required.

The main advantages of time-rate pay are:

- Time rates are simple for a business to calculate and administer
- They are suitable for businesses that wish to employ staff to provide general roles (e.g. financial management, administration, maintenance) where employee productivity is not easy to measure
- It is easy to understand from an employee’s perspective
- The employee can budget personal finance with some certainty
- Makes it easier for the employer to plan and budget for employee costs (e.g. payroll costs will be a function of overall headcount rather than estimated output)

The main disadvantages of time-rate pay are:

- Does little to encourage greater productivity – there is no incentive to achieve greater output
- Time-rate payroll costs have a tendency to creep upwards (e.g. due to inflation-related pay rises and employee promotion)
**Piece-rate pay**

Piece-rate pay gives a **payment for each item produced** – it is therefore the easiest way for a business to ensure that employees are paid for the amount of work they do. Piece-rate pay is also sometimes referred to as a “**payment by results system**”.

Piece-rate pay encourages effort, but, it is argued, often at the expense of quality. From the employee’s perspective, there are some problems. What happens if production machinery breaks down? What happens if there is a problem with the delivery of raw materials that slows production? These factors are outside of the employee’s control – but could potentially affect their pay.

The answer to these problems is that piece-rate pay systems tend, in reality, to have two elements:

- A basic pay element – this is fixed (time-based)
- An output-related element (piece-rate). Often the piece-rate element is only triggered by the business exceeding a target output in a defined period of time

**Commission**

Commission is a payment made to employees **based on the value of sales achieved**. It can form all or (more often) part of a pay package. Commission is, therefore, a form of “**incentive pay**”.

Commission, like piece-rates, is a reward for value of work achieved. In most cases, the employee is paid a **flat percentage** of the value of the good or service that is sold.

The rate of commission depends on the selling price and the amount of effort required in making the sale. For example, commission rates could range from 5% where the product sells easily (e.g. household goods sold door-to-door) to 30% where the effort is substantial.

The main advantage of commission from an employee’s point-of-view is that it enables high performing sales people to earn huge amounts.

The main advantage to the employer is that the payroll cost is related to the value of business achieved rather than just the amount produced. After all, businesses exist to sell goods and services for profit – not just to make
things. However, there are several drawbacks with using commission payments:

- Sales people may cut corners to make sales (e.g. not explain the product or service in enough detail to potential customers) – i.e. customers are misled & missold
- High commission earnings enjoyed by some of the sales team may be resented elsewhere in the business – particularly if the sales actually depend on a team effort
- It is difficult to change what proves to be an over-generous commission structure without upsetting and demoralising the sales team
- Once commission payments have been made, the sales force may lose some motivation until they begin to focus on the next payment (which might be up to 12 months away)

As a result of the above disadvantages, most businesses that use commission as an incentive payment method offer a basic pay plus a moderate commission level. In this way, if sales and profits justify the change, the commission rate can always be increased slightly.

*Performance related pay*

Performance related pay is a financial reward to employees whose work is considered to have reached a required standard, and/or above average

Performance related pay is generally used where employee performance cannot be appropriately measured in terms of output produced or sales achieved.

Whilst the detail of real performance-related schemes varies from business to business, there are several common features:

- Individual performance is reviewed regularly (usually once per year) against agreed objectives or performance standards. This is the performance appraisal
- At the end of the appraisal, employees are categorised into performance groups – which determine what the reward will be
- The method of reward will vary, but traditionally it involves a cash bonus and/or increase in wage rate or salary
Performance related pay has grown widely in recent years – particularly in the public sector. This is part of a movement towards rewarding individual performance which reflects individual circumstances. There are several problems with performance-related pay:

- There may be disputes about how performance is measured and whether an employee has done enough to be rewarded
- Rewarding employees individually does very little to encourage teamwork
- There is doubt about whether performance-related pay actually does anything to motivate employees. This may be because the performance element is usually only a small percentage of total pay

**Fringe benefits**

Fringe benefits are financial benefits that are not paid out directly in cash (or cash equivalents such as shares). Examples of these include:

- Company cars
- Discounted season tickets
- Health insurance
- Pensions
- Holiday and other entitlements to take time off work
- Childcare provision
- Staff uniforms
- Staff discounts

Benefits in kind have become a much more popular and widespread form of remuneration. This is partly because businesses pay less tax on providing them, but also because they cause a business less hassle and can help to differentiate the remuneration package.

**Profit sharing**

Profit sharing refers to any system whereby employees receive a proportion of business profits. Profit sharing is generally accepted as having many advantages, providing that all employees are able to participate. Key advantages include:

- Creates a direct link between pay and performance
• Creates a sense of team spirit- helps remove ‘them and us’ barrier between managers and workers if all employees involved
• May improve employee’s loyalty to company
• Employees more likely to accept changes in working practices if can see that profits will increase overall

TRAINING

Training is not only given when starting a new job; it is on-going during most people’s careers, e.g. every time a new piece of equipment is purchased. It can be used to increase the efficiency of the workforce, decrease accidents, improve promotional prospects, etc. Training is trying to:

• Increase skills especially in using new technology
• Improve quality of output
• Change people’s attitudes/raise awareness e.g. customer service
• Give greater flexibility – multi-skilled
• Motivate staff

Costs of training

• Financial cost – the cost of the course itself plus travel and subsistence costs
• Loss of output – when people are away from their job training they will not be producing any output
• Time and productivity costs – if training is internal then staff who are asked to train others produce no output or it is reduced as their time is taken up by others
• Internal training is viewed as a cheaper option than external but it can also lead to mistakes being passed on which will cause problems in the long term

Benefits of training

• Flexibility – employees who possess a wide range of skills and capabilities are more flexible, so introducing new systems of operation or new products or services is likely to be easier.
• Upgrading 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. This can help the organisation to remain competitive and improve efficiency, saving money on costs

• Improved employee satisfaction – training and development may help the workforce to become better motivated because they will have the chance to make use of a wider range of skills. This may also help their promotion prospects

• Improved image for the organisation – a good training and development programme may help an organisation to attract new members of staff. It may also reduce accident rates and help the organisation gain a good reputation with customers, for example, if employees have undertaken a programme of customer care training

• Higher productivity – once trained staff will work faster and produce a better standard of quality

• Less supervision - lower supervision and management costs if employees can get on with their jobs. This might also improve motivation - through greater empowerment

There are different types of training available to an employee

**INDUCTION TRAINING**  This is an introduction given to every new employee, explaining the firm’s activities, customs and procedures and introducing them to their fellow workers. It may last one day or more.

**OFF-THE-JOB TRAINING**  Involves being trained away from the workplace usually by specialist trainers. The techniques used in training are more varied and can involve complex tasks. A broad range of skills can then be taught using a wide range of techniques.

- Day release (where the employee takes time out from normal working hours to attend a local college or training centre)

- Distance learning / evening classes

- Block release courses - which may involve several weeks at a local college

- Sandwich courses - where the employee spends a longer period of time at college (e.g. six months) before returning to work

- Sponsored courses in higher education
- Self-study, computer-based training (an increasingly popular option - given that attendance at external courses can involve heavy cost)

The employees may be taught a variety of skills, they become multi-skilled and this makes them more versatile in the workplace. They can be moved around the company when the need arises.

**Advantages of off-the-job training:**

- Use of specialist trainers and accommodation therefore training is expertly given
- Employee can focus on the training - and not be distracted by work
- Opportunity to mix with employees from other businesses

**Disadvantages of off-the-job training:**

- Employee needs to be motivated to learn as they often miss the benefit to their work if not directly shown
- Generic courses - may not be directly relevant to the employee's job
- Much more expensive than on the job as there are the costs of the course itself, transport, examination fees, materials, accommodation etc.

**ON-THE-JOB TRAINING** This occurs by watching a more experienced worker doing the job - or by bringing in someone to train that person whilst they work. This method of training is most suitable for unskilled and semi-skilled jobs.

Common methods of on the job training:

- Demonstration / instruction; showing the trainee how to do the job
- Coaching - a more intensive method of training that involves a close working relationship between an experienced employee and the trainee
- Job rotation - where the trainee is given several jobs in succession, to gain experience of a wide range of activities (e.g. a graduate management trainee might spend periods in several different departments)
- Projects - employees join a project team - which gives them exposure to other parts of the business and allow them to take part in new activities. Most successful project teams are "multi-disciplinary"

**Advantages of on the job training**

- usually cheaper than external courses
- less disruptive to the business - i.e. employees are not away from work
- people are more relaxed when trained in their own environment
- Employees may feel more at ease being taught or supervised by people they know rather than complete strangers at an external training course
- production still occurs when training is taking place

**Disadvantages of on the job training**

- Teaching or coaching is a specialist skill in itself; unless the trainer has the skills and knowledge to train, this would mean that the training will not be done to a sufficient standard
- The trainer may not be given the time to spend with the employee to teach them properly, which would mean substandard training has been achieved and learning has only been half done
- The trainer may possess bad habits and pass these on to the trainee

**APPRENTICESHIPS**  This is a combination of on-the-job training and off-the-job training which occurs away from the workplace e.g. at a local college or training centre.
APPRAISAL

These are used to evaluate the performance of staff. There are 2 forms:

INFORMAL APPRAISAL

Based on the 'feelings' of management. It takes place as a result of the employee and manager working together on a day-to-day basis. Judgements formed about employees in this way:

- are rarely discussed with employees
- use criteria which is uncertain and rarely identified

FORMAL APPRAISAL

This is based on factual or real evidence and tends to be used to:

<table>
<thead>
<tr>
<th>evaluate performance</th>
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<tbody>
<tr>
<td>identify strengths and weaknesses</td>
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<tr>
<td>identify employees ready for promotion</td>
</tr>
<tr>
<td>increase motivation and improve communications</td>
</tr>
<tr>
<td>identify training needs</td>
</tr>
<tr>
<td>award salary increases</td>
</tr>
<tr>
<td>set future performance targets</td>
</tr>
<tr>
<td>plan future staffing</td>
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Formal appraisal is regularly carried out e.g. yearly or twice yearly. It is usually carried out by the employee’s immediate superior/manager. A form is usually completed which is used as the record of appraisal. A successful appraisal:

| is objective                  |
| sets agreed targets - this helps measure performance |
recognises achievements

identifies problems

creates a two-way communication process

ADVANTAGES OF STAFF APPRAISAL

Feedback to employees is positive
it encourages employees to build on strengths
it identifies training needs
it gives pointers towards gaining promotion

DISADVANTAGES OF APPRAISAL

May need to alter job spec which could increase workload
negative feedback would de-motivate worker
could be used for criticism of worker

MOTIVATION

It is very important for an organisation to ensure that they have a motivated staff.

Happy, motivated workers = good productivity rates, less mistakes and a staff who are willing to be flexible and accept change.

Unhappy, de-motivated staff = less productivity, more mistakes and a staff who are resistant to change.

Two theories explaining staff motivation are Maslow’s Hierarchy and McGregor XY theory.
The working environment can help fulfil the needs identified by Maslow.

Good Pay – allows physiological needs to be paid for

Good Conditions – for security needs – safe working environment

Involved in Decision Making – Belonging Needs

Being Complemented and Rewarded or Promoted – Esteem needs

Self-Actualisation may happen if you end up running the business or setting up your own business.
**Douglas McGregor - Theory XY**

McGregor's ideas suggest that there are 2 fundamental ways to managing employees.

<table>
<thead>
<tr>
<th>THEORY X</th>
<th>THEORY Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authoritarian Style</td>
<td>Democratic Style</td>
</tr>
<tr>
<td>The average person dislikes work will avoid it he/she can must be forced with the threat of punishment to work towards organisational objectives prefers to be directed to avoid responsibility is relatively unambitious, and wants security above all else</td>
<td>People will Work hard to help the business reach its aims without external control or the threat of punishment. accept and often seek responsibility have use a high degree of imagination, ingenuity and creativity in solving organisational problems</td>
</tr>
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<thead>
<tr>
<th>THE X THEORY MANAGER</th>
<th>THE Y THEORY MANAGER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results-driven and deadline-driven, to the exclusion of everything else Issues deadlines and ultimatums Issues threats to make people follow instructions Demands, never asks Does not team-build Does not thank or praise Facts and figures oriented Self-disciplined and well-organised</td>
<td>While results are important, learning from poor performance is valued – to ensure better future performance Consults with staff about key decisions Values a strong team spirit Uses praise to encourage improvement</td>
</tr>
</tbody>
</table>
How to motivate employees

Bonus Payment - offering extra financial payments to employees who reach targets

Pay Rises - awarding regular pay rises can encourage loyalty and make workers more motivated to work harder

Social Events - these may motivate McGregor Y type employees. These types of employees are more interested in team building and the social aspects of their work.

Fringe benefits - these are offered to employees to enhance their working life but are not actually financial payments - can be items such as a company car, subsidised canteen, health insurance

LEGISLATION

This also affects the relationship between employers and employees.

Equal Opportunities mean that everyone has the same chance.

Legislation exists to ensure that everyone is treated equally in the workplace. If someone feels that they are facing discrimination then they should follow the grievance procedure in their workplace. If this fails, then they may go to an employment or industrial tribunal to seek compensation.

The main employment act is the Equality Act 2010 which makes it illegal for an employer to discriminate against anyone due to their race, religion, gender, age, sexual orientation.

The Equality Act is a mixture of rights and responsibilities that have:

Stayed the same - for example, direct discrimination still occurs when "someone is treated less favourably than another person"

Changed - for example, employees will now be able to complain of harassment even if it is not directed at them

Been extended - for example, associative discrimination (direct discrimination against someone because they associate with another person who possesses a protected characteristic)
Been introduced for the first time - for example, discrimination arising from disability, which occurs if a disabled person is treated unfavourably because of something arising in consequence of their disability.

This is an umbrella act which incorporates the undernoted acts.

Do not use these acts in any answer as they are all covered by the Equality Act.

Equal Pay Act 1970 – broadly similar work = equal pay
Sex Discrimination Act 1975
Race Relations Act 1976
Disability Discrimination Act 1995
The Employment Equality (Age) Regulations 2006
The Employment Equality (Sexual Orientation) Regulations 2003
Health and Safety at work act 1974
Other legislative acts are:

**Employment Relations Act 1999** – general employments rights

- Parental leave (adoption)
- Remove limits on awards for unfair dismissal

Protection against unfair dismissal which could be:

- Membership of trade unions
- Pregnancy (being able to do job)
- Redundancy (without correct procedures)

Reasons which could be dismissal:

- Incapable of doing job
- Unqualified
- ‘Misconduct’ – minor or major
- If unable to employ – e.g. lost driving licence
- False details given – e.g. application form
To make redundancy legal the organisation must:

- Must consult with trade unions
- The job must have disappeared
- Period of notice must be given and redundancy payments must be offered

**The Minimum Wage Act 1998** – gives a minimum hourly rate to people who meet specific age criteria:

**Employee relations**

‘Employee relations’ is a term that refers to the way that employers deal with their employees. The Human Resource Department is responsible for ensuring that a suitable framework is set up to enable employers and employees to discuss matters which affect them. Traditionally most discussions take place between employers (represented by managers) and employees (represented by trade unions).

Employee relations cover many things such as disciplinary and grievance procedures, staff welfare and terms and conditions of employment.

**The role of management**

The role of management in employee relations is to inform, consult and negotiate with employees and their representatives. This may mean:

- meeting with trade union representatives
- having an employee representative on the Board of Directors
- having regular meetings to inform employees of decisions made by management
- forming a works council – this is a group consisting of an equal number of representatives from employees and management. At meetings of the works council, people can discuss matters affecting the business, especially the impact they have on the workers. The things that works councils do vary a lot between different organisations. In some cases, they are simply of way of getting employers and employees together to discuss things. In other cases, works councils may agree terms and conditions of employment e.g. where there is no trade union in the organisation
The Human Resources Department sets up these channels of communication. It also checks to make sure that they are working properly.

**The role of the employee**

Employees should comply with relevant legal requirements and use the correct channels of communication within the organisation.

**The role of trade unions**

Trade unions represent employees when dealing with employers in national and local discussions. Employees must pay a subscription to be part of a union and in return they benefit from the union services. This could involve the union bargaining with the employers for higher wages, better working conditions or better terms and conditions of service within an organisation. They can organise industrial action if there is a need to do so. The union can also assist with grievance procedures by providing legal advice to members. They also give members financial advice.
ICT USED IN A HUMAN RESOURCES DEPARTMENT

- Social networking — used to check out potential applicants – lots of people not recruited due to facebook postings
- Internet website — to advertise job vacancies
  - Can be used for online application form submission
- Email to keep in touch with colleagues with information about the organisation/new legislation etc
- Word – to send memos/letters to colleagues/potential applicant/interview details
- Database – to keep record of employee details
FINANCE

Every organisation requires finance to keep trading. Some organisations want to make a profit; others just to break even (cover their costs).

There are many sources of finance available BUT not every source is available to every type of organisation!

SOURCES OF FINANCE

Sole Traders – owner’s savings; friends and family, bank loans; grants

Partnerships – again own savings; friends and family; take on a new partner; bank loans; grants

Private/Public Limited Companies – ordinary shares; preference shares; debentures; bank loans; grants

Ordinary Shares are the most common type of share. Each share gets a single vote at the company’s AGM and gets a single share of the profits (dividend). By issuing ordinary shares the business gathers in money. Although shares can be bought and sold on the Stock Market, they cannot be ‘cashed in’ and the money got back from the business.

Preference Shares do not give the holder a right to vote at the AGM. They do, however, guarantee the holder a fixed rate of dividend for their investment.

Debentures are a special way of raising equity. The debenture buyer invests his money in a debenture certificate that guarantees them a fixed return every year for the life of the debenture. At the end of the period the debenture holder gets their money back in full. Debentures are a low risk way of investing. Debentures can be sold on like any other asset.

Bank Loans are an agreed amount of money, for an agreed period of time and the borrower is charged an agreed rate of interest. The sum of money borrowed, with the interest charges added on has to be repaid, usually in agreed monthly amounts. An application to a bank for more money will need to be supported by the borrower. Usually the bank will ask to see a Business Plan and a Cash Budget to check that the money they are lending will be used in the business as the borrower has said it will be.
Grants are amounts of money that the Government or local authority will provide a business to help them operate e.g. to locate in an area of high unemployment. This money does not have to be paid back.

**Public Sector**

These businesses get all of their money from the Government. State schools, Hospital Trusts; Local Government Offices; etc. all get their money direct. The Government raises the money they need for these businesses from taxation e.g. Income Tax; VAT.

One other source of funding for Government bodies has been the National Lottery. Started around 10 years ago this venture was meant to raise funds for both Government and private businesses that were seen as worthy causes e.g. sports clubs, theatres, children’s parks.

Charities - they rely on getting money from donations; grants and national lottery.

Clubs rely on raising money from subscriptions and joining fees.

Some of the most common sources of finance can be found in the table overleaf.
<table>
<thead>
<tr>
<th>Description</th>
<th>Examples of uses</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overdraft</strong></td>
<td>A form of loan from the bank. Allows you to take more money out of your current account than you have. Has to be agreed with your bank. Maximum figure is set – known as the overdraft limit.</td>
<td>Helps overcome cash-flow problems. Can be used to pay suppliers.</td>
<td>Easily arranged - can get an overdraft limit added to your account within minutes of it being agreed. Flexible - can change amounts and deadlines.</td>
</tr>
<tr>
<td><strong>Bank loan</strong></td>
<td>A fixed sum of money is borrowed. Paid back over a fixed period of time.</td>
<td>Purchasing a new piece of equipment. Purchasing a new company van.</td>
<td>Interest rate charge is fixed. Fixed amount to be paid monthly. Fairly easy to obtain if you can meet criteria. Allows the business to plan ahead as the business knows.</td>
</tr>
<tr>
<td></td>
<td>what the repayments are</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mortgage</strong></td>
<td><strong>Buying premises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A loan on premises only</td>
<td>Substantial amount of money can be raised to buy premises and perhaps let the business grow</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest to be paid back</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Usually paid back over a long period of time, e.g. 25 years</td>
<td>If payments are not kept up then the premises may be repossessed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The amount paid each month may go up and down with the interest rate (depending on the type of mortgage the company has)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Leasing</strong></td>
<td><strong>Leasing a piece of equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Similar to renting</td>
<td>Breakdown cover could be included in the contract</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed amount paid each month</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A contract is set up with the leasing company for a fixed period of time</td>
<td>The business will never own the equipment or whatever they are leasing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Leasing a new company van</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Leasing office space in a building</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Regular updating of equipment may be included in the contract</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Trade credit</strong></td>
<td><strong>Purchasing supplies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordering and using goods from a supplier and paying</td>
<td>Gives businesses time to pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Can be difficult for small to medium-sized firms to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit terms are agreed with the supplier, e.g. the bill has to be paid within 30 days</td>
<td>Can help improve cash flow for supplies at a later date</td>
<td>Enables businesses to continue trading Builds up good relationships with suppliers Discounts may be given to the business if they pay within the credit terms</td>
<td>get trade credit If trade credit payments aren’t met then suppliers will refuse to supply the business</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Grants</strong></td>
<td>Issued by the government Used as an incentive to business, e.g. to set up in areas of unemployment</td>
<td>Setting up staff training schemes Taking on apprentices Taking on more staff Updating equipment Relocating</td>
<td>Does not have to be repaid There may be conditions attached to the grant, e.g. have to stay in the area for 5 years otherwise they will have to pay a percentage of the grant back</td>
</tr>
</tbody>
</table>
CASH BUDGETS

A cash budget is a statement which shows the receipts (money coming into an organisation) and the payments (money going out of an organisation) for a set period of time.

Receipts are any income such as sale, grants, rent received.

Payments are any monies paid out such as buying resources, wages, utility bills.

The payments are deducted from the receipts at the end of each month to leave either a SURPLUS (extra money) or a DEFICIT (a shortfall). A budget does not show a PROFIT OR LOSS!

Many organisations prepare a forecast budget which allows them to plan their spending for a period of time, this can be a weekly, monthly, quarterly or even an annual budget. How long they prepare for depends on the size of the organisation.

Once they have prepared the cash budget, they should be able to identify any potential problems such as not having enough money to pay expenses, and to try to make arrangements to overcome these problems, perhaps by obtaining a bank overdraft.

If an organisation does not have enough money to pay its bills then it can find itself in serious difficulties as suppliers will not continue to give them goods if they are not being paid and employees will not work if they do not receive their wages on time.
### Example of cash budget for 3 months of a new business

<table>
<thead>
<tr>
<th></th>
<th>JAN</th>
<th>FEB</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening Balance</strong></td>
<td>0</td>
<td>-2,120</td>
<td>-1,360</td>
</tr>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Sales</td>
<td>500</td>
<td>2,000</td>
<td>2,500</td>
</tr>
<tr>
<td>Grant</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total RECEIPTS</strong></td>
<td>2,500</td>
<td>2,000</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>PAYMENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>120</td>
<td>240</td>
<td>360</td>
</tr>
<tr>
<td>Wages</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>New computer</td>
<td>3,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total PAYMENTS</strong></td>
<td>4,620</td>
<td>1,240</td>
<td>1,360</td>
</tr>
<tr>
<td><strong>SURPLUS/DEFICIT</strong></td>
<td>-2,120</td>
<td>-1,360</td>
<td>-220</td>
</tr>
</tbody>
</table>

In the example above, the business starts with no opening balance in January. The reason for this is that it is a new business just starting up.

During the month, it sells £500 worth of goods for cash and it also gets a Grant for £2,000. This means that the 'Total Money In' for January is £2,500.

During January, the business purchases inventory for £120 and has to pay its employees’ wages of £1,000. It also invests in a new computer £3,500. This means that the 'Total Money Out' for January is £4,620.

This means that at the end of January, it has spent more money than has come in. The closing balance is therefore:

£0 + £2,500 - £4,620 = -£2,120
WHY PREPARE A BUDGET

- To highlight periods when cash flow will be a problem. This will allow corrective action to be put in place.
- Can be used to secure loans or to show investors.
- Can be used to make comparisons between actual expenditure and targeted.
- Can show periods that the organisation will have cash available for major investment or purchases of fixed asset.
- Is used to give departments a budget to focus on (targets).
- Can be used to monitor spending throughout the organisation.

WHY DO CASH FLOW PROBLEMS OCCUR AND HOW CAN THEY BE RESOLVED?

Cash flow problems occur for many reasons but the basic problem is that you are spending more than you have coming in.

<table>
<thead>
<tr>
<th>PROBLEM</th>
<th>RESOLUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have spent too much money on inventory</td>
<td>Try to sell it quickly, perhaps by having a sale</td>
</tr>
<tr>
<td>Your credit sales are higher than your cash sales and you need to get paid more quickly</td>
<td>Reduce the length of time given to customers to pay for goods</td>
</tr>
<tr>
<td>You need supplies but cannot afford to pay cash for them</td>
<td>Try to get increased credit terms</td>
</tr>
<tr>
<td>Your purchases costs are rising</td>
<td>Find a cheaper supplier</td>
</tr>
<tr>
<td>Expenses are increasing</td>
<td>Reduce wages/any other expenses</td>
</tr>
<tr>
<td></td>
<td>Try to restructure loan repayments to make them less each month</td>
</tr>
<tr>
<td>Your deficit is high</td>
<td>Take out a short term overdraft OR increase the owners equity</td>
</tr>
</tbody>
</table>
**BREAK EVEN**

The main aim of most businesses is to make a profit. Before they can make a profit they have to sell enough products to cover their costs. Any items sold after they have covered their costs contributes to the profits. When a business is selling enough goods to cover their costs they are said to be at **BREAK EVEN POINT**. They are not making a profit but neither are they making a loss.

It is important for a business to know the break even point so they can calculate how many items they must sell in a specific time period before they start to make a profit. The break even point for a business can be calculated using a formula, displayed in a table or on a graph.

There are different ways to calculate break even. The most common way is to use the break even formula:

\[
\text{BEP} = \frac{\text{Fixed Costs}}{\text{Contribution}}
\]

To calculate **contribution** deduct the variable costs of one unit from the selling price of that unit.

For example, Factory rent is £20,000. Selling price of each unit is £5. The variable cost of producing one unit is £3.

Fixed costs are £20000. Contribution is £2 (£5-£3)

\[
\text{BEP} = \frac{20,000}{2} = 10,000 \text{ units}
\]
**Breakeven chart**

The breakeven point can be calculated by drawing a graph showing how fixed costs, variable costs, total costs and total revenue change with the level of output.

In this example:

Fixed costs: £10,000. Variable costs: £2.00 per unit

---

**INCOME STATEMENT (TRADING PROFIT AND LOSS ACCOUNTS)**

All businesses want to know if they have made money (profit) at the end of a financial year. They prepare a trading profit and loss account to see if they have made a profit or a loss. This is split into 2 parts:

The **trading account** shows the business if they have made any money from trading (buying and selling goods/services). The trading account tells you what your **GROSS PROFIT** is – this is the profit made on TRADING.

The trading account shows:

- Total Sales made during the year (items you sold to customers)
- Cost of Goods which you have sold
- Gross Profit (total profit made only from trading)

The Gross Profit is calculated by taking Cost of Goods sold away from Total Sales
EXAMPLE

J Jones sold 100 books @ £5 each

He had 10 books at the start of the year which were available for sale. He bought these at £2 each

During the year he bought another 120 books to resell but the price he paid for them was £3

At the end of the year he still had 30 of these books still available for sale but he had not sold them

How much profit did he make?

COST OF SALES (CALCULATION of COST OF GOODS SOLD)

At the beginning of the year you will have goods in your warehouse/shop – called opening inventory. During the year you will purchase more – called purchases. If you add the inventory at the beginning and purchases, you will have the total amount of goods that you have available to sell. However, if you still have some inventory left – called closing inventory or inventory at end, then you obviously have not sold all those goods that you had available to sell. If you deduct your inventory at end from goods available to sell, then you will arrive at the amount of goods that you actually sold. This figure is deducted from sales to get the gross profit.

Note: All inventory, purchases, returns are recorded at the cost price ie the price that you actually paid for them.
A trading account shows the profit made from trading, but a business has to pay a lot of expenses during the year. These expenses have to be taken away from the Gross Profit to show the **profit for the year** - profit made after everything has been paid for.

**PROFIT FOR THE YEAR ACCOUNT (net profit)**

This shows:

- Any additional income which has been earned during the year such as rental income or commission. This is added to the Gross Profit
- A list of the expenses which have been paid during the year - these expenses are **added** together and deducted from Gross Profit + Income – the difference is called **Profit for the year**.

The profit and loss account is usually added onto the bottom of the trading account and the full name given to the document is the **Income statement**

---

## TRADING ACCOUNT OF J JONES

**FOR THE YEAR ENDED 31 DECEMBER 200-**

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>£</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Less Cost of Goods Sold</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening inventory</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>360</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>380</td>
<td></td>
</tr>
<tr>
<td>Less Closing inventory</td>
<td>90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Goods sold</td>
<td></td>
<td></td>
<td>290</td>
</tr>
<tr>
<td>GROSS PROFIT</td>
<td></td>
<td></td>
<td>210</td>
</tr>
</tbody>
</table>

---
Let's assume that Mr Jones had to pay wages of £50 and electricity of £10, how much profit for the year did he make?

<table>
<thead>
<tr>
<th>TRADING ACCOUNT OF J JONES</th>
<th>£</th>
<th>£</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOR THE YEAR ENDED 31 DECEMBER 200-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Cost of Goods Sold</td>
<td></td>
<td></td>
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</tr>
<tr>
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<td>290</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GROSS PROFIT</td>
<td>210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>10</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>150</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
JOB COSTING

Job costing is the process of determining the labour and materials cost for each job and then using this information to create a quote for the customer.

Job costing is used by a business which provides an individual price for each job and this ensures that the product pricing covers actual costs, overhead and provides a profit. The purpose of any business is to make money, and job costing is the most effective way to ensure that occurs.

The process - estimate the labor required to complete the job and calculate the cost of this; add on the material cost for the job and then add a contingency amount, ranging from five to ten percent (this amount covers minor changes, and additional time requirements); then add on the profit amount required and this gives the total cost for the job.

ICT used in a Finance department.

- Databases used to keep supplier records
  - Used for sending payments
- Spreadsheets used to calculate final accounts
  - Prepare wages
  - Calculate invoices
- Word processing used to send invoices/create order forms
- Email used to contact trade receivables and trade payables
- Internet used to find out information about potential new trade receivables