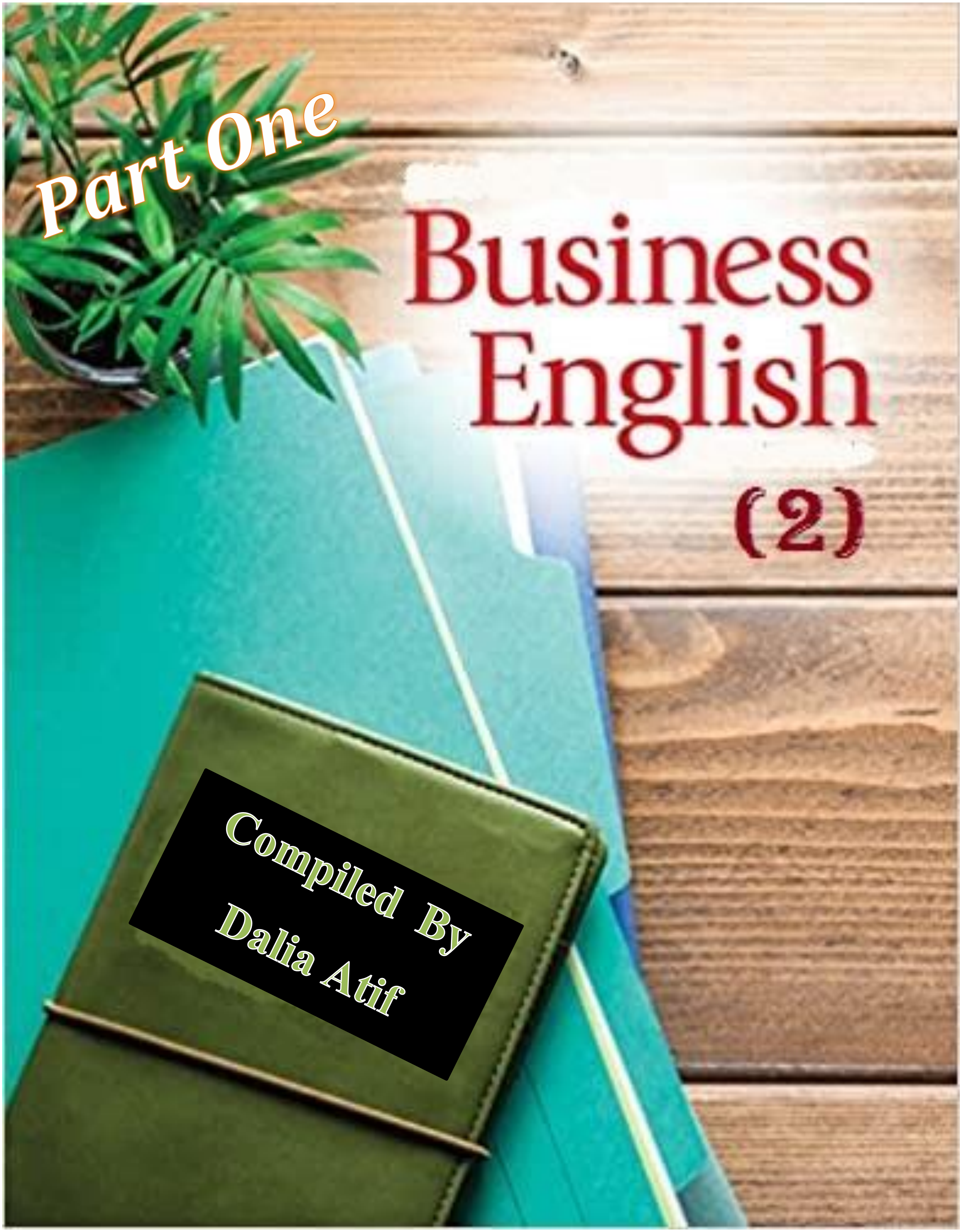
Part One
Business English
(2)
Compiled By
Dalia Atif

BUSINESS ENGLISH 2

COMPILED BY

DALIA ATIF

بسم الله الرحمن الرحيم

إِنَّا فَتَحْنَا لَكَ فَتْحًا
مُبِينًا

صدق الله العظيم

Dedication

To

My Family

Introduction

Business English (2) is an extension to English (1). It introduces the use of English language in business. Its main objective is to improve students' skills in writing and presenting business reports. The course covers major areas of business such as Marketing with the objective of defining marketing, discussing marketing research, brainstorming promotional companies describing the benefits of customer loyalty, presenting sales techniques and strategies. The course will also talk about accounting issues such as budgets, and discuss the financial reports. Furthermore, the course will discuss human resource management issues such as employee commitment, employee retention, performance evaluation, and hiring and promotion practices.

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Chapter One

BUSINESS ENGLISH

CHAPTER ONE

BUSINESS ENGLISH

Business correspondence is the communication or exchange of information in a written format for the process of business activities. Business correspondence can take place between organizations, within organizations or between the customers and the organization. The correspondence is generally of widely accepted formats that are followed universally. The main points in Business correspondence is maintaining a proper relationship, serves as evidence, create and maintain goodwill, inexpensive and convenient, formal communication and independent of interpersonal skills.

Essentials of Business Correspondence

Now business correspondence is principally all the written communication between the organisation and its concerned parties. These parties are both external and internal to the organisation.

Business correspondence can be classified into following parts:

External Correspondence: •Business Letters. •E-Mails.
Internal Correspondence: •Business Memorandum. •Notices.
•E-mails.

External correspondence is with outsiders that include customers, suppliers, government agencies, other business houses and any other stakeholder.

 Business Letter: A business letter is a letter written in formal language, usually used when writing from one business organization to another, or for correspondence between such organizations and their customers, clients and other external parties.

Internal correspondence is with the internal parties of the organisation which is generally done with the employees.
Email has emerged as an important way of communication as it is quick, cheap and paperless.
 Business Memorandum: The term ‘memorandum’ is derived from Latin term ‘memorale’ which means ‘to tell’. Business memos are a means of inter-organisational correspondence sent between employees in a company or between company subsidiary to convey ideas, decisions, requests or announcements. They are more private and more formal than emails but less formal than letters. They can also be compared to reports, but very short ones.
 Notice: A notice is a written statement that contains the particulars of holding any event in an organisation. It is a form of downward communication. The motive is to convey information to the concerned persons by requesting them and never ordering them. The language is simple and instructions are understandable.

For all the above types of business correspondence, the sender should take care of the following features: -

 Simple
Business correspondence should be simple in language. Verbosity should be avoided.

Difficult Expression (Avoid) **Easy Expression (Prefer)**

Respectfully yours...	Yours faithfully
We shall be glad if you….	Will you please

- **Clear**

There should be clarity in respect of thought and expression in business correspondence. He should inform about all the facts and figures to the receiver in simple language. There should not be any ambiguity.

- **Public relations aspect**

Business correspondence promotes in building the reputation of the firm. Business letters are kept for future reference. Therefore, the communication representatives of the company should be cautious in framing the business correspondence documents.

- **Consideration**

The business correspondence should adopt "You-attitude" instead of "I" or "We". This means that there should be empathetic approach towards the listener or receiver. The reader feels that the sender of the message is sensitive to his needs.

We-attitude (Avoid)	I-attitude (Prefer)
We have received your letter	Thank you for your letter.
I am happy to report.	You will be happy to hear.

- **Courtesy**

It is very important to be courteous in business correspondence along with being considerate. It helps in building reputation of the company. For example, in the business letters to the customers, if the company shows gratitude as part of courtesy, it will help in increasing patronage and customer loyalty.

- **Coherence**

The term **coherence** refers to the smooth flow of ideas in a text. There are two main strategies that will make your writing coherent- organizing your ideas in a logical order and connecting them effectively by using transition words and phrases**.**

- **Care for culture**

In international business correspondence, the communication expert should take into consideration of the culture of the receiver (customer or company) situated abroad. This is due to differences in cultural background. One should avoid the use of slangs in international correspondence.

- **Tactful approach**

There are variations in communication situations and people to whom business correspondence is being addressed. So, the writer has to make his mind how he has to convey particular information. Sometimes, the writer may have bad news or information to be sent, so he has to handle it tactfully.

Types of Business Correspondence:

Types of Business Correspondence are Business letters, emails and memorandum.

1) Business letters

Business letters are the most formal method of communication following specific formats. They are addressed to a particular person or organization. A good business letter follows the seven C's of communication. The different types of business letters used based on their context are as follows,

a) Letters of inquiry
b) Letters of claim/complaints
c) Letters of application
d) Letters of approval/dismissal
e) Letters of recommendations
f) Letters of promise.

Official letters can be handwritten or printed. Modernisation has led to the usage of new means of business correspondence such as E-mail and Fax.

2) Email

Email is the latest formal method of business communication. It is the most widely used method of written communication usually done in a conversational style. It is used when there is a need to communicate to large audience in an organization.

3) Memorandum

Memorandum is a document used for internal communication within an organization. Memos may be drafted by management and addressed to other employees, and it is sent with the money draft. Memos are sent to several people in a team when important business matters need to be updated to them or to a single person to have a written record of the information.

How to Structure an English Business Letter

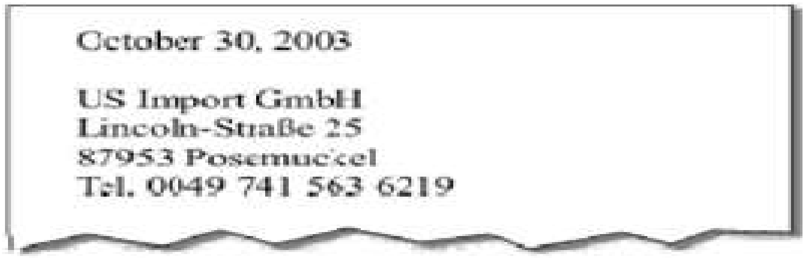
a) Sender’s Address in a Business Letter

- *Position in British English:* In British English, the sender's address is usually placed in the top right corner of the letter.

Britain Import GmbH
Londoner Weg 25
87953 Posemuckel
Tel 0049 741 563 6219

- *Position in American English:* In American English the sender's address is usually placed in the top left corner, below the date, or at the end of the letter, below the signature.

- Sender's address below the date:



October 30, 2003

US Import GmbH
Lincoln-Straße 25
87953 Posemuckel
Tel. 0049 741 563 6219

b) Date in a Business Letter

British English

Write: 30 October 2010

Position: on the right, one line below the sender's address (in letters with a ready-printed sender's address, the date can also be put in the top left corner).

American English

Write: October 30, 2010

Position: top left corner (sometimes centered).

c) Recipient Address in a Business Letter

Ms / Miss / Mrs / Mr / Dr ...
House number, Street Place
Area code
COUNTRY (in capital letters)

In American English, the area code is usually at the same level as the place, separated by a comma.

Position: on the left

British English: In British English, the recipient's address starts on the same line as the date or one line below the date.

American English: In American English, the recipient's address starts two lines below the sender's address (or two lines below the date if the sender's address isn't placed in the top left corner).

d) Salutation in a Business Letter

If you know the person's name:

Dear Ms / Miss / Mrs / Mr / Dr + surname
Dear Mr Miller

You can also write the person's full name. In this case, leave out the title (Mr/Mrs). This way of writing the salutation is very handy if you don't know the gender of the person.
Dear Chris Miller

If you don't know the person's name:

There are several possibilities to address people that you don't know by name:

Salutation	***when to use***
Dear Sir / Dear Sirs	male addressee (esp. in British English)
Gentlemen	male addressee (esp. in American English)
Dear Madam	female addressee (esp. in British English)
Ladies	female addressee (esp. in American English)
Dear Sir or Madam	gender unknown (esp. in British English)
Ladies and Gentlemen	gender unknown (esp. in American English)
To whom it may concern	gender unknown (esp. in American Eng.)

Business partners often call each other by their first names. In this case, write the salutation as follows: Dear Sue.

e) Body of a Business Letter

Capitalize the first word of the text (even if the salutation ends with a comma). The text is left-justified and a blank line is put after each paragraph. It is not common to indent the first line of a paragraph.

Content

- First paragraph: introduction and reason for writing
- Following paragraphs: explain your reasons for writing in more detail, provide background information etc.
- Last paragraph: summarize your reason for writing again and make clear what you want the recipient to do

Note: Your text should be positive and well structured.

f) Greeting in a Business Letter

British English

If you used the recipient's name in the salutation, use 'sincerely'.
If you did not use the recipient's name in the salutation, use 'faithfully'.

American English

Use 'sincerely', no matter if you used the recipient's name in the salutation or not ('faithfully' is not common in American English).

g) Salutation - Greeting

British English (Leo Jones, Richard Alexander, 2011)

Salutation	Greeting
Dear MsWexley	Yours sincerely / Sincerely yours
Dear Jane Wexley	
Dear Jane	
Dear Sir	Yours faithfully / Faithfully yours

Dear Sirs
Dear Madam
Dear Sir or Madam

American English (Leo Jones, Richard Alexander, 2011)

Salutation	Greeting
Dear Ms. Wexley:	Sincerely, / Sincerely yours,
Dear Jane Wexley:	
Dear Jane:	
Gentlemen:	Sincerely, / Sincerely yours,
Ladies:	
Ladies and Gentlemen:	
To whom it may concern:	

In emails you could also write:

- Regards
- Kind regards
- Best wishes

h) Enclosures in Business Letter
If you wish to enclose documents, you can either list all enclosed documents separately or just write the word 'Enclosure' below the signature.

3. Conclusion

The strict rules of grammar are in such cases sometimes ignored, when, for example, a stressed negotiator's only goal is to reach an agreement as quickly as possible. By linguist Braj Kachru's theory of the "expanding circle", Kachru conceived the idea of three concentric circles of the language. He said inner circle (UK, US, etc.) is 'norm-providing'. That means that English language norms are developed in these countries – English is the first language there. The outer circle (mainly New Commonwealth countries) is 'norm-developing'. The expanding circle (much of the rest of the world) is 'norm-dependent', because it relies on the standards set by native speakers in the inner circle.

Tips on How to Write a Business Letter:
Starting your letter:
There two ways in which business letters usually start: they make reference to a previous contact, for example, phone conversation, meeting, previous mail correspondence; or they are the first contact with the recipient.

Making reference to previous contact
I am (we are writing) regarding
your inquiry about ...
our phone conversation ...

In reply to your request ...Thank you for contacting us.

Contacting the recipient for the first time:
I am (we are) writing to
inform you that ...

confirm …
enquire about …
complain about …

I am contacting you for the following reason.
I recently heard about … and would like to …

Making a request
We would appreciate it if you would …I would be grateful if you could …Could you please send me …Could you possibly tell us …It would be helpful if you could send us …
Giving good news
We are pleased to announce that …I am delighted to inform you that …
Giving bad news
We regret to inform you that … I'm afraid it would not be possible to …Unfortunately we are unable to … After careful consideration we have decided …

Ending your letter

Enclosures
Please find enclosed (for letters)
Please find attached (for emails)

Offering future assistance
If you require more information, please let us know.
Please do not hesitate to contact us if you need any further assistance.

Referring to future contact
I am looking forward to hearing from you soon.
We are looking forward to meeting you on 21 January/in Tromsø.
We would appreciate your reply at your earliest convenience.

Closing

The closing salutation must match the opening salutation and the overall tone of the letter. Choose one of the following closing lines depending on the formality of the salutation.

Very formal

Your sincerely, *Sincerely yours,* *Respectfully,*	Use when you've started with Dear Sir/Madam or To Whom It May Concern.
Sincerely,	Use when you've started with Dear + name.

Less formal but still professional

Kind regards, *Warm regards,* *Regards,*	not too formal but businesslike
Best wishes,	even less formal

Informal

Best, *Hugs,* *Cheers,*	Use with friends and colleagues you feel close to.

LIST OF STANDARD ABBREVIATIONS
(Terms used in Office)

A

Ad. Val	:	Ad.Valorem
ASAP	:	As soon as Possible
ATM	:	Automated Teller Machine
@	:	At the rate of
A/C	:	Account
A/D	:	Acknowledgement Due
A/S	:	Account Sales

B

BASIC	:	Beginners All Purpose Symbolic Instruction Code
BPO	:	Business Process Outsourcing
B/E	:	Bill of Exchange
B/L	:	Bill of Lading
B/S	:	Balance Sheet
B2B	:	Business to Business
B2C	:	Business to Consumer

C

CA	:	Chartered Accountant
CAT	:	Common Admission Test
CAD	:	Computer Aided Design
CENTREX	:	Central Exchange
CEO	:	Chief Executive Officer
COBOL	:	Common Business Oriented Language
COD	:	Cash on Delivery
Corp.	:	Corporation
CPM	:	Critical Path Method
CR	:	Confidential Report
C/A	:	Current Account
CV	:	Curriculum Vitae
C2B	:	Consumer to Business
C2C	:	Consumer to Consumer

D

DA	:	Dearness Allowance
DD	:	Demand Draft
Disc.	:	Discount
DLO	:	Dead Letter Office
DSC	:	Digital Signature Certificate
DVD	:	Digital Versatile Disk

D/A	:	Documents against Acceptance
D/P	:	Document against Payment

E

E-Commerce	:	Electronic Commerce
EOQ	:	Economic Order Quantity
EDI	:	Electronic Data Interchange
EDP	:	Electronic Data Processing
EMI	:	Equated Monthly Installment
ENCLS	:	Enclosures
Etc.	:	Et cetera (And other things)
E&OE	:	Errors and Omissions Excepted
e.g	:	Exempli gratia

F

FAQ	:	Frequently Asked Questions
FAX	:	Facsimile
FDI	:	Foreign Direct Investment
FIFO	:	First in First out
FIR	:	First Information Report
FOB	:	Free on Board
FOR	:	Free on Roil
FT Calls	:	Fin Time Calls
FYA	:	For Your Action
FYI	:	For Your Information

G

GPO	:	General Post Office
GST	:	Goods and Services Tax

H

HQ	:	Head Quarters
HR	:	Human Resource
HRD	:	Human Resource Department

I

Intercom	:	Inter Communication System
IOU	:	I Owe You
IRCTC	:	Indian Railway Catering and Tourism Corporation
ISD	:	International Subscriber Dialing
ISP	:	Internet Service Provider

IST	:	Indian Standard Time
ITD	:	Income Tax Department
I/O	:	Input-Output
i.e.	:	Id est (In other words/that is)

J

JIT	:	Just in time

K

KPI	:	Key Performance Indicators

L

LC	:	Letter of Credit
LIC	:	Life Insurance Corporation
LIFO	:	Last in First Out
LLC	:	Limited Liability Company
LTC	:	Leave Travel Concession
Ltd	:	Limited Company

M

MIS	:	Management Information System
MNC	:	Multinational Company
MOOC	:	Massive Open Online Course
MOU	:	Memorandum of Understanding
MRP	:	Maximum Retail Price

N

NGO	:	Non-Governmental Organization
NOC	:	No Objection Certificate
NOI	:	Net Operating Income
NRN	:	No Reply Necessary

O

QC	:	Quality Control
O&M	:	Organization and Methods

P

PABX	:	Private Automatic Branch Exchange
PAN	:	Permanent Account Number
PAYE	:	Pay As You Earn (tax)

PC	:	Personal Computer
PCO	:	Public Call Office
PNR	:	Passenger Name Record
POD	:	Payment on Delivery
PR	:	Public Relations
PRO	:	Public Relation Officer
PS	:	Post Script
P.A	:	Personal Assistant
P.P	:	Particular Person Call
P.S	:	Personal Secretary
P&T	:	Post and Telegraph Department
P/N	:	Promissory Note
p.a	:	Per Annum

Q

QMS	:	Quick Mail Service

R

RAC	:	Reserve against Cancellation
RAM	:	Random Access Memory
RBI	:	Reserve Bank of India
RTI	;	Right to Information
R/R	:	Railway Receipt
R&D	:	Research & Development

S

SLA	:	Service Level Agreement
SP	:	Superintendent of Police
SQC	:	Statistical Quality Control
STD	:	Subscribers Trunk Dialing

T

TELEX	:	Teleprinter Exchange
TMO	:	Telegraphic Money Order
TIN	:	Taxpayer Identification Number

U

UPC	:	Under Postal Certificate
UPSC	:	Union Public Service Commission

V

VAT	:	Value-Added Tax
VIP	:	Very Important Person
VPP	:	Value Payable Parcel

W

WWW	:	World Wide Web
w.r.t	:	With Respect To

Chapter Two

MARKETING

CHAPTER TWO

Marketing

As the business world has become increasingly competitive, marketing has acquired tremendous importance in the recent times. Peter Drucker regards innovation and marketing as the two important functions for every business. The success of any organization therefore depends on how strong it is in these two basic functions. In the area of marketing, answers to such basic questions help in formulating the politics. The questions include;

1. Who are our customers and what do they buy?
2. Why do they buy our product?
3. What do we offer in relation to our competitors?
4. What supporting services do we offer?
5. What is the price to be charged?

Appropriate answers to these questions help in deciding the product, pricing, distribution, and promotional policies of the firm. Among these, pricing policy is our utmost significance. Issues related to how to face the competition are resolved with a sound pricing policy. For instance, weather to indulge in price competition or non-price competition are the two basic issues in this regard. In the former case the firm meets competition by cutting the prices while in the later, competition is met by promotion, advertising, and after sales service, etc. the emphasis is on non-price variables.

Definition of Marketing:

Marketing is a comprehensive term and it includes all resources and a set of activities necessary to direct and facilitate the flow of goods and services from producer to consumer in the process of distribution.

Marketing is referred to a process of creating or directing an organization to be successful in selling a product or service that people not only desire, but are willing to buy.

The traditional meaning of marketing is clearly borne out by the definition given by Ralf S. Alexander and Others, "Marketing is the performance of business activities that direct the flow of goods and services from the producer to consumer or user".

The modern concept of marketing was defined by E.F.L. Breach as, "Marketing is the process of determining consumer demand for a product or service, motivating its sales and distributing it into ultimate consumption at a profit".

By analyzing the above definition we can define the term marketing as a business process which creates and keep the customer.

According to American Marketing Association - "Marketing is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders."

According to American Marketing Association (1948) - "Marketing is the performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user."

AMA (1960) - "Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user.

According to Kotler (2000) - "A societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others."

THE IMPORTANCE OF A MARKETING PLAN

A marketing plan is a document which **records the activities** carried out by the marketing team. These activities are decided by keeping in mind three basic things: 1) Objective/goals of a firm, 2) the external and internal business environment, and 3) the availability of resources.

The **benefits** of preparing a marketing plan can be summarized as follows:

1. Ground work for **extension of marketing strategy**
2. Helps the operating team in proper execution by **assigning responsibilities**
3. Increase the **chances of funding**
4. **Saves time and effort** on ineffective marketing activities
5. Helps plan finances and **effective budgeting**
6. **New insights** can be generated

The marketing plan forms an important part of any business plan though its importance can't be ignored even for established firm. A marketing plan is also a necessary effort to start with before any marketing effort.

Market Research:

Market research is defined as the process of evaluating the feasibility of a new product or service, through research conducted directly with potential consumers. This method allows organizations or businesses to discover their target market, collect and document opinions and make informed decisions.

Market research can be conducted directly by organizations or companies or can be outsourced to agencies that have expertise in this process.

The process of market research can be done through deploying surveys, interacting with a group of people also known as a sample, conducting interviews, and other similar processes.

The primary purpose of conducting **market research** is to understand or examine the market associated with a particular product or service, to decide how the audience will react to a product or service. The information obtained from conducting market research can be used to tailor marketing/ advertising activities or to determine what are the feature priorities/service requirement (if any) of consumers.

Three key objectives of market research

A market research project may usually have 3 different types of objectives.

1. **Administrative**: Help a company or business development, through proper planning, organization, and both human and material resources control, and thus satisfy all specific needs within the market, at the right time.

2. **Social**: Satisfy customers' specific needs through a required product or service. The product or service should comply with a customer's requirements and preferences when consumed.
3. **Economical**: Determine the economical degree of success or failure a company can have while being new to the market, or otherwise introducing new products or services, thus providing certainty to all actions to be implemented.

How Does Market Research Work?

A combination of primary and secondary data makes up the information pool used in market research.

1. Primary Information

Primary information is data collected by the company or a third-party firm. This type of information can be categorized into exploratory research and specific research.

Exploratory research – It follows a questionnaire-type method wherein open-ended questions are asked from the target audience in a loosely structured manner.

It leads to issues and problems from the consumer's point of view being brought to the notice of the company. The company must address the concerns before launching the product.

Specific research – It is aimed at finding answers to issues that were identified during the process of conducting the exploratory research.

Primary Market Research

Primary market research is completed "in house" through your own efforts. Conducting primary research allows you to tailor your research to your specific products and services. It gives you the highest level of control over research quality.

Primary research methods include:

- Focus groups
- Interviews

- Observation based research (in-person observation, videos, case studies)
- Buyer persona research
- Market segmentation research

From these research methods, you can collect two different types of data:

- **Qualitative**—Data that isn't counted or measured, including people's preferences, dislikes, and emotional responses. Interviews and discussion groups typically produce qualitative data. You likely wouldn't use an algorithm or equation to draw conclusions from this kind of data.
- **Quantitative**—Data generated from numbers. It includes things like page views, survey results, and social media follows. With this kind of data, you can produce charts and graphs.

2. Secondary Information

Secondary information is data that is already publicly available. It can include government-collated data such as the census, reports of trade associations, etc. Data collected by other businesses that are operating in the same sector may also be used (if available).

Secondary Market Research

Secondary market research is research conducted by someone else. Because the data is already available, it's typically more cost effective, and less time and resource consuming to collect.

Here are some secondary sources:

- **Company reports**—Reports created by companies about their own business.
  - Company websites
  - Investor relations websites
  - Yahoo and Google Finance
- **Industry statistics**—Information and data on entire industries, as opposed to single companies.
  - Statista
  - Pew

    - Gartner
    - Forrester
- **White papers**—Authoritative market analysis written by 3rd parties about a specific topic related to a given industry.
    - Trade magazines
    - Market research companies
- **Government agency data**—Information and data collected by the government and shared with the general public.
    - Bureau of Labor Statistics
    - Census data
    - U.S. Securities and Exchange Commission

With secondary sources that know how to do proper market research, you'll usually receive a macro level view of your industry and insights about other competitors in the market. Just be sure the data and insights are valid, accurate, and reliable.

What is brainstorming in marketing?

Brainstorming is the process of searching for ideas by taking every thought – no matter how awkward it is – into consideration. Some will transform into marketing decisions later, but the primary goal of this process is to go above and beyond the perceived "best practices".

Why do you need brainstorming? Often, a structured and formal process of decision-making in marketing departments eliminates the work of specialists. New ideas seem irrelevant to a brand message, so leaders approve ordinary and *boring* concepts instead. Brainstorming allows you to mix the experience of all team members and lend a great deal of attention to the idea generation process.

Brainstorming can be group-wide and individual. The latter is often more effective because managers don't know how to organize the process. And, a group-wide brainstorming allows your team to get involved in business, develop creative thinking, and become more willing to initiate.

MARKETING STRATEGY AND MARKETING MIX

Now, you have to decide on which marketing strategy to use. This step is important as this has a big impact on marketing mix, which is covered thereafter. You need to pick one of the following **marketing strategies**:

- **Mass marketing** – This is a push market strategy in which segmentation is completely ignored and an attempt is made to reach the largest number of potential customers possible. This technique relies on the persuasion potential of communication. Traditional mass marketing method are radio, television, and print advertising
- **Differentiated marketing** – This marketing strategy is also known as multi segment marketing strategy. Each customer segment is handled uniquely so that you target different customer segments with different solutions. This strategy keeps your team more focused and is more efficient in spending your marketing dollars
- **Concentrated marketing** – This strategy targets a single well defined segment of the customer population. The marketing costs are low, but so is your sales potential. It is particularly effective for small companies with limited resources as it does not believe in the use of mass production, mass distribution and mass advertising.
- **Direct marketing** – Direct marketing techniques are ideally suited for selling complex products and services. In this method customer contact is done through personalized methods like Email, phone call or mails.

Next, you need to define the **marketing mix** for the marketing plan. It helps to determine your offering. One of the commonly accepted framework for defining a marketing mix is called 4P's which stands for product, place, price and promotion.

1) Product – Here you define the nature of your product or service offering. Each product has different level of benefits and a good product is designed on multiple levels. This section should mention the specification of **physical characteristics** as well as the **benefits provided** by the product. A small list is given below:

- **Product Features:** Color, size, quality, hours of operation, warranties, delivery, and installation
- **Packaging:** the box, container, or wrapper in which the product is placed
- **Label**: information about the product on the package

2) Place – Mention what distribution channels (online delivery, retail distribution etc.) you are going to use. The following aspects need to be considered while deciding for the best place.

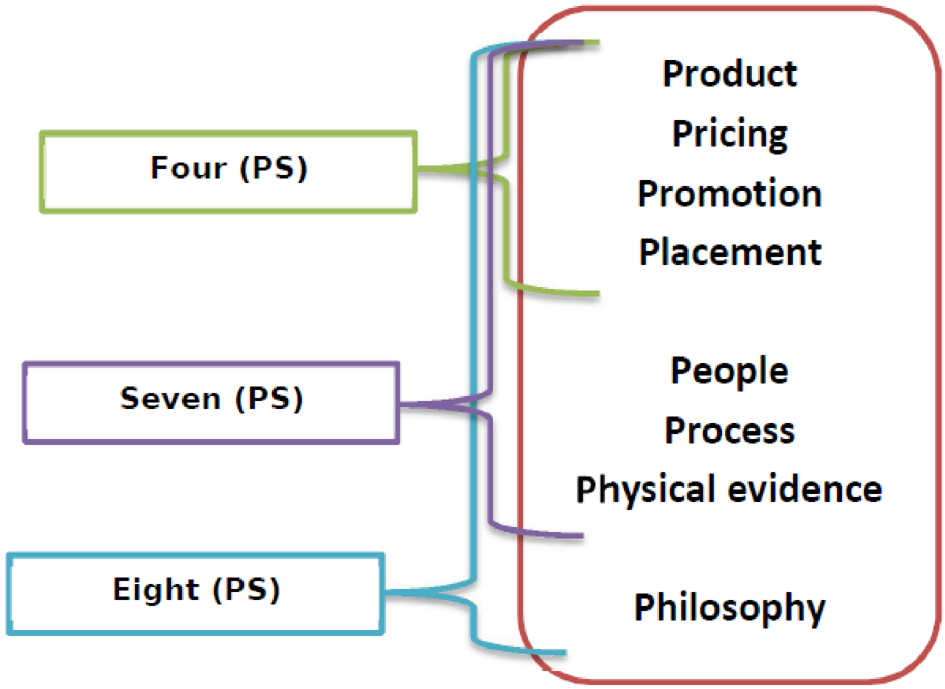
- Getting the product in a timely manner
- Channels of distribution which will usually result in lower costs or forms a competitive advantage
- Channels which save time for buyers and sellers

3) Pricing – Setting an effective pricing strategy is very important. Here you should mention things like discounts and allowances on your products as well as your general pricing strategy (e.g. low price when entering the market, followed by price increases once you are a market leader). A good pricing strategy helps you in obtaining one or more of below objective:

- Maximize sales
- Increase profits
- Discourage competition
- Attract customers
- Maintain an image

4) Promotion – This section should contain how you will communicate with your (potential) clients and what modes you want to use for spreading that messages. A business has to decide on various issues like which media (Video, audio, or pictures) to use. This section will also contain budgeting your promotion.

*8 P'S OF MARKETING MIX IN SHORT:



Product
The product management and product management aspects of marketing deal with the specifications of the actual good or services and how it relates to the end user's needs and wants.

Pricing
This refers to the process of setting a price for a product including discounts.

Promotion
This includes advertising sales promoting publicity and personal selling and refers to the various methods of promoting the product, brand or company.

Placement
Refers to how the product gets to the customer, for example point of sale placement or retailing.

People
As they too can affect the customer's service experience.

Process
This is process involved in providing a service and the behavior of people, which can be crucial to customer satisfaction.
Physical evidence
Unlike a product, a service cannot be experienced before it is delivered, which makes it intangible.
Philosophy
Products or services should reflect the underlying philosophy or ethos of the organization.

Customers loyalty

Oliver (1999,33) defines loyalty as "a deeply held commitment to rebuild and re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviors. "Customer loyalty is viewed as the strength of the relationship between an individual's relative attitude and re-patronage. Although customer satisfaction is a crucial part of a business, satisfaction alone cannot take a business to a top level. Customer satisfaction produces a positive financial result, especially in regular purchases. Today's unforgiving market where creating and maintaining customer loyalty is more complex than it used to be in the past years. This is because of technological breakthrough and widespread of the internet uses. Loyalty building requires the company to focus the value of its product and services and to show that it is interested to fulfill the desire or build the relationship with customers. (Griffin 2002.)
loyal customers are undoubtedly a valuable asset for the business. Retaining a customer in a business is cost effective than attracting new customers. This is one of the new techniques for maximising the lifetime profitability of the customer base of a business. Existing customers know the business and business also knows them very well and can provide customised services to them with

less efforts. Hence, it becomes imperative for the business to achieve customer loyalty.

Loyal customer not only increases the sale volume of business but also creates new customers. To attain customer loyalty, it is very important to satisfy customer with valuable services because satisfied customer eventually are the loyal customers and they stay with the business. When business retains the customers, it enjoys two fold benefits. First, it gives revenue to the business and second, customer retention brings cost reduction.

Key steps for customer loyalty and retention:

No business can get loyal customers without hard work and proper marketing strategies. To gain loyal customers and to retain them with the business, Following are some key points which lead to increase customer loyalty and retention:

i) Main objective of the top level management should be to add value for customers, by providing product/service of best quality, with fare price, in cyclic time and serve better than their competitors.

ii) Making long-term key strategies for customer loyalty and retention.

iii) Appointment of Chief Customer Officer (CCO) to deal with customer related view points.

iv) Managers must spend at least 25% of their time with core customers.

v) Main goal of managers should be to retain customers, which automatically leads to achievement of sales target.

Chapter Three

ACCOUNTING

CHAPTER THREE

Accounting

History and Development of Accounting

Accounting enjoys a remarkable heritage. The history of accounting is as old as civilisation. The seeds of accounting were most likely first sown in Babylonia and Egypt around 4000 B.C. who recorded transactions of payment of wages and taxes on clay tablets. Historical evidences reveal that Egyptians used some form of accounting for their treasuries where gold and other valuables were kept. The incharge of treasuries had to send day wise reports to their superiors known as Wazirs (the prime minister) and from there month wise reports were sent to kings. Babylonia, known as the city of commerce, used accounting for business to uncover losses taken place due to frauds and lack of efficiency. In Greece, accounting was used for apportioning the revenues received among treasuries, maintaining total receipts, total payments and balance of government financial transactions. Romans used memorandum or daybook where in receipts and payments were recorded and wherefrom they were posted to ledgers on monthly basis. (700 B.C to 400 A.D). China used sophisticated form of government accounting as early as 2000 B.C.

Accounting practices in India could be traced back to a period when twenty three centuries ago, Kautilya, a minister in Chandragupta’s kingdom wrote a book named *Arthashasthra*, which also described how accounting records had to be maintained.

Luca Pacioli's, a Franciscan friar (merchant class), book *Summa de Arithmetica, Geometria, Proportion at Proportionality* (Review of Arithmetic and Geometric proportions) in Venice (1494) is considered as the first book on double entry bookkeeping. A portion of this book contains knowledge of business and book-keeping. However, Pacioli did not claim that he was the inventor of double entry book-keeping but spread the knowledge of it. It shows that he probably relied on then–current book-keeping manuals as the basis for his masterpiece. In his book, he used the present day popular terms of accounting Debit (Dr.) and Credit (Cr.). These were the concepts used in Italian terminology. Debit comes from the Italian *debito* which comes from the Latin *debita* and *debeo* which means owed to the proprietor. Credit comes from the Italian *credito* which comes from the Latin '*credo*' which means trust or belief (in the proprietor or owed by the proprietor. In explaining double entry system, Pacioli wrote that 'All entries have to be double entries, that is if you make one creditor, you must make some debtor'. He also stated that a merchants responsibility include to give glory to God in their enterprises, to be ethical in all business activities and to earn a profit. He discussed the details of memorandum, journal, ledger and specialised accounting procedures.

Meaning of Accounting:

Accounting has rightly been termed as the language of the business. The basic function of a language is to serve as a means of communication. Accounting communicates the result of business operations to various parties who have some stake in the business. With the help of accounting records the business is able to ascertain the profit or loss and the financial position of the business at the end of a given period and communicate such information to all interested parties. The function of accounting is to provide quantitative information, primarily of financial nature, about economic entities, that is needed to be useful in making economic decisions.

The meaning of accounting was given by the American Institute of Certified Public Accountants (AICPA) in 1961 when it defined accounting as:

"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events, which are, in part at least, of financial character and interpreting the results thereof":

American Accounting Association (AAA) has defined Accounting as:

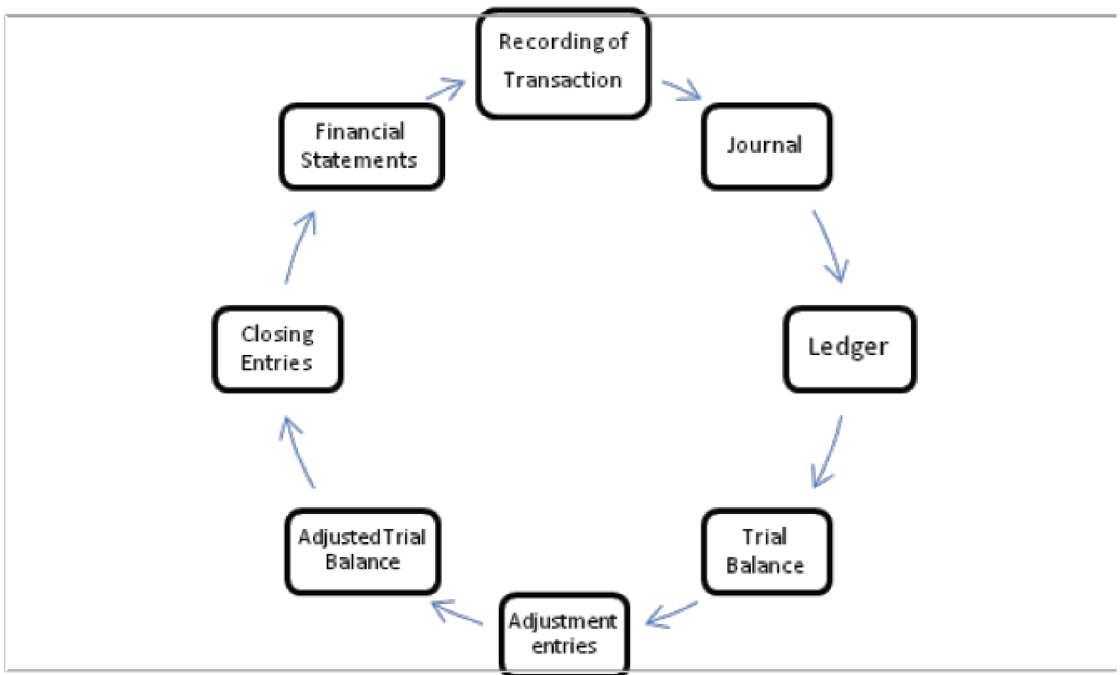
"Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information".

ACCOUNTING CYCLE:

When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.

Steps/Phases of Accounting Cycle

The steps or phases of accounting cycle can be developed as under:



ACCOUNTING CYCLE

(i) **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.

(ii) **Journal:** The transactions are recorded in Journal chronologically.

(iii) **Ledger:** All journals are posted into ledger chronologically and in a classified manner.

(iv) **Trial Balance:** After taking all the ledger account closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

(v) **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

(vi) **Adjusted Trial Balance:** An adjusted Trail Balance may also be prepared.

(vii) **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

(viii) **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

ACCOUNTING – CLASSIFICATION

The various sub-fields of the accounting are:

(a) Financial Accounting

It is commonly termed as Accounting. The American Institute of Certified Public Accountants defines Accounting as “an art of recoding, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character, and interpreting the results thereof.”

(b) Cost Accounting

According to the Chartered Institute of Management Accountants (CIMA), Cost Accountancy is defined as “application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability as well as the presentation of information for the purpose of managerial decision-making.”

(c) Management Accounting

Management Accounting is concerned with the use of Financial and Cost Accounting information to managers within organizations, to provide them with the basis in making informed business decisions that would allow them to be better equipped in their management and control functions.

BASIC ACCOUNTING TERMS

In order to understand the subject matter clearly, one must grasp the following common expressions always used in business accounting. The aim here is to enable the student to understand with these often used concepts before we embark on accounting procedures and rules. You may note that these terms can be applied to any business activity with the same connotation.

(i) Transaction: It means an event or a business activity which involves exchange of money or money’ s worth between parties.

The event can be measured in terms of money and changes the financial position of a person e.g. purchase of goods would involve receiving material and making payment or creating an obligation to pay to the supplier at a future date. Transaction could be a cash transaction or credit transaction. When the parties settle the transaction immediately by making payment in cash or by cheque, it is called a cash transaction. In credit transaction, the payment is settled at a future date as per agreement between the parties.

(ii) Goods/Services: These are tangible article or commodity in which a business deals. These articles or commodities are either bought and sold or produced and sold. At times, what may be classified as ‘goods’ to one business firm may not be ‘goods’ to the other firm. e.g. for a machine manufacturing company, the machines are ‘goods’ as they are frequently made and sold. But for the buying firm, it is not ‘goods’ as the intention is to use it as a long term resource and not sell it. Services are intangible in nature which are rendered with or without the object of earning profits.

(iii) Profit: The excess of Revenue Income over expense is called profit. It could be calculated for each transaction or for business as a whole.

(iv) Loss: The excess of expense over income is called loss. It could be calculated for each transaction or for business as a whole.

(v) Asset: Asset is a resource owned by the business with the purpose of using it for generating future profits. Assets can be Tangible and Intangible. Tangible Assets are the Capital assets which have some physical existence. They can, therefore, be seen, touched and felt, e.g. Plant and Machinery, Furniture and Fittings, Land and Buildings, Books, Computers, Vehicles, etc. The capital assets which have no physical existence and whose value is limited by the rights and anticipated benefits that possession confers upon the owner are known as Intangible Assets. They cannot be seen or felt although they help to generate revenue in future, e.g. Goodwill, Patents, Trade-marks, Copyrights, Brand Equity, Designs, Intellectual Property, etc.

Assets can also be classified into Current Assets and Non-Current Assets:
Current Assets – An asset shall be classified as Current when it satisfies any of the following:
(a) It is expected to be realised in, or is intended for sale or consumption in the Company's normal Operating Cycle,
(b) It is held primarily for the purpose of being traded,
(c) It is due to be realised within 12 months after the Reporting Date, or
(d) It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for at least 12 months after the Reporting Date.
Non-Current Assets – All other Assets shall be classified as Non-Current Assets. e.g. Machinery held for long term etc.

(vi) Liability: It is an obligation of financial nature to be settled at a future date. It represents amount of money that the business owes to the other parties. E.g. when goods are bought on credit, the firm will create an obligation to pay to the supplier the price of goods on an agreed future date or when a loan is taken from bank, an obligation to pay interest and principal amount is created.
Depending upon the period of holding, these obligations could be further classified into Long Term on noncurrent liabilities and Short Term or current liabilities.

Current Liabilities – A liability shall be classified as Current when it satisfies any of the following:

(a) It is expected to be settled in the Company’s normal Operating Cycle,
(b) It is held primarily for the purpose of being traded,
(c) It is due to be settled within 12 months after the Reporting Date, or
(d) The Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date (Terms of a Liability that could, at the option of the counterparty, result in its settlement by the issue of Equity Instruments do not affect its classification)

Non-Current Liabilities – All other Liabilities shall be classified as Non-Current Liabilities. E.g. Loan taken for 5 years, Debentures issued etc.

(vii) Internal Liability: These represent proprietor’s equity, i.e. all those amount which are entitled to the proprietor, e.g., Capital, Reserves, Undistributed Profits, etc.

(viii) Working Capital: In order to maintain flows of revenue from operation, every firm needs certain amount of current assets. For example, cash is required either to pay for expenses or to meet obligation for service received or goods purchased, etc. by a firm. On identical reason, inventories are required to provide the link between production and sale. Similarly, Accounts Receivable generate when goods are sold on credit. Cash, Bank, Debtors, Bills Receivable, Closing Stock, Prepayments etc. represent current assets of firm. The whole of these current assets from the working capital of a firm which is termed as Gross Working Capital.

Gross Working capital = Total Current Assets
= Long term internal liabilities + long term debts + The current liabilities - The amount blocked in the fixed assets.

There is another concept of working capital. Working capital is the excess of current assets over current liabilities. That is the amount of current assets that remain in a firm if all its current liabilities are paid. This concept of working capital is known as Net Working Capital which is a more realistic concept.

Working Capital (Net) = Current Assets – Currents Liabilities.

(iX) Contingent Liability: It represents a potential obligation that could be created depending on the outcome of an event. E.g. if supplier of the business files a legal suit, it will not be treated as a liability because no obligation is created immediately. If the verdict of the case is given in favour of the supplier then only the obligation is created. Till that it is treated as a contingent liability. Please note that contingent liability is not recorded in books of account, but disclosed by way of a note to the financial statements.

(x) Capital: It is amount invested in the business by its owners. It may be in the form of cash, goods, or any other asset which the proprietor or partners of business invest in the business activity. From business point of view, capital of owners is a liability which is to be settled only in the event of closure or transfer of the business.

Hence, it is not classified as a normal liability. For corporate bodies, capital is normally represented as share capital.

Financial Statements and Reports:

The terms “financial report” and “financial statement” are often used interchangeably, but they are not one in the same. “Financial report” is an umbrella term that several types of reports fall beneath. Financial statements are one such report that falls under the financial report umbrella. In other words, all financial statements are financial reports, but not all financial reports are financial statements.

Recall that financial accounting focuses on communicating information to external users. That information is communicated using ***financial statements***. There are four financial statements: the income statement, statement of changes in equity, balance sheet, and statement of cash flows. Each of these is introduced in the following sections using an example based on a fictious corporate organization called Big Dog Carworks Corp.

The Income Statement

An **income statement** communicates information about a business’s financial performance by summarizing **revenues** less **expenses** over a period of time. Revenues are created when a business provides products or services to a customer in exchange for assets. Assets are resources resulting from past events and from which future economic benefits are expected to result. Examples of assets include cash, equipment, and supplies. Assets will be discussed in more detail later in this chapter. Expenses are the assets that have been used up or the obligations incurred in the course of earning revenues. When revenues are greater than expenses, the difference is called **net income** or **profit**. When expenses are greater than revenue, a **net loss** results.

Consider the following income statement of Big Dog Carworks Corp. (BDCC). This business was started on January 1, 2015 by

Bob "Big Dog" Baldwin in order to repair automobiles. All the shares of the corporation are owned by Bob.

At January 31, the income statement shows total revenues of $10,000 and various expenses totaling $7,800. Net income, the difference between $10,000 of revenues and $7,800 of expenses, equals $2,200.

Big Dog Carworks Corp.
Income Statement
For the Month Ended January 31, 2015

The heading shows the name of the entity, the type of financial statement, and the period-in-time date.

Revenues		
Repair revenues		$10,000
Expenses		
Rent expense	$1,600	
Salaries expense	3,500	
Supplies expense	2,000	
Fuel expense	700	
Total expenses		7,800
Net income		$2,200

The net income is transferred to the statement of changes in equity.

The Statement of Changes in Equity

The **statement of changes in equity** provides information about how the balances in Share capital and Retained earnings changed during the period. **Share capital** is a heading in the shareholders' equity section of the balance sheet and represents how much shareholders have invested. When shareholders buy shares, they are investing in the business. The number of shares they purchase will determine how much of the corporation they own. The type of ownership unit purchased by Big Dog's shareholders is known as common shares. Other types of shares will be discussed in a later chapter. When a corporation sells its shares to shareholders, the corporation is said to be **issuing shares** to shareholders.

In the statement of changes in equity shown below, Share capital and Retained earnings balances on January 1 are zero because the corporation started the business on that date. During January, Share capital of $10,000 was issued to shareholders so the January 31 balance is $10,000.

Retained earnings is the sum of all net incomes earned by a corporation over its life, less any distributions of these net incomes to shareholders. Distributions of net income to shareholders are called **dividends**. Shareholders generally have the right to share in dividends according to the percentage of their ownership interest. To demonstrate the concept of retained earnings, recall that Big Dog has been in business for one month in which $2,200 of net income was reported.

Additionally, $200 of dividends were distributed, so these are subtracted from retained earnings. Big Dog's retained earnings were therefore $2,000 at January 31, 2015 as shown in the statement of changes in equity below.

Big Dog Carworks Corp.
Statement of Changes in Equity
For the Month Ended January 31, 2015

The heading shows the name of the entity, the type of financial statement, and the period-in-time date.

	Share Capital	*Retained Earnings*	*Total Equity*
Opening balance	$ -0-	$ -0-	$ -0-
Shares issued	10,000		10,000
Net income		2,200	2,200
Dividends		(200)	(200)
Ending balance	$10,000	$2,000	$12,000

These totals are transferred to the balance sheet at January 31, 2015.

To demonstrate how retained earnings would appear in the next accounting period, let's assume that Big Dog reported a net income of $5,000 for February, 2015 and dividends of $1,000 were given to the shareholder. Based on this information, retained earnings at the end of February would be $6,000, calculated as the $2,000 January 31 balance plus the $5,000 February net income less the $1,000 February dividend. The balance in retained earnings continues to change over time because of additional net incomes/losses and dividends.

The Balance Sheet

The **balance sheet**, or **statement of financial position**, shows a business's assets, liabilities, and equity at a point in time. The balance sheet of Big Dog Carworks Corp. at January 31, 2015 is shown below.

Big Dog Carworks Corp.
Balance Sheet
At January 31, 2015

The heading shows the name of the entity, the type of financial statement, and the point-in-time date.

Assets		*Liabilities*		
Cash	$ 3,700	Bank Loan	$ 6,000	
Accounts receivable	2,000	Accounts payable	700	
Prepaid insurance	2,400	Unearned revenue	400	
Equipment	3,000	Total liabilities		$ 7,100
Truck	8,000			
		Equity		
		Share capital	$10,000	
		Retained earnings	2,000	
		Total equity		12,000
Total assets	$19,100	Total liabilities and equity		$19,100

Total assets ($19,100 here) always equal Total liabilities ($7,100) plus Equity ($12,000).

What Is an Asset?

Assets are economic resources that provide future benefits to the business. Examples include cash, accounts receivable, prepaid expenses, equipment, and trucks. **Cash** is coins and currency, usually held in a bank account, and is a financial resource with future benefit because of its purchasing power. **Accounts receivable** represent amounts to be collected in cash in the future for goods sold or services provided to customers on credit. **Prepaid expenses** are assets that are paid in cash in advance and have benefits that apply over future periods. For example, a one-year insurance policy purchased for cash on January 1, 2015 will provide a benefit unit l December 31, 2015 so is a prepaid asset. The equipment and truck were purchased on January 1, 2015 and will provide benefits for 2015 and beyond so are assets.

What Is a Liability?

A **liability** is an obligation to pay an asset in the future. For example, Big Dog's bank loan represents an obligation to repay cash in the future to the bank. **Accounts payable** are obligations to pay a creditor for goods purchased or services rendered. A **creditor** owns the right to receive payment from an individual or business. **Unearned revenue** represents an advance payment of cash from a customer for Big Dog's services or products to be provided in the future. For example, Big Dog collected cash from a customer in advance for a repair to be done in the future.

What Is Equity?

Equity represents the net assets owned by the owners (the shareholders). **Net assets** are assets minus liabilities. For example, in Big Dog's January 31 balance sheet, net assets are $12,000, calculated as total assets of $19,100 minus total liabilities of $7,100. This means that although there are $19,100 of assets, only

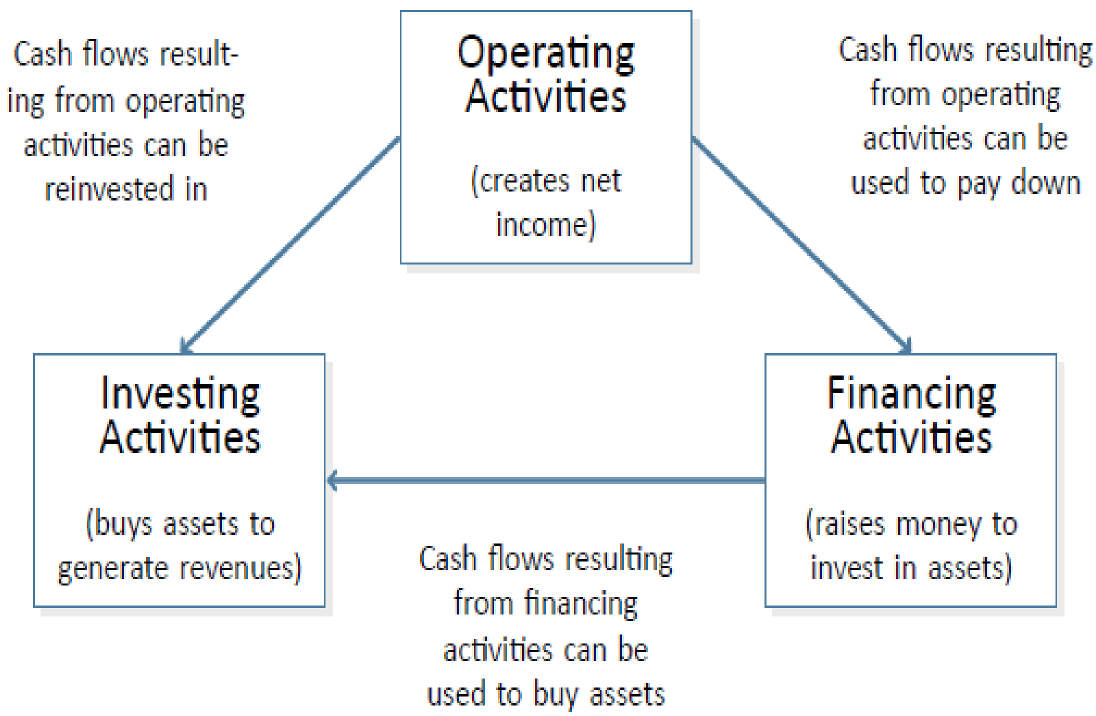
$12,000 are owned by the shareholders and the balance, $7,100, are financed by debt. Notice that net assets and total equity are the same value; both are $12,000.
Equity consists of share capital and retained earnings. Share capital represents how much the shareholders have invested in the business. Retained earnings is the sum of all net incomes earned by a corporation over its life, less any dividends distributed to shareholders.

In summary, the balance sheet is represented by the equation: Assets = Liabilities + Equity. Assets are the investments held by a business. The liabilities and equity explain how the assets have been financed, or funded. Assets can be financed through liabilities, also known as **debt**, or equity. Equity represents amounts that are owned by the owners, the shareholders, and consists of share capital and retained earnings. Investments made by shareholders, namely share capital, are used to finance assets and/or pay down liabilities. Additionally, retained earnings, comprised of net income less any dividends, also represent a source of financing.

The Statement of Cash Flows (SCF)

Cash is an asset reported on the balance sheet. Ensuring there is sufficient cash to pay expenses and liabilities as they come due is a critical business activity. The **statement of cash flows (SCF)** explains how the balance in cash changed over a period of time by detailing the sources (inflows) and uses (outflows) of cash by type of activity: operating, investing, and financing, as these are the three types of activities a business engages in. **Operating activities** are the day-to-day processes involved in selling products and/or services to generate net income. Examples of operating activities include the purchase and use of supplies, paying employees, fuelling equipment, and renting space for the business.

Investing activities are the buying of assets needed to generate revenues.
For example, when an airline purchases airplanes, it is investing in assets required to help it generate revenue. **Financing activities** are the raising of money needed to invest in assets. Financing can involve issuing share capital (getting money from the owners known as shareholders) or borrowing.
The following figure summarizes the interrelationships among the three types of business activities.



Relationships Among the Three Types of Business Activities

The statement of cash flows for Big Dog is shown below.

Big Dog Carworks Corp.
Statement of Cash Flows
For the Month Ended January 31, 2015

The heading shows the name of the entity, the type of financial statement, and the period-in-time date.

Operating activities:		
Net income	$ 2,200	
Adjustments:		
Increase in unearned revenues	400	
Increase in accounts payable	700	
Increase in prepaid insurance	(2,400)	
Increase in accounts receivable	(2,000)	
Net cash used by operating activities		$(1,100)
Investing activities:		
Purchase of equipment	$(3,000)	
Purchase of truck	(3,000)	
Net cash used by investing activities		(6,000)
Financing activities:		
Issued shares	$10,000	
Borrowed from bank	3,000	
Payment on bank loan	(2,000)	
Paid dividends	(200)	
Net cash provided by financing activities		10,800
Net increase in cash		3,700
Cash balance, January 1		-0-
Cash balance, January 31		$3,700

This agrees with the Cash amount shown on the Balance Sheet at January 31, 2015.

The statement of cash flows is useful because cash is one of the most important assets of a corporation. Information about expected future cash flows are therefore important for decision makers. For instance, Big Dog's bank manager needs to determine whether the remaining $6,000 loan can be repaid, and also whether or not to grant a new loan to the corporation if requested. The statement of cash flows helps inform those who make these decisions.

Notes to the Financial Statements

An essential part of financial statements are the notes that accompany them. These notes are generally located at the end of a set of financial statements. The notes provide greater detail about various amounts shown in the financial statements, or provide non-quantitative information that is useful to users. For example, a note may indicate the estimated useful lives of long-lived assets, or loan repayment terms. Examples of note disclosures will be provided later.

BUDGETING AND PROFIT PLANNING:

 Profit plan is the steps taken by the business to achieve their planned levels of profits.
 Budget is a quantitative plan for acquiring and using resources over a specific time period to achieve its goals and objectives.
 Budget is used for two distinct purposes:
o Planning which is developing goals and preparing various budgets to achieve those goals
o Control which involves steps taken by management to increase the likelihood that all parts of the organization are working together to achieve the goals set down at the planning stage
 Budgets help to:
o Communicate management's plans throughout the organizations
o Force managers to think and plan for future
o Allocate resources where they can be used most effectively
o Uncover potential bottlenecks.
o Coordinate the activities of the entire organization
o Serve as benchmarks for evaluating subsequent performance.
 Operating budgets ordinarily cover a one-year period corresponding to the company's fiscal year. Organization may also divide their budget year into quarters and the quarters into months with operating budgets for each period.

Master Budget:

- Includes a number of separate but interdependent budgets that formally report the company's sales, production, and financial goals.
- The starting point of the master budget is the sales budget.
- The ending point of the master budget is the budgeted financial statements.
- Since the budgeted financial statements include both an income statement and balance sheet, each step in the master budget has both an income statement and balance sheet component. Sometimes they are presented in the same budget and other times they are presented as separate budgets.

Sales and Cash Collections Budget:

- The foundation and starting point for the master budget.
- Determines the anticipated unit and dollar sales for the budgeted income statement.
- May also include a schedule of expected cash collections that determines the amount of expected cash collections from customers for each period based on an expected collections pattern.

Example #1

Company A is expecting to sell 10,000 cases in July, 20,000 cases in August, and 30,000 in September of Year 2. Selling price per case is $30. All sales are on account. The sales are collected 70% in the month of sale and 30%

in the month following sale. June sales totaled $200,000. Bad debts are negligible and can be ignored.

Required:

a) Prepare a sales budget.

b) Prepare a schedule of expected cash collections from sales, by month and in total, for the third quarter.

c) Assume that the company will prepare a budgeted balance sheet as of September 30. Determine the accounts receivable as of that date.

Solution #1

a) Sales budget:

	July	August	September	Quarter Total
Budgeted Sales	10,000	20,000	30,000	60,000
x Selling price per unit	$30	$30	$30	$30
Total Sales	$300,000	$600,000	$900,000	$1,800,000

b) Schedule of expected cash collections:

	July	August	September	Quarter Total
June sales ($200,000 X 30%)	$60,000			$60,000
July sales ($300,000 X 70%, 30%)	$210,000	$90,000		300,000
August sales ($600,000 X 70%, 30%)		420,000	$180,000	600,000
September sales ($900,000 X 70%)			630,000	630,000
Total cash collections	$270,000	$510,000	$810,000	$1,590,000

c) Account Receivable as of September 30:

From September ($900,000 X 30%) = $270,000

Production Budget:

- Determines the number of units of finished goods that must be produced each budget period to satisfy expected sales needs (from the sales budget) and to provide for the desired finished ending inventory.
- Although it is prepared in units of finished goods, the production budget may be used to determine several items on the budgeted financial statements:

o Budgeted cost of goods sold by multiplying units sold by cost per unit.

o Budgeted beginning and ending finished goods inventory by multiplying units in inventory by the cost per unit.

o Budgeted cost of goods manufactured by multiplying units produced by the cost per unit.

Example #2

Bell Telecom has budgeted sales of its innovative mobile phone for next four monthS as follows:

	Sales Budget in Units
July	30,000
August	45,000
September	60,000
October	50,000

The company is now in the process of preparing a production budget for the third quarter. Ending inventory level must equal 10% of the next month's sales.

Required:

a) Calculate the ending inventory as of June 30.

b) Prepare a production budget for the third quarter showing the number of units to be produced each month and for the quarter in total.

Solution #2

a) Ending inventory:
Since the ending inventory level must equal 10% of the next month's sales, the ending inventory for the month of June must be 10% of July's sales of 30,000 or 3,000 units.

b) Production Budget

	July	August	September	Quarter Total	October
Budgeted sales in units	30,000	45,000	60,000	135,000	50,000
+ ending inventory	4,500	6,000	5,000	5,000	
= Total needs	34,500	51,000	65,000	140,000	
- beginning inventory	3,000	4,500	6,000	3,000	5,000
= Required production	31,500	46,500	59,000	137,000	

Chapter Four

HUMAN RESOURCE MANAGEMENT

CHAPTER FOUR

Human Resource Management

Definition:

In general Human Resource Management is a management function concerned with hiring, training, motivating, developing and maintaining workforce in an organisation. Human resource management ensures satisfaction of employees so as to get maximum contribution of employees for the achievement of organisational objectives.

According to **Armstrong (1997)**, Human Resource Management can be defined as ―a strategic approach to acquiring, developing, managing, motivating and gaining the commitment of the organization‘s key resource – the people who work in and for it.

According to Dale Yoder ―the management of human resource is viewed as a system in which participants seeks to attain both individual and group goals.

According to Flippo ―HRM is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and reproduction of human resources to the end that individual organizational and societal objectives are accomplished.

Human Resource Management (HRM) is the management of company PERSONNEL. It is defined as: ―Staffing function of the organization. It includes the activities of human resources planning, recruitment, selection, orientation, training, performance appraisal, compensation, and safety.‖ ―HRM means just what it says -- human resource management – the management of people or resources in an organization. Almost every working organization has to have some form of HRM staff to take care of basic employee management tasks. HRM encompasses the traditional areas that most people think of as HR, including compensation and benefits, recruiting and staffing, employee and labor relations and occupational health and safety. An HRM professional might start out as a generalist, then choose a specialty area of HRM such as benefits and become a benefits manager. After that, she may choose to remain in the specialty area, perhaps running all benefits programs at an organization, or move into an HR leadership role as an HR director or VP overseeing both HRM and HRD tasks. Human Resource Development (HRD) is the development and management of company RESOURCES. It is defined as: ―The development of human capabilities, abilities, knowledge and know-how to meet people's ever-growing needs for goods and services to improve their standard of living and quality of life. It is a process in which the citizens of a nation acquire and develop the knowledge and skills necessary for occupational tasks and for other social, cultural, intellectual and political roles that form part of a vibrant democratic society. On the other hand, HRD -- human resource development -- is the development of the resources in a company: organization development, performance management, training and learning, and coaching. HRD includes evaluating the performance of employees, helping employees learn and develop new skills, and assisting them with weaknesses or areas of development. HRD also includes helping an organization develop -- diagnosing problems with how people work together in certain areas of an organization. An HRD professional's career might begin with an analyst role, working as a consultant on a company's organization development (OD) team. The HRD professional may then choose to specialize, focusing specifically on performance programs in the organization, or may become an OD manager, in charge of several analysts or consultants working on OD projects. After that, he may choose to remain in the specialty area running the OD function, or move into an HR leadership role as an HR director or VP overseeing both HRM and HRD tasks.

Scope of Human Resource Management:

1. Personnel Aspect

Human Resource Planning – It is the process by which the organisation identifies the number of jobs vacant.

 Job Analysis and Job Design – Job analysis is the systematic process for gathering, documenting, and analyzing data about the work required for a job. Job analysis is the procedure for identifying those duties or behaviour that defines a job.

 Recruitment and Selection – Recruitment is the process of preparing advertisements on the basis of information collected from job analysis and publishing it in newspaper. Selection is the process of choosing the best candidate among the candidates applied for the job.

 Orientation and Induction – Making the selected candidate informed about the organization‘s background, culture, values, and work ethics.

 Training and Development – Training is provided to both new and existing employees to improve their performance.

 Performance Appraisal – Performance check is done of every employee by Human Resource Management. Promotions, transfers, incentives, and salary increments are decided on the basis of employee performance appraisal.

 Compensation Planning and Remuneration – It is the job of Human Resource Management to plan compensation and remunerate.

 Motivation – Human Resource Management tries to keep employees motivated so that employees put their maximum efforts in work.

2. Welfare Aspect – Human Resource Management have to follow certain health and safety regulations for the benefit of employees. It deals with working conditions, and amenities like - canteens, crèches, rest and lunch rooms, housing, transport, medical assistance, education, health and safety, recreation facilities, etc.

3. Industrial Relation Aspect – HRM works to maintain co-ordinal relation with the union members to avoid strikes or lockouts to ensure smooth functioning of the organisation. It also covers - joint consultation, collective bargaining, grievance and disciplinary procedures, and dispute settlement.

Functions of HRM:

We have already defined HRM and suggested that it is a management function ie it is based on what managers do and the functions performed by managers are common to all organizations. For the convenience of study, the function performed by the resource management can broadly be classified into two categories, i.e. Managerial functions and Operative functions.

1. Managerial Functions: It includes Planning, Organising, Staffing, Directing and controlling (POSDC)

a. **Planning:** Planning is to plan for future or predetermine the course of actions to be taken in future. It is a process of identifying the organisational goals and formulation of policies and programmes for achieving those goals.

b. **Organising:** Organising is a process by which the structure and allocation of jobs are determined. Thus organising involves giving each employee a specific task establishing departments, delegating authority to subordinates, establishing channels of authority and communication, coordinating the work of subordinates, and so on.

c. **Staffing:** This is a process by which managers select, train, promote and remove their employees This involves deciding what type of people should be hired, recruiting, selecting employees, setting the performance standard, compensation of employees, evaluation of performance of employees, counseling employees, training and developing employees.

Organising process results in the creation of a structure with various positions. Staffing involves manning the various positions of the organisation. It includes manpower planning, recruitment and selection of the right people, training and developing them, deciding financial compensation, appraising their performance periodically. There is a debate whether staffing function is to be performed by all managers in the organisation or handled by human resources department alone. However, some processes of staffing are performed by personnel department only. For example recruitment and selection, training, fixation of salary, etc. Performance appraisal, on the other hand, may be done by all managers.

d. **Directing/Leading:** Directing is the process of initiating or activating group efforts to achieve the desired organizational goals, which includes activities like getting subordinates to get the job done, maintaining their morale, motivating subordinates etc., for achieving the organizational goals.

e. **Controlling:** It is the process of setting the standards for performance, measuring the actual performance of the employees and then comparing the actual performance with the standards and there by taking corrective actions as needed.

2. **Operative Functions:** The Management functions as suggested were common to all the mangers whereas the Operative, also called as service functions are relevant to specific department only. These functions differ from department to department depending upon the nature of the department. Viewed from this standpoint, the operative functions of HRM relate to ensuring right people for right jobs at right times. These functions include procurement, development, compensation, and maintenance functions of HRM. A brief description of these follows:

a. **Procurement:** It involves procuring the right kind of people in the right or rather appropriate number to be placed in the organisation. It consists of activities such as manpower planning, recruitment, selection, placement and induction or orientation of new employees.

b. **Development:** It includes activities meant to improve the knowledge, skills aptitudes and values of employees so as to enable them to perform their jobs in a better manner in future. It comprises of training to employees, executive training to develop managers, organisation development to strike a better fit between organisational climate/culture and employees.

c. **Compensation:** Compensation function involves determination of wages and salaries which should match with the contribution made by employees towards achieving organisational goals. In other words, this function ensures equitable and fair remuneration for employees in the organisation. It consists of activities such as job evaluation, wage and salary administration, bonus, incentives, etc.

d. **Maintenance and Retention:** It is concerned with retaining or protecting and promoting employees while at work. For this purpose several benefits such as housing, medical, educational, transport facilities, etc., are provided to the employees. Several other social security measures such as provident fund, pension, gratuity, group insurance, etc. are also being given to the employees.

Among the other roles of HRM is creating the following:

Loyalty towards organization-The main role of a good human resource manager is to develop a feeling of faithfulness towards the organization among the workers. When the faithfulness of the employees as well as sense of belongingness towards the organization increases, their dedication and loyalty towards the job also increases. Thereby leading to less turnovers of employees with improved performance. The best way to develop faithfulness among workers is by trusting them to the maximum which helps to boost their confidence and helps them perform better.

Extensive training and development-The role of training and development in the organization can be easily seen by differentiating between a smoothly functioning organization and an unorganized one. The efficiency of workers can be increased if HR works on enhancing the employees' knowledge, skills and abilities instead of forcing them to do some work. A proper training session or a workshop can be organized to make employees more efficient.

Motivation- The act of stimulating the people so that they give their best to the organisation. As already mentioned workers can only perform well if they are properly motivated. When challenging tasks are assigned to these employees they get motivated. These employees should be occupied in decision making and planning which creates a sense of belongingness. Motivation is the key way to accomplishment of the job.

Performance Evaluation (Appraisal):

Performance appraisal (PA) is a formal system of review and evaluation of individual or team task performance. A critical point in the definition is the word formal, because in actuality, managers should be reviewing an individual's performance on a continuing basis. PA is especially critical to the success of performance management. Although performance appraisal is but one component of performance management, it is vital, in that it directly reflects the organization’s strategic plan. Although evaluation of team performance is critical when teams exist in an organization, the focus of PA in most firms remains on the individual employee. Regardless of the emphasis, an effective appraisal system evaluates accomplishments and initiates plans for development, goals, and objectives.

Performance appraisal is often a negative, disliked activity and one that seems to elude mastery. Managers do not like giving them and employees do not like receiving them. In fact, in one survey, almost 80 percent of workers stated dissatisfaction with their PA process. If this is so, why not just eliminate it? Actually, some managers might do just that if they did not need to provide feedback, encourage performance improvement, make valid decisions, justify terminations, identify training and development needs, and defend personnel decisions. Performance appraisal serves many purposes, and improved results and efficiency are increasingly critical in today’s globally competitive marketplace. Therefore, abandoning the only program with performance in its name and employees as its focus would seem to be an ill-advised overreaction. On top of these considerations, managers must be concerned about legal ramifications. Developing an effective performance appraisal system has been and will continue to be a high priority for management.

Types of Performance Appraisals

Performance appraisals can be broken down into four distinct significant types:

- The 360-Degree Appraisal. The manager gathers information on the employee's performance, typically by questionnaire, from supervisors, co-workers, group members, and self-assessment.
- Negotiated Appraisal. This type of appraisal uses a mediator to help evaluate the employee's performance, with a greater emphasis on the better parts of the employee's performance.
- Peer Assessment. The team members, workgroup, and co-workers are responsible for rating the employee's performance.
- Self-Assessment. The employees rate themselves in categories such as work behavior, attitude, and job performance.

Note that some organizations use several appraisal types during the same review. For instance, a manager could consult with the employee's peers and assign a self-assessment to the employee. It doesn't have to be a case of either/or.

Employee commitment:

Employee commitment is only one of the many factors that affect performance, but it certainly is a key factor and constitutes one of the many means available to an organization for improving performance (Salancik 1997). Employee commitment and organization performance therefore go hand in hand as the performance of the organization is greatly determined by the commitment that employees have. Commitment helps in achieving the planned objectives thus leading to high organizational performance.

Commitment refers to attachment and loyalty. As defined by Mowdray and others (1982), commitment consists of three components, that is, an identification with the goals and values of the organization; a desire to belong to the organization and a willingness to display effort on behalf of the organization.

Commitment may be measured either by checking the extents to which the organization is achieving the results, that is objectives or by reference to the sentiments and attitudes of employees, towards their organization.

Promotion:

Promotion means the advancement of an employee to a higher job involving more work, greater responsibility and higher status. It may or may not be associated with the increment in salary. Sometimes, salary of the employee also increases with the promotion. Sometimes it is not so. When an employee is promoted but his salary does not increase it is known as dry promotion. Promotion means the placement of an employee on a higher post involving greater amount of responsibility, better status, more pay and more perks.

Some people think that promotion means the increment in pay. The reality is not so. If the salary of an employee increases or the pay scale changes to a higher one, it is only known as up grading or salary increment. However, it can now be regarded as promotion. Generally, promotion is associated with the increase in salary, status, facilities, responsibilities and job.

Promotion may be classified into the following types:

1. Horizontal Promotion:

When an employee is shifted in the same category with increase in pay, responsibilities and change in designation, it is called horizontal promotion. For example Second Division Assistant is promoted as First Division Assistant. This type of promotion may take place within the same department or from one department to another or from one plant to another plant.

2. Vertical Promotion:

When an employee is shifted from a lower category to higher category with increase in pay, status and responsibility it is called vertical promotion. For example a sales Manager is promoted as General Manager in the company.

3. Dry Promotion:

When promotion is made without increase in salary or remuneration, it is called "dry promotion". For example a college professor promoted as Head of the Department without increase in salary. In dry promotion there will be a change in designation and responsibility without corresponding change in remuneration.

Employee Retention:

Hytter (2007) explained that there are some factors such as personal premises of loyalty, trust, commitment, and identification and attachment with the organization have a direct influence on employee retention and workplace factors such as rewards, leadership style, career opportunities, the training and development of skills, physical working conditions, and the balance between professional and personal life have an indirect influence.

Employee Retention Strategies:

The basic practices which should be kept in mind in the employee retention strategies are:

1. Hire the right people in the first place.

2. Empower the employees. Give the employees the authority to get things done.

3. Make employees realize that they are the most valuable asset of the organization.

4. Have faith in them, trust and respect them.

5. Provide them information and knowledge.

6. Keep providing them feedback on their performance.

7. Recognize and appreciate their achievements.

8. Keep their morale high.

9. Create an environment where the employees want to work and have fun.

People want to enjoy their work so make work fun and enjoyable. Understand that employees need to balance life and work so offer flexible starting times and core hours. Provide 360 feedback surveys and other questionnaires to foster open communication. Consider allowing anonymous surveys occasionally so employees will be more honest and candid with their opinions. Provide opportunities within the company for career progression and cross-training. Offer attractive, competitive benefits.

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