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Effective working in the finance function

this chapter covers...

This chapter examines the way in which the finance function of a business should be run so that the organisation operates effectively and presents a positive picture to other businesses and customers.

This requires that the finance function of a business should:

- *encourage good working relationships between its staff and with other departments*
- *establish good working relationship with other businesses*
- *communicate well within the business and also externally; this means that any communication should be clearly expressed, complete, accurate and on time*
- *ensure that working practices are efficient within the finance function*
- *ensure that the business remains solvent, ie that it can pay its debts when they need to be paid*
- *comply with operational policies and procedures for the finance function, for example dealing with cash, ordering supplies, making payments*
- *comply with policies and procedures for the whole organisation, for example the use of mobile phones and the requirements of Health & Safety*

WORKING EFFECTIVELY – GOOD BUSINESS RELATIONSHIPS

the meaning of ‘effective’ working

The word ‘effective’, which is used in the name of the Unit – ‘Work Effectively in Finance’ – means:

being successful in achieving what you set out to do

For a finance function in an organisation such as a business to be successful and ‘effective’ it needs to establish good working relationships:

- **internally** – with members of the finance ‘team’ and also with other functions of the business, ie other departments such as Sales, Marketing, Administration
- **externally** – with customers and other external stakeholders

internal business relationships

It is important for any team such as a finance function to achieve its goals by respecting and building positive relations with work colleagues:

- in the **finance function**; this involves
 - complying with the requests of managers promptly
 - complying with the requests of other work colleagues
 - working according to defined work procedures
 - helping out work colleagues when you think help is needed, for example if they are stressed out with too much work or if they are new to the job and need guidance and reassurance
- carrying out requests for information from **other functions** (departments) in the business, for example:
 - complying with the requests of managers from other departments, eg financial spreadsheets needed for a meeting
 - providing regular information to other functions, eg sales figures to the Sales function

If members of the finance function are not prepared to comply with these types of request promptly and positively both the finance function and the whole business can be affected in a negative way. This will have consequences not only for the finance function but also the whole business, its relations with its stakeholders, and particularly with its customers.

external business relationships

It is equally important for the finance function to ensure that it promotes a good working relationship with its customers and other external stakeholders:

- customers like to be treated promptly, with courtesy and provided with information that is accurate
- this will give the business a good reputation which means that the customer is likely to recommend it to other potential customers
- if the customers of a business are happy it means that the staff who deal with the customers are also likely to be happy and motivated
- a happy customer is also a loyal customer and a loyal customer helps to maintain the sales income and ultimately the profit of the business

COMMUNICATION AND EFFECTIVE WORKING

If you are communicating a message to another person or group of people, that message must be **effective** to be successful. It must achieve its aim and be:

- clear and easily understood
- concise – not too long-winded
- unambiguous, ie using straightforward language so that the meaning cannot be misinterpreted
- complete – the whole message must be there
- accurate – there is no point in unintentionally misleading people
- provided at the right time – not too early and not too late
- appropriate to the person or people receiving it
- in the most appropriate format, whether by phone, text, email or letter

On a personal level, if you are organising a meal out with a group of friends, you will need to email, phone or text instructions giving clear details of the place, date and time and asking for confirmation.

You need to provide all this information in good time to the right people and be available to receive replies. You need to make sure the instructions are very clear otherwise the meal could turn out to be a non-event.

This is a very basic comparison, but the same principles apply to any workplace situation.

workplace communication – the people involved

Communication can be very varied. If you think about a working day and compile a list of all the forms of communication you get involved in you would find that you would be recording:

- **internal communications** – with colleagues, line managers and anyone else involved in your reporting lines
- **external communications** – depending on your role in the organisation, this could be with customers, suppliers, the bank, carriers and the local sandwich or pizza delivery company

If you are communicating **within the organisation** you should

- choose the most appropriate method
- be polite – even if you do not feel like it at the time
- act promptly – do not leave things to later, they may never happen

If you are communicating **with outsiders** you should

- choose the most appropriate method of communication
- communicate clearly, accurately and promptly
- present a professional approach
- comply with ‘corporate image’ – this may mean using standard letters and forms, or speaking on the telephone using standard ‘scripts’

The need to develop effective communication skills will be covered in full in Chapter 4 of this book.

AN EFFICIENT ORGANISATION

the need for efficiency

The last chapter explained how the finance function of an organisation should support the other departments by providing information. As we have already seen it is critical that this information is:

- **complete** – all the information needed is provided
- **accurate** – the information must be 100% correct
- **on time** – the information should be provided within the given timescale

If all these three conditions listed above are fulfilled by the staff working in accounting and finance roles, it contributes to the **efficiency** of the organisation – its smooth running and its profitability.

‘Efficiency’ can be described as:

‘achieving the right result with the minimum of wasted time, effort or expense.’

Efficiency is an important objective for any organisation.

achieving efficiency in the workplace

There are various ways in which efficiency in the workplace can be maintained and improved:

- by the **individual employee**:
 - treating other employees and management with respect
 - taking pride in the tasks performed and making sure that the accounting procedures are fully understood
 - being familiar with and updating when necessary the various accounting tasks in written form (a ‘procedures manual’) for the benefit of others who are training on the job (see pages 23-24)
 - pursuing CPD ‘Continuing Professional Development’ - ie training and qualifications for the job (see Chapter 7)
- by the **employer**:
 - treating the employees with respect and encouraging motivation
 - ensuring that accounting procedures are followed properly
 - arranging appropriate training (as part of CPD) so that each employee’s job is done properly and expertly
 - ensuring that there is sufficient staff to cover the required finance tasks
 - making sure the staff do not work very long hours and are paid an acceptable wage

THE NEED FOR SOLVENCY

‘Solvency’ means being able to pay your debts when they are due.

You are ‘solvent’ when you can pay your debts and ‘insolvent’ when you cannot.

For a business organisation – for example a chain of shops, a bank or a football club – the inability to pay debts when they are due means that the business has become **insolvent**. This can result in court action, closure of the

business and the loss of jobs. It also means that suppliers who are owed money are likely to lose most or all of what they are owed.

How does all this relate to the efficiency of the finance function of an organisation such as a business? A business needs to know that it will have enough money in the bank to be able to pay its debts. This means that the finance function will have to provide accurate and complete information to management about:

- how much money it has **at present**
- how much money it will have coming in and going out **in the future**

Specifically it will need to know accurate details of:

money in:

- the balance of money in the bank account
- amounts coming in from customers and when they are due

money out:

- amounts due to suppliers and for other expenses and when they are due

All this will be calculated by the business in a forecast known as a **cash budget**, which you will need to draw up in your later studies. It is important that the information provided by the various sections of the accounting and finance function must be accurate and complete, and provided on time.

the need for working capital and being solvent

The surplus of:

- money in, money due and money that can be quickly realised . . . over
- money due to be paid out

is known as **working capital**.

As long as ‘money in, money due in and money realisable’ is greater than ‘money to be paid out’, working capital is positive and the business **can pay its debts when they are due**, ie it is **solvent**.

Careful management of working capital by the finance function is very important if the business is to remain solvent. There are some basic rules to observe:

- pay money (cash and cheques) into the bank account as soon as possible; do not leave it for a long time in the office before processing it
- negotiate ‘long’ credit periods with your suppliers - ie pay them as late as you can without breaching any agreements, eg after 60 days
- make sure your credit customers pay up on time and try and keep the payment terms as ‘short’ as possible, ie 30 days rather than 90 days

So, if you pay in at the bank at least once a week, offer 30 days terms to your customers and pay your suppliers after 60 days you are making efficient use of your resources and should have enough working capital to keep you trading.

But problems can arise when there is less money coming in than going out. A new business can sometimes run into trouble, for example, if does not manage its working capital efficiently, as the following Case Study shows.

Case Study

JIMMY CASH: WORKING CAPITAL AND SOLVENCY

situation

Jimmy Cash has recently started business importing home alarm systems. He has put £25,000 of his savings into the bank and negotiated with four main suppliers who have asked for payment of their invoices within 30 days.

Jimmy has been phoning around to sell his products to shops and mail order firms. He is pleased with the response, although a number of his customers have asked for payment terms of 60 days, saying that 'You will have to give me 60 days if you want the business'.

Sales for the first three months go well and Jimmy has taken on two new employees to deal with the volume of orders received. Things have been so busy in this period that Jimmy has been unable to get to the bank very often to pay in the cheques that have started to arrive. He has also received calls from two of his suppliers chasing payment of their invoices and threatening cutting off supplies if he does not pay up. He is also aware that some of his customers have not settled their first invoices.

At the end of the three months he gets a call from the bank asking him to call in to discuss his bank account which is now £5,000 overdrawn.

Jimmy asks for your help and advice.

solution

You tell Jimmy that he is in a dangerous situation because he has not managed his working capital properly and may be insolvent, ie he may not be able to settle his debts (to the bank and his suppliers) from the money coming in from his sales to customers.

You advise Jimmy

- to request the bank to allow him to pay off the overdraft over the next six months
- to chase up any customers who are late paying and to bank their cheques
- to try and negotiate a longer payment period from his suppliers

Jimmy has basically ignored the need for careful cash management, and despite running a successful business, is in immediate danger of becoming insolvent.

Note: this important principle of cash management is also covered in Chapter 2 of the Osborne Books tutorial text 'Bookkeeping Controls'.

ORGANISATIONAL POLICIES AND PROCEDURES

The next section of this chapter deals with the **policies and procedures** set down by an organisation for dealing with a variety of areas, including the finance function.

These regulations are often set down in a series of manuals which should be updated regularly and readily available for reference by employees. You need to know that some of the principles set out in these manuals will be established in law, but you will not need to know details of the laws. An extract from a Policies and Procedures document for the finance function is set out on the next page.

We will first describe the **policies and procedures** which affect the accounting processes which are carried out in the finance function.

maintaining accounting records – companies

The law relating to limited companies (Companies Act) requires that companies should keep the following accounting records:

- records of entries made of payments received and made by the company and a description of each entry
- a record of the assets (items owned) and liabilities (items owed)
- records of inventory held

These records include financial documents and books of account such as purchase orders, invoices, credit notes, daybooks, cash book, petty cash book and, importantly, a full set of ledger accounts.

This is a description of a fairly standard system of accounting records. An important objective of any company is that this system should be accurate, complete and up-to-date.

accounting records – other organisations

The principles that apply to the accounting records of companies are also applied to other business organisations.

Accounting records, whether paper-based or on computer, should be:

- complete
- accurate
- up-to-date
- accessible – so that information can be extracted for the owners and managers (a need illustrated in the Case Study on the previous page)

POLICIES AND PROCEDURES STATEMENT (extract)**Books of account and records**

Proper accounting records will be kept. The accounts systems is based around computer facilities, using Sage and Excel, but manual/paper records will also be used if appropriate.

The following records will be kept:

- Appropriate control accounts (bank control, petty cash control, VAT control, salary control)
- Monthly trial balances
- Petty cash and bank accounts will be reconciled at least monthly
- VAT returns produced on the required quarterly cycle

Ordering supplies and services

Budget holders can place orders for goods or services within their budget areas, subject only to cash-flow restraints. All orders of £1,000 or more must be authorised by the budget holder, except for specific areas of expenditure where written procedures have been agreed. Under £1,000, the budget holder may delegate all ordering as appropriate. Budget holders will discuss with the Financial Controller appropriate parameters, plus maximum allowed deviations before the budget holder or senior manager is brought in, which will be documented.

Payment authorisation and Purchases Ledger

All invoices must be authorised for payment by the budget holder, although the actual checking of details may be delegated. The authorising department is responsible for checking invoices for accuracy in terms of figures and conformity with the order placed, that the services or goods have been received, and following up any problems. Finance must be informed if there are queries delaying authorisation or if payment is to be withheld for any reason.

A Purchases Ledger is operated by Finance. All incoming invoices are to be passed to Finance section as soon as they arrive. Invoices will be recorded in the Purchases Ledger within two days, unless there are coding problems. They are then passed on to budget holders for authorisation. Once authorised as above, suppliers will be paid within the appropriate timescale.

Cheque writing and signing

Signatories will only be drawn from senior staff and directors, and any new signatory must be approved by the directors before the bank is notified. All cheques for £1,000 or over require two signatories. Cheque signatories should check that the expenditure has been authorised by the appropriate person before signing the cheque. Salary payments require the signature of the Accounts Manager or Financial Controller, plus one other. Cheques should be filled in completely (with payee, amount in words and figures, and date) before cheques are signed.

Handling of cash

Petty cash will be topped up on the 'imprest' system, where the amount spent is reimbursed. It is intended for small items, up to £20. Anything over this should be paid by cheque where possible. The imprest has a balance limit of £250. The petty cash balance will be reconciled when restoring the imprest balance, or monthly if this is more frequent. All cash collected from Finance will be signed for, and receipts will be issued for all cash returned.

reporting lines and authorisation

As mentioned in the last chapter, **reporting lines** are an important element in an accounting system. Each employee is placed within a certain level of authority and will report to a higher level which will be given the responsibility of **authorising** whatever it is that the more junior employee is required to do. Typical transactions and documents which require authorisation include:

- authorisation of purchases (the signing of purchase orders)
- the making of payments (signing cheques, BACS payment orders)
- paying in at the bank (signing the paying in slip)
- petty cash payments (signing the petty cash voucher)
- payroll processing (checking and signing the payment instructions)

If the organisation is a large one the authorisation process may be more complex. For example:

- authorising payments (including the signing of cheques) up to £1,000 may require one signature, whereas payments of £1,000 or more may require two signatures
- authorisation of payroll payments may require a senior manager's signature

If, however, it is a small business organisation with only five employees, there will be far fewer regulations of this type. It may be that the 'boss' will authorise everything and will delegate this when he or she goes on holiday.

The important point of all this is that employees should:

- know what needs authorising and by whom
- keep to the regulations with no short-cuts being taken

The organisation will then run far more efficiently and smoothly. If there are any problems or errors, the person responsible can be identified and the problem resolved and the errors corrected.

retention of accounting records

Another requirement for the smooth running of an organisation is that its accounting records should be retained in accessible form in case of future queries, or even future legal action against the organisation.

Businesses normally have a retention policy stating that records are kept for six years, plus the current year. The reasons for this are based on law. Tax and company law generally require records to be kept for at least six years.

maintaining payroll records

Payroll records are very sensitive because they involve the rates of pay of all the employees of an organisation. They have to be maintained:

- accurately – because they involve personal pay
- securely – to avoid fraud taking place
- confidentially – because of their sensitive nature

More often than not payroll records are kept on computer. Organisations should regulate access to this electronic data very strictly, normally through the use of passwords issued only to authorised personnel.

It is essential that all payroll records – whether paper-based or computerised – are complete, accurate and up-to-date at all times.

maintaining VAT records

HM Revenue & Customs (HMRC) regulates the UK indirect tax **Value Added Tax** (VAT) which is charged on sales of goods and services and paid regularly by the organisation to the government.

It is very important that the accounting records and financial documents which involve VAT are complete and in order. Any calculations using the VAT rate must use the correct percentage for the appropriate date, as the government has a habit of changing the VAT rate from time to time.

The accounting records and financial documents involved include:

- invoices
- credit notes
- receipts
- petty cash vouchers
- day books
- the cash book and the petty cash book
- the VAT account in the double-entry bookkeeping system

As noted above, it is critical that these records and documents are accurately completed and checked by the accounting staff as a matter of daily routine.

OFFICE MANAGEMENT POLICIES AND PROCEDURES

An efficient organisation will have well-established and documented policies and procedures covering a wide range of issues relating to staff behaviour and office organisation. These are documented in manuals which should be read by all staff in all areas of the business. These include:

- a **code of conduct** – covering issues such as the use of the internet and emails, mobile phones, drug and alcohol policy
- **health and safety** – maintaining a safe and hazard-free working environment
- **confidentiality** – ensuring security of customer data
- **‘green’ policies** – saving the planet through conservation of energy and recycling

Confidentiality is dealt with in detail in the next chapter and **green’ policies** are covered in Chapter 8 which explains ‘Sustainability’ issues.

a code of conduct

A code of conduct will define acceptable and unacceptable staff behaviour. An efficient office will not tolerate behaviour which will disrupt the normal work flow, as in the following two cases:

No employee is to start work, or return to work while under the influence of alcohol or drugs. A breach of this policy is grounds for disciplinary action, up to and including termination of employment.

Using the organisation’s computer resources to seek out, access or send any material of an offensive, obscene or defamatory nature is prohibited and may result in disciplinary action.

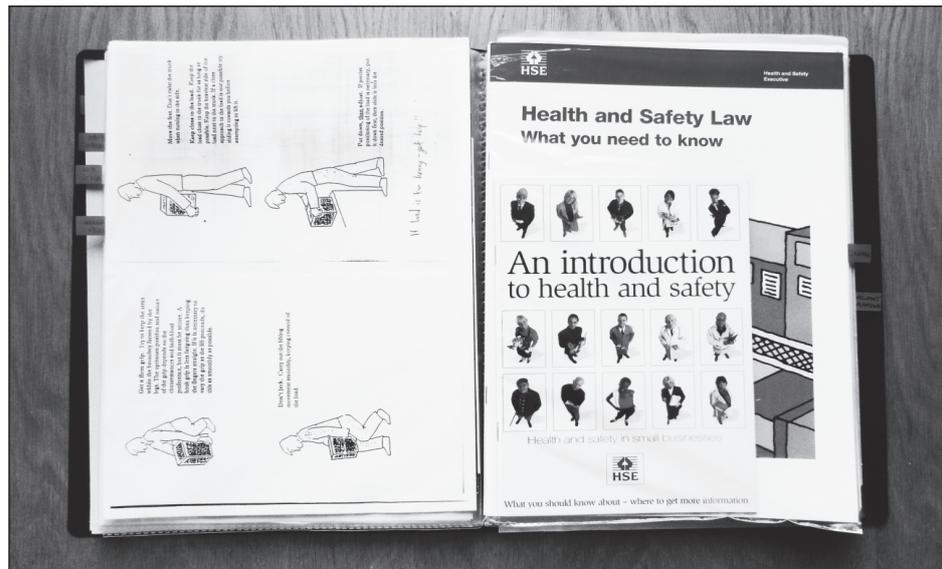
Harsh rules, however, do not always increase efficiency. Some employers allow the personal use of the internet or mobile phones in employees’ free time at work and find that this improves employees’ work rate and efficiency.

health and safety at work

Responsibility for health and safety in the workplace lies both with the **employee** and the **employer**. You should be aware that there are many different laws governing this area, the most well-known of which is the **Health and Safety at Work Act**. You do not need to know these laws but you should be aware of the principles which they establish. Their aims are:

- to ensure that health and safety measures are introduced and observed both by employers and employees
- to specify the rights and responsibilities of employers and employees
- to enable employees to obtain compensation in the case of injury or ill health caused by conditions in the workplace

The law requires that every employer that employs five or more employees must draw up a written **Health and Safety Policy Statement**. This document (see below) often takes the form of a loose-leaf manual which can be updated from time to time. The Statement must be shown to every employee. Employers then obtain each employee's signature on a form saying that they have read it.



The Health and Safety Policy Statement is likely to contain:

- the names of the people responsible for health and safety
- the need for safety when employees operate machinery, handle unsafe substances or lift heavy objects (see left hand page in the picture above)
- the need and procedures for employees to report accidents, serious illnesses or fatalities in the workplace
- the forms needed (including copies) for reporting accidents and hazards

If the finance function is to be efficient and well run it should therefore avoid:

- electrical hazards – trailing leads and cables
- blockages and obstacles to progress – filing drawers left open, waste bins in the way, boxes stacked up in corridors
- fire doors wedged open (ie safety doors that normally swing shut)
- employees taking unnecessary risks – standing on chairs and desks, lifting items that are too heavy or not bending properly when lifting
- using a computer workstation and not taking regular breaks or not using suitable seating

Chapter Summary

- **Effective working** in an organisation means the organisation is successful in what it sets out to do.
- An important aspect of effective working in the finance function of a business means being successful in establishing **good working relationships**. These relationships should not only be with customers and other external stakeholders but also internally within the finance function and with other departments.
- **Efficiency** in an organisation means achieving the right result with the minimum of wasted time, effort or expense. Efficiency is an important objective of effective working.
- **Communication** within an organisation and with outsiders must be effective to be successful. This means it must be clear, concise, accurate and delivered on time. It must also be in the most appropriate format.
- **Solvency** means being able to pay debts when they are due. If there is a shortage of cash there is a risk of insolvency. The finance function must monitor and control the cash position to prevent the cash from running out.
- **Policies and procedures** are internal documents which regulate a wide variety of areas of the business. Each function, eg the finance function, will have its own policies and procedures, eg for the authorisation of purchases, payments, cheques and details of who can sign different types of authorisation.
- The finance function will be subject to **external regulations**, some of them set down in law, which must be complied with, for example payroll, VAT and Health & Safety.

Key Terms

effective working	being successful in what you set out to do
efficiency	achieving the right result with the minimum of wasted time, effort or expense
solvency	being able to repay your debts when they are due
policies and procedures	regulations set down by an organisation for the running of defined areas of activity, eg payroll
health and safety	the aspects of an organisation which involve both employer and employee having regard for a healthy and safe working environment for all concerned

Activities

2.1 The meaning of 'effective working' is as follows. Tick the correct option.

(a) Being successful in achieving what you set out to do	
(b) Completing what you have to do as soon as possible	
(c) Creating the maximum effect in order to improve performance	
(d) Always complying with the requests of colleagues	

2.2 Which **one** of the following is the most accurate definition of efficiency? Tick the correct option.

(a) To complete a job as quickly as possible at all costs	
(b) To complete a job with the minimum of wasted time, effort or expense	
(c) To complete a job exactly as described in the Policies and Procedures	
(d) To complete a job using the cheapest way of doing it	

2.3 Which **two** of the following are qualities of an effective communication? Tick the correct options.

(a) It needs to be made as quickly as possible	
(b) It must be made within an appropriate timescale	
(c) It needs to be made using language appropriate to the situation	
(d) It needs to be made using formal and complex business language	

2.4 A customer sends your business a rude email containing inappropriate words, complaining about poor customer service. What should you do? Tick the most appropriate response.

(a) Ignore the email completely because the customer is so rude	
(b) Reply using similar language	
(c) Reply politely with apologies	
(d) Reply and tell the customer that it is unacceptable to use bad language	

2.5 The policies and procedures for the finance function are likely to include:

(a) Details of the authorisation needed for business purchases	
(b) Details of annual appraisals of finance staff	
(c) Records of customer names and addresses	
(d) Passwords for all the computers in the business	

Which **one** of these is correct? Tick the correct option.

2.6 Which of the following is the most accurate definition of solvency of a business?

(a) Receiving all customer payments on the due date	
(b) Having a lot of money in the bank	
(c) Being able to pay all company debts when they are due	
(d) Delaying paying money into the bank as soon as it is received	

Tick the **one** correct option.

2.7 If a business wants to improve its working capital position it should:

(a) Pay suppliers earlier	
(b) Get customers to pay earlier	
(c) Pay employees' wages earlier	
(d) Pay in at the bank less frequently	

Tick the **one** correct option.

2.8 A Health and Safety Policy Statement is:

(a) Issued each year by the Government to help protect employees at work	
(b) Drawn up by employees to state their rights to personalise their working area	
(c) A list of the accidents and fatalities at work each year	
(d) Drawn up by the employer as a guide to employees of health and safety arrangements	

Tick the **one** correct option.