

BTEC FIRST DIPLOMA IN BUSINESS **UNIT 3: Investigating Financial Controls**

Scenario

Money is the main reason most businesses are created and the reason for them to continue trading. Where a business is generating more money than its costs, the profits present the business with opportunities to develop and expand. Where costs are greater than the income i.e. losses, business is likely to be unsuccessful and die.

You work in the Finance department of a local business. You have been asked by your manager to look at the financial aspects of running the business. This requires you to;

1. Understand the costs, revenue and profit for a business operation
2. Know how businesses use break even analysis
3. Be able to prepare a cash flow forecast
4. Understand ways of recording financial transactions

Introduction:

In this assignment, I am going to investigate the Financial Control system within newly made 'Hot To Trot'. This company is a new horse riding business, based in Burgess Park, South East London. Hot To Trot provides Horse and Pony lessons yearly chosen for their safe temperament. These lessons can be grouped, singular or private.

Task 1- Business Cost definitions

Businesses incur a range of costs:

- **Start-Up costs**- These are costs incurred before a business operates. These include (Land, buildings, equipment and insurance)
- **Running costs**- These are continuous costs as long as they business exists and sells products or provides a service.
- **Fixed costs**- These are costs that must be paid no matter the progression or state of the business. These include (Utility Bills, Insurance)
- **Variable costs**- This related to the amount of products or services provided that costs are used. For example (Selling games for a console. The more of the console produced, the more games to be made for it)
- **Total costs**- These are the total fixed costs plus the total variable costs or total operating costs.

Hot To Trot's Business costs

Start-Up Costs

The business 'Hot To Trot' would have had all of the above costs. As 'Hot To Trot' is a horse riding company, the start-up costs won't be as expected as city businesses. One start-up cost they will incur is the land. Without this, there will be nowhere for the lessons to take place. Another start up cost is the animals. The animals are the reason for the business so must be 1st priority. Next, equipment/machinery is

needed. With these, it allows the business to be safe for the animals as well as the visitors. Equipment includes: horse bucks, saddles, mouth guards, helmets and fitness machines e.g. Another start-up cost is for their stables (buildings). These are where the horses will stay and most likely be the changing room for visitors and place of feed and care for the horses and ponies. Other costs include: Horse insurance, food stock, machinery (tractors).

<u>Expense</u>	<u>Cost</u>
Stable renovation	£5000
Total	£5000

Fixed Costs

The company will also have fixed costs. The fixed costs 'Hot To Trot' would have are as follows:

- Gas Bills
- Electricity Bills
- Rent
- Insurance
- Food Stock
- Water Bills

<u>Expense</u>	<u>Cost</u>
Vet insurance	£150 p/m
Insurance	£500 p/m
Rent to Farmer	£300 p/m
Telephone bills	£50 p/m
Cash Loan	£250 p/m
Energy Bill	£1500 p/m
Wage Bill	£2000 p/m
Advertising	£75 p/m
Food	£400 p/m
Total	£5225

Variable Costs

The business will also have to incur variable costs. The variable costs for this type of business will be minimal. One cost in this range will be certain stock. The amount of food will partly be in correspond to the usage of the horses and ponies. Another variable cost will be for advertising. If business is low, they may advertise more and when business is high, advertising may increase or decrease.

The Variable costs would be calculated by all the costs that relate to the progression of the business. **Variable costs of each service/product X number produced.**

<u>Expense</u>	<u>Cost</u>
Horse food/equipment	£10,000
Total	£10,000

Total Costs

The total costs will be all the costs they have to pay. These are calculate by variable, fixed and start-up costs (**Total costs = Variable costs + fixed costs**)

<u>Total Costs</u>	
Fixed costs	£5225
Variable Costs	£10,000
Total	£15,225

Revenue

Revenue- This means the income received by Hot To Trot from all sources.

Sources of revenue- These are ways of making an income. One source is the standard sales. Hot To trot will make money from goods being sold or services used. Next is leasing. This is whereby a building, vehicle or equipment is loaned in exchange for money, however, still in your ownership. Finally, is interest. This is earned when a business has money in an interest bearing account at the bank. For Hot To Trot, they will have a sales revenue and possibly an interest revenue. They will have a sales revenue from the sessions they will hold. I also think they may have an interest because they are getting a loan of £10,000, along with their own £10,000 and will be put into the same bank account. Interest rates will have to be checked prior to this.

Calculating gross and net profit

Gross profit- In accounting, **gross profit** or **sales profit** is the difference between revenue and the cost of making a product or providing a service, before deducting overhead, payroll, taxation, and interest payments. It will be difficult to use Hot To Trot as an example as its calculations will most likely be done annually. However, I will provide an example. Say I make £2,000 from selling iPods. It cost me £950 to buy them. Therefore, my gross profit is £2000 -£950=£1050

Costs of sales- This is the amount of money spent on the products or services (equipment and renovations).

Net profit- This is expenses subtracted from the gross profit. These include fixed and variable costs.

Operating costs- These are the costs needed for the business to operate. Operating costs (expenses) are calculated by adding the fixed costs to the variable costs.

Profit maximisation- These are measures/ways of increasing profit. Increasing sales income will help, however the measures involved carry risks. Reducing running costs can also achieve this. One way Hot To Trot can help is by choosing the cheapest and most reliable electricity company. Another way the business could increase its profit is by banking with the bank that offers the best interest rates. One final way in which they can improve profits is by finding the best telephone operator. They may find a cheaper quote than what they are due to pay.

The importance of profit cannot be stressed. Any business not making a profit should sell up and give up. Hot To Trot provides a service which is very costly, time

consuming and educational. However, this does not despite the fact they must make money. The money they make can lead to a huge progression, expansion and popularity. This will therefore allow them to overtake competitors and become the most successful in its speciality. Profit will also need to be made to overcome its expenses. They will be glad to make a profit from the £10,000 loan they received and pay back quickly and on task.

Maximising Profits

Hot To Trot has two main ways of increasing its profit. These are to:

1. Increase sales income
2. Reduce running costs

Methods of maximising profits for Hot To Trot

Increasing sales income : The business could increase the lesson charge fees per hour. One risk following this is that the number of lessons taken may be reduced. Another way they could increase sales income is by increasing the limit of lessons per week. One risk in this is the fitness and age of the horses which may affect the quality of the lessons as well as quality of the horses.

Reducing running costs : Hot To Trots easiest method to maximise its profits is to reduce its operating costs. The following will help:

- Gas, water and electricity: Replace older items with energy efficient ones e.g. energy saving bulbs, lights which turn off automatically, double glazing windows to reduce heating costs.
- Encourage all staff to be energy conscious.
- Bargain with the cheapest dealership in each specified area.
- Buy food in bulk to get cheaper deals and show loyalty to get this

Task 2- Break-even analysis

$$\text{Formula for Breakeven Point} = \text{Fixed Costs} / (\text{Unit Selling Price} - \text{Variable Costs})$$

The term break even is when businesses total costs are equivalent to its revenue. This means that the income is the same as the costs. Therefore, a profit isn't made nor a loss. It is balanced at £0. To help explain this I will give an example. At the beginning of the businesses operation in February, Hot To Trot has a negative profit understandably of **-£12,650**. The break even point is made 5 months later in July whereby the business has made a profit for the month of **£1875** and a respective profit for the next 4 months. The table is shown below.

Month	Output (No. Lessons)	Start up costs	Fixed Costs	Variable costs	Total Costs	Total Revenue	Profit
Feb	0	£5,000	£2,650	£10,000	£12,650	0	-£12,650
March	40	£0	£3,075	£0	£3,075	800	-£2,275
April	80	£0	£3,475	£0	£3,475	1600	-£1,875
May	160	£0	£3,725	£0	£3,725	3200	-£525
June	220	£0	£5,225	£0	£5,225	4400	-£825
July	280	£0	£3,725	£0	£3,725	5600	£1,875
August	400	£0	£3,725	£0	£3,725	8000	£4,275
Sept	400	£0	£5,150	£0	£5,150	8000	£2,850
Oct	400	£0	£3,650	£0	£3,650	8000	£4,350
Nov	400	£0	£3,650	£0	£3,650	8000	£4,350
Dec	200	£0	£4,900	£0	£4,900	4000	-£900
Jan	200	£0	£3,650	£0	£3,650	4000	£350
Feb	200	£0	£3,650	£0	£3,650	4000	£350
March	200	£0	£4,900	£0	£4,900	4000	-£900

Break even point

Margin of safety: This is the difference between the intrinsic value of a stock and its market price.

Intrinsic Value: The actual value of a security, as opposed to its market price or book value. The intrinsic value includes other variables such as brand name, trademarks, and copyrights that are often difficult to calculate and sometimes not accurately reflected in the market price. One way to look at it is that the market capitalization is the price (i.e. what investors are willing to pay for the company) and intrinsic value is the value (i.e. what the company is really worth).

The break-even analysis is perfect to determine the businesses progress. From this, financial advisors can determine whether the business is making money, losing money or whether they are doing neither. This is also good to determine whether a business has a future. All businesses aim to make a profit. Failing to do this should result in closure. Examples of other uses are shown below:

- Could we increase our prices by 7% and still make a profit if sales fall?
- If we reduce prices by 10%, would we increase sales and make more profit or lose money?
- If prices were increased, would we overcome our expenses?

The impact of changing cost and revenue on break even

What if variable costs increase by 10%?

If variable costs were to increase by 10%, Hot to Trots' total costs for February would increase by £1000 to £13,650. The profit margin would also decrease, reaching -

£13,650. This change in price would have minor effect to the aims and achievement of the business and finances.

Increase the price per lesson by £5. What is the effect?

Currently, the figures I have shown show that the business is in between profit margins. It begins in a loss at the start and once it hits break even, begins to make a steady profit. In the first year of the businesses production, by March the next year, its overall profit is -£900. This is with the correct and original figures. Now, I am going to increase the sales price by £5, to £25 per lesson and see what effect it has to my data.

Having changed the price of the lessons, the break even point moves from July to May. Hot To Trot do not make profit for the first 3 months as estimated and makes a profit every month thereafter. In this time period, a total profit of £14,350 is made, as a pose to a loss of £1550 with the prices per lesson at £20.

Increase the price per lesson by £10 . What is the effect?

A significant profit has been made with the prices at £25 per lesson. Increasing this even further to £30 per lesson will without a doubt make a profit. Having once again changed the price in the formula, the break even point decreases by one month to April. The overall profit after the first year is £30,250. The profit has increased even further with this new price of £30 per lesson.

These implications and changes that were made to the table demonstrated how such little money could make to a businesses finances and progression. By adding £5 onto the cost, the profit margin increased to a significant amount, whilst the break even point time was shorter than previously. This also demonstrates how in each circumstance the success of the business, how quickly they overturn their expenses to make profit and how often they make a profit monthly.

Task3- Preparing a cash flow forecast

What is Cash flow?

Cash flow is what monitors how much money is incoming compared to the amount outcoming. Cash flow problems occur when the amount spent is greater than the amount received. This is done to make sure less money is spent and more is received. Hot To Trot will hope that money from sales overlaps that of expenses.

Cash Inflow: Cash inflows are money received by the business for a variety of reasons. Hot To Trot will receive money from their loan and sales.

Methods of Cash Inflows

Capital: This is the money that is invested by the owner at the start. It represents savings or borrowings invested to pay for start-up costs. For Hot To Trot, a total of £10,000 was invested by the owner Jayne .

Sales: These are sales to private individuals and/or other firms that are the major source of income for all commercial businesses. For example, Hot To Trot may have schools and other similar organizations that may want to create a kind of contract with them.

Loans: This is the amount of money the business has borrowed, usually from a bank, other financial institutions or family businesses. The business will pay back with interest and will want to negotiate a low rate. Hot To trot have received a loan of £10,000 and will pay the same amount.

Cash Outflows: This is money spent by the business for a variety of reasons. Payments are usually as followed.

Methods of Cash Outflows

Purchases: This is what the business buys for intention to sell for a higher price. Capital items are more expensive goods which are expected to last for much longer, such as stables, tractors and stability devices .

Loan repayments: These must be included for any loan agreements that have been made.

Wages: This is the overall wage bill for the staff of the organisation . Also included are bonuses and commissions. Hot To Trot pay £2000 per month wages as standard..

Below is a 12month cash flow forecast for Hot To Trot's business. All business costs/expenditure are included as well as total payments which help direct the financial adviser of what needs to be paid and when it needs to be paid.

Cash Flow Forecast for Hot To Trot

	February	March	April	May	June	July	August	September	October	November	December	Jan
Loan	£0	£0	£ 10,000.00	£0	£0	£0	£0	£0	£0	£0	£0	£0
Cash payments	£0	£ 400.00	£ 800.00	£ 1,600.00	£ 2,200.00	£ 2,800.00	£ 4,000.00	£ 4,000.00	£ 4,000.00	£ 4,000.00	£ 4,000.00	£ 2,000.00
Credit payments	£0	£0	£ 400.00	£ 800.00	£ 1,600.00	£ 2,200.00	£ 2,800.00	£ 4,000.00	£ 4,000.00	£ 4,000.00	£ 4,000.00	£ 4,000.00
Total receipts	£0	£ 400.00	£ 11,200.00	£ 2,400.00	£ 3,800.00	£ 5,000.00	£ 6,800.00	£ 8,000.00	£ 8,000.00	£ 8,000.00	£ 8,000.00	£ 6,000.00
Cash Outflows												
Renovation	£ 5,000.00	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Horse equipment	£ 10,000.00	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Horse food	£0	£0	£ 400.00	£ 400.00	£ 400.00	£ 400.00	£ 400.00	£ 400.00	£ 400.00	£ 400.00	£ 400.00	£ 400.00
Energy Bill	£0	£0	£0	£0	£ 1,500.00	£0	£0	£ 1,500.00	£0	£0	£ 1,500.00	£0
Vet bills	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00	£ 150.00
Insurance	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00	£ 500.00
Loan repayment	£0	£0	£0	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00
Wages	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00	£ 2,000.00
Telephone	£0	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00	£ 50.00
Rent	£0	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00	£ 300.00
Advertising	£0	£ 75.00	£ 75.00	£ 75.00	£ 75.00	£ 75.00	£ 75.00	£0	£0	£0	£0	£0
Total Payments	£ 17,650.00	£ 3,075.00	£ 3,475.00	£ 3,725.00	£ 5,225.00	£ 3,725.00	£ 3,725.00	£ 5,150.00	£ 3,650.00	£ 3,650.00	£ 5,150.00	£ 3,650.00
Net Flow	-£ 17,650.00	-£ 2,675.00	£ 7,725.00	-£ 1,325.00	-£ 1,425.00	£ 1,275.00	£ 3,075.00	£ 2,850.00	£ 4,350.00	£ 4,350.00	£ 2,850.00	£ 2,350.00
Bank B/f	£ 10,000.00	£ 9,650.00	£ 6,975.00	£ 14,700.00	£ 13,375.00	£ 11,950.00	£ 13,225.00	£ 16,300.00	£ 19,150.00	£ 23,500.00	£ 27,850.00	£ 30,700.00
Bank C/f	-£ 7,650.00	£ 6,975.00	£ 14,700.00	£ 13,375.00	£ 11,950.00	£ 13,225.00	£ 16,300.00	£ 19,150.00	£ 23,500.00	£ 27,850.00	£ 30,700.00	£ 33,050.00

The cash flow forecast shows the inflows and outflows of money for the business. The table is very well organised. It evaluates and demonstrates: months, expense s and costs. This is great for monthly analysis of the business and by already having

figures to input, can tell you the total for a fixed amount of time. This can then allow Hot To Trot to set aims and objectives for how to overcome their expenses.

Cash flow forecast and cash statement

There are two types of cash flow documents that need comprising on a monthly basis. The first document is the 'Cash Flow Forecast'. The forecast is your **estimate** of your cash income and expenditure over a period of time: usually twelve monthly forecasts per year (but can also be of great help when completed on a quarterly basis *with* the monthly version).

The second type of cash flow document is a 'Cash Flow Statement'. The statement records your **actual** cash income and expenditure at the end of the 'forecast' period. The closer these two documents are, in financial terms, the more understanding and control you have over your business.

The difference between the two is clear. The forecast is more of a prediction of expenses whereby the statement is direct and actual. It gives clear answers to questions financial advisors and business managers may want.

Having a regular flow of money coming into the business can be verified as it comes from many reasons and sources. Income from sales is a positive, whereby receiving money as a loan can be both. Receiving a loan is quite a risk as it relies on the progress of the business for the loan to be returned with interest. This can either make or lose a profit. Quite risky as I've said.

To support my statement on the loans, here is a quote from www.glitec.co.uk:

'Borrowing money is always associated with a number of common risks. These generally stem from people over borrowing, that is, borrowing more than they will be able to pay back later. What this means is financial disaster for the borrower as they may become bankrupt and lose their home and all their assets as a result'.

To make sense of this, a business would need to be in consistent progression to receive a loan and be able to pay it back with interest without their profit being effected (reduced). Excluding loans, more money must be coming in than going out to make a profit.

Cash flow problems and how they cause business failure

Timings of Inflows and Outflows: This is considered critical. This is when a inflow suddenly dips as a pose to a large bill. Funds are **LOW!**

- **Late credit payments** - Late credit payments are when customers (particularly long time customers) are given extended time to pay for a product, however fail to keep to their end at the final stage of the payment. This then means that the business has been underpaid briefly. This will only be likely to be if Hot To Trot agrees a contract with an organization.
- **Seasonal Businesses**- This is the business that accumulates around a particular period of time. This is distinguished by seasons: Autumn, Summer,

Spring and Winter. Bills and wages must still be paid therefore it is vital that a business accumulates a high income of sales during its peak. I would suggest that the busiest time period for Hot To Trot would be in the summer and Autumn.

- **Large Capital Expenditures** - This is when large items are paid for that are expected to last for a long period of time. This can be a problem if an item doesn't perform as much to receive an income.

Cash flow methods will steer Hot To Trot in the right direction for success and avoid any possible misinterpretation, misconduct and misfortune. The business can identify possible issues and also avoid oncoming issues. The forecast table itself is quite self-explanatory. It allows in particular issues to be identified, prices to be changed and general adjustments to be made. By analysing cash flow methods, Jayne as well as her financial advisor can contradict the future of the business. They will be able to see if they can manage the finances, consequently continue operating. One recommendation I would give to them is to compare their actual expenses with an estimated income. Therefore continue estimating the amount of lessons per month.

Task 4: Understanding Ways Of Recording Financial Transactions

A financial transaction is any movement/action to do with money when a product is sold, bought, loaned and vice-versa with a service. The following are also included: Business costs (operating, fixed, variable). The way to keep track of money inputs and outputs is by 'Recording Financial Transactions'. This is done to help managers and advisors analyse information on business performances. They can then take immediate actions if problems occur. I will now explain the following business credit transactions:

Purchase Order

A purchase order is the official order for goods and lists the items required. These may be sent by fax, post or electronically. This won't be used by Hot To Trot.

Delivery Note

When a supplier dispatches an item to the organization, it is accompanied with a delivery note. When the courier delivers the good(s), it must be signed for as proof of delivery. The courier gets a copy to return to the supplier, whilst the customer gets an exact copy to keep in their records. This won't be used by Hot To Trot.

Goods Received Note (GRN)

The person who checks the goods completes a GRN and sends it to the accounts department as proof. It provides a record of the goods received and the condition on arrival. This won't be used by Hot To Trot.

Sales Invoice

This is when the supplier sends the organization an invoice (receipt) stating the amount of money he/she owes. This is a bill for payment. When the customer receives the invoice, it is checked carefully to ensure that it matches with the GRN and purchase order. This may be used by Hot To Trot.

Credit Note

A Credit Note or Credit Memo is a document used to adjust or rectify errors made in a sales invoice that has already been processed and sent to a customer. If you have

already sent an invoice to a customer but now need to provide a credit for that invoice, you would send them a Credit Note or Credit Memo.

Statement Of Account

This is a summary of transactions for the month that is sent out to the customers'.

Cheque or electronic transfer

These are two methods of payment. A cheque instructs a specific amount from a specific currency to be transferred to another account held in the maker/depositor's name within that account/institution. It is a slip of paper detached from a chequebook and has a unique code on each slip. Electronic transfer is when a product or service is paid for via debit or credit card. The card is inserted into a small machine and once the pin for the card has been verified, the paying process can begin, assuming there is enough money in the account. This may be used by Hot To Trot.

Remittance advice slip

These are sometimes accompanied by invoices and statements that a customer returns with a cheque payment. From the slip, the supplier can easily identify which invoices relate to the payment.

Cash receipt

The cash receipt is a simple document of a transaction that is often issued at the time of the completion of a sale. Many businesses issue cash receipts as a matter of course. While the printed document is normally a simple record of the transaction, some examples of the cash receipt can be very detailed. This may be used by Hot To Trot.

Manual methods of recording financial transactions

Daybooks- These are used by some businesses to summarise transactions before information is transferred to the main accounts on the computer. Day books come in different areas as followed:

- Sales Day Book: Records all sales made to date from invoices issued by the business
- Sales returns Day Book: Records any goods returned from customers by date. This lists all the credit notes issued by the business
- Purchases Day Book: Records all purchases by date and matches invoices for raw materials or stock received by the business
- Purchase returns Day Book: Records any goods returned to a supplier by date. This matches any credit notes received by the business

I think this could be used by Hot To Trot.

Accounts- Recording transactions by accounts are easy to record, track and apply actions to. However, it is in best effect when dealing with customers' transactions individually. It is easy to record information against categories. This is time consuming, complicated and can be frustrating, however is great when independent customers' need to be labelled for various reasons and circumstances. I think this may be used by Hot To Trot to label their contacted customers.

Petty Cash- Petty cash is the small increments of money that is kept safely, usually in a small lockable cash box or a small safe. This is used to pay for cheap items so it

relieves the hassle of having to deduct money from the businesses bank account
Examples of petty cash usage are: Window cleaner, Travel expenses and Stamps.
Petty cash is also used to reimburse staffs that pay for goods out of their mown pocket as an emergency. However, the member of staff must obtain a receipt of proof and complete a petty cash voucher to retain their money. The cashier will authorise the voucher, repay the amount and record the transaction in the petty cash account. I doubt this will be used by Hot To Trot for security purposes and the type of business it is.

Electronic methods of recording financial transactions

The benefit of recording transactions electronically means that any related documents are printed and stored automatically. In addition, electronic transactions are used to make payments to linked accounts or business firms. I will explain two methods of electronically recording financial transactions.

Cash Register

In many retail and corner shops, businesses will have a cash register as their method of recording financial transactions. A price is either typed in or a barcode is scanned. Once the price of the good or service is confirmed, you are able to pay. At the press of a button, the cash drawer is released. Your money is taken and your change and receipt is the return. The machine automatically records the amount of money spent and issues a receipt for both customer and till. I doubt this will be used by Hot To Trot.

Electronic Point Of Sale (EPOS)

EPOS systems are systems that relate tills to one central computer. This is very popular amongst large stores. This is very simple, constructive and very efficient. An EPOS system allows some or all of the following functions;

- Scanning unique barcodes can identify the product being sold and the price of it. This also calculates the total spent by the customer.
- This then allows stock records to be updated immediately as a product is sold. This in turn can tell the business what they need more of.
- Some systems also update delivery requirements sent to a central distribution centre.
- They can also identify the sales assistant. This is done by them either typing a unique pin or swiping a work card. They must log in and off each time they operate a machine.
- Credit/Debit card payments can be processed -including authorisation
- Detailed receipts can be printed which include: item(s) sold, price, time, date, till served at, sales assistant, card details, discounts, promotional offers, details of business, VAT number and item barcode e.g.
- Some large supermarkets use the data to draw up profiles of regular customers so that they can mail them with information on promotions of their favourite products.

I think this is the most likely source of recording their financial transactions as it is the safest as well as the easiest to comply with.

Preventing Fraud

Fraud is when someone attempts to get something by deception. For example, someone who exaggerates their qualifications in order to work in a high state business is committing fraud. Fraud is mostly used in connection with money: theft, fiddling accounts, fake transactions e.g. I will briefly explain common fraud terms.

- Stealing goods- Stock being taken without paying and permission
- Stealing money- Money being stolen from tills and petty cash safe.
- Money theft- Unlawful access to bank accounts and withdrawing money, or passing on a false GRN and invoice.
- Sweetheart deals- Where a member of staff gives a friend a discount or furthermore doesn't pay for the good.
- Identity theft- When people obtain others information to apply for a credit card
- Card fraud- This is when cards with pins are obtained by thieves or a cards details are cloned and put onto another card. These are done by special machines. The owner of the original card is being charged for products or services without their knowledge at first.
- Internet Fraud- Hacking into websites to obtain customer details. With this method of fraud, sites can also be set up to trick shoppers into giving their card details.
- Embezzlement- Obtaining and using money that rightfully belongs to someone else. To cover their tracks, they may play innocent and report it.

Although no business is safe from fraud, I find it very difficult to see any products being stolen from Hot To Trot. The main concern I would therefore have is fraud in money sense.

Fraud Method	How it could affect business records and transactions
Stealing goods	They will be misled about the quantity of stock they have and how much money they should've made from them.
Stealing money	They will have incorrect statistics about their money in accumulated. This could lead to them not having enough money in the petty cash to pay for the smaller products needed.
Other money theft (Account details in wrong hand)	This would tell the business they are losing money but this will not be recognised immediately. Usually, finances are checked weekly, monthly or annually.
Sweetheart deals	Managers will think that the discounts have been used on staff, yet been used on staffs' friends. This will mean they are losing money if the limit of staff transactions for discounts is passed.
Card Fraud	This can mislead them into how much money they are expected to receive. At this point, they will not realise they have been scammed.
Identity theft	This may get the business in debt if credit card companies complain or take the

	business to court. It is not a shoppers fault for being scammed and it affecting the business.
Internet Fraud	This would alert them into the fact their records are being exposed but from an unknown source, meaning they have poor security. The transactions will be hard to trace.
Embezzlement	This could affect the business by conflicts between customers. The customer will complain about a loss of money, yet a member of staff has been taking it out. There will be no proof that the customer is telling the truth. This will mainly affect customers than the business itself, however will affect the business once the conclusion is that they must pay back the loss.

Preventing Employee Pilferage

To prevent pilferage, an owner -manager must recognize that some employees cannot be trusted and make all employees aware that he or she is taking steps to thwart dishonest personnel. Such steps include setting up a system of loss prevention (devices and procedures), administering the system rigidly, and auditing it often to discourage dishonest employees who try to bypass the system.

Preventing Shoplifting

Methods and Persons of shoplifting	How it is used/applied
Opportunists	Many shop thieves are not regular offenders, but may be influenced by the opportunity which presents itself to them at the time. Retailers should try to ensure that expensive items do not present easy targets. Thieves may steal on a daily or weekly basis, may be regular or longstanding customers and may mix purchases with stolen goods. It is prudent not to take anyone for granted. It will be difficult to prevent thieves stealing many smaller and less expensive items which are on open display - food, clothing, confectionery, cosmetics etc.
Thieves who use children as bait	Some people use children either to carry out thefts or to disguise adults stealing. Babies (both real and dolls) in prams can be used as decoys and to hide goods. Goods may be given to young children to walk out of the store with or they may be placed on the under-tray of the pram.
Mentally ill or disturbed persons	A very small number of people who steal may suffer from a compulsive condition. Other persons who steal may be suffering from other forms of mental ill health and retailers should always be conscious of the possibility that someone they are dealing with falls into this category. Some elderly people may

	be confused or forgetful and it may be appropriate to either offer to help them when they enter your store or see if there are friends or relatives who can accompany the person so as to prevent misunderstandings.
Juveniles	Young people can be influenced by pressure from school or friends to join in stealing. They may also be bullied or coerced into stealing. Groups of young people can present a particular problem and retailers need to try and manage them, perhaps by limiting numbers allowed into the store, insisting on an adult accompanying them or by excluding them at certain times – lunch breaks and after school. Plastic screens in front of confectionery displays can reduce the opportunity to steal.
Staff collusion	All retailers (and other businesses) are at risk of collusive fraud and theft of goods and cash between staff and customers. Sometimes staff will willingly work with friends or relatives or they may be coerced into doing this. Frequent till checks, strict compliance with till procedures and personal or CCTV observation of suspected collusive staff will help to reduce opportunity and set the standard.
Distraction Theft	This is a method where a group of people will enter a store and distract staff in order to steal either bulk items, or expensive goods. In many cases, retailers will be unaware that they have been victims until later. Some younger groups of distraction thieves may create a disturbance and become violent if challenged.

What can be done?

Establish a store policy

Establish a store policy for the prevention of customer theft and ensure that all staff are aware of it. Remember to brief new and part time employees on store policy and procedures

Train staff to be vigilant

Teach your staff to be alert, and to recognise shop thieves. Thieves will often look around the room rather than at the products, or behave in other suspicious ways. Train your staff to spot potential thieves.

Employ security guard(s)

A security guard (or security officer) is usually a privately and formally employed person who is paid to protect property, assets, or people.

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