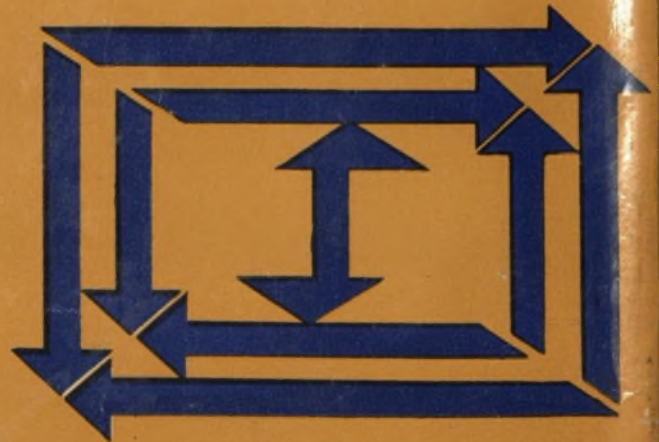


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Business Switch

**AN INTRODUCTION TO
BUSINESS MANAGEMENT
IN RETAILING**



R. ARVIDSSON • S. DANDAPANI

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**International Cooperative
Alliance**

INTERNATIONAL COOPERATIVE ALLIANCE

HEADQUARTERS

11, Upper Grosvenor Street

London W1X 9PA England

MARCH 1972 (1,000) PRICE : Indian Rs. 20.00 US \$ 3.00

PRINTED IN INDIA

**AT THE NEW INDIA PRESS, CONNAUGHT CIRCUS,
NEW DELHI AND PUBLISHED BY THE
ICA REGIONAL OFFICE & EDUCATION CENTRE
FOR SOUTH-EAST ASIA, 43, FRIENDS' COLONY,
NEW DELHI-14.**

Preface

This is a modest attempt to catalogue a few of the important techniques that are necessary for the smooth functioning of a complex business organisation, *viz.*, the retailing unit. Whether the retailing units are managed by private retailers largely motivated by profit consideration or through the agency of the cooperatives with the objective of protecting the consumers from exploitation, these techniques are essential pre-requisites to the successful running of the retail shop.

An earlier publication, "Sale—A Profile : An Introduction to Sales Management in Retailing", has received an enthusiastic response among the public. Encouraged by the readers who form the bulk of administrators, cooperative leaders, executives, field workers, etc., in regard to the usefulness of the publication, an attempt has been made to bring out in this publication some of the important Business Management Techniques pertaining to Retailing within the reach of all concerned. From the point of view of retail

management, the two publications play complementary role.

Efforts were made to incorporate a few models largely drawn from the Asian laboratory to enable the readers understand and appreciate, as a means to implementing the techniques in the field of retailing in general and the consumer cooperatives in particular.

The authors are aware of the limitations, but if this little publication can stimulate all concerned towards the practising of the business techniques with a faith that they are capable of serving the social ends, the labour put in would have achieved its aim.

New Delhi, India,
March 31, 1972

R. ARVIDSSON
S. DANDAPANI

CONTENTS

I	Introduction	1
II	Income and Expenditure in Retailing	5
III	Result-Oriented Price Determination	31
IV	Capital—Source and Use	40
V	Cash Inflow-Outflow—Use and Abuse	53
VI	Cash Control	67
VII	Budgeting	75
VIII	Inventory	100
IX	Break-Even Analysis	141
X	Result Calculation and Evaluation	162
XI	Key Figures	185
XII	Inter-Firm Comparison	192
XIII	Efficiency Audit	195
XIV	Accountability	204
XV	Centralised Accounting	229
	Readings on Consumers Cooperation and its Management	232
	Select Index	260

CHAPTER I

INTRODUCTION

1.01 In a democratic set-up, the Constitution written or unwritten, provides for checks and balances to operate ultimately for the achievement of the objectives. While the fundamental rights with the accompanying freedom of expression encourage a free market economy, State has responsibility towards checking any unrestricted profits or profiteering. The imposition of taxes on such business houses for use of a general social purpose is a case in point.

1.02 The manufacturers—with their capacity to go in for mass production by the engagement of labour and introduction of inputs and innovations—are by their very nature small in number and are, therefore, in a position to organise themselves quite effectively. In the process, they tend to have a rationalised approach and regulate the productive activity with an eye on consumption. Expressions like this: “You do not produce more than the market can absorb” are meant to keep the demand at a higher level than the supply with a view to securing the optimum prices and consequently windfall profits. Weber would call this a rationalised economic ethic in the context of rising capitalism.

1.03 In a situation like this, combined with aggressive advertising and publicity through mass media, it will be difficult to say how free a free market economy is. The mere imposition of taxes may not provide an answer to turn a market into a really free market, particularly from the point of view of the consumers.

1.04 It is in this context that the consumer cooperatives as the protectors of the consumers assume importance. The cooperatives form a sector and whether organised by the members themselves or stimulated by the Government initiative, the cooperatives have a role to play not only in protecting the interests of the consumer members but also as an effective means to exercising a healthy influence in the market to make it a little more free than it otherwise could be.

1.05 In several countries, the monetary value of the retail trade is approximately a little more than a third of the gross national product (GNP). Even in developing countries where traditional occupations with a rural background continue in a big way the share of the retail trade on the GNP is not any less. With gradual modernisation and mechanisation, the chances are that the volume of the retail trade will be ever-increasing. The Governments and the responsible public opinion cannot be indifferent for all time in regard to the retail trade and allowing it to have an unrestricted and unregulated growth resulting in wasteful efforts and avoidable expenditure. It is in this context that rationalisation of the retail trade assumes special significance.

1.06 Yet another problem which most developing countries face is the large-scale unemployment and under-employment. So long as the glut in labour continues, meaningful rationalisation of the retail trade may be difficult to achieve. At the same time, the harmful effect of the unregulated retail trade is colossal. With far numerous retail units in number, with no reliable documentation and compilation of data, with no census of retailing, most countries in the region are groping in the dark in understanding

correctly the consumption pattern nor are they able to project reasonably accurately about the future consumer behaviour. Lack of precision in these issues comes in the way of an adequate planning in regard to cropping/production pattern.

1.06.02 The *laissez faire* approach in regard to cropping/manufacturing has no co-ordinated effort with a view to meeting the consumption or the consumer behaviour. The meagre resources of the country are frittered away for want of a regulated cropping/manufacturing pattern to meet the legitimate aspirations of the people. Unless this is attempted at the national level, it will be difficult to hold the prices purely either as a result of the imposition of taxes or by other monetary/fiscal policies.

1.07 Once the consumer cooperatives obtain a sizeable membership of the families, secure a minimum share of 5 per cent in the retail trade as a whole, the organisation assumes importance. The consumer movement gains strength for undertaking large-scale operations, carrying a price war and forecasting the consumer behaviour so that cropping/manufacturing agencies could be advised to meet the demand. If a single organisation—a network of consumer cooperatives—carries 5 per cent of the retail trade, the remaining 95 per cent of the private retailers will have no option but to get alerted, organise themselves and begin to apply pressures and counter-pressures in the market. If the consumers have gained confidence about the ability and strength of the consumer movement they will strengthen the hands of the cooperatives to stand the market pressures which, in the ultimate analysis, will lead to a freer market than what it is today.

1.03 A member of the consumer cooperative does not join the movement merely because it is a cooperative and a people's organisation, but because he expects services and facilities. His continued loyalty to the movement is directly related to the continued services he obtains from the movement. In this context, the cooperative ideology is useful only to the extent of collecting members and their share

capital; but their connection with the movement remains nominal unless a strong relationship is built through continued offer of goods and services. This can be achieved only by the application of business techniques in retailing. Price line is the life-line and cooperatives are capable of being one of the means to hold it provided retailing techniques and social techniques are applied effectively in a big way each playing a complimentary role for the greatest good of the largest in the community.

1.09 The managers and other executives charged with the responsibility for day-to-day management of the consumer cooperatives in the developing countries in general and in the South-East Asian Region in particular do not have the knowledge essential for the application of the business techniques so necessary for ensuring successful performance. Unless the "man" is given the necessary tools and adequately motivated towards the end in view, it will not be possible to create the needed awareness—much less to achieve the objectives. A man-centred approach for implementing the business techniques is the *sine qua non* to achieve maximum benefit out of the few techniques catalogued here.

CHAPTER II

INCOME & EXPENDITURE IN RETAILING

2.01 As in any business activity, the variation between income and expenditure contributes to profit or loss in retailing affecting vitally the growth. Unless care is exercised in bringing these two elements under control, the retail unit will find itself in a difficult situation ultimately leading to its total extinction.

2.02 The failure of a retail business is not as sudden as is often made out to be—unless it faces a natural calamity say fire—for which insurance comes to help. Deterioration in business efficiency sets in at several stages in a very imperceptible manner and multiply themselves inwardly causing a cancerous growth to eat away the financial structure of the concern.

2.03 A basic pre-requisite to undertaking a business activity such as retailing is an awareness based on knowledge and know-how of the weak and strong points pertaining to retailing; their potential strength in making or marring the business structure.

2.04 Income and expenditure in retailing contribute to the

basic raw material on which would depend the quality of construction of a business house. This aspect is discussed briefly as a condition precedent to the understanding of business switch.

2.04.01 Income and expenditure are not just events that take place in a mechanical manner in a retail business.

2.05 They are not only forecast and planned well in advance, but they have also the inherent capacity to influence each other by their own inter-actional and inter-stimulational process. As much as the income has the potentiality to influence the expenditure, the expenditure in its turn influences the income. Unless they are applied in appropriate "matching" doses, they will affect the productivity and profitability adversely. Some of the basic qualities of the income/expenditure behaviour in the totality of the functioning of a retail outlet are discussed briefly in this chapter.

2.06 In a retail unit income is derived from the following:

- (a) sale of goods,
- (b) sale of empties,
- (c) sale of space for purposes of advertisement.

2.06.02 In all the cases, income out of the sale of goods is the biggest. Increase in sale is the most effective way to increase the income¹ and the needed selling techniques should be applied to achieve this.

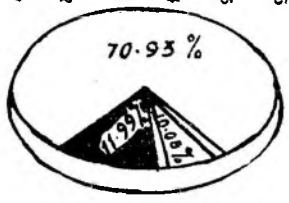
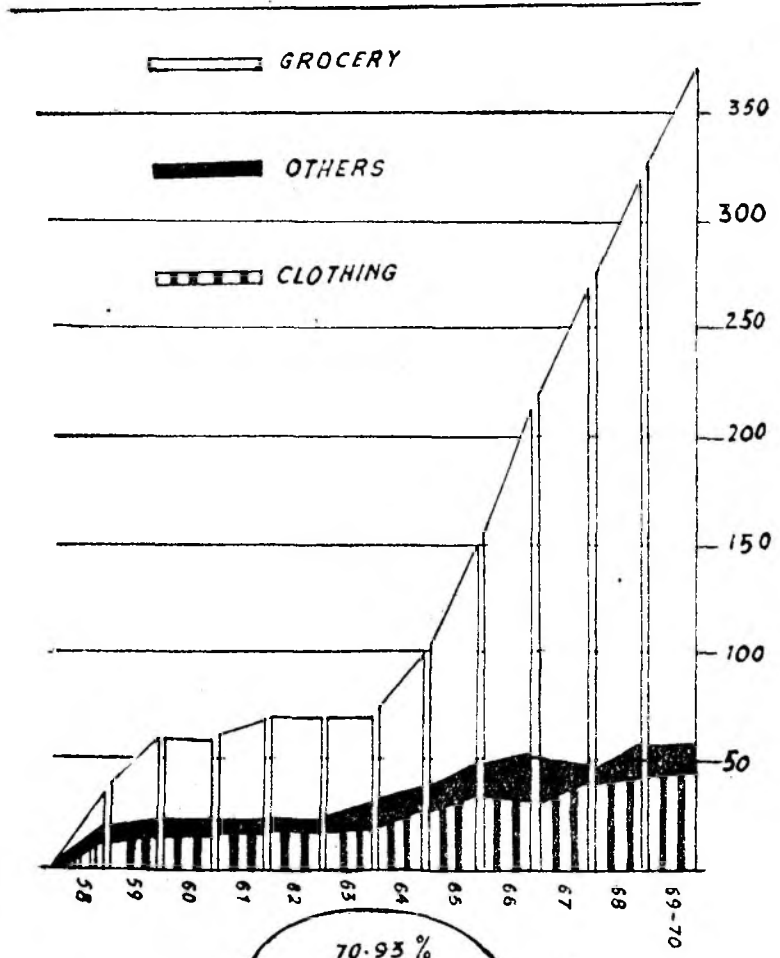
2.06.03 As the income/sale is derived as a mixture of sale of different goods carrying different levels of profitability, an income/sale analysis should be undertaken at least once a month to understand the sale mixture and profitability.² Since 20% of the items give 80% of the sale, special attention in ensuring a correct mixture in correct quantities will play an important role in determining the profitability.

1. This has been dealt with in greater detail in "Sale—A Profile: An Introduction to Sales Management in Retailing" by R. Arvidsson and S. Dandapani, ICA, 1972.

2. See Chapter IX, X and XI.

A SOCIETY IN IRAN

MILLION RIALS
400



TOTAL SALES.

Such an analysis is also necessary from the point of view of purchasing—which is a subject in itself.

2.06.04 With the fluctuation in the sales depending upon seasonal sales, sale mixtures get changed in turn affecting the income structure. Further, even in cases where the sale volume remains, the income structure may undergo a change in view of the changes in sale mixture which should be watched carefully to ensure profitability. Sales forecasts have an important role to play in this in as much as they anticipate sale mixture in a particular pattern and any deviation could be checked up. In all these cases where the sale mixtures get altered and as a result income structure follows, it will be necessary to adapt the cost structure to keep pace with the changes failing which the shop may lose heavily. The easiest method to cut down costs is to increase sales. This fact is not much stressed upon nor adequately realised in most societies of the developing countries.

2.07 *Cost Analysis*

2.07.01 The society's Manager and Board decide upon the size of shop premises, the number of employees, the investment and its pattern. In the decision making process, to a great extent the employees are involved and do contribute towards lower costs. The size of the turnover is in most cases the deciding factor as to whether the costs will be small or large. The size of the turnover often depends on how the employees work and behave. An examination of the various costs from the view-point of "how the employees influence the size of the costs" is worthwhile.

2.07.02 Costs can be divided into two main groups:

- (a) *Variable Costs*, which vary in quantum as well as in percentage in proportion to the sales and the society's activities. These costs are, among others, stock costs, wage costs (of direct staff) and purchasing costs (the wholesale price paid for the goods),
- (b) *Fixed Costs* such as : rent costs, fitting costs, certain running costs including the cost of supervising staff

etc. These costs can be fixed in money value as well as in percentage based on turnover.

Costs to be Known in Money Value and Percent

2.07.03 The size of a cost should be known both in money value and in percentage of the sales figure. When the cost is stated in value one knows *the actual size*. If one wishes to make comparisons with other costs or previous results, it is necessary to consider the size of the cost in proportion to the sales figure. This relative figure is obtained most easily by calculating the size of the cost *in percent* of the sale figure. Here is an example of how this calculation is done. Let us suppose that a customer purchases goods worth 50 (sales figure). If 10 units of money are needed to meet the costs this would work to 20% of the sales value, as we will see :

$$\frac{100 \times 10}{50} = 20$$

Cost of Goods

2.08 This item of costs includes the cost of goods. The cost of goods includes purchase of goods together with packing, insurance and carriage (transport including handling) to the selling unit. These costs are the highest costs for the society and therefore are dealt with separately.

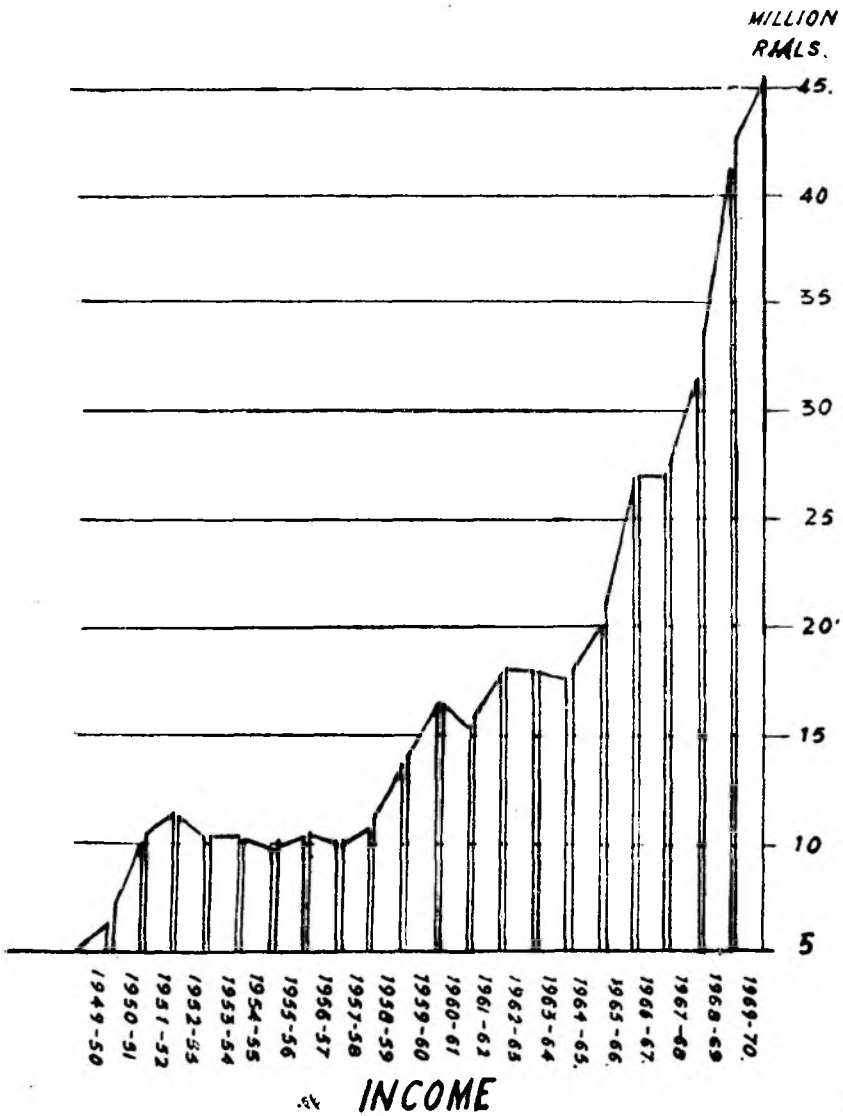
Rent Costs

2.09 Rent costs should be correctly assessed. If the building is owned, the rent costs should be determined by taking the depreciation interest on capital and the cost of maintenance. The percentage figures should be worked out in relation to sale turnover month to month and also year to year for purposes of comparisons.

2.09.02 It may be difficult to cut down the rent costs but its percentage composition in the turnover could be suitably regulated.

2.09.03 If sale is 100,000 per month and the rent costs

A SOCIETY IN IRAN



are 2,000, the percentage cost of rent is 2. If the sales are increased to 150,000 the rent cost decreases to 1.1/3%.

2.09.04 As the rent costs always form the "fixed costs" the best way to reduce it is through a higher turnover, as in the example cited above.

2.10 *Fitting Costs*

2.10.01 In the sales premises there must be such things as shelves, stands, scales and cash registers. These aids in selling are called fittings and the costs for such are known as *fitting costs*.

2.10.02 Fitting costs comprise of interest on the capital for the purchase of fittings and depreciation. Depreciation is the reduction of value which arises due to wear and tear on fittings, or their becoming obsolete.

2.10.03 In order that work shall be effective and functional efficiency is maintained one must have aids. This affects the work capacity indirectly because it is stimulating to work when the means of assistance function as they should. Generally, shops should be equipped with good fittings. How they function depends largely upon how the employees use them.

2.10.04 Even if fittings are properly used, they soon become out of date and must be replaced. Every year a certain sum of money is set aside for fittings, under depreciation. One usually reckons on a depreciation period of five years. In most countries depreciation of equipments is allowed by law for purposes of income-tax. In a growing economy, retailing techniques are fast improving so as to be in keeping with this trend, the shop should aim at replacing the fittings once in five years for which adequate provisions should be made by way of depreciation.¹

2.10.05 The equipment is usually depreciated fully within

1. Even if the equipment lasts more than five years, depreciation calculated at 20% would help build "hidden reserve" and would contribute to the financial strength of the Society. (see para 2.25.03).

five years. Equipments which only can be in use for one or two years, are allowed to be depreciated to value of zero by the society even in the first year of the use. In case of such equipment where the value has been recovered through depreciation they need not be listed among the assets in the balance sheet.

2.10.06 As the cost for depreciation is nearly constant, its *percentage share* of the turnover is dependent upon the size of sales. That is, one can by increased sales influence the fitting costs, as already explained for rent costs.

Stock Costs

2.11 If one has deposited money in a bank, one receives interest on it. If one wishes to borrow money one must pay interest instead. In order to buy goods for the activity, one must either borrow money and pay interest on that, or use own money on which one then does not receive interest. One must, therefore, calculate stock interest on the money used for purchase of goods. This interest is called "stock costs".

2.11.02 One sometimes uses the expression "dead capital". This means that the capital accumulates no interest or other form of dividend, but is as large when one withdraws it as when one invested it. No-one is interested in using money in this way without a good reason, as one must pay interest on borrowed money or can invest one's own money so that interest is accumulated. On such "dead capital" one always calculates interest and considers this as a *cost*.

2.11.03 It is desirable to get back the capital used by the society to buy goods as soon as possible. As long as the goods are in the shop but are unsold, this capital is "dead". The employees decide to a great extent how much money is bound in the stock. How the goods are placed in the shop or store-room and which sales promotion measures are taken by the staff are examples of factors which decide the *size of the stock* and thus the *size of the stock costs*.

2.11.04 To have too large a stock causes large costs. There is more work with the goods—higher wage costs, large

store room—higher rent costs—higher leakage etc.

2.12. *Rate of Turnover of Stock (Speed of Stock)*

2.12.01 Rate of turnover of stock is a term which often arises in connection with stock costs. The rate of turnover of stock is a measure of how the stock is suited to the sales.

2.12.02 In the Stock Control Report the society can see every month how large the stock is in the shop. By dividing the year's sales by the average value of the stock one can find the rate of turnover of stock.

$$\frac{\text{Year's sale turnover}}{\text{Average value of stocks}} = \text{rate of turnover of stock}$$

2.12.03 The rate of turnover will vary in size dependent upon the types of goods sold, for example, turnover of food-stuffs is greater than of household equipment.

2.12.04 The "Speed of Stock" is one way to compare the use of stock with other periods, shops and societies. Average "Speed of Stock" in India: food 30 times; non-food 12 times.

2.13 *Wage Costs*

2.13.02 In order that the shop can function and sales take place, there must be staff. The employees receive wages which are accounted for under the heading *wage costs*.

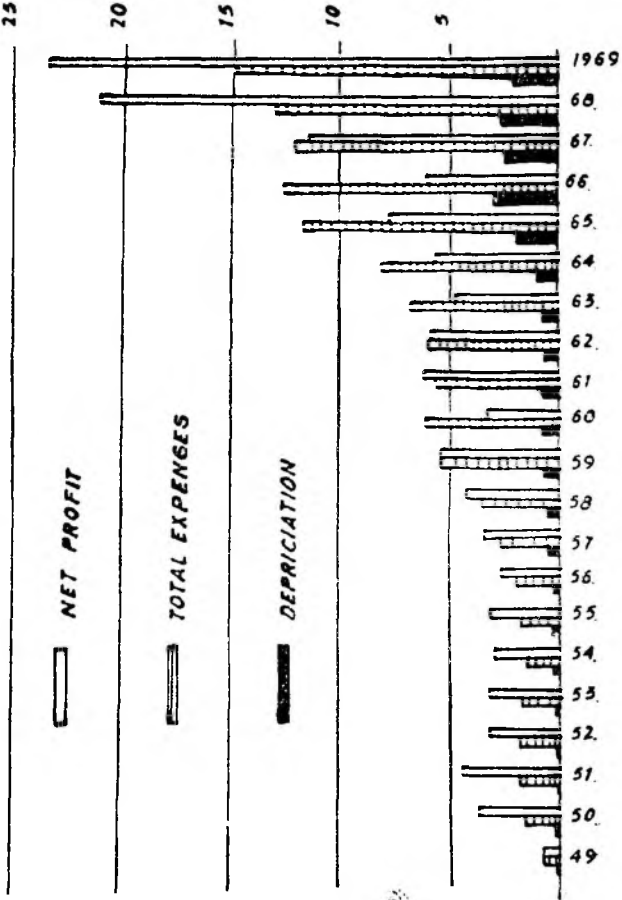
2.13.03 Wages are the largest fixed costs item for the supply of goods through the retail trade. The reason for this is that supplying goods demands a lot of manual labour. The self-service system has to a great extent reduced the staff requirements, but shop work is still not mechanized nor even streamlined compared with, for example, an industry.

2.13.04 Because wage costs are high, special interest must be devoted to them. In order to limit their size one can take several measures. One of these is to plan the staff requirement in relation to the turnover.

2.13.05 The size of wage costs is decided partly by the number of employees, their qualifications, service and expe-

A SOCIETY IN IRAN

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rience. If the employees are well-trained or are otherwise well-qualified, the number of employees can be restricted. Good shop assistants and good collaboration among them ensures a high degree of effectivity and efficiency resulting in low wage costs.¹

Sale Per Employee

2.13.05 The influence of the wage costs on the price of goods is dependent upon the size of the turnover. The more the shop sells with the same number of employees, the lower are the total wage costs. One should, therefore, endeavour to obtain as high a turnover per employee as possible. This also affects the wages of the employees in societies where incentive pay is applied, which gives wages according to performance. Better performance—higher incentive pay. The aim should be *a low cost and a high wage approach*.

2.13.06 In order to measure the performance of the employees, one calculates the sales per employee and day. One starts with the activity during one month and divide the turnover by the number of working days in the month and by the number of employees. The product is the average sale per employee.

$$\frac{\text{Monthly sale turnover}}{\text{No. of M in days}} = \text{Sale per employee per day.}$$

$$\frac{\text{Monthly Sale Turnover}}{\text{Working days in a month} \times \text{Number of employees}} = \text{Sales per employee/day}$$

2.13.07 One can compare the sales per employee per day with previous results in one's own shop, and with results from other shops. If these comparisons are unfavourable, this is a sign to investigate the efficiency of the staff.²

2.13.08 In comparing sales per employee with results of other shops, many factors must be taken into account, *e.g.*,

1. The reader is advised to refer to "A Study of Personnel Management in Selected Coop. Super Markets in India" by R. Arvidsson & K. K. Taimni, ICA, 1971.

2. For a more detailed analysis see Chapter XIII—Inter-Firm Comparisons.

assortment, type of shop and size of turnover. Where goods which demand more showing and care than others are sold, the sales per employee are lower. If self-service system is used in a shop, the performance there must be striking in comparison with so-called manual service. One obtains a higher sales per employee, when the turnover in the shop is large.

2.13.09 Many duties, *e.g.* cleaning, window dressing and advertising are the same, independent of the size of the turnover.

Budgeting

2.14 In order to get as high a sale per employee as possible and therefore low wage costs, one tries to calculate in advance the size of the turnover and staff requirement. The budget is based on previous experience, and decisions are made after careful calculations to changes estimated to occur within a given period. An endeavour is made to establish what is likely to happen. Sales and personnel budgets are of invaluable help. One knows in advance which days in the month and which period of the day sales are highest, and the number of employees can be adjusted to the sales load. To have flexible adjustment of the staff requirement in relation to the turnover part-time staff is used more and more at peak sales hours.

*Work Organisation*¹

2.15 The way in which the work in the shop is planned and organised is also a decisive factor in the size of the wage costs. There are many tasks, *e.g.*, ordering, delivery checking, pricing, filling of shelves, care of goods and cleaning, account etc. In order that the tasks shall be properly carried out, knowledge of the work, and a careful work organisation are required. Work organisation gives a just division of the tasks. Each employee knows which tasks he or she is responsible for and when they shall be done.²

1. See Chapter XVII—Accountability

2. The reader is advised to refer to "Sale—A Profile: An Introduction to Sales Management in Retailing" by R. Arvidsson, S. Dandapani, ICA, 1972.

2.16. *Other Running Expenses*

2.16.01 In connection with work in the shop costs arise for electricity, telephone, etc. A joint name for these costs is *other running expenses*.

2.16.02 Under the heading "other running costs" one accounts for costs which occur in connection with the daily work in the shop, e.g., telephone expenses, electricity and protective clothing. Taken separately, these costs are not large, but together they do have an influence on total costs.

2.16.03 The alpha and omega of all shop work is working systematically. By having a routine for the various tasks, one learns to carry them out more rapidly and with better results. At the same time running costs are also affected. Let's take a few examples.

2.16.04 The telephone is an excellent aid, which we would find difficult to be without. However, it can be misused, if one has not learnt to use it properly.

2.16.05 If, for example, one has not thought out the ordering of goods thoroughly, when the order is given, it can easily happen that delays occur in connection with the order, or that one must telephone for additional items.

2.16.06 By using sufficient lighting when necessary, sales are stimulated, but at the same time one can contribute to lower electricity bills by turning out the light in rooms where no activity is going on, e.g. in the godown etc. *The best way of counteracting running costs is to work systematically and to use one's judgement.*

2.17 *Leakage Costs*

2.17.01 Leakage costs differ from other costs because one receives nothing for the money consumed in the form of leakage. It just disappears.

2.17.02 Leakage costs do, however, vary quite considerably within the same type of shop, where actually there should not be any large differences. One can best understand the reasons for leakage by following the goods in one's mind

from their arrival at the shop to the time they are sold, and by trying to analyse the reasons why there is sometimes "leakage" on the way.¹

2.17.03 The importance of leakage costs as regards the price of goods can be illustrated with an example. If the turnover in a shop is 1 million per annum and the leakage is 1 % of the turnover, these seemingly unnecessary costs will amount to 10,000.² If the leakage cost is brought down to 1/2 %, leakage costs diminish by 5,000.

2.18 *Joint Costs in Societies Operating Several Shops*

2.18.01 Joint costs consist mainly of office costs, wages to office workers in the society's administration and income tax for the society. One cannot, as an employee in a shop influence these costs. On the other hand one can contribute to a good usage of advertising costs, which are part of the joint costs. How the advertising costs are justified by the turnover depends partly on how the staff use the advertising material available. Even the costs for staff training can be influenced through employees who show and transform to their jobs what they have learnt at the Cooperative College and through staff management.

2.19 *The Importance of Low Costs*

2.19.01 A consumer cooperative society carries on an economic activity, where the aim is to promote the economic interests of the members. These economic interests are expressed in the members' wish to buy high quality goods at the lowest possible price. If this aim is to be realized, the cost of goods supplied to the society must be as low as possible. It is by low costs and high turnover the society shows its efficiency and achieves its objectives.

1. See Chapter VIII—Inventory.

2. If this amount is utilised in business, it may expand the volume by 15 times viz. 1,50,000 resulting in an additional contribution of 7,500 as against the loss through leakages of 10,000, the store gains 7,500 more resulting in a net gain of 17,500.

2.19.02 It is necessary for interested employees and the management to strive after maximum efficiency in their work. High efficiency means low costs, which in turn, means low prices and therefore success for the cooperative society and its employees.¹

2.20 *Profitability—Income and Expenses*

2.20.01 The problem of profitability has two sides. It is the society's business to sell goods and services, which gives rise to income. That is one aspect. The other one is concerned with expenses.

2.20.02 The society must first acquire resources in order to supply goods and services. It is partly a question of large real estate investments (shops stores) and partly a matter of current expenses to pay for day-to-day operations.

2.20.03 Profitability must be planned. This involves long-term planning, followed by detailed planning covering shorter periods. We shall return to this under the heading "Budgeting".

2.20.04 Accounting provides us with the possibility of following profitability and its development.

Income:

Income is received for goods delivered and services carried out.

Expenses:

Expenses are incurred in the acquiring of production resources and goods.

2.21 *The Time Factor: Payment — Provision of Goods/ Services*

2.21.02 Having defined the terms income and expenses,

1. See Study of Personnel Management in Selected Cooperative Supermarkets in India by R. Arvidsson and K. K. Taimni, ICA, 1971.

it is desirable to go on to the concepts in and outgoing payments and receipt and costs.

2.21.03 Both incoming and outgoing payments reflect the actual time of payment. Receipts and costs describe the economic consequences of goods and services, supplied and delivered, in the course of a given period.

2.21.04 Where costs are concerned, one speaks of the time of utilisation.

*Receipts:*¹

Income, within a certain period, in respect of goods/services *supplied/undertaken*, the value of which is *included in the results* for the period, is termed *receipts* (=income traceable to the period).

Costs:

The value of production resources, *utilised* in the course of a given period, and which should influence the results for the period, are termed the period's *costs*. The value of production resources, which have still not been utilised by the end of the period, does not represent a cost for this period, but rather an asset to be used in the future and hence to be entered on the balance-sheet as an asset. This value is eventually treated as a cost, but only in the next or subsequent periods.

2.22 *Why Does one Use Different Terms To Distinguish Different Point in Time?*

2.22.01 What happens if one uses a shorter period of operations?

At the beginning investment (long-term) is made in :

- a. premises
- b. equipment
- c. vehicles.

1. In accounting practices receipts/payments may correspond to the entries in the books (cash book, journal etc.), whereas income/expenditure corresponds to the actual amount earned/spent, taking into consideration the stocks on one side and payments to be made/realised etc. on the other.

2.22.02 In the course of the operation, investment is made in:

- a. buying/purchasing (large quantities)
- b. rent per quarter/year
- c. miscellaneous expenses for longer periods

2.23 *Outgoing Payments*

2.23.01 For all these items cannot be entered as a cost (appearing in results) immediately after such payments are made, since this would not give a true picture of the operation's results. Large expenses would give rise to large deficiencies, which would later produce large surpluses (after some years).

2.23.02 It would be impossible to assess the results achieved in such circumstances.

2.23.03 So, the concept of *periodicity* is introduced.

2.24 *Periodicity*

2.24.02 *Periodicity for Expenses: Expenses* incurred in respect of a resource used in production (goods, equipment, wages) are divided as a cost over the periods in which the resource helps to produce income.

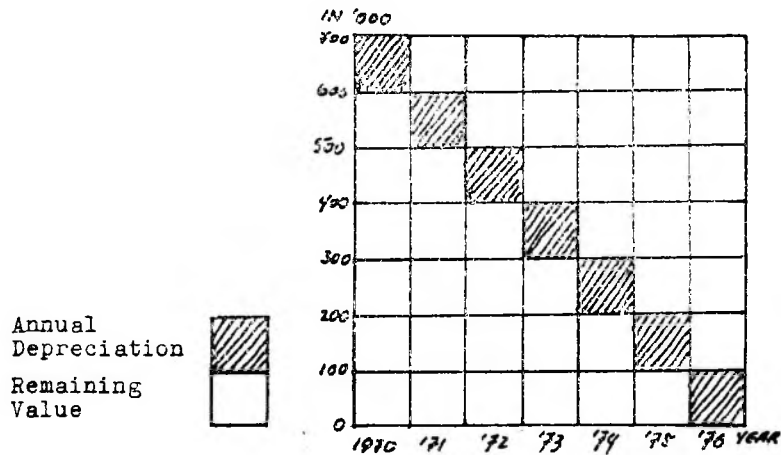
2.24.03 *Periodicity for Income: Income* in respect of sales (production) achieved within a certain period, the value of which is to be included in the results for the period, is termed *income* (=income traceable to the period, without regard to when incoming payments were received).

2.25 *Depreciation*

2.25.01 Investment in, for example, store equipment means that services are stored, which have to be paid for in advance.

2.25.02 If the equipment was rented, outgoing payments would be more closely connected with the time of utilisation.

2.25.03 The purchase of equipment for 700,000 cannot, therefore, be regarded as a cost for the year in question, but should be spread out over a longer period.



Linear Depreciation with a calculated usage time of 7 years.¹

2.25.04 The store's customers pay for wear and tear of the equipment (in the form of the price of goods) with a given annual sum. In the result calculation², depreciation is treated as a cost. (Depreciation can also be calculated degressively or progressively).

Periodicity for Expenses

Expenses for a resource used in production are divided up as a cost depreciation over the periods in which the resource helps to produce income.

The Results

2.25.04 The result of activity is calculated in terms of periods. It would be impossible to carry out the result calculation without deciding on a given length for the period, unless it was intended to produce a result calculation covering the

1. Depreciation is calculated on the basis of the well-known principle of Time and Use. However, higher rates of depreciation are often provided to build hidden reserve. (see para 2.10.05).

2. See Chapter X.

entire "life" of the society, right from the start up to its liquidation. When defining the terms receipts and costs, it is emphasised that the calculation covers a certain period—the current result period.

Splitting up Accounting Operations

2.25.06 The following illustration covers the principles, which may be applied

Gathering information	Study and Analysis of Information	Action
Office Responsibility	Management Responsibility (e.g. dept. manager) N.B. All managers affected at different levels study and analyse the same material.	Management Responsibility (manager of the unit in question) (Often after discussion with a superior viz. Board of Management.

2.25.07 Taking action demands knowledge of the economic situation so that the effect of changes in one factor on other factors can be estimated.

RESULTS

Economic	It is necessary to be aware in advance of what a given action is going to lead to in the way of changed results.
Non-Economic	In addition there are always other, non-economic factors to be taken into consideration when deciding on what action to take (e.g. psychological factors).

2.25.08 The first step, let us assume a general knowledge of economics, is to learn the techniques used in our accounting, or perhaps more correctly, accounting methodology.

2.25.09 The *Contributory Method*¹ is to be used in budgeting and result calculations. Instead of the other method mostly used which one can call the complete *allocation method*.²

1. *Contributory method* is explained in Chapter III & IX each item/commodity group contributing to joint costs/overheads.

2. *Allocation method* is an allocation of percentage to each item/commodity group for mark up based on experience to meet all the costs—Joint costs including overheads.

2.26 *Cost Classification and Cost Centre Allocation*

Break-down of Costs

Cost Classification—What Type of Costs the Organisation Have ?

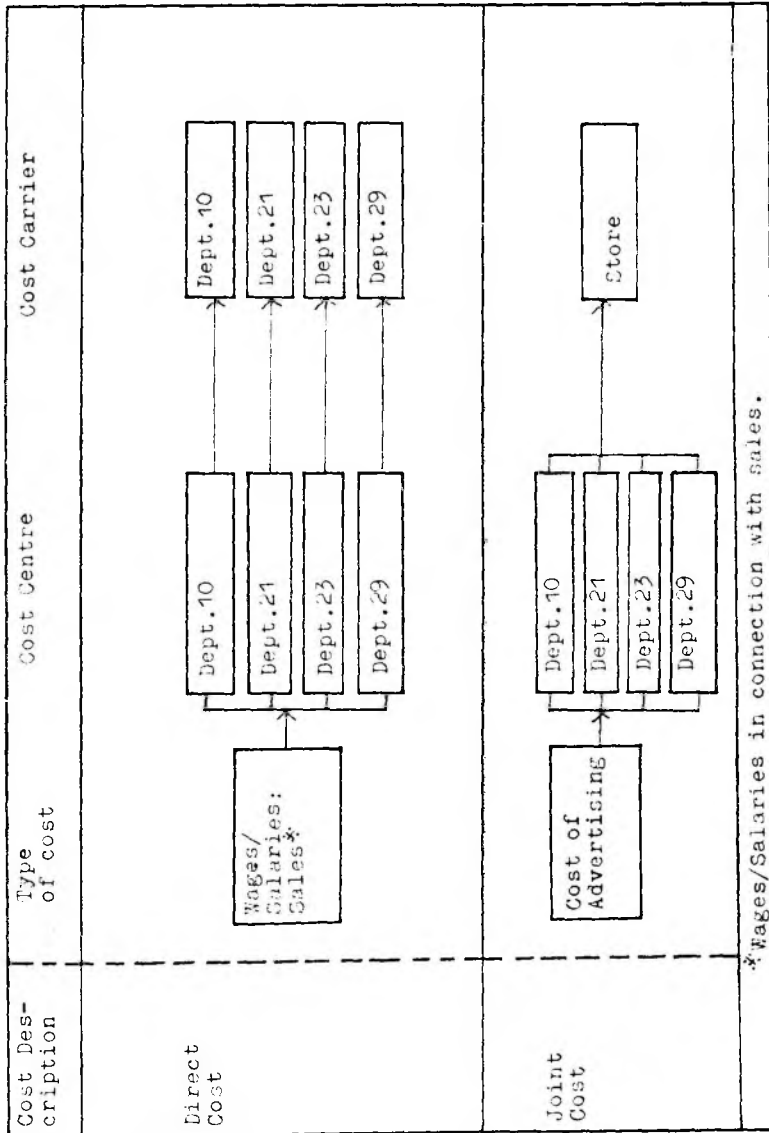
2.26.02 When resources are acquired, expenses occur for example — for goods, wages and transport. The organisation's total expenses for the procurement of resources and costs for their utilisation can be sorted according to description at the time of acquisition. Information about total wages, total transport costs, etc., is used. This means that the break-down by cost-type follows the commercial description (appearing on the procurement voucher).

2.26.03. This break-down is useful in many ways. For example, it is possible to compare last month's wage costs with the corresponding month a year earlier.¹ Increases can lead to action—for instance an attempt to influence the personnel structure so that wage cost will not be so large in the future.

2.27 The Cost Centre—What does the Department Cost?

2.27.01 Finally, it is also necessary to know how large the costs are in each department. If total costs have increased it is necessary to ascertain within which departments utilisation of resources has occurred, so that the increase can be localised. Otherwise, it is impossible to state where in the organisation counter-action against cost increases is needed. Every department manager must be aware of his department's costs and be able to compare them with the previous month, or the previous year or what they were previously estimated to be (in the budget). An organisation's costs must, therefore, be broken-down by department, or — to use the customary term — by cost centre meaning thereby the centre where the cost occurs.

1. These comparisons—Temporal and Inter-firm—are important managerial tools and are dealt with in Chapter XII.



Example of Two Costs with Different Cost Carriers

Cost Carrier—What do the Goods Cost?

2.27.02 It is not enough to divide up costs by departments. There must be an allowance for covering costs in the prices charged for the goods one sell. In production the product is regarded as the cost carrier. There is no reason to regard the distributive trade as being any different, but one is unable to divide the costs so exactly from an accounting point of view, due to the large product range. So one has to use the departments as cost-carriers in our accounts.

2.27.03 We return to the price of goods and cost coverage under the heading "Calculation."

Cost Classification

Costs are sorted according to their *commercial description* at the time of acquisition of resources—e.g. wages, interest and rents.

Cost Centre

The department or a section within the society for which costs are incurred.

Cost Carrier

The object of cost calculation; generally speaking the *products* the organisation sells.

2.27.04 In accordance with what has been said previously, costs are allocated to various parts of the organisation (departments, stores, shops). It is not possible to undertake this allocation for all the types of costs listed above, when it is a question of allocating to the departments in a store.

2.27.05 To be more precise, allocation is possible, but it is difficult to judge a correct allocation.

2.27.06 How can (a) rent and (b) advertising costs be divided between the various departments in a store?

2.28 *Contributory Method*

2.28.01 *Since it is impossible to allocate costs on a correct*

basis for all cost carriers, the use of partial cost allocation is justified. Partial cost allocation means that the *contributory method* is used and that cost centres contribute to the coverage of joint costs.

2.28.02 *Contributory Method is Considered to Offer the Following Advantages:* ,

- a. simplified accounting techniques
- b. easy to understand
- c. a more correct assessment of achievements
- d. easy to assess what action needs to be taken through the use of key/critical values.

2.28.03 *Are There Any Disadvantages?*

—departmental managers are not given the same insight into all kinds of costs as compared with earlier methods.

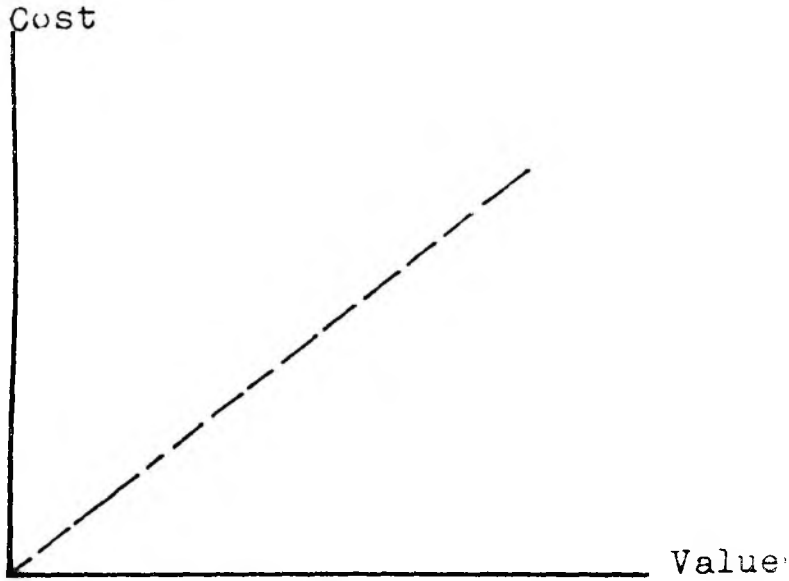
2.28.04 If joint costs are planned in advance (covering contribution requirements) by building the joint costs and their coverage into the result budget, it is *possible to retain control over the complete coverage of costs in the long term*, even though partial cost allocation is being employed.

Direct Cost

2.28.05 The direct cost for a given operation is a cost which occurs or ceases with the commencement/cessation of the operation. Direct costs for each cost centre (department) can be determined exactly.

Variable Direct Costs

2.28.06 A variable direct cost disappears immediately operations cease. It varies in direct proportion with the volume of activity of that item or group of items.



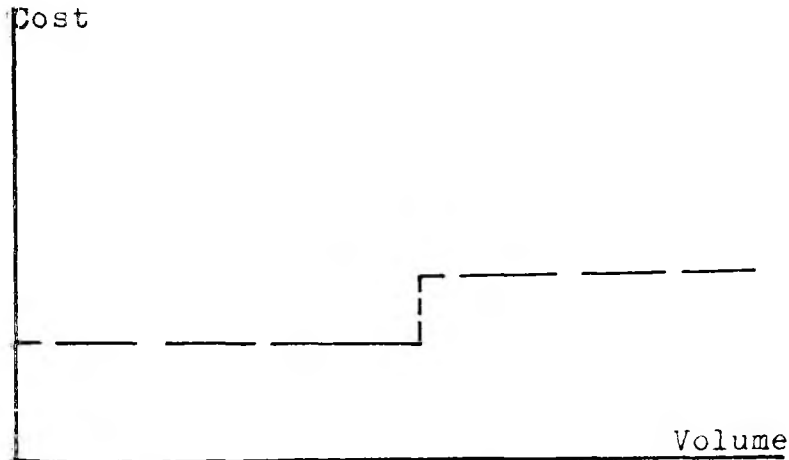
Variable direct costs are directly proportionate with sales.

Direct Fixed costs

2.28.07 Direct fixed costs are carried by the department (activity), but are not immediately affected by variation in the level of activity.

2.28.08 Direct fixed costs are also called *capacity costs*. The size of such costs determines the unit's capacity.

2.28.09 Fixed costs appear normally in the form of *step-like* or *"jumping" fixed costs*, but they can also be absolutely fixed.



Fixed costs normally change intermittently (in jumps)
in their relation to sales volume

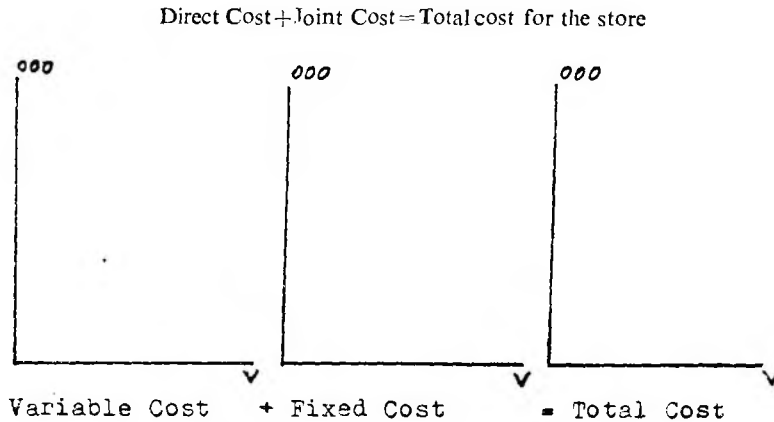
2.28.10

Joint Costs

Joint costs are the opposite of direct costs, i.e. joint costs cannot be traced to any given part of the operation (dept), but must be regarded as attributable to the organisation as a whole. (Compare with the argument in the complete allocation method, where a standardised, theoretical allocation of costs is used).

2.28.11 Thus joint costs do not affect variations in activity within a department.

2.28.12 VARIABLE DIRECT COST + DIRECT FIXED COST = TOTAL COST FOR DEPARTMENT.



2.29 Costs and income analysis should be undertaken regularly to understand the manner they influence each other affecting ultimately the profitability of the store. In developing countries, in general, these analysis are not undertaken with the result even the necessary awareness has not come about much less to correct trends.

CHAPTER III

RESULT-ORIENTED PRICE DETERMINATION

3.01 Price fixation is an important technique and when applied correctly and carefully, helps in stimulating sales (productivity) and profitability within a predictable range. This is necessary not only for the success of the store, but also for ensuring customer satisfaction.

3.02 Some of the essential factors governing the pricing policy are:

- (a) The selling rates should be acceptable to the consumer;
- (b) All costs should be covered adequately; and
- (c) The store should earn profits for distribution of dividend to members and for ploughing back in the business to ensure proper growth.

3.03 The elements involved in determining the retail price of a given commodity are:

- (a) The cost price
- (b) The risks involved in handling the article
- (c) The competition
- (d) The sales system (counter-service, self-service, home delivery, etc.)
- (e) The rate of stocks/sales turnover

- (f) The nature of articles (staple, supplementary, etc.)
- (g) The quality of goods
- (h) The location of the store
- (i) The quantum of surplus to be earned
- (j) The quality of service
- (k) The levels of living and development in the area.

3.04 The price has to be fixed somewhere between the total costs and the ruling market rates so that it may take care of the essential factors listed earlier. At the same time, the consequences of price fixing will have to be kept under careful watch to ensure profitability on one side and bearing losses (before it becomes too late) on the other. For this a result-oriented approach to price fixing is a must which is not merely an exercise in arithmetics, but is a forecast capable of standing the test of the times and lend itself to a rigorous evaluation at the end of each period. The “process” here is as important as the “progress” each playing a complementary role in achieving the ultimate objective, viz., protection of consumer interest through business prosperity.¹

3.05 The systematic manner in which the “result-oriented” price determination is arrived at is worked out in the model example below:

Result-Oriented Price Fixing Method
Calculation sheet for a child's ready-made garment viz., a shirt (cotton)

2.05.02 *Basic Information*

Normal sales volume :	600 units
Purchase price :	5.50 per unit
Transport cost :	30
Direct operational cost (Cost of staff handling the goods) :	4% (on cost of incoming goods)
Risk :	10% (on cost of outgoing goods) ²

1. For psychological and sales-oriented approach to price fixing, the reader is referred to Chapters VI & XVI of “Sale—A Profile : An Introduction to Sales Management in Retailing” by R. Arvidsson & S. Dandapani, ICA, 1972.

2. Risk is meant to cover price fluctuations, unforeseen contingencies provisions for business expansion, growth of the store, etc.

Addition for sales tax and patronage¹
dividend 10%

3.05.03 Step-by-step Calculation

	Total Cost	Per Unit
Invoiced cost at 5.50 each	3,300	5.50
Transport	30	5
Cost of incoming goods	3,330	5.55
Direct operational cost at 4%	133	22
Direct cost of goods to be sold	3,463	5.77
Risk ² at 10%	346	58
Sale price (sales tax and patronage dividend excluded)	3,809	6.35
Addition 10% for sales-tax 7% and patronage dividend 3%	381	64
Gross sale price	4,190	6.99
Mark up	860 (26%)	1.44
Margin	860 (20.5%)	1.44

3.05.04 It is important to note that the calculation is done step by step and not by adding the percentage to cover the costs etc. The calculation is not undertaken step by step for convenience sake but to arrive at the correct costs. For example, in the above calculations, the cost price being 3,330, the percentage cost of operation, risk and taxes being 24, would work out to 4,129 (3,330+799) as against 4,190 resulting in a substantial difference of 61 units of money.

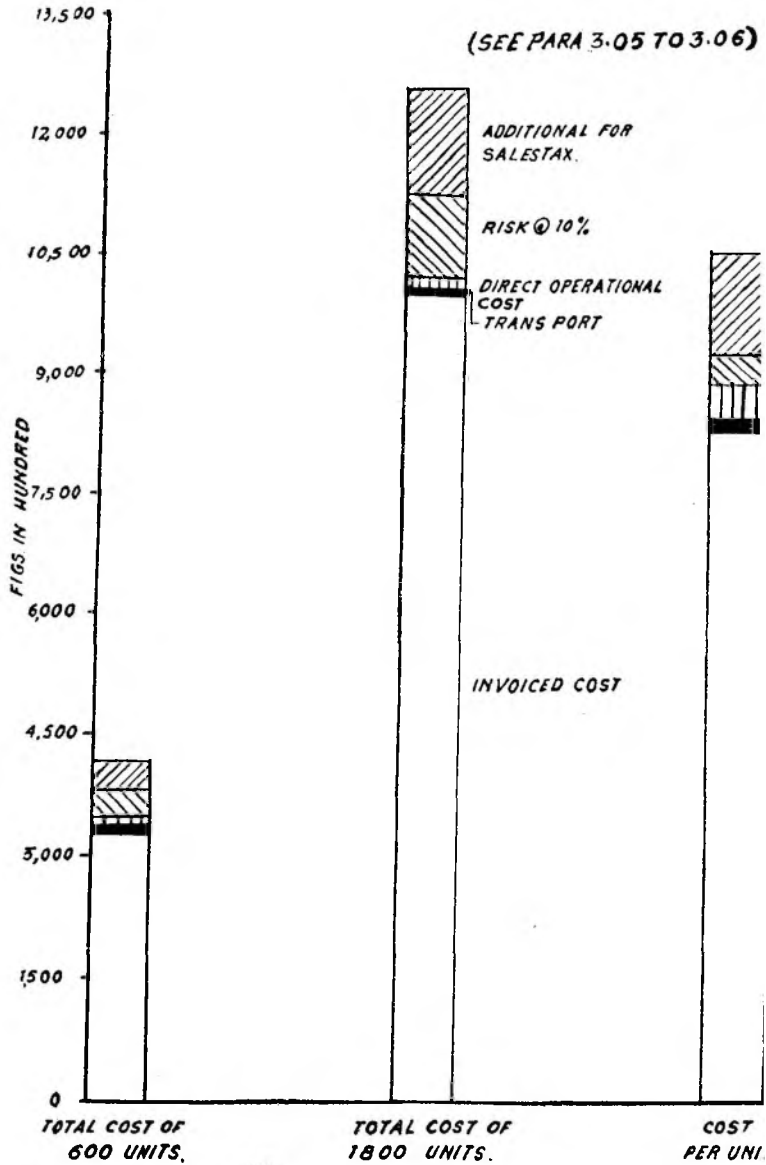
3.05.05 There is a tendency to use expressions like “mark up” and “margin” in price fixing and often one for the other without fully realising the significance of the two different terms. While the “mark up” is on the “cost” of purchase, the margin is calculated on the sales. The difference is substantial and should be understood clearly.

3.05.06 Assume that 8.00 is the maximum price that can

1. This is made up of a built-up patronage dividend of 3% and a sales-tax of 7%, totalling 10%.

2. Risk is meant to cover price fluctuations, unforeseen contingencies, premium for business expansion, growth of the store, etc.

RESULT-ORIENTED PRICE DETERMINATION



be charged due to competition. Does it pay to sell the product in question ?

3.05.07 *Calculation Per Item/Unit*

	(Minimum price)
Cost of product	5.50
Transport	0.05
Sales patronage dividend	0.56
	<hr/>
Direct cost	6.11

3.05.08 The part of the price that exceeds the direct costs represents a contribution to the coverage of joint costs (overheads not included in the above calculations).

3.05.09 Overheads are calculated on the basis of average overheads for the product group. If the product in question is not sold, the product group's costs still remain.

3.05.10 Thus in the short-term, sale of this product would affect results positively, since it would contribute to the covering of part of the existing joint costs.

3.05.11 *Contributory Costing*

Selling price	8.00
Direct cost	—6.11
	<hr/>
Contribution	1.89
Total contribution $600 \times 1.89 = 1,134$	

3.06 Assume that the product has been sold for some time but that, now the possibility of a special sales drive is being considered.¹ Can it pay to sell the product for one time-period, if the volume of sales then rises to 1,800 units as against 600 envisaged in the earlier calculations.

3.06.02 It may be necessary to reckon that transport costs will also increase to say 60² and that an additional amount

1. For greater details, the reader may refer to Chapters XIV and XXI of "Sale: a Profile—An Introduction to Sales Management in Retailing." by R. Arvidsson and S. Dandapani. ICA. 1972.

2. In the smallest consignment, the unit cost of transport was assumed as 0.05 (see para 3.05.07), whereas here a lump-sum of 60 is provided which is much less than the earlier rate. The advantages of moving a larger volume is reflected by lower costs.

might be required for wages, in order to cover the handling and selling of the increased volume.

3.06.03 *Contributory Calculation ("Sales-drive Period")*

Sales	7 x 1,800	12,600
<hr/>		
Direct costs :		
Costs of goods	5.50 x 1,800	9,900
Transport		60
Wages ¹	133 ÷ 50	183
		<hr/>
		10,143
Sales tax and provision for dividend at 10 per cent on sales		1,014
		<hr/>
	TOTAL	11,157
Contribution (sale—costs)		1,443

3.06.03 Does it pay to use a sales-drive under these conditions? The total contribution may be compared with normal selling conditions—1,134.

Thus an increased contribution of 1,443—1,134=309 is achieved.

Contribution per item is 1.86 under normal conditions. What is the contribution per item in the sales-drive period?

$$\frac{\text{Contribution}}{\text{No. of units sold}} = \frac{1,443}{1,800} = 0.80$$

3.06.04 The contribution per item is lower under sales-drive period than under normal conditions. When assessing the alternatives, as in the above example, attention must be paid to the sales volume. In other words, it is volume that provides the total increased contribution. Thus, where conditions are favourable, as in the example, a diminished mark up (lower contribution per unit) gives such a large increase in volume that the economic result improves (increased contribution).

3.06.05 Incidentally, the large volume of sale effected brings additional customers to the shop who are tempted to buy other items as well. The customer gets a cheaper price,

¹ Additional costs for wages, as the wages will not increase in proportion on to the increase in sales.

the shop earns more profits simultaneously building an image of the store with substantial effect all round.

Contribution

3.07 The final end-product of costing is a “contribution”. This is obtained by subtracting the direct costs from the selling price. Information about the net surplus is provided by a comparison of the contribution with the joint costs on overheads although it is not possible to do this in the case of an individual product, such as the one used in the example above. Here, we can do no more than note that a positive contribution occurs, which helps to cover the overheads.

3.07.02 “Contribution” is an amount produced by a product after meeting all its costs leaving behind enough for covering the joint costs/overheads. Allocation of costs in respect of each item may be a time consuming process and may not always be possible. Nevertheless non-contribution by an article may drain the resources. The quantum of contribution or non-contributions by an article assumes importance in a situation where result-oriented price determination takes place.

3.07.03 For example, where a shop distributes controlled commodities, the mark-up is hardly 3 per cent. Nevertheless, if the volume of trade handled is substantial, the meagre mark-up supports the joint costs (overheads) substantially as will be seen below:

Total sale per month		200,000
Controlled commodities		150,000
Non-controlled commodities		50,000
The margin on controlled commodities at 3 per cent,		4,500.00
or		
Transport cost	80.00	
Handling cost	70.00	
Direct staff cost	2,450.00	2,600.00
Contribution		1,900.00
Margin in percentage		3.0%

Mark-up in percentage		3.1%
The margin in non-controlled commodities at 6 %, or		3,000.00
Transport cost	40.00	
Handling cost	20.00	
	<u>60.00</u>	
Direct staff cost	<u>2,000.00</u>	2,000.00
	2,060.00	
Contribution		940.00
Margin in percentage		6%
Mark-up in percentage		6.4%

3.07.04 It is usually argued that controlled commodities do not provide adequate margin which is substantially true. Nevertheless, in the example cited above, not only the controlled commodities have met these costs but have also contributed to the extent of 1,900 in meeting the joint costs/overheads. On the other hand, the large profit earning non-controlled commodities have brought a contribution of 940 only to the society.

3.08 These calculations assume added significance in an area where most costs are fixed costs—as in the case of most developing countries. The amount of contribution given by an item or commodity group towards meeting the fixed costs is important and not the gross margin or mark up in per cent. These margins and mark-ups are the rough ways of expressing a position but certainly not precise terms for profits and profitability.

3.08.02 In the case of rationed goods—even if they do not bring contribution for meeting the fixed costs, the sale of the same will be worthwhile both from the service point of view as also to serve as a magnet in attracting customers to the shop who may be tempted to buy other non-controlled commodities that bring adequate contribution to the society.

3.08.03 What is important in a result-oriented price determination is not mark-up and margins, but a volume approach which will ensure adequate contribution towards joint costs/overheads in the overall position. Even in the case of a

commodity group which does not provide adequate contribution, if it has the capacity to serve as a magnet and improve the overall contribution, it should be preferred to sale at reduced mark-up or margin.

3.09 A result-oriented price determination helps to forecast the "contribution" to cover joint costs/overheads and profitability for growth. It provides a basis for "evaluation", functions as a check-list for sales forecasting and budgeting and introduces a financial discipline at all stages. Its greatest contribution is the "preparation" and "awareness" leading to motivation at all levels. While it may be essentially a managerial tool, its potentialities to stimulate sale and growth are considerable. If this aspect is neglected, the business will suffer with consequences of liquidation.

CHAPTER IV

CAPITAL : SOURCE AND USE

4.01 The need for capital for undertaking a business is obvious. This can be raised from various sources depending upon the needs on one hand and the confidence and faith it has created all round on the other. An important factor that comes up for consideration while raising the capital from various sources is its cost and the ability of the business concern to bear it. It will also be necessary, while securing capital from various sources the chances of any indirect influences operating or are likely to operate in the business possibilities.

4.02 The sources of capital, their cost, application of stimulators together with scope for indirect influences are indicated in a tabular form.

Source	Cost	Techniques Employed	Indirect Influences
(i) <i>Share</i>	<p>Limited to the maximum permissible rate of dividend ranging from 6% to 9%.</p> <p>(a) Value : (b) Number of shares :</p>	<p>To increase the value from time to time.</p> <p>To increase the number of shares for membership from time to time, say once in 5 years.</p>	<p>This will raise expectations of members by way of services and goods from the society which will call for efforts for image building.</p>
	<p>(c) A nominal amount to be recovered, the rest be made from patronage dividends by instalments.</p>	<p>To introduce a rule to convert part or whole of patronage dividend as shares to satisfy (b) above.</p>	
(ii) <i>Borrowings</i>	6% to 8%	(a) Government : Subject to Rules and Regulations.	<p>The nomination of a few Govt. officials on the Board. Bureaucratic culture will permeate. An attitude of "play safe" generates.</p>

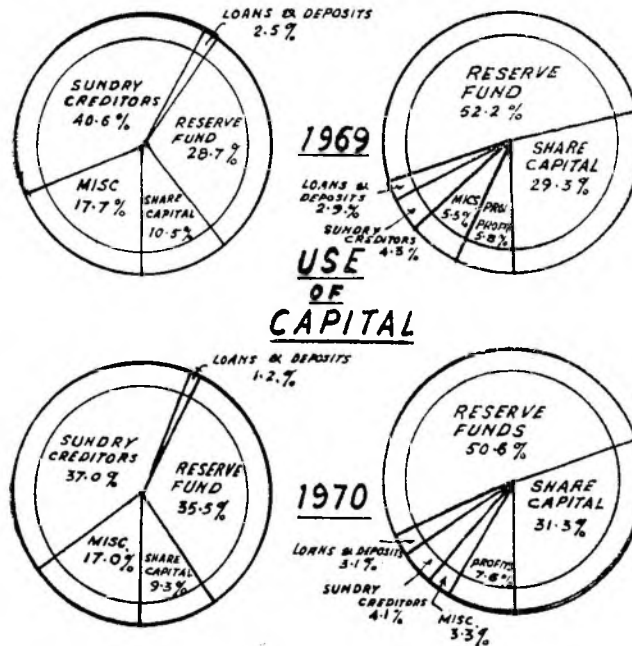
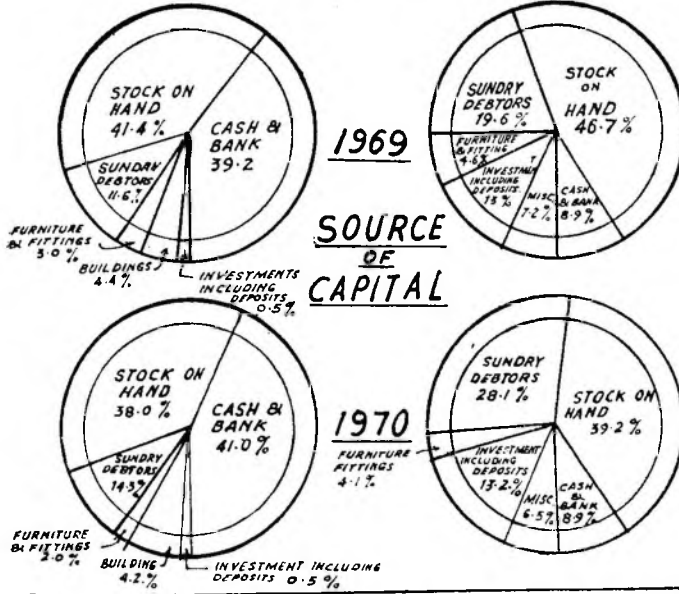
Source	Cost	Techniques Employed	Indirect Influence
(b) Cooperative Bank.	9% to 12%	Cash-credit accommodation—Bank account—Prompt remittance every day.	Hypothecation of goods—An outsider watching performance—Costly credit reflecting on prices.
(c) Members' Fixed Deposits		Payment of interest on deposits, opening of Passbooks, granting of preferences on scarce goods and separate counters, etc.	Members expect special service—Accounting difficulties and consequent increase in Accounting costs.
(d) Members' 5-Year Loans		Prompt repayment and adequate interest.	Need for faith in the society—Calls for organisational efficiency.
(e) Mortgaging the property to Commercial Banks.		Hypothecation of stocks.	Costly credit—reflects in prices—Bank interference.
(f) Credit Supplies		Suitable contracts prompt payment and maintaining business relationships with suppliers.	Tendency to get tied up to the source of supply.

Source	Cost	Techniques Employed	Indirect Influences
(iii) Reserves	No cost	(a) Compulsory reserves	Healthy influence—strength. A step for growth.
		(b) For price fluctuation	
		(c) For building	
		(d) For education	
		(e) For publicity	
		(f) For charity	
(iv) Hidden Reserves	No cost	(a) Rent	Builds capital rapidly.
		(b) Depreciation	
(v) Thrift Savings	Interest rate at 4%	(a) Savings Bank : Slightly higher rate of interest than what is offered by Banks, Post Offices, etc.	Member involvement and member satisfaction.
		(b) Depreciation	

Source	Cost	Techniques Employed	Indirect Influences
	Interest rate at 5%	(b) Surplus Savings At favourable rate of interest. Account	
	Interest rate at 6%	(c) Family Savings At favourable rate of interest. Account	
(vi) <i>Staff Welfare Funds</i>		(a) Provident Fund Matching contribution from Employees satisfaction and loyalty. employees.	
		(b) Gratuity Fund According to rules of the con- cern.	
		(c) Amenities Fund On a percentage of the net pro- fit.	
(vii) <i>Charitable Schemes</i>	No cost	Charitable Trusts Earmark schemes for future Image building. and endowments, years and gather funds by yearly provision in the bal- ance sheets.	
(viii) <i>Business Surplus</i>	No cost	For investment in For growth in business. business.	Business expansion.

IRAN

INDIA



4.03 The owned capital constituting the share capital, the built-in reserves and the business surplus—is a measure of strength and enables the management to take bold decisions. Once the owned capital reaches a level, say a third of the total assets, the concern is in a position to consider the possibility of investment in fixed assets as a pre-requisite to the expansion of business and building of an image. Till such time the organisation develops a third of the assets through owned capital, the concern has to weigh carefully the alternatives as to whether the amount should be floated in the business as part of the current assets with a view to helping the generation of greater capital for a future when more courageous decisions for putting up buildings etc., can be taken or the amount should be utilised for investment in fixed assets.¹

4.03.02 Some of the stimulators that should be applied in building up the owned capital are indicated above. They should not only be applied carefully but also there should be a continuous watch in regard to the needs on one hand and the costs and other influences on the other and a review should be made at least once a year for a modified approach in the policy as may be warranted by circumstances.

4.04 Capital resources being meagre, a continuous effort to optimise their use is necessary. Idling resources are no resources and they are often a liability. The various purposes for which the capital is put to use, the relative advantages and earning potential² are indicated in a tabular form below.

HOW TO USE THE CAPITAL

<i>Purpose</i>	<i>Earning Potential</i>	<i>Advantage</i>
<i>(i) Buildings</i>		
<i>(a) Rent or Rentability</i>	Rent	<i>(a) Image building</i>

1. In developing countries where governments usually grant concessions and facilities the available capital should not be invested in fixed assets till such time as the shop generates its own capital adequately.

2. These are approximate and should be calculated on local knowledge and experiences.

(b) Market Rent	Business	Strength—Business
(c) Economic Rent		
<hr/>		
(ii) <i>Equipment</i>	<i>Turnover</i>	<i>Convenience</i>
(a) Cost of investment	Investment on fittings	Basic need for business.
(b) Resale replacement value	including interest at borrowing rate from period to period.	
(c) Safety		
(d) Security		
(e) Productive Efficiency		
<hr/>		
(iii) <i>Stocks</i>	<i>Turnover</i> = Stock turnover Stock value	<i>Profitability</i> ¹
(a) Demand	(on selling price)	
(b) Velocity of Goods	If stock turnover is 12 times, the capital invested in stocks turns 12 times. If the contribution gross profit for meeting the joint costs and overheads is 8%, it produces 12x8 = 96 additional units of money for every 100 invested in stocks.	
(c) Profit ranges		
(d) Norms		
(e) Staff salary paid on stocks		
(f) Investments, rate of interest on security		
(g) Loan to members		
(h) Charities, publicity & public relations		

4.05 With the use of the available data in regard to cost and their earning potential the capital requirements will have to be estimated to match the needs. This is not only an exercise to be gone into carefully at the time of organising a retail unit but also at least once every year taking into consideration all changed factors. How much capital is needed? This would depend upon :

- | | |
|---------------------------------|--|
| (a) The number of members | |
| (b) Items to be stocked | For each items separate details depending upon the |
| (c) Method of sales—cash/credit | |

1. This would depend upon product mix, sales mix, price and the volume of sale discussed elsewhere in this book.

- (d) Plan for buildings
- (e) Equipment
- (f) Staff and Training
- (g) Publicity and public relations
- (h) Schemes for productive activities

local situations are to be worked out and quantified.

Easy Capital

4.06 In some of the developing countries, the governments encourage the consumer cooperatives by several concessions and facilities including financial assistance by way of share capital and loan capital at low rate of interest. While such assistance is laudable, often securing capital in an easy manner works as a disincentive for making special effort and obtaining finances from other sources which are so necessary in the case of a retail shop. Self-generation of capital is preceded by enormous effort, image building, etc. all of which are the end results of hard work and self-confidence on the part of the societies.

Pooling of Finances

4.07 A simple method by which the needed capital is raised is by pooling the finances of a number of units. A number of consumer cooperatives in a given area may join together and evolve a system of pooling the available finances through their own banking or a Central Cooperative Bank. The meagre finances held by different societies—when combined—become substantial. By a rationalised system of payments coordinated with the application of cash control, cash remittance and cash inflow-outflow, the quantum of combined capital available at any given time is easily determined and put to maximum use meeting the needs of all the participating societies. This has several advantages as under:

- (a) Pooling of finances can come about only when the participating societies in an area come together.
- (b) Establishes cooperation among cooperatives, not only for pooling of finances but also for pooling the know-how and experiences.

- (c) Adds strength to the movement, builds favourable image before the suppliers, etc.
- (d) A step towards amalgamation at a later date.
- (e) Introduces financial discipline through expertise and experience.
- (f) Helps generation of confidence through strength on the one hand, and awareness on the other.

4.07.02 Pooling of finances among cooperatives is done effectively in some countries with advantages accruing to the Movement.

4.08 The figures as indicated in the balance sheets of two primary consumer cooperative societies—one from Iran and the other from India together with the percentage composition for the years 1969 and 1970, and comments for sources and use of capital are given below:

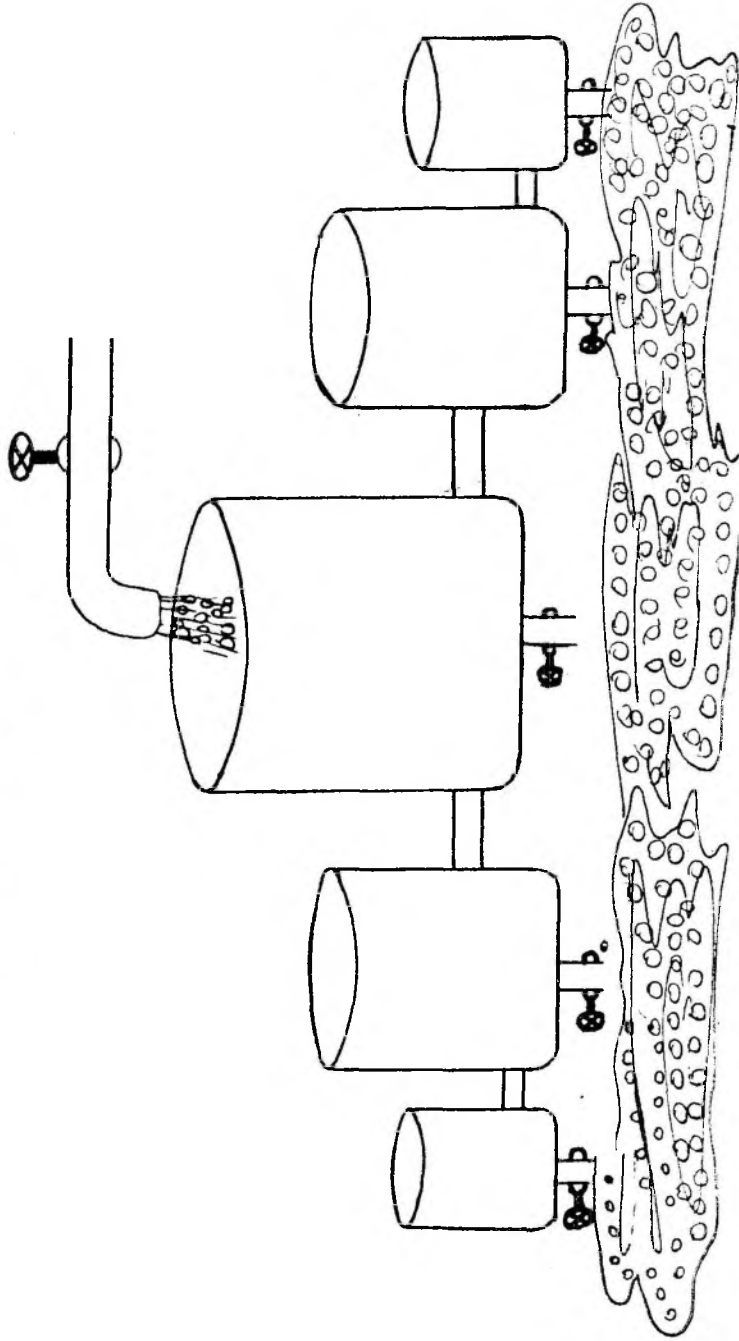
Percentage Composition of the Source of Capital (Liability) of two Societies—one from Iran and the other from India

ITEMS	1969		1970	
	Iran %	India %	Iran %	India %
Share Capital	10.5	29.3	9.3	31.3
Reserve Fund	28.7	52.2	35.5	50.6
Loans & Deposits	2.5	2.9	1.2	3.1
Sundry Creditors	40.6	4.3	37.0	4.1
Miscellaneous	17.7	5.5	17.0	3.3
Profits	—	5.8	—	7.6
TOTAL	100.0	100.0	100.0	100.0

4.08.02 The share capital of the society in Iran has not grown; whereas the reserve fund has increased considerably in 1970. Large part of the assets is through sundry creditors (credit suppliers). The society has reached a self-generating stage and can expand business, undertake investments in fixed assets etc.

4.08.03 The society in India has been increasing the share

POOLING OF FINANCES.



capital in 1970 compared with the previous year. But its reserves have not only not grown, but have diminished. Without investment in fixed assets (see statement of liability attached) the reduction of reserves indicates losses. This calls for quick remedial action. With more than 80 per cent of the assets falling under "own capital", the society is eminently in a position to expand business in a big way.

4.08.04 The society has an obvious policy not to obtain supplies on credit which in the given circumstances can be a source of capital to the extent of 5 to 8 times the owned capital.

4.09 The manner in which the capital was put to use is indicated below :

*Percentage Compilation of the Use of Capital (Assets) of Two Societies
(one from Iran and the other from India)*

ITEMS	1969		1970	
	Iran %	India %	Iran %	India %
Cash & Bank	39.2	8.9	41.0	8.9
Stock on hand	41.4	46.7	38.0	39.2
Sundry Debtors	11.6	19.6	14.3	28.1
Furniture & Fittings	3.0	4.6	2.0	4.1
Buildings	4.4	—	4.2	—
Investments including deposits	0.4	13.0	0.5	13.2
Miscellaneous		7.2		6.5
TOTAL	100.0	100.0	100.0	100.0

4.09.02 The society in Iran has been maintaining a cash/Bank balance to the extent of more than 40 per cent of the assets. Cost of keeping such large liquid capital besides the loss involved in business potential and the consequent gross profit is colossal. Scope exists for improvement in this regard.

4.09.03 Pending investments in fixed assets the society has

the potential to diversify the stock by increasing the stock holding.

4.09.04 The society in India on the other hand has been keeping about 8 to 9 per cent of Cash/Bank balances. The value of stock on hand has come down from 46.7 per cent to 39.2 per cent. Capital to the extent of 28 per cent has been blocked by credit sales. Investments and deposits account for 13.2 per cent, and it will be necessary to work out the relative advantages and disadvantages from the point of view of business, service to members and profitability of these investments and action taken.

4.09.05 In societies where very small part of the capital is invested in fixed assets, it is desirable that a large part of it is deployed in stocks as a means to expanding the business.¹

4.10 The cooperatives in the Region do not undertake careful examination with particular reference to costs and needs in regard to capital requirement and often available capital is allowed to idle or invested in unproductive or low productive enterprises. These aspects require a monthly review and such a review should be placed before the Committee of Management, discussed freely and resolutions recorded for further line of action.

1. The Railway Cooperative Workshop held at Scaldah (India) in the year 1969 suggested that 90 per cent of the assets be deployed in stocks, 5 per cent in Cash/Bank Balances and 5 per cent in the rest. This is difficult to achieve, but worth trying.

CHAPTER V

CASH INFLOW—OUTFLOW

5.01 In a consumer cooperative society, cash/bank balances form a substantial part of the working capital. Cash/Bank balances are necessary for the day-to-day business. At the same time, they are the most unproductive part of the precious working capital of the store. It is necessary to understand the size of the unproductive capital, its cost to the store and its potentialities when applied to business.

5.02 The size of the cash/bank balances is determined in a cooperative store by one or the other following methods:

- A. *A Guess Work* : To meet all possible expenditure.
- B. *An Experience Fad*: Manager decides an amount in his opinion comfortable to work with.
- C. *Weight of Accumulation* : To allow cash and bank balances to increase sufficiently so as to feel the weight of the accumulation for alternate investment.
- D. *Conventional* : To maintain a percentage of the assets of the society which, in the opinion of the Board of Management, is safe to work with.

E. *Play Safe* : To maintain large cash/bank balances so as to feel safe at all times.

5.03 In the case of a functioning store, the size of the cash/bank balances can be worked out by a simple method of totalling cash/bank balances at the end of each day for all the 30 days and dividing the same by 30¹. This would give the average holdings of cash/bank balances for a month. Similarly, the figures can be arrived at for a year or any given period.

5.03.02 *Example* : I

<i>Date</i>	<i>Balances at the Close of the Day</i>		
	<i>Cash</i>	<i>Bank</i>	<i>Total</i>
1	2,000	16,000	18,000
2	1,800	15,200	17,000
30	1,500	20,500	22,000
	45,000	4,05,000	4,50,000
Average per day : $\frac{4,50,000}{30} = 15,000$			

5.03.03 The average cash/bank balances in the above quoted example is Rs. 15,000.

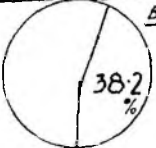
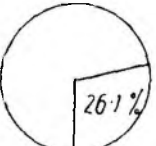
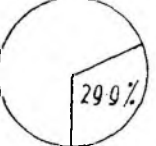
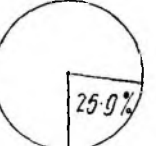
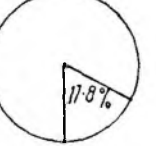
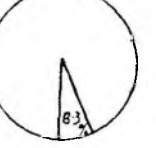

5.04 The cost of maintaining a cash/bank balance is determined by the source from which the money has been found. In the case of a society where the money has been found as a result of share capital, the dividend payable at the end of the year will be the rate at which the cost should be worked out. In the case of societies where a substantial portion of the working capital has come from borrowings, the rate of interest at which the amount has been borrowed will be the criterion for computing the cost:

1. It will be more appropriate to divide this by the number of working days—usually 25. However, full month is adopted in these calculations.

If the actual number of working days is adopted, the position in the examples will be much less favourable.

2. The cash-inflow-out-flow chart (on page 55) indicates the cash/bank balances in a few societies in India during the year 1966.

CASH INFLOW & OUTFLOW

<u>CASH / BANK</u> <u>BALANCES</u>	<u>ANNUAL SALE TURNOVER</u>
 38.2%	BELOW 50,000
 26.1%	50,000 TO 100,000
 29.9%	1,00,000 TO 2,00,000
 25.9%	2,00,000 TO 3,00,000
 17.8%	3,00,000 TO 4,00,000
 8.3%	5,00,000 TO 1,000,000
 16%	ABOVE 1 MILLION.

5.04.02 Example : II

Society's working capital	Rs. 1,00,000
Average cash/bank balances	Rs. 15,000
If the entire amount is made of	
(a) share capital at the dividend rate of 6%	Rs. 900
(b) borrowing from the Bank at 12% interest	Rs. 1,800
(c) partly by share capital (50% at the rate of 6% dividend)	Rs. 450
and partly by borrowing (50% at 12% interest)	Rs. 900
	Rs. 1,350

5.04.03 It has cost the store Rs. 1,350 every year for maintaining a cash/bank balance of Rs. 15,000/-. In other words, every unit of money maintained in cash/bank balance costs the society 9 paise or 9/100 in a year. This is a fact which should be understood and appreciated at all levels.

5.05 Let us examine the business potentialities of the cash/bank balances maintained in the society :

Example III

Working capital	Rs. 1,00,000
Monthly sale	Rs. 1,00,000
Annual sale	Rs. 12,00,000
Capital turn-round in a year	12 times
Gross profit earned	8%
Average cash/bank balances everyday	Rs. 15,000

5.05.02 If cash/bank balances are utilised in business, the amount that would have gone into the business will be :

$$\text{Average cash/bank balance} \times \text{No. of times capital turned during the year}$$

$$= 15,000 \times 12 = 1,80,000$$

5.05.03 If used in business, it would have earned a gross profit of : Sales x 8% =

$$\frac{1,80,000 \times 8}{100} = 14,400^1$$

1. The idling cash/bank balance of 15,000 would have brought an additional 14,400 had it been applied in the business in one year.

5.05.04 Every 100 units of money utilised in business (in which the capital turns 12 times and earns a gross profit of 8 per cent) would have earned 96 additional units of money in a year as gross profit making it 196 ($100+96=196$) at the end of the year. Any addition of gross profit without a proportional increase in the other costs would contribute a large part to net profit—not only increasing the profits but also profitability of the society.¹)

5.06.01 In respect of large societies such as the “wholesales” etc., the cash and bank balances for a few States (as a whole) in India were worked out. They are:

NAME OF STATE	Cash & Bank balances as a percentage of assets
Kerala	13.0
Maharashtra	11.4
Madras	17.2
Mysore	5.4
Andhra Pradesh	21.6
Punjab	5.2

5.06.02 In a study² of 16 best Wholesale/Central Consumers' Cooperative Societies in eight States of India cash-bank balances were as under:

	1963-64	1967-68
Cash/balances as a percentage of Assets	16.2	8.3

5.07.01 The ability to optimise the use of cash/bank balances has a tendency to go with the size of the society and the level of expertise obtained.

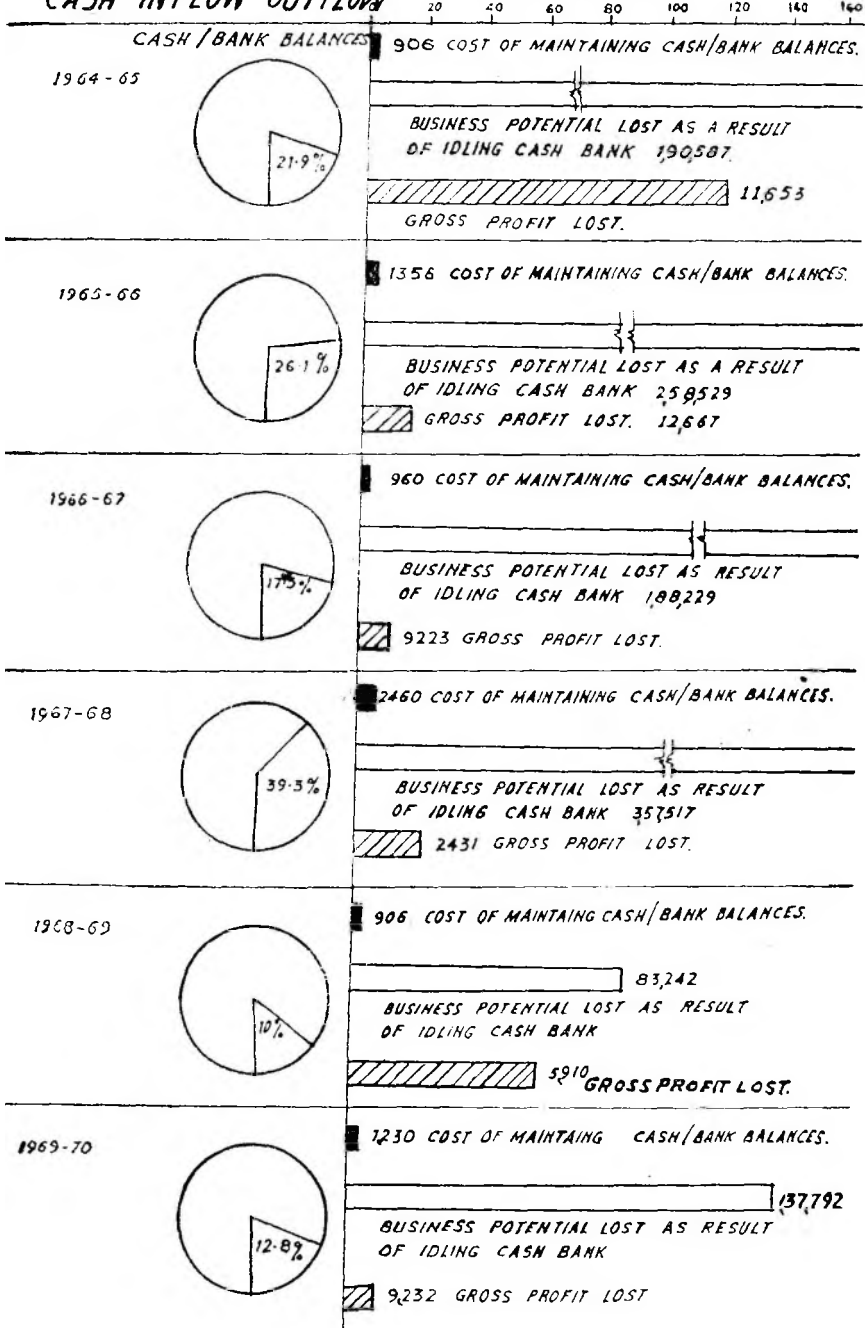
5.07.02 (See Example IV on Page No. 55 for diagram and details).

1. These assumptions are made on the basis that the societies have been running short of capital for business while precious working capital has been idling by way of cash/bank balances.

2. Figures worked out by the Vaikunth Mehta National Institute of Cooperative Management—Seminar for the Joint Registrars of Cooperatives held in February 1970.

CASH INFLOW OUTFLOW

FIGURE IN THOUSAND.



5.08.01 Larger the society, greater are the chances to put the idling capital (Cash/Bank Balances) to productive use. Similarly, over a period of time a society acquires knowledge partly by “trial and error” methods and partly by compelling circumstances such as diversification of trade due to lifting of rationing etc.

5.08.02 (See Example V on Page No. 58 for diagram and details).

5.08.03 Over a period of 6 years, the society has maintained Cash/Bank balances at a cost of Rs. 7,818. During the same period, the society has lost an additional business of the value of 1.22 millions which would have brought an extra gross profit of Rs. 72,396. The cry for capital has not discovered the unproductive Cash/Bank Balances in its own hands.

5.08.04 Nevertheless, Cash/Bank balances as a percentage of the assets have been progressively coming down partly due to experience and partly to compulsions dictated by circumstances in the above example.

5.09.01 (See Example VI on Page 64 for diagram and details).

5.09.02 The society has incurred a cost of Rs. 14,328 for maintaining the Cash/Bank balances in the last 6 years. While doing a sale of Rs. 11.15 millions, the loss of business potential during the same period as a result of idling Cash/Bank balances has been Rs. 1.43 millions or roughly 13% of the total turnover. The loss of gross profit has been Rs. 66,361 or 12.8% of the total gross profit. A large part of this additional gross profit would have turned into net profit contributing to the needed growth and prosperity of the store. This has been lost.

5.10.01 When Cash/Bank balances are reduced to the minimum, there is the danger of the society's cheques being dishonoured by the Bank. To avoid this contingency, some societies enter into an agreement with the nearest Central Cooperative Bank for a “Cash-credit” accommodation for

certain specified amount. Cheque issued in excess of the society's balances but within the limit of "Cash-credit" accommodation are passed by the Bank and interest charged for the number of days such over-drafts have been drawn. This turns out to be an economical as well as efficient workable arrangement.

5.10.02 (See Example VII on page No. 65 for diagram and details).

5.10.03 This society has a "Cash credit" accommodation to the extent of Rs. 1,20,000 which explains the position for the figures in example VII.

5.11.01 Once an awareness in regard to the cost, size and business potentialities of the unproductive use of Cash/Bank balances sets in a society, efforts would begin to optimise the resources for greater productivity and profitability. Simultaneously there will be "less cry for capital" by putting it to greater use than at present.

5.11.02 The consumer cooperatives in general and those located in the developing countries in particular often experience considerable difficulty for securing the needed capital for expansion of the business. Nevertheless, very valuable capital idles by way of cash and bank balances largely due to lack of awareness on one hand and accounting efficiency on the other. Between the desire for "slow and safe" working with idling resources leading to diminishing business on one hand and efficient working with quick and careful documentation combined by prompt decision leading to increased business and profitability, the society has to do considerable tight-rope walking which results in handsome returns.

5.11.03 The societies in the developing countries have to make special efforts to reduce the bank/cash balances to the nearest minimum to optimise the use of the reserves of capital. In doing so, they should explore the possibility of obtaining cash/credit accommodation from the nearest central cooperative or other banks with a view to

APPENDIX II
STATEMENT INDICATING THE CASH/BANK BALANCES IN A CONSUMER COOPERATIVE SOCIETY
IN THE STATE OF MADHYA PRADESH TOGETHER WITH ITS SALE POTENTIAL FOR THE YEAR
1964-65 to 1969-70

Year	Cash & Bank Balances Amount	% on total assets	Cost of maintain- ing Cash/ Bank Balances	Gross turnover	Gross Profit		Capital turn- round, No. of times in a year	The addl. amount of business that could have been done had the C/B balance been used in business	Addl. G.P. that would have been earned	Remarks
					Amount	% to T.O.				
1	2	3	4	5	6	7	8	9	10	11
1964-65	15,126	21.9	906	8,10,917	47,011	5.8	12.6	190,587	11,053	
1965-66	22,678	26.1	1,356	9,79,169	48,384	4.9	11.4	2,58,529	12,667	
1966-67	16,088	17.5	960	10,78,335	51,836	4.9	11.7	1,88,229	9,223	
1967-68	41,094	39.3	2,460	9,12,506	55,534	6.8	8.7	3,57,517	24,311	
1968-69	15,135	10.0	906	8,37,076	59,051	7.1	5.5	83,242	5,910	
1969-70	22,566	12.8	1,230	10,80,502	71,827	6.7	6.7	1,37,792	9,323	

APPENDIX II

STATEMENT INDICATING THE CASH/BANK BALANCES IN A CONSUMER COOPERATIVE SOCIETY
IN THE STATE OF GUJARAT TOGETHER WITH ITS SALE POTENTIAL FOR THE YEARS
1964-65 to 1969-70

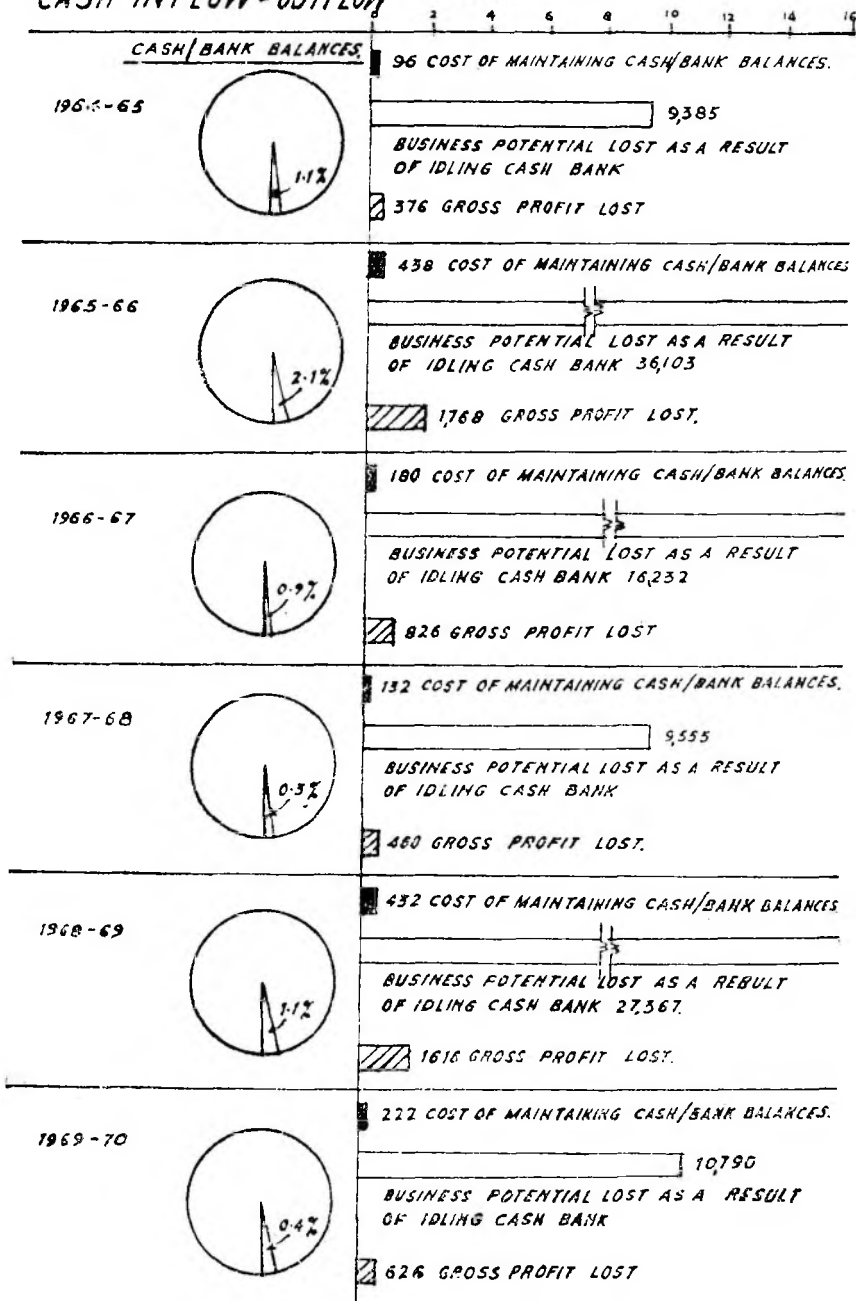
Year	Cash & Bank Balances		Cost of maintaining Cash/Bank Balances	Gross turnover	Gross Profit		Capital turn-round No. of times in a year	The addl. amount of business that would have been done had the C/B balance been used in business	Addl. G.P. that would have been earned	Remarks
	Amount	% on total assets			Amount	% to T.O.				
1964-65	64,889	27.7	3,888	11,44,548	60,313	5.3	5.1	3,30,984	17,543	
1965-66	31,163	11.8	1,866	14,32,845	73,051	5.1	5.4	1,68,280	8,583	
1966-67	29,243	9.3	1,752	18,71,479	78,313	4.2	5.8	1,69,609	7,123	
1967-68	47,907	15.1	2,874	20,53,452	80,589	4.0	6.4	3,06,604	12,264	
1968-69	29,733	8.9	1,782	23,49,688	88,878	3.8	7.3	2,17,050	8,246	
1969-70	36,133	8.9	2,166	26,56,794	1,37,938	5.2	6.6	2,38,377	12,602	
				1,15,17,806	5,19,082					

APPENDIX III
**STATEMENT INDICATING THE CASH/BANK BALANCES IN A CONSUMER COOPERATIVE SOCIETY
 IN THE STATE OF TAMIL NADU TOGETHER WITH ITS SALE POTENTIAL FOR THE YEARS
 1964-65 TO 1969-70**

Year	Cash & Bank Balance		Cost of maintain- ing Cash/ Bank Balances	Gross turnover	Gross Profit		Capital turn- round. No. of times in a year	The Addl. amount of business that could have been done had the C/B balance been used in business	Addl. G.P. that would have been earned	Remarks
	Amount	% on total assets			Amount	% to T.O.				
1964-65	1,676	1.1	96	9,30,590	37,291	4.0	5.6	9,385	376	
1965-66	7,368	2.1	438	15,63,980	78,190	4.9	4.6	36,103	1,768	
1966-67	3,006	0.9	180	21,80,580	1,11,814	5.1	5.4	16,232	826	
1967-68	2,275	0.3	132	22,85,478	1,09,977	4.8	4.2	9,555	460	
1968-69	7,202	1.1	432	22,19,746	1,32,105	5.9	3.8	27,367	1,696	
1969-70	3,721	0.4	222	24,39,974	1,40,798	5.8	2.9	10,790	626	
			1,500	1,60,20,348	6,10,175			1,09,432	5,672	

CASH INFLOW-OUTFLOW

FIGURE IN THOUSAND



CASH INFLOW - OUTFLOW.

FIGURES IN THOUSAND

20 40 60 80 100 120 140 160

Year	CASH/BANK BALANCE	COST OF MAINTAINING CASH/BANK BALANCES	BUSINESS POTENTIAL LOST AS A RESULT OF IDLING CASH BANK	GROSS PROFIT LOST
1964-65	3,888	27.7%	3,30,984	17,543
1965-66	3,866	11.8%	1,68,280	8,583
1966-67	3,752	9.5%	1,69,509	7,123
1967-68	3,674	15.1%	3,06,604	12,264
1968-69	3,782	8.9%	2,17,050	8,246
1969-70	3,166	8.9%	2,38,477	12,602

ting over difficult situation arising out of tightening of the cash bank balances.

5.11.04 The societies may also rationalise the payment systems so that the days on which payments are not required to be made, the amounts could earn interest or used in business. Similarly, on non-working days (holidays), it will be wise to leave the cash/bank balances 'nil' (if not nil, as low as possible) to ensure its optimum use in business. Incidentally, this also ensures safety of the cash held by the society.

CHAPTER VI

CASH CONTROL

6.01 Of the different types of control to be exercised cash control is one and important. It is desirable to reduce the number of persons who are required to handle cash to ensure an effective control. This would, however, depend upon the selling system followed in a society.

6.02 The need for an effective control over cash is obvious. Some of the reasons are :

- (a) Safeguarding the interest of the members. Their jointly owned property will be kept under the vigilance of the established control system.
- (b) Protecting employees (and the Board as well) against unjustified suspicions and criticisms.
- (c) Maintaining a pressure upon the Board, Manager and staff to take good care of the property and to plan the work efficiently.
- (d) Assessing the efficiency of Board, Manager and staff.
- (e) Assisting the Board and the Manager in following the development of the Society and knowing the financial position.

6.03 There are three aspects of Cash Control :—

- (a) The cash itself, which has been received by the staff of the shop in exchange of goods, must be subject to a control, so organized that it should be possible to account for all money received.
- (b) Cash received is in exchange of goods given out. Consequently the cash control forms an important part of the Stock Control.
- (c) Members of a Consumer Cooperative are entitled to a dividend out of the surplus of the Society, in proportion to their individual purchases. Keeping a control of the individual member's total purchase is most conveniently arranged through the Cash Control system, which thus gets another function.

The Receipts

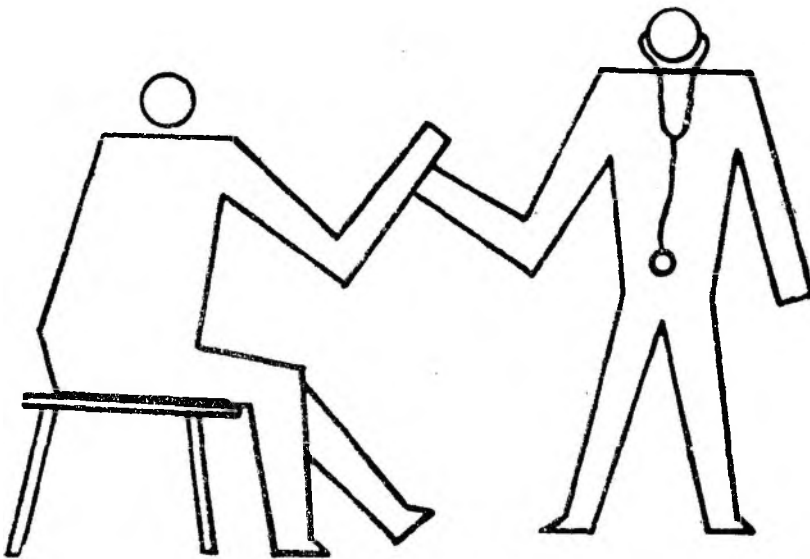
6.04 The foundation for a good Cash Control system is *the receipts*. The receipts may be written by hand or produced by the most modern cash register. The members should be aware of the importance of getting a receipt and checking the same. This is necessary for the security of the system. The management should undertake schemes to educate members *to always ask for a receipt and to check that receipt*.

6.04.02 A receipt should be issued for each transaction of giving out goods to a customer member in exchange of money.¹

1. In the case of societies that sell perishables, issue of a receipt on each occasion for each transaction may not be possible or may be time-consuming or may even come in the way of efficiency or customer satisfaction. For example, in the sale of lettuce, each bundle may cost 0.10 for which issue of receipts and the accompanying Accountal may even be more costly than the sale value itself.

In such cases, the checks over the sale may be examined through stocks, a cumulative receipt is issued at the end of a shift or day—each transaction being done on “cash and carry basis”. In such a situation, the stock on hand and cash on hand should tally with the total stock entrusted for sale at any given point of time.

CASH CONTROL



6.04.03 The receipts should be printed in duplicate or triplicate depending upon the need with a serial number on each receipt, printed on them. The receipt should indicate the total amount paid in the transaction for which the receipt was issued. It should also give details of the transactions, such as name of goods bought, number of units, etc. This is useful for stock control purposes, though it may not be needed for cash control.

The Money

6.05 It goes without saying that money should be safely kept in *e.g.*, a cash box, placed so that it is beyond the reach of unauthorised and undesirable people. Where several sales assistants do the sales transactions the control system is weakened if they all use the same cash box, under some sort of collective responsibility. They should either have a cash box of their own (cash registers are often constructed on that principle) or there should be one appointed cashier, in charge of and responsible for the cash.

6.05.02 The sales assistants serve the customers and issue receipts, but the payment is made to the cashier, who marks or stamps the receipts, which are not valid without that mark or stamp. In this case the sales assistants should be responsible, not for the cash paid by the customer/member but for *the act of payment* as such. He must make sure that the goods are paid for, before he allowed the buyer to take them away from the shop. Normally, in a small shop, he can easily do so just by looking at the buyer paying the cashier, but sometimes it might be necessary to introduce the rule that goods should be finally given to the buyer only on condition that he produces a duly marked or rubber stamped receipt.

The Cash Control System in Function

6.06 (i) At the opening of the day's business the sales assistants or the cashier should have a certain fixed amount in the cash box to be used as change

(coins of different values and some bank notes forming the cash imprest).

- (ii) Throughout the day receipts should be issued, showing the total amount of money received in each transaction (and possibly details of the transaction). A duplicate of each receipt, with a serial number printed on it, should remain in the receipt book. Money received should be kept in the cash box.
- (iii) It may happen that a receipt is wrongly written by mistake, or that another receipt has to be issued for one reason or another. In such a case—which should be avoided as far as possible—*the original of the cancelled receipt must be retained by the cashier and kept in the cash box. It should be signed by the one issuing the receipt and by the customer or another witness.*
- (iv) At the closing of the day's business the following should take place :—
 - (a) MONEY in the cash box should be counted and the fixed amount kept as change should be deducted from the total and kept aside.
 - (b) RECEIPTS issued during the day should be totalled from the duplicate (Cancelled receipts, as described, should be deducted from the total.) Date and signature of the "taller" should be recorded on the copy of the last issued receipt thus clearly marking where each day's business starts and ends in the receipt book.
 - (c) In a DAILY SALES JOURNAL should be entered the total amount of money actually received and the total receipts issued. In an ideal situation, which should be aimed at in a cooperative shop the two amounts entered should agree with each other and there should

be no difference. It might happen, however, that there is less money in the cash box than the total of the receipts, and there might also be more money. (Such differences should be noted in the Daily Sales Journal, and subsequently debited or credited to a special Ledger account).

- (v) The control from the side of the members (Treasurer/Internal Auditor) is now fairly simple. The one carrying out the cash control function should:
 - (a) check that no duplicate receipt has been removed from the receipt book (by checking the serial numbers);
 - (b) check the totalling of each day's receipts and the entries in the Daily Sales Journal;
 - (c) total *Money Received* and *Receipts Issued* in the Daily Sales Journal, since the last time of carrying out the cash control;
 - (d) ask the one responsible for cash to produce money, and/or paying-in slips issued by a Bank or other verifications of authorised disposal of money, corresponding to the total of Money Received. Verifications in respect of money paid out on behalf of the Society may be included.

6.07 The controller should, however,

- check that the fixed amount for change is not included in the money produced, but he should check that amount separately.
- mark, e.g. with his initials or a stamp, the verifications and paying-in slips mentioned above, so that they cannot be used a second time.
- if other cash, than that in the fixed amount in change, was left with the cashier at the time of cash controlling, the amount should be added to the total of

Money Received before he asks the cashier to produce money and/or other verifications. He must, consequently, keep a record of such amounts and that should preferably be done in a Cash Control Book, which should not be left in the Society but be kept by the controller.

Cash Registers

6.08 Where cash registers are used, the register takes care of the totalling of Receipts Issued; but, rest of the system as such may remain unchanged. It is only a mechanisation of a certain part of the system. Important in this case is, that *the cashier should not have access to the special key used for adjusting the computer in the register*. That key should remain with the controller, who usually resets the computer to zero at each time of performing the control. A double control measure is the so-called control tape, found inside the register, which in principle corresponds to the duplicates in the receipt book.

Discrepancies in the Cash Control

6.09 As mentioned, it might happen that the total of receipts issued and the money actually received do not agree with each other. Even if the Cash Controller is primarily concerned with Money Received, he must keep an eye on the discrepancies between the two columns in the Daily Sales Journal. In principle such differences should not be allowed, and should they occur, they must be kept within a very narrow limit. Surplus of money should be regarded as equally wrong as deficits.

6.09.02 Ways of avoiding discrepancies are: among others,

- (a) Training of cashiers and sales assistants
- (b) Checking the performance of cashiers
- (c) Standard routines to be formally laid down and used in :
 - (i) receiving money from the buyer
 - (ii) taking change out of the cash box
 - (iii) giving change to the buyer
- (d) Keeping a sufficient and well composed amount of money for change, thus avoiding complicated transactions and calculations in order to sort out a payment.

- (e) Using a clear and distinct handwriting. Much attention should be put on this point, and those issuing receipts should be well-trained if necessary again and again in using figures which can easily be distinguished from each other.

6.10 Centralising the cash collection function in a few hands may contribute to efficiency and control; but it may be a source of irritation to the customers as a result of forming long queues. It may also function as a retailer from the sales point of view. Depending upon the local situation, a compromise may be necessary.

6.11 In regard to cash deficits, particularly in developing countries, it may be necessary to recover the same from those responsible till such time such deficits assume insignificant position of course after satisfying the local payment of wages Act, etc.

6.12 In regard to the remittance of cash (sale proceeds) often the practice has been to collect the same from the salesman at the end of the day and keep in safe custody with the Manager/Secretary/Treasurer for remittance to Bank on the next day. This practice should be changed. A more appropriate method will be to assess the sale proceeds by 14 hours and remit the same to Bank before its closure. This will help (a) security of cash (b) income by way of interest (where allowed) (c) larger amount available for management for enlarged business for earning much greater profitability.¹

1. See Chapter V. Cash Inflow Outflow for a more detailed analysis.

CHAPTER VII

BUDGETING¹

7.00 *Planning for Profits*

7.01 In order to achieve results that correspond with expectations, economic activities must be planned. Expectations are also influenced, through planning, so that they become more realistic.

7.02 **The Budget :** The budget is the organisation's economic plan-of-action. It is an appraisal of the organisation's economic development and expresses the coordinated expectations of top management and the various departments.

7.02.02 Thus the budget forecasts the organisation's future development and also expresses economic goals in the light of knowledge of market conditions and of previous experience.

1. Part of this chapter contains some portions of a paper presented at the Tenth International Cooperative Seminar organised by the Swedish Cooperative Centre in Stockholm in October, 1970.

7.02.03 The whole budget concept represents a plan covering a relatively short period—for example, one year. The organisation's budget is broken down into partial budgets for various areas of responsibility (departments).

7.03 *The Budget Period—The Accounting Period*

7.03.01 Budget control—that is to say, the comparison between budgeted values and actual values—requires access to factual data.

7.03.02 Real information about detailed costs, for example, often means that accounting must be carried out for a complete accounting period—one year.

7.03.03 Profit/result calculations are made for shorter sub-periods (months) so as to provide the means for the satisfactory control and steering of activity in the course of the year. Thus the budgets should also be divided into sub-periods in the same way.

7.03.04 The annual profit/result budget is arrived at by assembling the monthly profit/result budgets, which are built up independently.

7.03.05 This task is carried out within the local cooperative society, broken down by stores. A budget for the whole local society is assembled so as to provide an overall picture of the year's activity.

7.03.06 If this system is to function satisfactorily as an instrument of control, a reporting system must be developed. Continual control and frequent periodic reporting must be carried out, covering the various aspects of business activity, sales and incoming goods, for example.

7.04 *The Budget is Expressed in Economic Terms*

7.04.01 A budget can be regarded as a calculation covering a period in the future. It is quite natural, therefore, that the budget is expressed in economic terms—calculation implies an economic evaluation of results and consequences. The ability of the local society to pay, its liquidity, must be

planned and this is achieved by a statement of incoming and outgoing payments in monetary terms—in other words liquidity budgeting.

7.04.02 Economic planning within the budget framework may, however, be achieved in other terms—sometimes to advantage. It may, for example, be appropriated to indicate the number of man-hours per day, week and month when carrying out detailed planning within that context of the payroll budget. This is in fact included in shop/store planning.

7.05 What Should the Budget Express ?

6.05.01 It would be possible to produce an ideal budget, which assumed ideal conditions from the point of view of profitability. This would constitute a real goal to be striven for.

7.05.02 An alternative method is to base the budget on a forecast of what can normally be expected for the period in question. The budget would then express expectations. A realistically forecasted budget is to be preferred from a practical point of view and it also provides better possibilities for real control and analysis of the various situations that may arise.

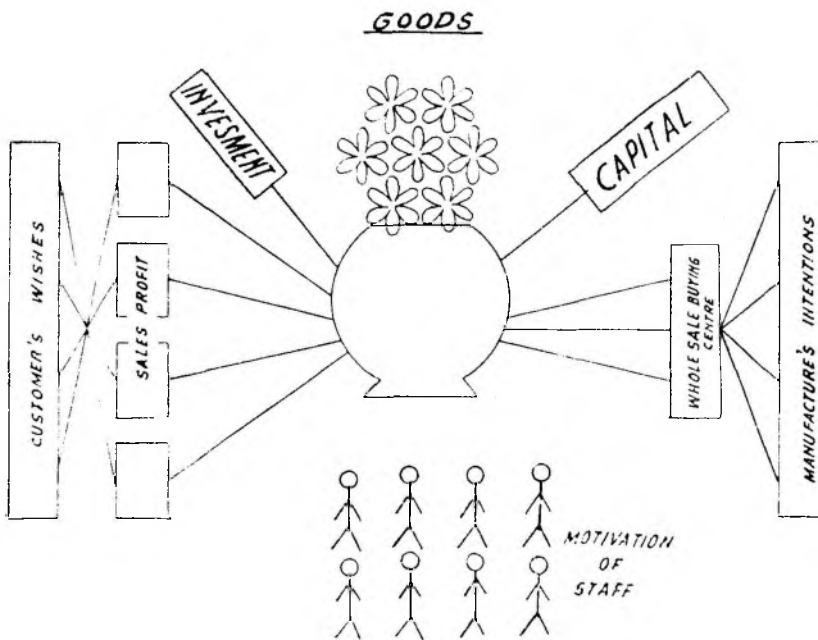
7.05.03 An essential requirement for the use of the budget as a working tool is that it should be undertaken as realistically as possible. In this connection it is also to be emphasised that store/departmental managers must be well-informed about profit/result requirements and about structural changes affecting retail outlets, changes in consumer purchasing power, price policy and the cost situation.

7.06 Budgeting Concept

7.06.01 The budgeting concept includes not only the actual drawing up of the budget but also the entire process which the budget gives rise to. The process can be divided into the following three stages:

BUDGETING

(AN EXERCISE IN PUTTING RESOURCES TO OPTIMUM USE)



- Drawing up the budget—the preparation of a (complete) budget for the current future period
- Carrying out the budget—the execution of the activities planned in the budget, in the budget period
- Budget control—comparison of budgeted and actual results for the budget period.

7.07 Preparation of the budget involves planning business activity for the budget period. The final stage here is the drawing up of budgets included in the local societies budget system. This stage in the process will be explained here.

7.07.02 For example, control in one budget period affects the drawing up of the budget in the next period.

7.07.03 Despite these inter-relationships, it is useful to employ breakdown into stages. Above all they provide a basis for a description of the budgeting operation and organisation and permit discussion of the affects of budgeting.

The Budget System

7.08 Budgeting is thus a process in time—the process of which use of a budget gives rise to. This process must be organised and steered by means of rules.

7.08.02 The most important of these are contained in the budget system. The budget system indicates the total budgets which are to be combined and the various sub-budgets which are needed for the construction of total budgets. The budget system shows which consequences have to be considered, what information has to be collected and what relationships exist between the various entries. The budget system steers and regulates the method used for drawing up the budget.

THE BUDGET SYSTEM

Sub-budgets and total budgets and the relationships between them. The budget system includes result/profit budgeting and financial budgeting.

7.09 The Operation and Organisation of Budgeting

7.09.01 The accounts department processes data from the

previous budget year and analyse it so as to provide top management and the Board with a sound basis for formulation of the society's objectives for the coming budget period and for determining pre-requisites for the budget.

7.09.02 Directives for the undertaking of the budget work can now be issued by the accounts department (budget department). These instructions are then sent, together with basic data for the budget work, to departmental and store managers with budget responsibility.

7.09.03 These managers are responsible for drawing up the budget. We shall return to this presently. A budget meeting is normally arranged in connection with presentation of these budget instructions.

7.09.04 This provides an opportunity for discussion of the coming work and of assumptions for the operations which are to be budgeted.

7.09.05 When the various departments' budgets are complete, they are put together and analysed by the accounts department.

7.09.06 Next, management must decide whether the operations and activities envisaged in the budget are going to lead to a satisfactory result and are desirable for the society.

7.09.07 If management approves the budget, it can then be passed to the Board for confirmation. If there is disagreement, about certain points, new discussions must be taken up with the departments concerned and in some cases special instructions may be issued. This means that the budget work has gone back a couple of steps and some of the operations already described must be repeated in order to complete the budget.

7.10 The work involved in budgeting can be split into—

- (a) Budgetary planning, and
- (b) Budgetary control.

Budgetary Planning

7.11 Budgetary Planning means—

- (a) the collection and preparation of forecasts and all relevant supporting data concerning the economical environment in which the society is operating;
- (b) collection of all available information about the society's past activities, its economic structure and its present capacity and resources;
- (c) breaking down the society's present and future goals and policies into economic terms;
- (d) from the information collected as above, working out sub-budgets (long-term and short-term) for the society's various activities, and from the sub-budget preparing on consolidated budget for the entire society.

7.11.02 The budget proceeds to determine the financial (economic) conclusion of the society's future plans and also the expected economic results that would follow out of the chosen alternatives of actions.

7.11.03 The budgetary planning can be split into two parts—short-term and long-term.

7.11.04 Short-term budgets are more detailed. They cover incomes, sales, production, procurement, gross profits, labour costs and other expenditure, net surplus, stock value, cashflow and capital investments,¹ etc. The short-term budgets are usually for a period of one month and concern the various lines of society's activities. The annual budgets are prepared on the basis of these monthly budgets.

7.11.05 The long-term budget cover the overall long-term decisions such as bigger investments, and are usually for a period of 5 to 10 years.

1. For long-term investment budget the reader is referred to Chapter III—Feasibility Study in "Sale—A Profile: An Introduction to Sales Management in Retailing" by R. Arvidsson and S. Dandapani. ICA 1972.

7.11.06 The first and the most important of the budgets to be prepared is usually the Sales Budget which is again split up into sub-budgets for the various products (sections). From the sales budget, production, purchase and costs budget are prepared. From these basic budgets, the requirements of capital for investments in machinery and equipment etc. are estimated. The net surplus together with some other necessary lines of the society's economic activities must also be budgeted.

7.11.07 Budgetary planning¹ is, thus, a control device ensuring that all possible steps have been taken to try to avoid any situation or factor which might interfere with the society's future activities and which could not have been discovered if the budget had not been drawn up and prepared in a systematic way.

7.12 *Steering Coordination and Control*

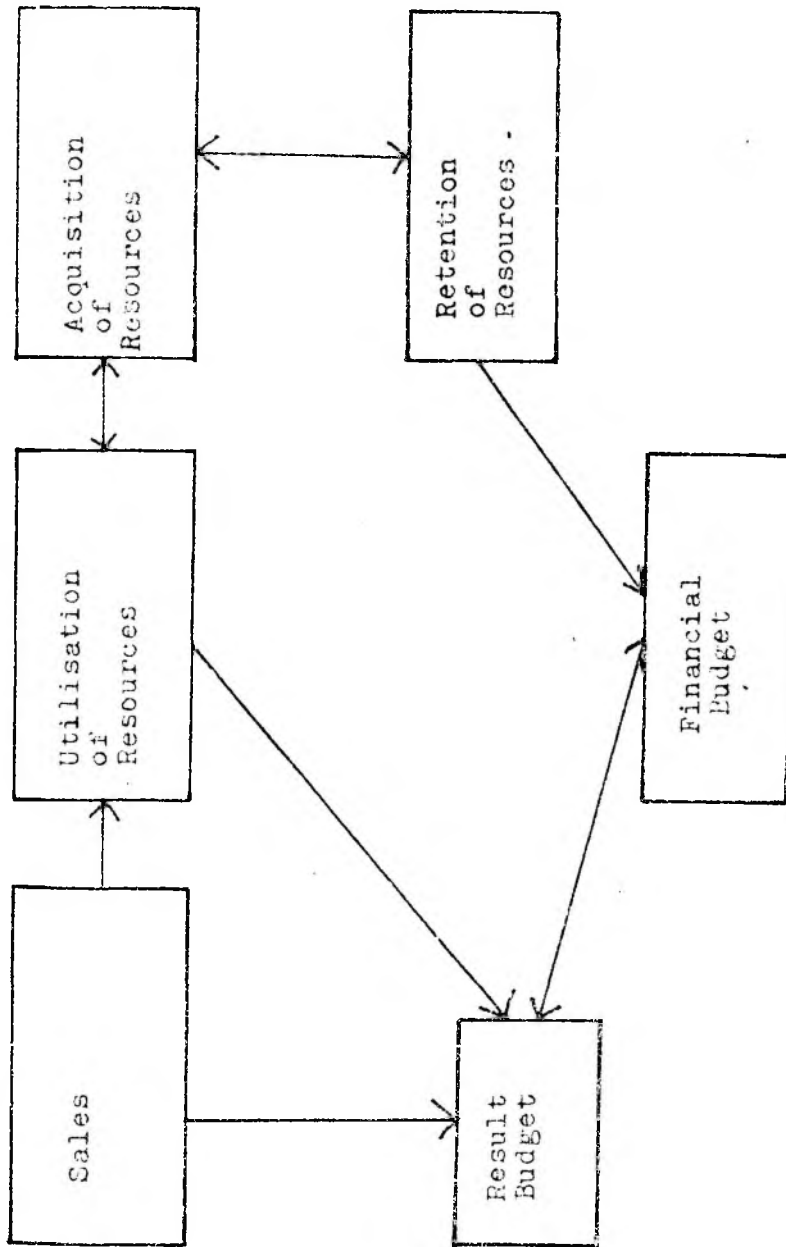
7.12.02 The budget, as has been stated already, is a tool for steering the organisation towards the economic goals which have been established. The budget expresses expectations for the period in question.

7.12.03 Achievement of the goal, through the budget, involves steering activity. By means of continuous control of actual results, steering impulses are fed in, month by month, in the course of the execution of the budget.

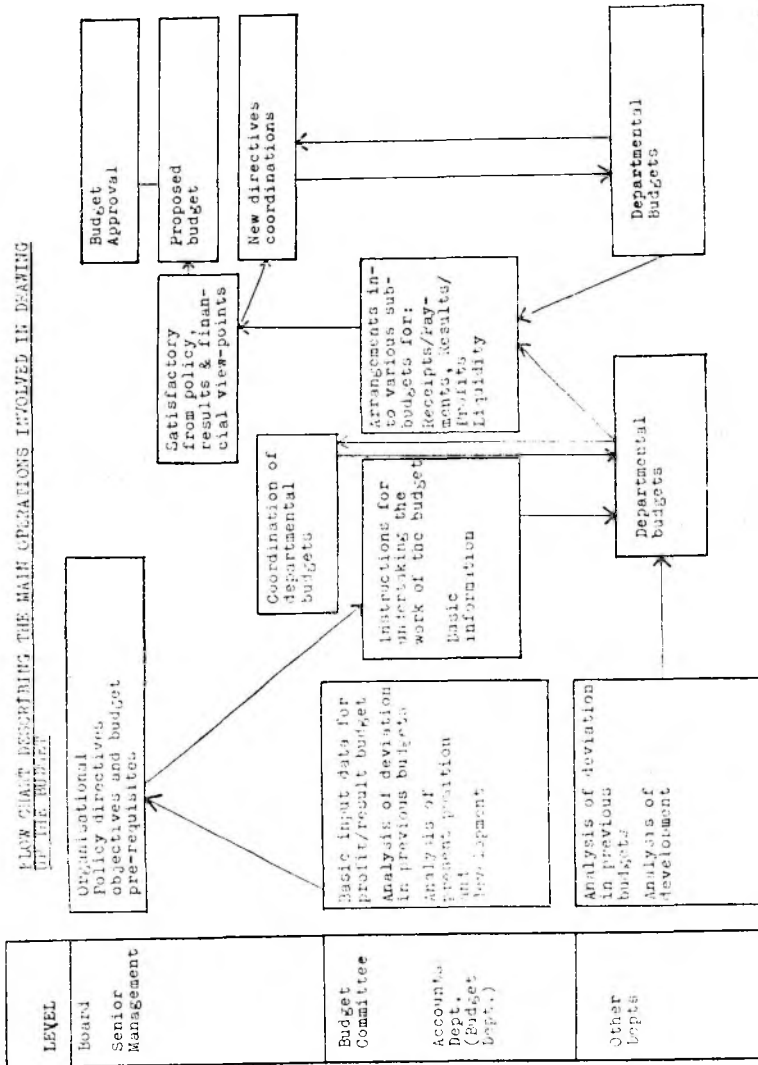
7.12.04 It has already become clear, in the course of discussions of the budgeting operation and its organisation, that budgeting means coordination. There is coordination of the various departments' decisions regarding planned activity and the utilisation of common resources. Coordination of resources and planned activity is essential.

7.12.05 The solutions to the various sub-problems involved in planning are dependent on each other. The various decisions influence each other.

1. Budget planning includes the provisions of a cash-inflow-out-flow. Budget determining objectivity, the "Source and Use" of capital with an eye on Productivity and Profitability.



BUDGET SCHEDULE



Steering influences and behaviour of the managers concerned within the organisation.

The Budget has a Steering Effect both on planning and on the execution of plans.

Coordination of common resources and of departmental measures within the total activity.

7.12.06 What are the various budgets that may be of interest to a cooperative society?

7.12.07 The sales budget shows turnover, as calculated, day by day, week by week, month by month and finally summarised for the whole budget period (the complete year).

7.12.08 The purchasing budget shows the value of purchases needed to achieve anticipated sales. The purchasing budget is dealt with under the heading "Storage/stock economics."

7.12.09 The payroll budget indicates calculated personnel costs in accordance with staffing plans, which must, of course, be tailored to fit sales volume, the standard of service that has been decided upon and any other decisions affecting service.

7.12.10 The advertising budget shows the planned costs for the various competitive tools that can loosely be described as advertising e.g. press advertising, window-dressing, supplies, posters, miscellaneous advertising and wages.

7.12.11 The result/profit budget shows anticipated results where the value of the above budgets and remaining budgeted traceable/direct costs and receipts are added.

7.12.12 Other forms of activity also need to be planned. The society has costs for personnel training and recruitment, for example, which need to be budgeted and included in the result budget.

7.12.13 Payments and receipts which do not influence results for the period under consideration must also be planned. Cash reserves are planned in the liquidity budget.

All resources of income and payments must be taken into account here.

7.12.14 Do sales have any connection with the liquidity situation?

7.12.15 The budgets dealt with above are all short-term. The society also makes use of long-term planning to form objectives and steer development. Plans for extended future activity lead to investment. Thus investment budgets¹ must also be prepared so as to be able to assess the measures which have been planned and, when they are due to be carried out, to deal with them in the short-term budgets.

7.13 Result Budgeting—Departmental Store Description of the Situation

7.13.01 When commencing budget work, it is important to be clear about which factors are going to affect business activity in the budget period so that the various requirements can be taken into account and the necessary assessments made.

7.13.02 Factors Involved in a Description of the Situation

- anticipated inflation
- anticipated changes in the level of consumption
- local population changes/movements
- the local competitive situation
- market objectives
- competitive methods: price policy, product range, advertising
- personnel changes
- rationalisation of departmental/store working routines and equipment
- changes in opening hours
- number of working days in coming periods
- public holidays

7.13.03 The various factors listed above are mostly of the type where change occurs continuously. It is necessary,

1. See Chapter III, Feasibility Study in "Sales-A Profile: An Introduction to Sales management in Retailing" by R. Arvidsson and S. Dandapani, ICA 1972

therefore, to understand past development and to anticipate future changes.

7.13.04 As can be seen, it is a question of both internal and external factors. Many of them are hard to assess.

7.14 *Analysis of Internal Factors*

7.14.01 Various kinds of reports are produced in accounting work.

7.14.02 Information which is of value in planning work can be gathered by means of analysis of available sources.

7.14.03 What does the development of the turnover look like? Can any trend be spotted? What can be expected in the future?

7.15 What does the sales combination look like? Is there any reason to try and influence the product-mix? Can certain changes in the product-range alter (my) economic assumptions?

7.16 *Decision with Economic Consequences*

7.16.01 Where budgeting is concerned, the essential thing is to arrive at alternatives which can be decided on and put into effect.

7.16.02 Decisions are concerned partly with how the development of costs, within the society (store etc.) is to be steered and partly with which competitive tools are to be used.

7.16.03 Examples of competitive tools are: the product range, pricing, the sales method and advertising.

7.16.04 As far as the product range is concerned, it can be stated that this is of decisive importance when considering what volume of costs can be covered, since various product groups have different mark-ups.

7.16.05 A greatly simplified example follows which illustrates the effect various sales mixtures have on the economic result.

7.16.06 In the example, the total departmental share of sales has been used to illustrate the problem. Obviously it would be equally important to explore the sales mixture within each department. But since so many product groups are involved, it would make an example of this type far too complicated.

7.17 *The Effect of the Product—Mix on the Store's Average Margin (Mark-up)*

	Margin %	Share of Sales %	Turnover (in thousand)	Margin (in thousand)
Dept. 10	30	30	300	90
„ 21	40	25	250	100
„ 23	38	15	150	57
„ 28	35	30	300	105
Store Total	35.2	100	1,000	352
Dept. 10	30	40	400	120
„ 21	40	20	200	80
„ 23	38	15	150	57
„ 28	35	25	250	87.5
Store Total	34.5	100	1,000	344.5
Dept. 10	30	50	500	150
„ 21	40	15	150	60
„ 23	38	15	150	57
„ 28	35	20	200	70
Store Total	33.7	100	1,000	337

7.17.02 Regard the example as a model only. When used for a department with all these different product groups it supplies impulses which tend to influence sales. The object must be to plan changes which improve the economic position, through good knowledge of the sales structure.

7.18 Pricing is the competitive tool which leads most quickly to reprisals/counter moves. It is the tool which competitors can copy most easily.

Price cut or increase in variable direct cost	If present coverage is :					
	14%	16%	18%	20%	22%	24%
	turnover must increase by : %					
2	16,7	14,3	12,5	11,1	10,0	9,1
4	40,0	33,3	28,6	25,0	22,2	20,0
6	75,0	60,0	50,0	42,9	37,5	33,4
8	133,3	100,0	80,0	66,7	57,1	50,0
10	250,0	166,7	125,0	100,0	83,3	71,4
15	—	1500,0	500,0	300,0	214,3	166,7
20	—	—	—	—	1000,0	500,0

7.19 Sales Budget

7.19.01 Assuming that the sales forecasts are in accordance with the policies and market conditions, the Sales Budget is the most important and at the same time the most difficult to forecast.¹

7.19.02 The sales budget provides the basic information for the working out of financial budgets and production budgets.

7.20 Production Budget² (Assuming that the production is interlinked with sales estimates).

7.20.01 Production budget is based on the sales budget and the manager in charge of production has to express the sales budget into machine hours, man hours, storage capacity, etc.

7.20.02 While preparing the production budget, the Manager may sometimes discover that some of the products and their volumes are not feasible (inconvenient) from the point of view of production as the production capacity (machinery) cannot be fully and profitably utilised. Such a situation must be discussed with the management, and the outcome of such a discussion may be—

1. For details, the reader is advised to refer to Chapter XVII of "Sales—A Profile: An Introduction to Sales Management in Retailing." by R. Arvidsson & S. Dandapani, ICA, 1972.

2. Production budget is relevant to a situation where production activity is undertaken by the organisation as a means to retailing.

- (a) that the sales budget will have to be revised and adjusted according to the machine capacity;
- (b) that money may have to be invested in buying new machines;
- (c) that some parts of the goods may have to be bought from some other societies in a semi-processed conditions;
- (d) that production will have to be stepped up by introducing shift hours;
- (e) that the product mix may have to be changed; and
- (f) that the present production of one particular article may have to be altogether stopped and this article bought from some other source.

7.20.03 To be able to make these budgets and also to ensure that the total resources are utilised in the most economical way, a great deal of detailed calculations have to be made with regard to production mixture, utilisation of machinery, material cost, labour cost, time schedule, etc. For these very detailed budgets and analysis of the Break-Even System (BES) is very useful.¹

Purchase Budget

7.21. (Assuming that purchases are interlinked with production and sales).

7.21.01 The cost of storing goods is often very heavy as the interest on borrowed capital for purchase of goods stored is very high (8-10 per cent), which means that in the first case, a stock turnover of two times, costs 4-5 per cent of the stock value by way of interest. This is to be compared with the very low margin of profit (7-12 per cent) in retail business. Apart from this, there are many risks involved in storing of goods such as damage caused to some parts of the goods, and effect on demand caused by change of fashion, or introduction of new articles in the market. This indicates

1. See Chapter X—Break Even Analysis.

the imperative need for a tool which can control the purchase and to see that the goods are purchased in right quantity, delivered at right time and at right price.

7.21.02 Purchase budgets have to be worked out on the basis of the production and sales budgets which furnish information regarding raw materials, components to be purchased, so that the Purchase Manager can decide when, where and in what quantity to buy these goods. The credit period allowed and the amount falling due for payment will also have to be taken into consideration as this provides the basic data for the finance budgets.

Expenditure Budget

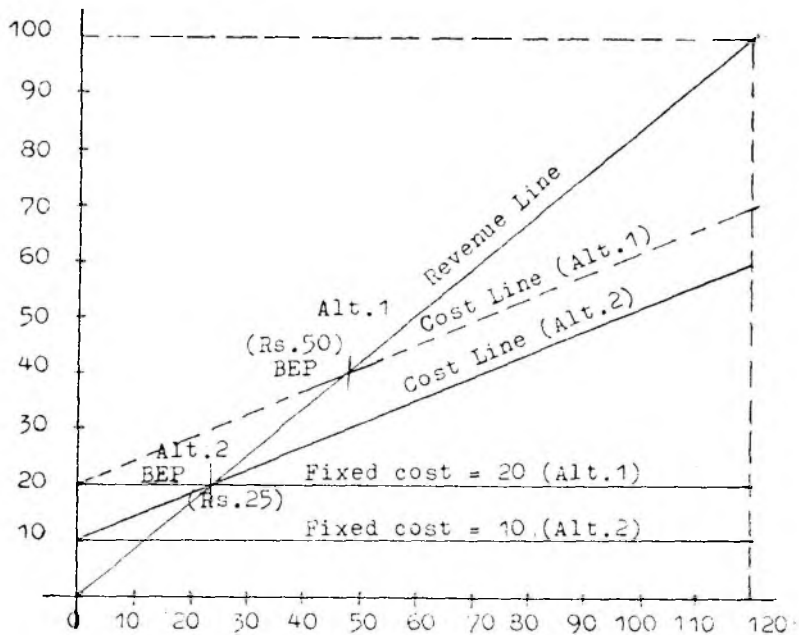
7.22 (Assuming that the expenses involved are in line with the estimated sales and production).

7.22.01 Expenditure budget covers cost of labour, cost of material, stationery, interest, rent, depreciation, overheads, etc. It is to be recommended that these costs are met according to their behaviour with volume (fixed and variable costs) as this makes it possible to utilize the break-even system. A basic question for the management is the structure of the costs of the society as this affects the outcome of the result.¹

7.22.02 As can be seen in the following chart, the combination of the fixed costs and variable costs affect the position of the break-even point and the society's power of resistance (Alt. 1). A higher fixed cost results in a higher break-even point, and a lower power of resistance, but a higher profit on the profitable part of sales: (Alt. 2) while a lower fixed cost results in a lower break-even point and a higher power of resistance, but a lower profit on the profitable part of the sales. For example, if a society wants to decide whether it should have higher manual production than mechanical production, or vice versa, the above mentioned formula will be of importance.

7.22.03 The expenditure budget also provides the basic information for preparing financial budget.

1. See Chapter II; Income-Expenditure.



Financial Budget

7.23 (Assuming that necessary money is available at the right time to meet the expenses and investment.)

7.23.01 Money is needed to start a business and some fixed amount is required for investing in assets such as inventory, cash, equipment, building, etc. But to keep the business going, additional capital is required to support additional sales.

7.23.02 A society should be supported by fixed and variable capital to the same extent as the business consumes fixed and variable expenses.

7.23.03 The most carefully prepared plans are sometimes incapable of fulfilment if adequate funds are not available at the right time. Therefore, preparation of costs budget is of paramount importance for short-term budgets and especially for long terms as the aims of all societies are planned and cautious expansion is impossible without funds.

7.23.04 The basis for the financial budgets is the sales and income budgets, expenditure budgets, purchase budgets and also the long-term budgets for the development of the society.

7.23.05 The net surplus should be estimated from the budgets concerning the business volume and expenditure. This budget also forms part of the finance budget, as out of surplus, as much as possible should be kept in reserve funds to create owned capital for future investments and expansion of the societies business activities. It is necessary to stress the need for creating a surplus within the cooperative society in order to create its own funds which is one of the important ways to establish an independent cooperative movement.

7.24 *Budgets for Research and Development of the Society's methods and products and budgets for training of staff and members*

7.24.01 These budgets are in reality an investment for the future development of the society, although they could be treated as annual expenses.

7.25 *Budgetary Control*

7.25.01 Budgetary control is the activity of using the budgets as a management's tool for —

- (a) guiding the management in economic decisions;
- (b) assessing and evaluating the progress made towards realising the budgeted goals and standards so that corrective action could promptly be taken to the extent possible when performance falls below budgeted levels.
- (c) judging the implications for other departments and activities whenever any department or any activity deviates or departs from its budgeted course.
- (d) acquiring increased knowledge and judgment for improving the qualities of budgetary planning in future.

7.25.02 The idea behind budgetary control is that the Manager should use the budget as a guide for taking various decisions. When he is guided by budgets, he can—

- (i) compare the results achieved with the planned targets through regular statements or control reports in respect of each department or line.
- (ii) calculate how the results of a particular action are keeping pace with the budget, and the deviation, if any, from the budget.
- (iii) analyse the reasons for the deviation from the budget.
 - (a) perhaps the budget has been too optimistic or too pessimistic.
 - (b) perhaps some events have taken place in the social and economic environments in which the society is operating and in which circumstances, it was impossible to make any forecasts, e.g., too heavy monsoons, export restrictions, etc.
 - (c) perhaps the Management and the staff have not applied the required skills, time and ideas to achieve the budgeted targets.

7.25.03 A useful “rule of thumb” for budgetary control reports is that they should be made available for managers in evaluating and improving their performance, not later than the first half of the next control period. This makes it possible for the Managers to improve their performances in the period immediately following the period last reported on.

- (iv) as a result of the analysis of these budgetary control statements:
 - (a) action can be initiated to bring the achieved targets during the period immediately following through necessary changes in the pricing, production, assortment, personnel and customer policies.
 - (b) steps can be taken to adopt the budgets to changed market conditions.

7.25.04 If there are sizeable deviations in the budgets, future budgets will have to be adjusted so that they are up-to-date. It is very risky, from the point of view of the management to make use of the budgets which are not adjusted to the changed conditions, as guides for future decisions.

7.26 The attached budgetary control statements have been prepared in accordance with what has been suggested earlier. These statements indicate, among others—

- (a) Sales have increased by $200 \div 20$ per cent. As mentioned before, sales budget is the most important budget, but also the most difficult one to forecast. (This increase in sales could be of a temporary nature due to some "special offer" which one did not know anything about when preparing the budget, and/or the competitors' sales policy has become ineffective. It could also be due to changes in the market e.g. more people moving into the area, or competitors closing down their business).
- (b) that *direct labour costs* have increased by 80 per cent. It means that with an increase of 20 per cent in sales, there has been a corresponding increase of 80 per cent in labour costs. It indicates that the maximum capacity (optimum) for sales has already been reached and any increase in sales will probably be not economical as the profits earned due to increase in sales are offset by increase in direct labour costs. The existing sales in this very case have not been profitable due to too high an increase in labour costs. If the increased sales are not of a temporary nature, some action will have to be taken to improve the society's capacity through investing in additional equipment.

7.26.02 These figures can also indicate reorganisation of the department, changes in sales policies, personnel policy and customer policy, etc.

- (a) that *direct material costs* have increased in line with the increase in sales. This shows that the sales mixture (product mix) so far as the gross surplus is concerned, is the same for the additional sales of 200.
- (b) the *net surplus* has decreased from 50 to 20 which is 40 per cent. This indicates that the net surplus has not declined even though there has been additional, sales, on account of the increased labour costs.

- (c) The *Break-Even Point* has climbed from 750 to 1070 due to increased direct labour costs which means that the profitable part of the sales has decreased.
- (d) The *Margin of Safety* has decreased from 25 per cent to 11 per cent due to climbed break-even point which means that the society's power of resistance has decreased by 14 per cent.

7.26.03 These changes in this budget will probably affect the future budgets also. This means that necessary changes have to be carried out in the present budgets in order to prevent mistakes in future decisions.

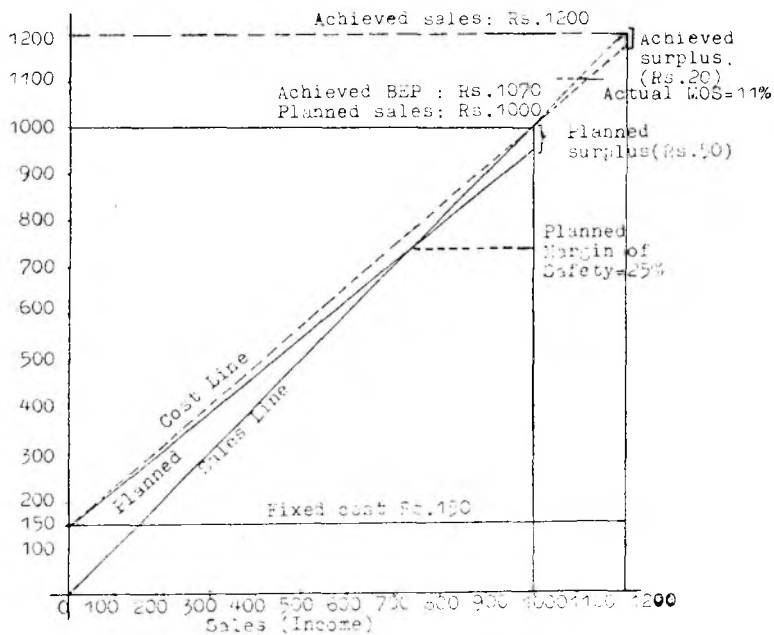
- (a) Necessary changes in the society's policies have to be taken for the period immediately following in order to correct and adapt the society's economic structure.
- (b) Necessary changes have to be made in the budgets in order to bring the already worked out budgets in line with the changed situations.

7.26.04 These budgetary control statements indicate that it is just not enough to know about the development of sales (income), but it is also essential to know the expenses. In fact, this society would have sold itself into bankruptcy if the budgetary plans and budgetary controls had not been properly worked out. But still the budgetary control statements only tell the management what changes have taken place in the planned economic structure in comparison with the actual economic structure.

7.26.05 The analysis explains the reasons for the deviations. Then the managements have to take necessary decisions regarding the adoption of the present targets, policies and budgets to the changed situation.

BUDGETARY CONTROL STATEMENT

	Budget data		Achieved data		Deviation	
	Amount	Amount	Amount	Amount	Amount	Amount
<i>Sales</i>	1,000	100	1,200	100	+200	+20
<i>Variable costs</i>						
Direct labour	100	10	180	15	+80	+80
Direct material	700	70	840	70	+140	20
<i>Fixed Costs</i>	100	10	100	8	—	—
<i>Overheads</i>	50	5	60	5	+10	+20
<i>Net Surplus</i>	50	5	20	2	30	40
Contribution Ratio		20		15		-5
Break-even Point	750	—	1,070	—	+320	—
Margin of safety	—	25	—	11	—	-14



7.27 Budgeting in Controlling and Evaluating the Staff

7.27.01 In a society which is operating on a big scale, the management must delegate powers and responsibility to the staff working in the society. The duties and responsibilities attached to the position are usually stated in his or her job-description, but a budget is also needed as a complement to this job-description so that the individual will know what the management expects of him/her.

7.27.02 This method of utilising the budget as a complement to the job-description will enable the management delegate powers, responsibility and authority, and to control that these powers are not misused. This will also help the management to evaluate the performance of the staff members which is very important for the future so far as work organisation, job analysis, recruitment and promotion procedures are concerned.¹

7.27.03 From the point of view of the individual staff members also, the use of budget for stating targets, economic frames and controlling his or her performance is of great importance and in fact will stimulate him to put in better performance, because he would feel more involved in the society's business and also the importance of his role in the business of the society.

7.27.04 The members of the staff would like to know what the Management expects from the staff, and the best way of expressing these expectations is in the form of economic results. So far, the absence of these things has been a real bottleneck in many societies and the maximum utilisation of the staff has not been achieved.

7.28 Budgeting if properly applied, can be a very valuable and effective tool in the hands of those who are in charge of the business. It is however not without dangers. Much skill and intelligence has to be exercised both in the preparation and implementation of the plans to attain the goals set in the budgets.

1. See "A Study of Personnel Management in Selected Cooperative Super Markets in India." R. Arvidsson and K. K. Taimni, ICA, 1971.

7.28.02 The budget is only a framework and must not be allowed to hinder, by undue rigidity, the development of the society. New opportunities must be grasped and the budget must not be used as an excuse for rejecting them.

7.28.03 Effective planning and control is a continuous process, and should be exerted with the same force when the sales are up as when the sales are down. The management probably work harder to prevent a 5 per cent loss than they do to generate a 25 per cent surplus, and unfortunately, in some societies when business and surplus are good, the management slackens its control.

7.28.04 The use of management tools by the Cooperative Movement is of vital importance as the societies activities are dynamic, and conditions both inside and outside are constantly undergoing change which calls for dynamic decision making and skilful performance by all the members of the staff engaged in the society's business.

7.29 To satisfy the statutory formality, some kind of a budget is made by most consumer cooperatives in the Region. But they are neither prepared with the care and attention they deserve, nor are they followed. In reality, the budget preparation is not given any attention much less to use it as a management tool. Budget has a close connection with the sale forecast, and sales promotion activity and is meant to stimulate growth. Consumer Movement in the Asian Region with the exception of Japan, is yet to use the budget as a management tool.

CHAPTER VIII

INVENTORY

8.01 *Introduction*

8.01.01 An important function of a society is securing goods and considerable time, attention and energy are required to be devoted on this.

8.01.02 Purchasing is a specialised activity and as a rule should be left to experienced salaried managerial staff—the Board Members should only lay down the broad policies for guidance.

8.01.03 Customers get annoyed if there is no continuity in supplies and often shift their patronage to other shops. A customer lost is lost for ever and should be prevented.

8.01.04 The right quality of assortment in the right quantity at the right price from the right source at the right time should be the important guiding principles in the purchase of goods.

8.01.05 The society must decide what it wants to sell. It must have an assortment policy and purchase all those articles which are covered under such a policy.

8.01.06 Since the assortment changes from time to time and place to place, and depends solely on the customer's demand, purchases must have direct relation to the changes.

8.01.07 New articles enter into the market in large numbers and within the framework of the assortment policy, they should be analysed giving a large consideration to consumer preferences.

8.01.08 The customers get annoyed when they do not get all the requirements from the shop regularly and therefore sufficient quantity of goods should be stocked. At the same time the risk of over-stocking should be borne in mind.

8.01.09 Careful planning and knowledge of customers future demand is necessary to strike a balance between the two. The success of the management depends on its skill to anticipate the likely sales in a given future period—a week or a fortnight, and then make its purchases to meet this demand for this period with marginal adjustments.¹

8.01.10 Bulk procurement for longer periods should generally be left to the Federal Bodies.

8.01.11 The purchase price should be such that the selling price may be acceptable to the customers. At the same time it should leave enough margin to meet the over-heads and create a little surplus.

8.01.12 Right price² does not necessarily mean the lowest price but the price which will help in selling the goods at acceptable rates to the consumer.

8.01.13 It will be helpful if at the time of purchasing the ruling retail rates of the article and other likely costs incurable on it are taken into consideration. Such a backward calculation from selling rate help the management in finding out the right purchase price.

1. *See* Chapter IV Capital—Source and Use and Chapter VII Budgeting.

2. *See* Chapter III Result-Oriented Price Determination.

8.01.14 Locating the right source for making the necessary purchases is important:

- for purchase of agricultural commodities, the Apex Federations and local cooperative marketing societies;
- for purchase of branded articles, the manufacturers or their principal stockists should be approached;
- for purchase of cloth, Apex Federations and wherever necessary mills or their principal stockists will be the source. Competition in such big items is severe and rates should be competitive.

8.01.15 In case of other articles attempts to approach the producer/manufacturer/supplier should invariably be made.

8.01.16 A minimum stock of each article should be fixed based on the demand and the time required for its replenishment *i.e.*, the time required for processing the order, the time taken by the supplier in executing the order, time taken by the transport agencies and the time taken in delivering the goods to the sale point.

8.01.17 When to buy?

- when the stock approaches the minimum level, the godown keeper should take necessary steps to re-order;
- when a special new item is demanded;
- during the harvest season in case of agricultural commodity when the rates are lower.

8.01.18 Remember: when the goods are ordered the sales are already decided as one cannot sell more than what he has in the stock.

8.01.19 Who shall buy?

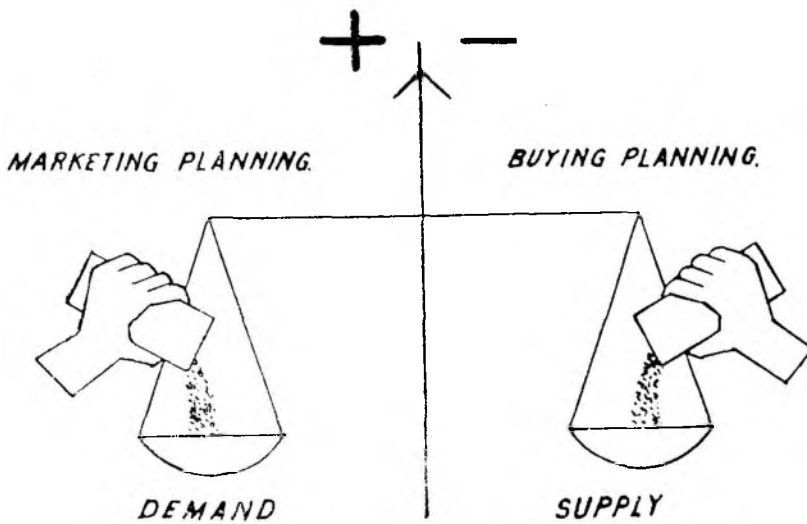
The paid executive

- (i) the purchase manager
- (ii) the department manager
- (iii) the sales supervisor/salesman

8.01.20 Where a committee of elected representatives is entrusted with the task of purchase, the paid staff including the manager and salesmen should be closely associated with the purchasing.

8.01.21 Purchase is a technical field and a layman cannot

PLANNING THE PURCHASES



do justice especially when quality, changing fashion and prices are concerned.

8.01.22 Buyer must know

- who are the customers of the shop?
- the demand at a given time/season
- the normal sales
- the quality and the price range demanded by the customers.
- the source of supplies.

8.01.23 In order to avoid last minute rush it is important to plan the purchases well ahead of time and there should be a system of regular communication between the sales staff and the buying organisation in the society.

8.02 *Stock Control*

8.02.01 The Board and the manager of a consumer co-operative society are responsible to handle the property of the Society *i.e.*, property not belonging to them, but to the members. Any dishonesty or carelessness will have disastrous consequences. The stock-in-trade is, as a rule, the biggest item among the assets of the society. It is also an asset which fluctuates in value, often from day-to-day. A careless investment treatment and, sometimes dishonesty, might easily cause losses to the society. Money is comparatively easy to control, not to mention buildings and equipment.

8.02.02 The purpose of stock control, among other things, is:

- (i) to reduce the costs involved in handling the stock.
- (ii) to detect the shortages regularly and quickly.
- (iii) to make it possible to calculate stock turnover and stocking-days.
- (iv) to work out operational results of the shop/department.
- (v) to safeguard the employees against unfair judgements so far as dishonesty and carelessness are concerned.

8.02.03 Control of stock requires a special system, and at present the following two systems are in operation:

- (a) Value Control system
- (b) Unit Control system

8.02.04 (a) *Value Control System*

The basic principle of Value Control System is simple. It works just as an account in a ledger—what comes in is debited,—what goes out is credited. In a shop however, there is one value on the goods when it comes in *i.e.*, the *buying price* (the price paid to the wholesaler) and another value when it goes out *i.e.*, the *selling price* (the price charged to the customers). Obviously, the only way of achieving an exact control of the stock, is to use either of the two different values, and the most convenient one is the gross value (selling price).

All accounting in respect of stock control should be done in terms of gross value—selling price resulting in a gross value control system (GVC).

Gross Value Control System

8.02.05 The GVC System is already prevailing in a number of societies for stock accounting in the shops as well as go-downs. Under the system, the account of stock is kept in terms of money value. By debiting or crediting all transactions affecting the stock in a specially kept Stock Control Report, one can at any given time know, what the exact value of the stock should be. Normally, the balance of that report should be calculated at the end of each month and the balance as per the report should be checked against the actual value of the stock by means of physical stock-taking.

8.02.06 The “In-transactions” to be debited in the Stock Control Report are normally:

Stock at the beginning of each month

<i>Deliveries</i>	Everything that has been delivered to the shop should be debited at selling prices irrespective of whether it has been paid for or not.
<i>Price increases</i>	Sometimes the price has to be increas-

ed on some goods, which are already in stock and which are already debited at the original price. In such a case the total amount of increase (number of units multiplied with the difference between the old and the new price) must be debited in the Stock Control Report.

8.02.07 The “Outgoing-transactions” to be credited in the Stock Control Report normally are :

<i>Sales</i>	This is the biggest item on the credit side and even if the goods have been sold on credit (which should be an exception in a cooperative shop) such goods must also be included in the total sales together with the amount of cash sales.
<i>Return of goods</i>	Goods returned to the supplier for one reason or the other must likewise be credited, if already debited in the Stock Control.
<i>Price reductions¹</i>	Same reasons and procedure as in the case of price increases, though it is now a matter of crediting.
<i>Damaged goods</i>	Goods in stock might be damaged or go bad or become unsaleable for some reason or the other, and it has to be thrown away. The Manager may credit such losses in the Stock Control Report, but the management should take special interest to keep this under control.
<i>Goods used in the shop</i>	A broom for sweeping the floor, a piece of soap for the washing room,

1. Usually the price reductions are preceded by a procedure laid down by the society.

a bucket used as a container—all such things taken out of the stock for use in the shop reduce the value of the stock and must consequently be credited debiting the contingencies account of the shop.

8.02.08 For each of the above mentioned transactions, separate proformas and ledgers could be maintained.

8.02.09 The advantages of the Gross Value Control System are :

- (i) *An economic system* : The Stock Control Report can be done away with completely from the shops, which can result in considerable savings to the shop, and reduce the operational costs *i.e.* lesser number of employees, reduced administrative costs, better utilisation of the space in the shop.
- (ii) *A modern system* : The system is in line with the modern trends in the distributive trade all over the world and provides useful information required for managerial decisions such as :
 - (a) the rate of stock-turnover can be easily calculated,
 - (b) viability of a branch can be ascertained and investment in money value in particular branch can be restricted to a pre-determined limit easily etc.

8.02.10 The system also provides the basic information required for budgetary planning and budgetary control. The system gives the value of the stock in a shop at selling price, without which measurement of profit, cost-profit ratio and other useful information, may not be easily calculated.

8.02.11 The system is easy to work with, simple to understand and sound enough to control the stock.

8.02.12 Another point in favour of this system is that frequent physical stock verification becomes easy.

8.02.13 (b) *Unit Control System*

The Unit Control System is an elementary system, under which stock registers with one folio given to each individual article in the shop, are maintained. Alternatively, index cards could also be used instead of register. Stock received from the suppliers is entered into one column and the sales effected every day are entered progressively in the second column. The difference of column one and two gives the stock-in-shop on any day. The system looks simple, but the difficulty arises only when the sales effected during the course of the day have to be classified article-wise, to complete the stock registers. Also when the number of articles increases to 500 to 1000 or 2000 articles, one can understand that it is an extremely heavy system to put into operation, as it amounts to lot of labour. In many stores where this system is in operation although the investments and labour, etc. are very heavy, is not working properly. It is time consuming, laborious and costly. It hinders the expansion of the society. Of course, if every item is given a code number and computer is used in the stock control, this system could be of immense importance not only in stock control but also in matters pertaining to purchasing, checking of slow-sellers etc. Such a system is being tested in Sweden at present.

8.02.14 However, the present Unit Control System could sometimes be combined with the Gross Value Control System for some particular items which are rather expensive and difficult for the Manager to check in the assortment. The Unit Control System could be implemented for these items in addition to the Gross Value Control System.

8.02.15 Most of the difficulties are common to both the systems and therefore, as will be seen from above, the Gross Value Control System could be adopted in all the consumer cooperative societies to cover the stock accounting in the shops as well as godowns.

8.02.16 *Discipline and routine* for controlling the stock have to be maintained in the society, otherwise there are possibilities for the salesman :

- (i) *to replace some of the articles* and in some of the stores following the Value Control System of stock accounting instances are quoted where fast-moving items have been removed with slow-moving items by the sales staff, because they knew that no item-wise record was maintained and as long as the value of retail inventory tallied with the register, its action cannot be detected.
- (ii) *to have possibilities to sell goods to customers* without issuing cash memo or receipts and in that case there is every possibility of using this money for buying goods from a wholesale market and replacing it with the part of the stock sold during the day. The margin can in that case be pocketed by the salesmen.
- (iii) *overcharging the customers by the sales staff.* It is rather easy for the salesmen to change the price tag of various articles etc. so that the customer may pay a higher price for the articles.

8.02.17 It will be observed from the above that it is extremely important to have a proper supervision on the stock and the employees in the shop. The following measures to ensure proper supervision are necessary :

- (i) *Appointment of the supervising staff* with the duties not only to supervise and control the general working of the shop, but also to advise on display arrangements, sales promotion activities, to look to the hygienic conditions, to ensure proper stock levels and regular indenting and to act as contact-man between the management and the employees in the shop and stimulate them to become good salesmen.
- (ii) *Branch Advisory Committee* : The participation of the members and consequently their involvement within the affairs of the stores is important. Creation of Branch Advisory Committee in each shop in Sweden has resulted in the improvement and working of the branches and has reduced the temptation

of mischief among sales staff. There are also certain other advantages of such Committees, as the members feel more involved in the management of the society.

- (iii) *Surprise checks* : Surprise checks of the branches are necessary. The checks could be of two types. In the first case, physical stock verification may be conducted in the shop without conveying a prior intimation to the Shop Manager. Calculation of the value of the stock and subsequently tallying it with the control registers, will reveal discrepancies, if any. Another alternative is that the unit control is maintained in the Head Office in strict confidence in respect of few articles for very short periods and balance shown in this register may be constantly compared with the actual stocks in the shop.

Both the systems, supplemented by an element of surprise and confidence are likely to keep the sales staff careful and warned at all the times.

- (iv) *Responsibility* : The objective of stock control is to see that business is run on sound lines. Basically, there are two systems for the fixation of responsibility, open before the management of the store: (a) the Shop Manager should be responsible for the stock, and (b) all the employees working in the shop individually or jointly responsible for the stock.

8.02.18 Out of these alternatives, the one mentioned at (i) above is probably the most suitable in a retail shop. However, the Shop Manager should not be responsible for the shortages as a whole, but he should be responsible for achieving the targets indicated in the budget, such as sales, gross surplus and net-surplus and in that budget, *the shortages should be treated as an expense* in the same way as rent, interest and salaries.

8.02.19 Of course, it is extremely important that shortages are reduced to the minimum, as this is the only cost out of which the society is not going to gain anything. To be able

to have the Branch Manager responsible as mentioned above, some major concessions have to be allowed and given to him :

- (a) He should be allowed genuine shortages upto some amount or percentage of sales.
- (b) He should be involved in the selection and termination of the staff working under him.
- (c) He should be treated as a master of the shop with all employees answerable to him.
- (d) He should always be given a reasonable and fair chance to explain his position in case some major shortages or other problems occurs in the shop.
- (e) He must have the right to check the stock-in-trade in the shop in a manner suitable for him.

8.02.20 None of these concessions are major concessions, but when put together, they have a tremendous contribution towards making the Branch Manager sufficiently powerful and strong for the purpose.

8.02.21 As regards alternative (b) mentioned above, there are some practical difficulties in holding all the employees individually or jointly responsible. For example,

- What will happen if one of the salesmen goes on leave or is taken ill?
- Who is going to be responsible and is he equally responsible in case shortage takes place in his absence?
- Is a man with individual responsibility ready to take somebody from some other section of the shop or department to help him during peak hours?
- Is he ready to leave his section for which he is responsible to help another salesman in another section during peak hours?
- Can self-service or self-selection be implemented which means that the departments/sections are opened for everybody in the shop? If so, how to separate and distribute daily sales among the various departments/sections.

8.02.22 To overcome difficulties and to streamline the working of the shop, it is extremely important that the senior man on the spot (the Shop Manager or the Department Manager) be made responsible for the stock-in-trade. This will help in adopting new methods of retail distribution such as selling goods through Super Markets and Self-Service Shops.

8.03 *Control of Empties*

8.03.01. As a rule empties (gunny bags, tins, wooden crates, bottles, etc.) are not separately charged in suppliers' invoices; the cost of empties is included in the price of the merchandise; consequently there is no credit to earn in returning empties to the suppliers. There is a local market for most categories of empties. Since the income from empties is usually substantial, in proportion to the gross margin obtainable from the merchandise itself, it is important that empties are kept under systematic control. In retailing of sugar the profit is said to be the gunny bag.

8.03.02 The physical operations involving control on empties vary in different countries. Apart from geographical differences, the handling of empties may vary from store to store, depending, for instance, on the range of goods procured in bulk and cleaned, sorted and prepacked before issue for retailing through branches or primaries. Instructions on control of empties in consumer stores may, therefore, have a somewhat limited application; the guidelines described here are, however, believed to be fairly generally valid.

8.03.03 There are two points of control to be considered, bulk goods (loose goods) are received, usually by a central godown, for cleaning, sorting and prepacking; this is the case for salt, pulses, spices and a few other lines; the control on the empties, nearly always jute bags, must be kept solely on the processing and packing point, because the empties are received on and disposed off from this point only.

8.03.04 The other control is for empties covering goods received and issued by a central godown or received direct at the retailing unit; this is the case for sugar, flour, rice, wheat and other similar basic food items weighed out to the consumer from the original bags. It would, of course, make retailing easier and more controllable even if such goods were prepacked, preferably by the manufacturer or supplier, but habits and regulations prevent, for the time being, such rationalisation of operations.

8.03.05 It has been observed that the control kept on empties in the stores is usually a quantity—a unit-control; record is kept by the godown office of the number of bags, tins, boxes etc. issued to each branch, and the stock register of empties is again used when empties are returned from the branches. The godown has quite a considerable job of keeping accounts for empties, the results are not in all cases worth the efforts and the time spent on this kind of control accounting.

8.03.06 For the empties involved in the direct retailing mentioned above the control should be exercised, not on the quantity but on the value¹ just as is the case for the control on the merchandise proper under the so called double compartment system (the value control system). It is simpler and easier, and consequently more accurate, to control empties on value instead of on quantities.

8.03.07 The clerical procedure for the control starts when the Stores Officer, or the employee deputed to perform the goods receiving operation, writes the Invoice Apron to cover the invoice for the lot supplied either to the receiving floor in the godown or to the branch shop. As already said, the empties are not separately billed in the suppliers' invoices and the value of the gunny bags, tins etc. is, therefore, only of concern with regard to the writing of the sales prices in the Invoice Apron; the Stores Officer must be instructed to give the particulars of the pricing for the merchandise itself and then he must add below the grand total of the invoice amount for the goods, the specification of empties and fill in the three columns: Number, Unit Sale Price and Total Sale Price, so that the godown can be charged with the total "sale price" of the empties in its liability account.

8.03.08 The "sale price" quoted in the Invoice Apron is, of course, not the price which the empties will fetch when ultimately sold after use; this price will be known only on the day of sale; the price used in the Invoice Apron and, later, in the indents and the form for return of empties

1. The value of empties may be fixed by the management.

covering the supply of empties to the branches and return of them from the branches to the godown, is a control price only; this price must, for each individual type of empties be fixed at a somewhat higher rate than the market price; on the other hand the control prices must not be too far above the market level; if they are fixed at say 10—15% above the market, the system of value control on empties stands a chance of working well. This means that if an *atta* bag usually fetches a price of Re. 1.00 in the market, the godown and the branches may be charged Rs. 1.20 for each *atta* bag.

8.03.09 No control on empties, be it a unit or be it a value system, will work without the maintenance of good discipline in the physical handling operations; effective supervision on the part of godown office is essential; the salesmen must know that they will not get away with any form of abuse, for instance by substituting tattered and low-quality bags for good ones when they return empties; the ultimate sale of empties must be centralized with the godown as the sole sales point; under no circumstances should a branch be authorised to dispose empties in the market; there must be a fixed and firm routine for the return of empties; the dates, preferably weekly dates for the returning of empties must be prefixed for each branch. The challans devised for such returns must be filled in and used for checking, receiving, authorisation of credits to liability accounts and posting.

8.03.10 The principle of the control is that the godown and the branches are debited with the empties at a “control price”, when the branches return empties to the godown they are credited with the empties at the same control price; the adjustment for the difference between the control price and the market realised when the empties have been sold concerns the godown liability account only; when the godown office has sold empties it fills in a special sales memo giving the name of the buyer and all the details, this sale memo is handled in the ordinary manner for sales by the office, except that the buyer’s signature is obtained on the vouchers. In addition to the sales documentation the godown office must then claim a credit adjustment in its liabi-

liability account by using the order and Voucher Price Variations or Liability Adjustments, in which the items may appear as follows :

Type of Merchandise	Units	Price	Value originally determined	
Sugar bags	140	2,—	280,00	
Atta bags	247	1,20	296,40	
Small tins	62	2,40	148,80	
			725,20	

Type of Merchandise	Units	Value at which sold		Adjustment	
		Price	Value	—	Up Down
Sugar bags	140	1,70	238,—		42,—
Atta bags	247	1,00	247,—		49,40
Small tins	62	2,00	124,—		24,80
			609,—		116,20

8.03.11 For the present no standards exist for the ratios of empties income for the various individual and groups of commodities for which the income from this source is essential to the operations economy, but in time such standards will be worked out; in the meantime the management must ensure that the control on empties is effective physically as well as clerically.

8.03.12 The routine for empties immediately before and during stock-taking—quarterly as well as the verification at the end of the year—should be as follows: the day before the stock-taking the branches should return all empties to the godown, where they are sorted out and credit authorisation passed so that the branch liability accounts can be credited before the balance is struck for the verification, the items of empties left in the branches should be as few as possible, the empties are then counted and listed on a separate inventory sheet, the price used is the “control price”, and on this basis the shortages are found, this means that the shortage is charged against the salesman at price higher than the market price.

8.04 *Stock-Taking*

8.04.01 Physical verification of the stock means that all the stock is counted, weighed and measured and all the items are entered into a list, and the unit retail price is noted against each item, so that the retail value of the stock can be computed and added up. Some of the important purposes of stock-taking are:

- (i) To determine the actual value of the stock on hand, so that the balance-sheet and the profit and loss account may be prepared.
- (ii) To ascertain the shortage in terms of money or quantity units.
- (iii) To familiarise the Manager and the sales staff with just what is in stock so as to enable them to give better service to the customers so far as assortment and quality of goods are concerned and to clear out slow sellers and damaged goods.
- (iv) To rationalise the assortment and stock in hand so as to be in line with the demand and sales turnover.

Frequency

8.04.02 The frequency of stock taking should, in the beginning of the stores operation, be monthly and after some time, when the problems in handling the stock and the reasonable amount in shortage is determined, the physical stock verification could be done quarterly. As a rule, stock taking should at least be done every six months in all the shops. While tallying the stock-in-trade with the stock-control register, if the shortage is above normal, the reasons for the shortage have to be analysed and measures taken to reduce it to normal. If the shortage is higher than normal, stock-taking should be done each month until normal standards are achieved and faults detected.

Planning for Stock-Taking

8.04.03 Planning of proper stock-taking is of extreme

importance. All the stock taking should take place after business hours, and the shop should not remain closed for the sake of stock-taking only.

8.04.04 In a consumer society in India, a cloth shop was closed for one week for stock-taking resulting in the probable loss of confidence in the society on the part of the consumer and loss of sales in favour of private traders. After careful planning, the time for stock-taking in the same shop was reduced to 15 hours and after additional 5 hours, the copies of the stock-taking lists were added and stock-in-hand tallied with the register, resulting in continuity of sales without any disturbance.

8.04.05 The staff shall prepare for stock taking by:

- checking that all goods are price-marked,
- measuring goods sold by length or weight,
- counting certain loose items such as buttons, thread, screws, etc.
- going through stored seasonal goods,
- stating tare weights on barrels, crates, etc.
- sorting out damaged and unsaleable goods,
- seeing to price adjustment of goods which are difficult to sell (slow-sellers),
- cleaning of drawers, shelves and premises.

8.04.06 A stock-taking supervisor's work and responsibility.

The district or general assembly elects the required number of stock-taking supervisors—atleast one per shop/department. The stock-taking supervisor's duties are :

- to ensure that stock-taking is done carefully and in accordance with existing stock-taking instructions.
- to make random control during the actual stock-taking.
- to check the numbering and distribution of stock-taking lists.
- to ensure that the stock-lists are signed and taken care of in a proper way after stock-taking.

8.04.07 In connection with the stock-taking, the following shall be noted:

- (a) Each stock-taking team shall consist of two persons, of whom one shall not be an employee in the shop/department.

Stock-taking work shall be divided and allocated to stock-taking teams. Each team shall include an employee with price and merchandise knowledge and one elected representative employed member with writing and stock-taking experience.

- (b) Writing of stock-lists shall be done by the person not employed in the shop/department (the writer).

The shop employee shall "call" type of goods, quantity and price. The writer makes an entry on the stock-list. Information concerning goods shall be unambiguous, so that misunderstandings and mistakes cannot arise during later checking and calculation.

- (c) Caller and writer check each other.

The caller shall make sure that the writer has understood correctly by the writer repeating type of goods, quantity and price. The writer in his turn shall make a control judgement by attentively following the caller's work and with random tests checking stated numbers and prices.

- (d) To each stock-taking team allocate one area of shop for which they are to be responsible.

To eliminate the risk of double stock-taking or missing some part of the stock, each team is entrusted stock-taking responsibility for a limited area of the shop/department. The most suitable way is for the stock-taking supervisor, with advice from the shop/department manager, to make such a division and thereafter to check that the stock-taking is done properly. Note is made on the stock-list as to in which area listed goods are stored.

- (e) Entries in lists are made immediately.

Entries in lists are made immediately in the order in which the goods are placed within the relevant stock-taking area. If preparatory stock-taking has been done on some items, by counting or measuring, note of quantity or measure should be beside the item concerned. In such cases, both the caller and the writer should make sure that the preparatory stock-taking is correct by making an assessment of the quantity.

- (f) No part of the description—item, quantity, price per piece/weight etc. and for dry goods merchandise group, year of purchase, is to be omitted.

The full name of the item, quantity and price be written clearly. At the time of stock-taking, the merchandise group and year of purchase shall also be written on the lists. All necessary information must be filled and nothing be left out. Where an item is priced per dozen, the quantity is given in dozen, *e.g.* 15/12 doz. If the price is per piece, write number of pieces, if per kilo, state quantity in kilos, *e.g.*, 0.5 kg. Always make sure that the decimal point is in the right place. Note that the standard stock-list has a separate column for decimals.

Entries on stock-lists shall be made with an indelible pencil or approved ball-point pen.

Eraser is not permissible, no missing of lines.

Corrections are made by drawing a neat line through the incorrect information, and signature.

- (g) Damaged or unsaleable goods are written off, or included at a reduced price, and a note is also made accordingly in the Stock Control Report.

The preparations for stock-taking shall include sorting out and adjustment of price on goods which are damaged, unsaleable or difficult to sell. Such

goods shall be entered on the stock-list at a price not higher than it is possible to obtain for them *i.e.* price which means that the goods can be sold. If during stock-taking, it is established that in spite of the sorting done in the preparatory work, there are still goods which should be reduced in price, consideration should be shown to this in the valuation of stock at the closing-of-accounts.

Goods which have been used in the shop/department should naturally not be included in the stock.

- (h) Debts payable to the shop for goods received are written on a separate sheet.

If the shop has debts receivable which are not entered in the books at the time of stock-taking, these shall be written on a separate sheet in the stock-list, which is handed over to the supervisor with the other lists. On this sheet shall be written the name and address of the purchase concerned, and the date of supplying the goods. Debts receivable shall be entered in the books at the office and shall under no circumstances be included in the stock.

- (i) Each completed list shall be signed by the stock-taking team.

Each completed list is signed by the stock-taking team, which thereby verifies that item, quantity and price are checked and correctly entered on the list. The copies shall then be detached and the original given to the supervisor.

- (j) Uncompleted lists are signed on the line following the last entry.

The stock-taking team shall also verify the accuracy of these lists, and this is done by signing on the line following the last entry. Unused pages are cancelled by crossing out.

- (k) The stock-taking supervisor's work is done continuously during stock-taking.

By continuous random investigations the supervisor shall during stock-taking make certain that commodities, quantities and prices stated on the lists are correct.

- (l) Carbon copies are detached after completed stock-taking.

All lists dealt out are collected by the supervisor on completion of stock-taking. The copies of the lists used are detached from the originals.

- (m) The original list is taken care of by the supervisor.

The original lists shall be taken care of by the supervisor and handed over the person responsible for the control calculation (Office, Board member or auditor).

- (n) The original lists must on no account be allowed to remain in the shop/department after completed stock-taking.

On completion of the work, the original lists must be taken from the shop/department by the supervisor and must on no account be left behind. The same rule applies when stock-taking continues for several days.

- (o) Don't forget to list unopened cartons and goods being delivered.

Remember also to list goods which have arrived in the shop during stock-taking but have not been unpacked. Goods on their way to the shop are listed on a separate stock-list with reference to the invoice and delivery note.

8.04.08 Cash shall be checked at the time of stock-taking.

In connection with stock-taking the shop's/department's cash account shall be closed. A cash inspector (specially appointed/elected representative) or an auditor checks the account, receipts and cash. Even the daily change deposit is counted.

8.04.09 Calculation and collecting of stocklists.

The original lists shall be calculated by the society's auditors, Board members, or office staff. The copies are calculated or checked by the shop/department manager concerned.

8.04.10 In societies where the society leader is also responsible for the shop accounts, the original lists shall be taken and calculated by the stock-taking supervisor or by the society's auditors. Together with the stock-taking supervisor or the auditors the society's leader compares the copies calculated by himself with the original.

8.04.11 The corrections made shall be properly noted and confirmed.

8.04.12 In societies where the society's leader is not directly responsible for accounting for a shop, and calculation of lists is done in the office, the auditors shall make sure that the calculation of the stock-lists and the comparison has been done in a satisfactory manner.

8.04.13 On a special summary sheet, a list is made of all shops, stock-lists, whereby a summary of the whole society's stock is obtained. The auditors shall check that all lists have been correctly transferred to the summary and with their signatures confirm that the information has been scrutinised and was found to be correct.

8.05 *How to Reduce the Leakages?*

8.05.01 Leakages take place in different ways. Leakage starts at the point when the goods arrive in the shop on the following occasions:

- (i) Receiving the goods,
- (ii) Checking the invoice,
- (iii) Complaints,

Receiving the Goods

8.05.02 There are four possibilities of leakage:

- (a) the goods received are not carefully checked.
- (b) Some commodities may be damaged, but this is not observed.
- (c) It is observed that some commodities are damaged, but no complaint is made.
- (d) Some commodities are damaged by careless handling.

Leakage can be avoided by :

(a) An area of the store room is cleared some time before the order is delivered. All arriving packages are placed there and must not be removed until they have been carefully checked against the invoice or delivery note. Thus a commodity must not be directly placed together with commodities of the same kind which are already in the store room or on display in the shop. However, this may sometimes mean extra shop work. Wage costs are saved, if the driver carries the goods directly to point B, where it usually is stored, instead of to point A, where it is first checked and then moved by a shop assistant to B. A satisfactory control can often be carried out at B by writing the price or drawing a red line or some other sign on every parcel.

It is preferable to have the delivered goods checked department by department by the shop assistant who is in charge of the respective department.

(b) The shop assistant who is receiving the goods is also responsible for checking that they are in good condition. For instance, a refrigerator with a dent or a box of biscuits, which is damaged, should not be accepted—complaints should be made immediately.

(c) and (d) Damages of goods arising when unloading and handling them can be avoided if a sufficient number of shop assistants are used. However, should anything be

damaged in spite of this, the shop manager must be told at once.

Checking the Invoice

8.05.03 Leakage can be caused by :

- (a) The wrong goods are invoiced,
- (b) The wrong price is invoiced,
- (c) Goods used in the shop are not charged,
- (d) Miscalculations.

Of course, it would be an advantage if all invoices were controlled from each of the above mentioned points of view. On the other hand, this would take a lot of time. Therefore, one had better concentrate the checking upon the larger amounts. If these and the total amount of the invoice are in order, a few minor amounts are checked at.

Complaints

8.05.04 All complaints should be made immediately. Specially, if one wants to complain about perishables, such as fruit and vegetables, this should be done at once, so the supplier can come and see the consignment, if he wants. Complaints about goods delivered by a cooperative warehouse, should be written on a note and posted by return of mail. A copy of it should be kept in the shop. For goods delivered by outside firms, contact should be established with the buyer.

Storing

8.05.05 The problems between the reception and the selling of the goods are discussed below. They are divided into eight sub-headings :

1. Price marking,
2. Price changes,
3. Storing the goods,
4. Refilling the goods,
5. Display of goods,

6. Returning goods,
7. Empties,
8. Pilferage.

Price Marking

8.05.06 Wrong prices can be marked, if the shop assistant does not remember the right price and is only guessing. It may also be that the price is not clearly marked and read as something else.

8.05.07 The following steps in this connection are necessary.

A. All items in the shop should be price-marked. Exceptions: common commodities, such as milk, beer, etc. For these, special price list is kept at every check-out.

B. Price marking should be done on the sales area, not in the store room.

C. The price marked on the parcel when it was received should be used. If no price is marked, the price book should be consulted. If a difference is stated between the prices on the price list and on the goods already on display or on goods just received, the correct price must be found out (by asking the shop-manager, the buyer, or the shop-inspector). Then, all prices are checked so *only one* price is applied for the same item in the shop. (Exception : price reductions on damaged goods.)

D. Commodities on consignment are marked in a different colour, e.g. by red labels.

E. If there is no special space reserved for the price, the commodity is marked according to the "post stamp rule", i.e. in the right upper corner.

From time to time, the shop-manager and his first assistant should check the prices and see if they are properly marked. Specially new commodities and commodities subject to frequent price changes should be controlled.

Price Changes

8.05.08 Price changes which are noted in the price book but not on the goods and price changes which are not even marked in the price book are common reasons for losses.

It is advisable that one shop assistant should be responsible for the marking of all price changes. Some societies follow the practice that all goods, the prices of which have been changed, should be counted immediately and the inventory should be written in a special book, so the difference can be credited or debited.

Storing

8.05.09 If too much of an article is ordered, the risk for losses is increased. This is not only true for perishables, but also for all commodities. Therefore, it is important that the calculated value of the stock is checked every month. Even if this figure remains about the same, it may be that there is too much of certain commodities and too little of others. Therefore, the manager ought to have a look at the stock room from time to time. Specially, he should control that there are no goods hidden in a corner, goods in the stock room must move.

The shop manager ought to tell new employees how different items should be stored or at least check their knowledge in this field. From time to time, he could also remind senior employees of it—in any case, as soon as there is a reason for it.

The various ways of storing goods is not dealt with in this connection as it would lead too much into detail.

Refilling

8.05.10 It is important that the FIFO practice is followed (FIFO—first in first out). Therefore, newly arrived goods should always be placed farthest back and farthest down as well in the store room as in the shop. It can be checked by the date code that this practice is followed.

*Display*¹

8.05.11 Locating the goods is a complicated problem which cannot be treated here in a detail. It ought to be discussed on the spot and the shop inspector should be asked for advice.

However, from the point of view of leakage, it is important that the whole shop can be easily surveyed, so pilferers feel themselves observed. Items, which from statistics are known for being attractive, ought to be placed in the neighbourhood of service departments or check-outs, so they are under observation. Check-outs should be placed in a way that customers do not pass any more open displays after having checked out.

Returns

8.05.12 It is important that the goods, which have to be returned for some reason, are sent *in due time*, that this is done *correctly*, and that the *credit transaction is checked*.

8.05.13 It is suggested that returns are made once a week. All forms are filled in the day before. The number of invoice, the number of the item (or a description) and the purchasing price must be marked on the return note. A copy is kept by the shop, signed by the driver who is taking back the goods.

8.05.14 Broken bottles, damaged cakes, etc. should be exchanged under the control of a shop assistant.

Empties

8.05.15 Empties can cause losses, if they are not properly checked against the notifications when received or returned. All empties should be returned once a week—just as other returns. Empties should be handled just as carefully as the merchandise. (See empties).

1. See "Sale—A Profile: An Introduction to Sales Management in Retailing" by R. Arvidsson and S. Dandapani, ICA, 1972.

Sales

8.05.16 There are several types of sales in the retail trade, such as cash sales, credit sales and account sales. Usually cash sales cause less leakage than other methods, partly because no paper work is required. Fortunately, cash sales dominate the cooperative trade though there are certain types of cooperative credit.

8.05.17 The following questions will be discussed in this connection :

- (i) Customer complaints,
- (ii) Accidents caused by customers,
- (iii) Consumption in the shop,
- (iv) Lack of change,
- (v) Errors at the check-out

(i) Customer Complaints

Commodities which are refunded or exchanged without being registered cause leakage. So do unjustified complaints which are accepted.

It is suggested that all complaints should be handled after the same principles. Therefore, they ought always to be taken care of by the same person, the shop manager or the first assistant (a department head in a department store). He must check that the goods were bought in his shop. When an article is taken back on account of a defect in manufacture, he must make arrangements to have it returned to the manufacturer, so the loss does not fall to the shop's share. If he is in doubt, whether a complaint should be accepted or not, he may pass the question to his superior or to the manufacturer. (However, minor questions should be settled immediately in favour of the customer).

If a customer complains against the change received, this should be settled immediately, if it is a minor amount. If it is a large sum, the customer is asked to come back after the daily cash inventory, when it can be definitely stated if an error has occurred.

(ii) Accidents caused by customers

It is advisable to look over displays, trolleys etc. from time to time, so customers do not pull down anything, nor get hurt by sharp edges etc.

(iii) Consumption in the shop

Consumption in the shop should be forbidden, as the customer often forgets to pay for it at the check-out. But, if a child accompanying its mother eats an ice cream stick or some other sweet in the shop, the packaging should be put into the trolley and then be paid for at the check-out.

(iv) Lack of change

It may happen that a customer pays with a currency note which cannot be changed in the shop due to lack of change. In this case the customer must be given a smaller credit. These amounts can then easily be forgotten, especially if a note is made only on a small slip of paper, which can disappear.

(v) Errors at the check-out

There are two possibilities of making mistakes at the check-out:

- (a) Registering the wrong amount;
- (b) Returning a wrong amount of change.

(a) In order to reduce the number of erroneous recordings the following rules should be observed :

- All prices should be clearly marked.
- The cashiers should be thoroughly trained.
- The number of items registered must be the same as the number of items bought.
- If the wrong price is registered, the “total” bar is pushed, the slip is taken out and signed by the customer. A new registration is then made. The erroneous

slip is kept in the drawer and accounted for at the next cash audit.

(b) Bank notes handed to the cashier by the customer should be laid in a certain place. First after having given the customer the change, the cashier puts the note into the cash drawer. In this way it is avoided that a customer asserts to have paid with a 10-Rupee note when he actually paid with a 5—Rupee note.

The check-out assistant should always count the change in front of the customer, starting by indicating the total amount *e.g.*, 8.74 and then going on : 8.75 — 9.00 — 10. — 20. — 30. — 40. — 50 . —.

The shop manager ought to control the check-out operation himself from time to time.

Perishables

8.05.18 In this chapter two important perishables are given special attention. (In the Danish report even gasoline is treated, as this is an important item in Danish rural shops. In the same way typical items may be added in other countries).

8.05.19 *Meat and Meat Products*

(a) *Ordering* : No more than the ordered quantity can be sold. In this respect ordering goods means also defining the sales. On the other hand, an order that is too large necessarily results in leakage. The right balance between sales and ordering can perhaps be obtained if one can refer to earlier ordered quantities and learn from them.

If meat and meat products are delivered daily, the order should be prepared the day before after having considered the stock situation.

It is recommended to order pre-packaged products—if this is possible rather than to cut and pack in the shop.

(b) *Receiving* : First, the quantities delivered should be

checked. Also the quantity should be controlled. Packages, which are date-stamped, must not be older than one or two days. Make complaints immediately if the quality is doubtful.

(c) *Storage* : It is important that meat and meat products come under refrigeration as soon as possible. A temperature of zero to 2 centigrades and a relative humidity of 75 to 85 per cent are recommendable. The temperature mentioned above (± 0 to $+2$ centigrades) should be checked three times a day (morning, noon and afternoon), in the cooler as well as in the refrigerated cases. However, in the case of fresh meat a temperature of -1 to $+1$ centigrades is preferred.

Weighing and Price-marking

8.05.20 The shop manager ought to inspect the weighing and price-marking operation at least once a day. Scales should be properly adjusted every day. The shop manager should also check that an up-to-date price list is used, not an old list or a delivery note. All packages should be date-stamped (possibly by code), so old packages can be removed in time.

Display

8.05.21 The amount to be displayed should be well adjusted to the sales. If the stocks are too large, many packages must be removed and trimmed as otherwise they would cause both leakage and costs.

8.05.22 Goods must not be stacked too high, i.e. up to or above the edge of the display case. If customers have brought disorder into the case, the packages must be re-arranged. The oldest packages should be sold first.

8.05.23 *Discolouration*

Discolouration of fresh and processed meats may be caused by too strong or wrong lighting, by too high temperature or by unsuitable packaging material. In order to

find out what is wrong, the shop manager should consult the shop inspector.

Hygiene

8.05.24 If hygiene is kept on a high level it is a good insurance against kinds of infections and quality losses different.

8.05.25 *Fruit and Vegetables*

(a) Ordering

Many fruits and vegetables have a short shelf life. Therefore, it is absolutely necessary to order just the quantity one is able to sell. This is an arduous undertaking.

(i) Defining the assortment : The smaller the shop, the more limited should the assortment be. Products with very low sales should be discussed with the shop inspector.

(ii) Appointment of a shop assistant who is in charge of fruits and vegetables : This assistant is responsible for ordering and maintenance of stocks at the required level.

(iii) Order book : An order book is necessary so that sales can be checked and orders based on statistics.

(iv) Making up the order : No order should be given at random. The order should be written after having consulted the actual stocks and sales statistics for the corresponding time last year.

(v) Pre-packed products : Pre-packaged products should be ordered, if available, as these often have a longer shelf life than unpackaged products.

(b) Receiving

In addition to the normal control of quantity, price, etc. the quality should be checked when the goods arrive at the shop. For products with date-stamping it ought to be checked that they are newly packed.

Complaints should be made at once by telephone. When the complaint is accepted this is marked on the delivery note or on a special paper, which is filed, so it is remembered when the invoice is checked later on. Spot tests are taken of pre-packaged goods as to weight and price.

(c) *Storage*

As soon as the quantities have been checked, the goods are moved into the cooler or a refrigerated case providing a temperature of 6 to 8 centigrades and at least 80% relative humidity. (In old shops the goods must perhaps be stored in the basement on pallets.)

Accounting

8.05.26 There are several opportunities when leakage can arise in connection with book-keeping operations. These are here divided into 12 groups.

1. Credit Sales
2. Mischarges
3. Forgotten entries
4. Home delivery
5. Empties
6. Commodities used in the shop
7. Sales between societies
8. Discounts
9. Price changes
10. Standard account plan
11. The shop manager's account
12. Inventory

(i) *Credit Sales*

Normally, only cash sales occur in a cooperative shop. However, payment on account may occur in some cases, for instance, from institutions and people who have paid in advance. In these cases, the customers should have pass-books used in the following way : (here rules may vary from country to country)

- (a) The pass-book is taken care of by the shop.
- (b) Telephone orders are written directly into the pass-book.
- (c) Every order is summed up and the total is entered into the pass-book and signed by the customer. The receipt is handed to the customer when the goods are paid for.

(ii) *Mischarges*

The reason for mischarges may be indistinct price-marking or lacking control.

(iii) *Forgotten entries*

Goods may be handed to customers without being registered. Goods on the backyard, such as concrete or gas tubes, may only be handed out by the personnel. If many goods are delivered in this way or directly from the store room, delivery notes must be used. As a rule, customers should not be allowed to enter the store room. It is important that delivery notes always are kept in the same place, so the invoicing of these goods is not forgotten.

(iv) *Home delivery*

If there is home delivery of any importance, it must be satisfactorily organised. The simplest way is to use a "driver's book" in which all order totals are marked. As soon as the driver is back from a trip, he should account for the money and empties received.

(v) *Empties*

Making the customer pay a small amount (2d/10 ore/10 pf) for empties means a lot of paper work, as all containers must first be debited and then credited to the customer. On the other hand, the shop should not cover losses caused by customers who forget to return the empties or break them. Many shop managers are of the opinion that the costs for charging and crediting are much greater than the

losses when nothing is charged for empties. Generally speaking, this is probably more true in the country than in the towns. If nothing is charged for empties a poster could be put up from time to time with the following wording: "We have run out of empties. Please, return your empties to the shop." Further, the drivers should be told to ask for empties when delivering goods to the households. An inventory should be made from time to time, so the shop manager knows the size of the leakage.

(vi) *Commodities used in the shop*

If, for instance, washing powder used for cleaning the shop is not debited, a corresponding leakage will be observed later on. Therefore, the shop manager ought to have a special book, in which consumption of this kind is marked. In order to avoid too much book-keeping, one should put aside a stock of detergent, bulbs, fluorescent tubes, etc., for use in the shop.

(vii) *Sales between societies*

If one shop helps another with a commodity it has run out of stock, this must be debited and credited. This should be done in a special book as loose papers have an ability to disappear. Settlements are made once a month.

(viii) *Discounts*

If goods are sold in large quantities, a discount is normally given. The shop must be credited with such discounts. Therefore, the customer should sign a paper stating the discount received. This paper is then sent to the accounts department.

(ix) *Price changes*

See 8.05.08

(x) *Standard account plan*

If all costs are accounted for in the same way, it is possi-

ble to compare the costs of different shops. Therefore, the cooperative central organisations should standardise a number of accounts in their respective countries. This account plan should be used by all retail societies, so national statistics can be produced allowing each society to find out, if it is operating with high or normal or low costs.

As an invoice can be debited to a wrong account, consciously or unconsciously, it is important that the figures are checked by an auditor. As a rule, the central organisation provides the auditing-service.

(xi) *The shop-manager's account*

As nobody in the shop has the authority to control the shop-manager, it is important that this control is exercised by a representative for the society and the auditor. The shop manager, should carefully specify every payment made, especially those to himself.

(xii) *Inventory*

Every error, made at the inventory, means a corresponding leakage. Consequently, the inventory must be made very carefully.

A. *Stock Taking*

Each country has standard rules for how the stock taking should be carried out. The stock takers (and inspectors) should be informed of these rules before the inventory. (see Stock Taking).

B. *Assets and Liabilities*

Assets and liabilities (other than stocks) must be listed the same day the inventory is made. Therefore, invoices arriving after the inventory is finished must be carefully checked and referred to the right period.

The Staff

8.05.27 Activities which may influence the leakage in this connection are :

1. Buying
2. The shop manager's private money
3. Representation
4. Sales to shop employees
5. Miscellaneous

(i) *Buying*

The shop manager is often allowed to do some local buying. The shop manager should carefully note these purchases, so he can check the receipts and avoid double invoicing.

(ii) *The shop manager's private money*

The shop manager must *never* mix his private money with the cash belonging to his shop. If he is paying his salary to himself from a day's cash, he must really take out the money in cash; it is not sufficient to write a notation. If the shop manager's private invoices are paid when the shop manager is absent, the shop manager should refund this money as soon as possible and in any case before the next balancing of the cash-account.

(iii) *Representation*

If the shop manager is entitled to see visitors on cigars, cigarettes, coffee, etc., such expenses should be charged on the account for "consumption in the shop" and signed by the shop inspector.

(iv) *Sales to shop employees*

Sales to shop employees should be organised in detail.

- (a) Purchases are only allowed during certain hours.
- (b) Goods, which have been bought, are collected in a

basket marked with the name of the employee. Each basket has its place in the store room.

- (c) The goods are registered by the shop manager or the first assistant. The receipt is taped into the pass-book, paid for in cash once a week or once a month, and signed.
- (d) The goods and the pass-book are kept together in the basket, so the shop manager can check that nothing extra is put into the basket after the registration.

(v) *Miscellaneous*

Every new employee should be told .

—the rules for the staff's buying in the shop,

—that when caught stealing, he/she will be given notice to leave at once.

Pilferage

8.05.28 This is divided into two parts :

- (a) Pilferage by customers
- (b) Burglary

(a) *Pilferage by Customers*

The experience reveals that there are people stealing in all countries, irrespective of their standard of living, the counter actions taken, etc. Consequently the first task is to prevent pilferage and the second to catch the shop-lifters.

A. *Preventing Pilferage*

It is important that the customers use the trolleys or baskets provided by the shop when collecting the goods—not their own shopping bags, where commodities can be hidden or forgotten. A poster saying “Please, use our trolleys and baskets—not your own bag” should be put up and the customers should always be asked to follow this request.

The shop should be easy to survey. Therefore, goods should not be stocked too high on the shelves; posters hanging from the ceiling should not prevent the free view from the check-outs etc.

When new employees are engaged, they should be instructed how to watch the shop and what actions should be taken against shoplifters. There should always be some shop assistants working on the sales floor, as this automatically disturbs customers intending to steal. If a customer is suspected, this should be told to every shop assistant—but very discreetly. This customer should be watched when he is serving himself. When his/her goods are recorded at the check-out, the customer should be asked: "Have you got anything more to pay for?" as he/she then might understand that he/she has been watched.

B. *Catching the shop-lifter*

Laws are different in different countries, so the following procedure must be checked by a lawyer before applied:

As a rule it is not possible even for a policeman to state that somebody has been stealing in a self-service shop before he/she has passed through the check-out. A customer, who is observed to put things into his/her pockets, *might* intend to pay for it. Therefore, the suspected customer should be carefully watched all the time he/she is in the shop. When he/she has passed through the check-out without paying for goods hidden in the pocket or elsewhere, a shop assistant could say, for instance: "Sorry having to bother you, but would you, please, come with me to the shop office?" If he/she refuses or runs away, it is allowed to seize him/her. In this case the police must be called.

But, if the customer consents, the shop assistant should go behind him to the shop office, so he can watch, that the customer does not throw away anything. He also shall ask the shop manager or another shop assistant to come along as a witness.

The customer is then asked, if he has forgotten to pay

for something. If he denies the shop manager says : "I am sorry, I have not the right to search you, so I have to call the police. As a rule the shop lifter will then say : "Stop, Let's talk about it. . ." If a confession is then made, a note of it is taken down. The shop lifter is asked if he has stolen earlier, but no pressure is allowed, such as : "if you do not tell us right now, we will call the police. . ."

The shop lifter has to give his/her name, address and telephone number. If he/she is not known, these statements must be checked (wrong statements are very common in such cases). The pilferer has then to sign the confession and should pay for what was stolen, but no more. The statement is then sent to the head-office. If the thief does not admit or apparently is a criminal, the police should be called at once.

Pilfering children are treated according to their age and behaviour. One can call their parents and ask them to fetch their child. Another possibility is to talk to the child and make it understand what it has been doing.

Cases of pilferage should not be spoken about by the staff in the shop nor should information *be passed to the press*.

If a shop assistant is suspected for shop lifting, this is handled by the shop manager himself.

(b) If traces from burglary are observed in the shop; the police should be called. Nothing should be touched or moved until the police has arrived, so no traces are destroyed.

CHAPTER IX

BREAK-EVEN ANALYSIS

9.00 *Introduction*

9.01 The Break-Even System (BES) is a philosophy as well as a set of principles for economic analysis, planning and control. It is also a technique for a pragmatic approach to productivity and profitability. The three principles of the BES are as under :

- (i) *Scrutinising*: gives knowledge about the present situation and also the best possibilities for development of constructive ideas for the future.
- (ii) *Planning* : helps to work out changes in the procedures and practices for developing the various business policies in economic terms, and helps people involved with concrete information concerning targets and the best possible ways of coordinating the society's available resources.
- (iii) *Control*: helps to compare the results "achieved" with the planned "targets" and to discover the mistakes committed in implementing the aimed policies

and the failures in the “planning” and “scrutinizing” of the business.

9.02 The BES attempts economic analysis and computation of the results in a simple way rendering it easy to read and understand. The BES gives some “key figures” each of which brings out some characteristics of the business results and the society’s policies. Simple analysis and the way of understanding these is what the management demands, and the BES gives informative data through its various statements and charts which are educative. They help in decision making.

9.03 *Fundamentals and Formulas of the BES*

9.03.01 *Variable expenditure* could also be called “direct costs” or “volume costs” because they are incurred directly with the issue of an order and are not required if the order is not produced, e.g. direct labour, materials and other procurement costs, etc. The expenditure that goes with the volume is variable expenditure.

9.03.02 *Fixed expenditure* could be called “capacity costs” because they are incurred with the passage of time over a certain period and also they represent the readiness of the society to do business, for example, rent, depreciation, salary etc. The expenditure that is incurred without a direct relationship with the volume is fixed expenditure.

9.03.03 *Product Mix (Sales Mixture)* : Variety and quantities of products made and sold by the society during a specific period. Product mix in relation to volume is of great importance for calculating contribution and profit, and to determine the optimum utilisation of resources for adequate profitability.

9.03.04 *Contribution* is the amount of the difference between the sales (income) and the variable expenditure.

$$\text{Formula: SALES—VARIABLE EXPENDITURE} \\ = \text{CONTRIBUTION}$$

9.03.05 *Profit* is the difference between revenue and costs

and shall contribute to overheads and to the creation of surplus.

$$(i) \text{ Formula : } (\text{Sales—Variable Exp.}) \\ = \text{Contribution—Fixed Exp.} = \text{Profit.}$$

$$(ii) \text{ Formula : } (\text{Sales} \times \text{Contribution ratio}) - \text{fixed Exp.} \\ = \text{Profit.}$$

9.03.06 *Contribution Ratio* is a measure of the rate of contribution made by each sale out of which fixed expenses must be paid first before there is any profit.

$$\text{Formula : } (i) \frac{\text{Sales—Variable Costs} \times 100}{\text{Sales}} = \text{Contribution Ratio}$$

$$(ii) \frac{\text{Contribution} \times 100}{\text{Sales}} = \text{Contribution Ratio}$$

9.03.06 *Break-even Point* can be defined as follows :

- (a) The level of sales at which profit is zero
- (b) That amount of sales where contribution from the sales amount = pay for the fixed expenses.

$$\text{Formula : } \frac{\text{Fixed expenditure} \times 100}{\text{Contribution ratio}} = \text{Break-even point}$$

9.03.07 *Margin of Safety* is the percentage drop in sales that can occur before a loss starts.

$$\text{Formula : } (i) \frac{\text{Profit} \times 100}{\text{Contribution}} = \text{Margin of Safety}$$

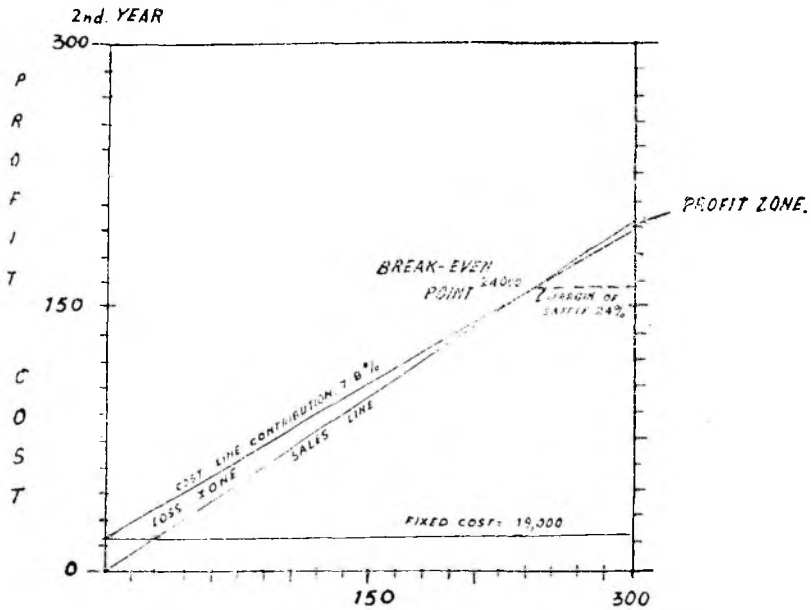
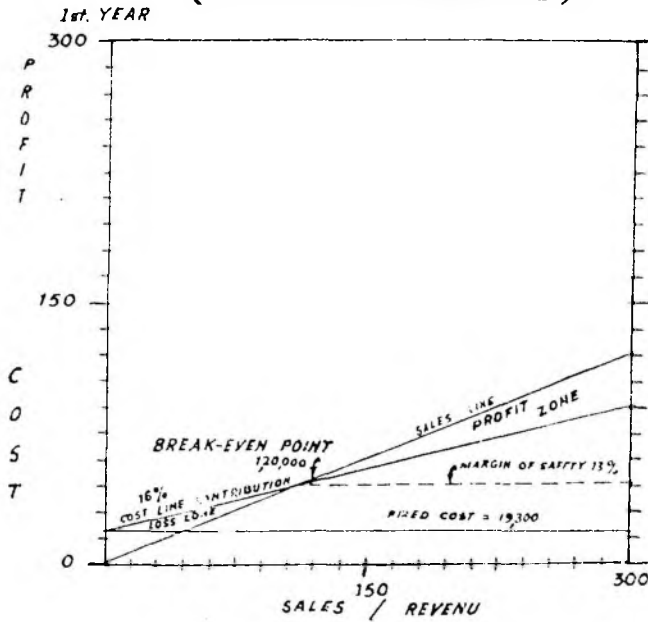
$$(ii) \frac{\text{Sales—Break-even sales} \times 100}{\text{Sales}} \\ = \text{Margin of Safety}$$

9.04 *Break-Even Statements*

9.04.01 The basis for working out a break-even statement is the classification of the expenditure in fixed and variable costs. The sole determinant factor for deciding the fixedness or variability of cost is its behaviour with volume.

BREAK-EVEN CHART

(A SOCIETY IN THE PHILLIPINES)



One has to study the “cost key” and the “standard plan” of account and pick out those expense accounts which are clearly fixed over a period (machinery, depreciation, etc.) and those which directly vary with volume (direct labour and direct material, etc.). The remaining accounts could then be studied in order to determine their fixedness or variability.

9.04.02 As can be seen, the Break-Even Statements are not worked out according to the “methods of accounts” where all the expenses are listed on the debit side and the income and surplus on the credit side. The method of working out break-even statements is a more informative one.

9.04.03 When working out break-even statement, one has to start with the income, deduct the variable costs and the results give the contribution. Deduct the fixed costs and the result gives the profit or sometimes the analysed sections contribution to the society’s overhead expenditure including profits.

BREAK-EVEN STATEMENT

Items	Amount	Percentage
Sales, income, etc.	200	100
— Variable costs	160	80
= Contribution	40	20
— Fixed costs	30	15
= Net surplus	10	5
Contribution Ratio	20%	—
Break-even Point	150	—
Margin of safety	25%	—

$$1. \frac{\text{Sales} - \text{Variable Costs}}{\text{Sales}} \times 100 = \text{Contribution ratio} \quad \frac{200 - 160}{200} \times 100 = 20\%$$

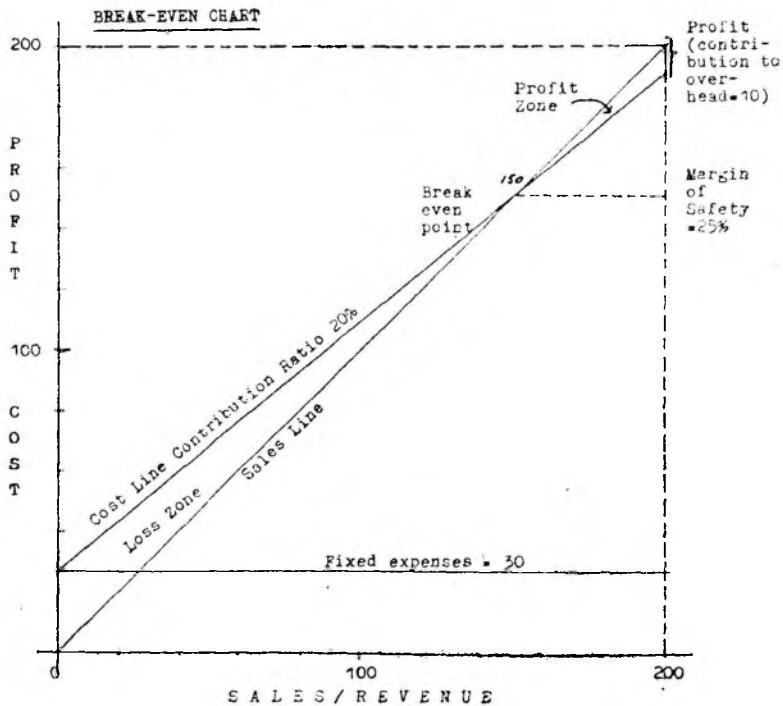
$$2. \frac{\text{Fixed Expenditure} \times 100}{\text{Contribution Ratio}} \text{ BEP } \frac{30 \times 100}{20} = 150$$

$$3. \frac{\text{Sales} - \text{B.E. Sales}}{\text{Sales}} \times 100 = \text{Margin of Safety} \quad \frac{(200 - 150) \times 100}{200} = 25\%$$

9.05 Break-Even Charts

9.05.01 Break-even chart is a visual device which tells the management what the profit structure is now and what it could be in the future, if necessary action is taken. The chart is thus the management's most informative tool for planning and control.

9.05.02 There are two lines in a break even chart—one is the sales or the revenue line, and the other is the cost line. The two lines intersect at the break-even point. In order to draw the revenue and cost lines, it is necessary to have a scale of quantities in order to give values to these lines. Profit and loss can be measured directly on the chart for any level. Below the break-even point the revenue or sales line is below the total cost line, and the position indicates loss. Over the break-even point, the revenue



or sales line is above the total cost line, and this position indicates profit. Since profit or loss occur between cost and revenue, the space between the cost and the revenue lines is named the profit or loss zone.

9.06 *Three Key Figures Showing the Management's Performance*

9.06.01 *Contribution ratio* is a measure of the rate of contribution by each sold unit out of which fixed expenses must be paid first before there is any profit. If the contribution ratio is decreasing, it means that the relation between the society's income and variable expenses has grown worse. Generally, this may depend on the following three reasons :

- (a) lesser income per sold unit,
- (b) increased variable costs per sold unit,
- (c) changes in the product mix towards sales or production of goods with lesser contribution ratio.

9.06.02 *Break-even point* shows, as mentioned before, (a) the level of sales at which profit is zero ; (b) the amount of sales where contribution from sales is just paying the fixed expenses.

9.06.03 A lower break-even point depending on lower fixed costs protects the society more against losses when sales drop. A higher break-even point depending on higher fixed costs gives the society a higher rate of profit above the break-even point.

9.06.04 If the break-even point is climbing, the range of profitable sales is shrinking due to higher competitive prices, increasing purchase cost and or cost of material, increasing direct labour, decreasing sales, etc. It might also be due to the fact that the fixed expenses have increased due to more diversification of equipment, increasing costs of administration, etc. (In many cases a rise in fixed costs is planned in order to obtain a lower variable cost and hence a higher contribution ratio e.g. modernisation of equipments and thereby saving labour and material costs).

9.06.05 To control the break-even sales, one has to control the costs—fixed as well as variables.

9.07 *Margin of Safety* shows the percentage drop in sales (income) which can occur before a loss starts. When the margin of safety is negative, it shows the percentage increase in sales (income) which is necessary to cover the fixed costs. If the margin of safety is dropping, it means that the profitable part of the sales (income) has become relatively less and that the society's resistance capacity to avoid losses has become poorer.

9.08 *Managerial Tool for Guidance and Control*

9.08.01 Changing conditions are characteristics of business life. Any decision or action affects the profit structure in some way. The BES gives the management a clear picture of the changes occurring in the profit structure. By proper planning of the input data, the management has a source of continuous appraisal to spot out weaknesses and strong points in any area of its profit structure. Thus, the management is enabled to take corrective action in the present instead of dealing with the facts and events of the past history.

9.08.02 The use of a managerial tool can be split up into four parts :

- (i) Scrutinising the previous activities;
- (ii) Planning the future activities;
- (iii) Controlling the actual results and comparing the results achieved with the worked out plans, and examining the deviations; and
- (iv) Analysing the reasons for the deviations.

9.08.03 The BES could be used as above as a managerial tool in working out recommendations and implementing changes and bringing the economical structure close to what has been planned, or revise the plan to the changed situation.

9.08.04 *Scrutinising the previous economical structure* gives a good picture of the society's performance and also about the various decisions taken by the management. This also

provides good basis for future planning and decision making.

9.09 *Analysis of a Multi-purpose Society*

9.09.01 The following is a scrutiny of a multi-purpose society¹ through the BES covering two years' economic results.

9.09.02 The analysis indicates that the sales have increased from 137,500 to 198,000 while the surplus has decreased from (+) 2,500 to (—)3,500. (See Break-even statements on Pages 158 and 159).

9.09.03 The contribution ratio has decreased from 16% to 7.8% which means that the profitability on each sold unit has become less due to the following :

- (a) direct labour cost has increased (increased salaries, overtime provision, incentive bonus, etc.);
- (b) direct material cost has increased;
- (c) increase in competition resulting in reduced prices etc.;
- (d) change in product mix (sales mixture).

9.09.04 The break-even point has climbed up from 120,000 to 247,000 which means that the society must double the sales of the first year to cover the fixed expenses due to decrease in the contribution ratio.

9.09.05 The Margin of Safety has decreased from 13% to —24% which indicates that the society's power of resistance has grown worse, and that the sales must increase by 24% before a profit starts. This is due to:

- (a) decreasing contribution ratio;
- (b) climbing break-even point.

This broad analysis indicates that the society's economical structure must be studied in more details.

1. Data collected from a society in the Philippines. Data sheet on page 158 and 159.

9.10 The sub-analysis of the *Warehouses and Marketing Departments* indicates that the income has risen from 5,500 to 13,000 and the contribution to overheads has increased from 4,000 to 2,500. (See break-even statements on pages 158 and 159).

9.10.02 The contribution ratio has increased from 18% to 19% due to the following :

- (a) The costs of direct material has decreased in relation to the income (e.g. gunny bags, sales promotion, expenses, etc.)
- (b) The direct labour costs has increased in relation to the income (e.g. changes in the society's sales policy).
- (c) Changes in the mixture between warehousing and marketing.

9.10.03 The break-even point has gone down from 27,700 to 26,400 which indicates that the department must double its income of year II in order to be able to cover the present fixed costs.

9.10.04 The margin of safety has improved from—400% to—102% which indicates that the profitable part of the income has increased but the income must still increase by 102% to make it possible to cover the present fixed expenses again due to :

- (a) improved contribution ratio;
- (b) increased income.

9.11.01 The sub-analysis of the *Mill Department* indicates that the income has doubled from 7,000 to 14,000 and that the contribution to overheads has increased from—2,200 to 3,000. (See Break-even statements and break-even charts, on pages 158 and 159).

9.11.02 Contribution ratio has increased from 40% to 57% which indicates that the relation between the society's income and variable costs have improved with 18% due to :

- (a) decreased direct labour costs in relation to income (reorganisation, incentive pay, etc.)

(b) decreased direct material cost in relation to income
(paper bags instead of gunny bags, etc.)

(c) change in product mix.

9.11.03 The break-even point has decreased from 12,500 to 8,750 which indicates that if the department's income should decrease to 8,750 the fixed costs for the department could be covered but nothing could be contributed towards overheads and creation of surplus.

9.11.04 The margin of safety has improved from -79% to 37.5% which indicates that the department's power of resistance has improved due to :

(a) increased contribution ratio ;

(b) decreased break-even point.

9.12. The sub-analysis of the *cooperative store* indicates that the sales have increased from 125,000 to 171,000 while the contribution to overheads has decreased from 14,000 to 1,000.

9.12.02 The contribution ratio has decreased by 11.6% from 14.5% to 2.9% which is a very bad situation, due to :

(a) increased expenses in relation to income for procurement of goods ;

(b) likely changes in the sale mixture.

9.12.03 The break-even point has gone up from 27,600 to 138,000 and the profitable part of the sales has been very much lowered, due to decreased contribution ratio.

9.12.04 The margin of safety has decreased from 78% to 20% and this indicates that if the sales of the department decrease by 20% , the fixed costs of the department could only be covered and nothing could be contributed to the overheads. This is a worse position in the Consumer Department and indicates that a still more detailed analysis must be made, if possible. (See Break-even statements and Break-even charts, appendix I. P. 158)

9.12.05 The detailed analysis of the Consumer Department would show¹:

- (i) That the contribution ratio has changed within the Palay¹ line from 19% to 1.2% depending on increased procurement costs.
- (ii) That the contribution ratio has changed within the rice line and increased from 2.5% to 6% while at the same time the sales have dropped from 33,000 to 8,000.
- (iii) That the sales of merchandise has increased from 2,500 to 37,000 while the contribution ratio has remained constant at 8%.

9.12.06 As a result of the above mentioned changes, the Break-even point has climbed up for the merchandise line and palay line while the Break-even Point has gone down for the rice line.

9.12.07 The margin of safety has improved for the merchandise and rice lines, while it has fallen heavily for the biggest line which is palay.

9.12.1 This scrutinising of the multipurpose society indicates that while the activities of the society has increased, the economic structure has grown worse.

9.13.02 The most significant and positive development is within the Mill Department and action should be taken to keep up the economic trend of this part of the business.

9.13.03 Even the Warehousing and Marketing department has slightly improved its profitability, but still this department is running under loss and has not been able to contribute to the overheads and to create a surplus. Action must be taken to improve the economic structure of this department.

9.13.04 As in the case of other departments, the Consumer Department has also expanded its activities, but the expan-

1. "Palay" is Filipino word for "paddy".

sion has been very costly as the contribution to overheads and the net surplus has decreased from 14,000 to 1,000 as a result of increased procurement costs mainly in the paddy (paddy) line.

9.13.05 The pricing policy, purchasing policy and consumer relation, etc. must be closely gone into and scrutinised and a determined attempt made to break the present economic trend.

9.14 *Planning the future activities* is of great importance as the society's targets, policies and activities have to be adapted to the constantly changing economic environments in which the society is operating. The management has therefore to take many important decisions which affect the society's business over a short period and a long period as well. These decisions are the outcome of choices in between various alternatives.

9.14.02 In order to choose the best alternative of action a great amount of analytical and comparative studies have to be undertaken and the results presented to the management in such a way that they can use this information as a guide for future decisions. The break-even system is a very useful tool as the break-even statements and charts give an informative and visual view of the various alternatives of action and what is likely to happen if one alternative is chosen as against the other. The break-even charts also give information on how the planned targets are compared to the break-even point and the chosen alternative's power of resistance.

9.15 *Analysis of reasons for deviations* are of great importance as it helps to evaluate the management's performance during the period of analysis and also indicates if the worked out plans have been too optimistic or too pessimistic. It can also indicate some changes in the social environment in which the society is operating.

The outcome of these analysis shall be used to work out measures to :—

(a) adjust the society's performance during the coming

periods and bring the achieved targets closer to the planned targets, or

- (b) adjust the worked out plans to the changed market situations.

9.15.02 The method of making these analysis is to scrutinise the budgetary control statements and charts in the same manner as have been done with the society's economic results under the sub-heading, "scrutinising the previous activities".

Break-even point analysis is a very important tool in controlling the society's performance and also in securing that the decisions taken by the management are based on sound and realistic analysis. The break-even point analysis makes it possible for the management to compare the fixed business volume with what must be reached in order to cover the fixed costs. It also indicates where and how necessary changes will be effected in order to improve the society's performance. The three "key figures", (1) Contribution Ratio, (2) Break-even Point, and (3) Margin of Safety, give some very important characteristics about the profit structure and the management's performance.

9.16 For planning purposes¹ the break-even system could be used for analysis and giving answers on the following questions:

1. What additional sales must be made at the same profit to justify a price cut?
2. How much will profits drop if these sales are not reached?
3. How must sales mixture change to compensate the drop in profits without a rise in sales volume?
4. How to balance a rise in prices with a drop in volume to realise more profit?
5. What additional sales are required and/or how must product mix change to be able to pay for operating a new Branch or a new Warehouse plant, etc.?
6. Which is the most profitable product (department)?
7. What increase in labour productivity is required to offset a general price cut?

1. See Chapter VII—Budgeting.

8. How should one plan the volume and product mix to obtain the desired return on the capital invested?
9. How do one determine the break-even capital required to support a planned sales level?
10. How should one price the products to maximise the profit per equipment hour, labour hour and warehouse space, etc. ?
11. At what quantity of sales product will it pay to switch over from one method to another say counter-service to self-service or change of location involving interest etc.?

9.17 *Controlling the Actual Results and Comparing Them With Worked Out Plans*

9.17.01 How to use the break-even system as a control device is dealt with in the Chapter on Result Calculation and Evaluation. (p. 162)

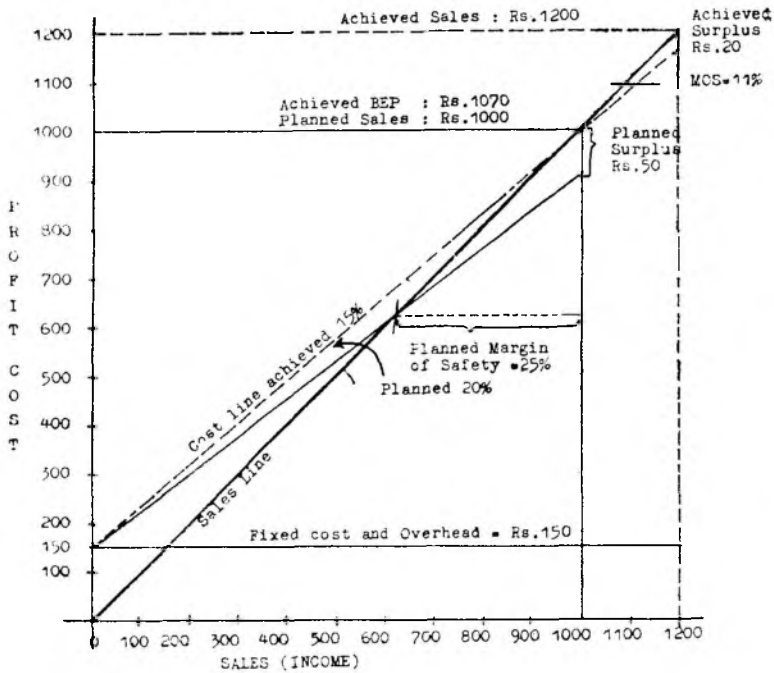
9.17.02 The main idea is to work out Break-even statements and Break-even charts indicating the differences in the planned and achieved results.

9.18 These statements and charts can be prepared as follows:

BUDGETARY CONTROL STATEMENT

Items	Budget data		Achieved data		Deviation	
	Amount	%	Amount	%	Amount	%
<i>Sales</i>	1,000	100	1,200	100	+200	+20
<i>Variable Costs</i>						
Direct labour	100	10	180	15	+ 80	+80
Direct material	700	70	840	70	+140	+20
<i>Fixed Costs</i>	100	10	100	8	—	—
<i>Overheads</i>	50	5	60	5	+ 10	+20
<i>Net Surplus</i>	50	5	20	2	—30	—60
Contribution Ratio	20%		15%		—5%	
Break-even Point	750		1,070		+320	
Margin of Safety	25%		11%		—14%	

9.19 Break-even Analysis is a managerial tool and provides reliable information to Management to initiate



prompt remedial action before it becomes too late. In the South-East Asian Region where a large number of consumer cooperatives are located and many more are in the process of being organised, the Break-Even Analysis as a managerial tool is yet to make headway. In fact, some of the managers do mention occasionally of their efforts to break-even the sales without understanding the implication of the term used.

9.19.02 Break-Even is simple to understand once the method of calculation is understood. The basic documents in a consumer cooperative usually provide the needed data. The only question is to compile and use them to the advantage of the store. What is actually important is not the terms such as Break-Even, etc., but the contribution each

item/commodity group/department provides for meeting the overheads and profit so necessary for growth. The level of sale at which the contribution for overheads is fully provided is break even, but that is the point at which the profit is zero. Any further contribution ensures profit. Proper appreciation of this position will create the needed awareness to make efforts to achieve profitability.

9.19.03 Break-Even plays a vital role in the budgeting, result calculations and also evaluation at any period. It is closely linked with the other techniques discussed in the book.

YEAR 1
APPENDIX I
BREAK-EVEN STATEMENT

	100%	4%	5%	91%
Total	Warehouse Marketing	Rice/Corn Mill	Cooperative Store Operation	
Amount	%	Amount	%	Amount
Income	100	100	100	100
Variable Expenses:				
Salaries/Wages	4.4	1,800	33.0	17
Direct Material	79.6	2,700	49.0	43
Total of Variables	84.0	4,500	82.0	60
Contribution	16.0	1,000	18.0	40
Fixed Expenses	10.2	5,000	91.0	72
Contribution to Overheads & Surplus	5.8	-4,000	-73	-32
Overhead Expenses	3.9	—	—	—
Net Surplus	1.9	—	—	—
Contribution Ratio	16%	18%	40%	14.5%
Break-even Point	120,000	27,700	12,500	27,600
Margin of Safety	13%	-404%	-79%	78%

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YEAR II

Items	100%		6.5%		7%		86.5%	
	Amount	%	Amount	%	Amount	%	Amount	%
Income	198,000	100.0	13,000	100.0	14,000	100.0	171,000	100.0
Variable Expenses								
Salary/Wages	11,500	5.8	5,500	43.0	2,000	14.3	4,000	2.3
Direct Material	171,000	86.4	5,000	38.0	4,000	28.7	162,000	94.8
Variable Expenses Total	182,500	92.2	10,500	81.0	6,000	43.0	166,000	97.1
Contribution	15,500	7.8	2,500	19.0	8,000	57.0	5,000	2.9
Fixed Expenses	14,000	7.1	5,000	38.0	5,000	35.0	4,000	2.3
Contribution to over-heads and Surplus	1,500	0.7	-2,500	-19.0	3,000	22.0	1,000	0.6
Overhead Expenses	5,000	2.5						
Net Surplus	-3,500	-1.8						
Contribution Ratio	7.8%		19%		57%		2.9%	
Break-even Point	247,000		26,400		8,750		133,000	
Margin of Safety	-24%		-102%		37.5%		20%	

CONSUMER COOPERATIVE DEPARTMENT

APPENDIX II

BREAK-EVEN STATEMENT

YEAR 1

Items	Total		Merchandise		Palay		Rice	
	Amount	%	Amount	%	Amount	%	Amount	%
Sales	125,000	100.0	2,500	100.0	89,500	100.0	33,000	100.0
Variable Expenses Salaries/Wages	3,000	2.5	300	12.0	1,500	1.7	1,200	3.5
Direct Material	104,000	83.0	2,000	80.0	71,000	79.3	31,000	94.0
Variable Expenses Total	107,000	85.5	2,300	92.0	72,500	81.0	32,200	97.5
Contribution	18,000	14.5	200	8.0	17,000	19.0	800	2.5
Fixed Expenses	4,000	3.2	1,000	40.0	1,000	1.1	2,000	6.0
Contribution to Overheads and Surplus	14,000	11.3	-800	-32.0	16,000	17.9	-1,200	-3.5
Contribution Ratio	14.5%		8%		19%		2.5%	
Break-Even Point	27,600		12,500		5,300		80,000	
Margin of Safety	78%		-400%		950%		-142%	

YEAR 2

	Total 100%		Merchandise 22%		Palay 73%		Rice 5%	
	Amount	%	Amount	%	Amount	%	Amount	%
Sales	171,000	100.0	37,000	100.0	126,000	100.0	8,000	100.0
Variable Expenses: Salaries/Wages	4,000	2.3	2,000	5.4	1,500	1.2	500	6.0
Direct material	162,000	94.8	32,000	86.6	123,000	97.6	7,000	88.0
Variable costs—Total	166,000	97.1	34,000	92.0	124,500	98.8	7,500	94.0
Contribution	5,000	2.9	3,000	8.0	1,500	1.2	500	6.0
Fixed Expenses	4,000	2.3	2,000	5.4	1,000	0.8	1,000	12.0
Contribution to Overheads and Surplus	1,000	0.6	1,000	2.6	500	0.4	—500	—6.0
Contribution Ratio	2.9%		8%		1.2%		6.0%	
Break-even Point	138,000		25,000		83,000		16,700	
Margin of Safety	20%		33%		34%		—108%	

CHAPTER X

RESULT CALCULATION AND EVALUATION

10.01 In a complex business organisation such as the Consumer Cooperative, it is of great importance for the Manager and the Managing Board to get a precise knowledge of the economic position as often as possible and certainly more than once a year. While a *Result Calculation* should take place at least four times per year it is advisable to have it done once a month. The Consumer Societies in some of the countries in the region undertake Result Calculation once a month regularly and this has paid them rich dividends.

What is Result Calculation ?

10.02 With Result Calculation is meant, that the economic result of a previous period say a month, a quarter, half year or year is calculated for the society in monetary terms and percentages.

10.03 *Why Result Calculation ?*

- To follow and check the economic result and economic position for the society/shop.
- To plan the future activities.
- To see where a step must be taken to improve the economic result and economic position.
- To stimulate the Manager and the staff in their work through checking the calculated result against the budget or other societies/shops for the same period and analyse the differences.
- To improve and make budget for a future period more realistic than in the past.
- To ensure the optimum utilisation of resources to ensure higher productivity and profitability through customer service and satisfaction.

Who shall do the Result Calculation ?

10.04 It should be the responsibility of the Manager to do the Result Calculation once a month, and place the same before the Board for discussion in the monthly meetings. In collaboration with the Board the Manager should decide about measures to be taken to improve the results in the next period by better performance.

10.05 *How to Make a Result Calculation ?*

- (i) Start with the turnover for the period. This is found from the Sales Report.
- (ii) Deduct the “cost of goods” sold for the period.¹ This can be found from the “STOCK BOOK”.

The “cost of goods” includes the wholesale price (the purchase price) of the goods and the costs for the transportation of the same to the shop together with any handling cost.

1. Cost of goods sold should be worked out from the stock book.

- (iii) What remains is called *gross surplus*/margin or contribution and shall cover the fixed and variable costs and the *net surplus*.

$$\text{Gross Surplus} = \text{Trade Margin} = \text{Contribution}$$

- (iv) Deduct from the gross surplus the different fixed costs and *variable costs*. These costs are found in the accounting books.

The different costs which shall be deducted are: rent costs, wage costs, stock cost & (leakage costs) fitting costs, other running expenses and joint costs.

- (v) When these various costs have been deducted from the gross surplus, the rest is called *net surplus*.
- (vi) The net surplus shall give:

Allocations to the reserve fund, according to the bye-laws.

Interest on the members' share capital.

Patronage bonus to the members.

- (vii) The turnover, cost of goods, gross surplus, fixed and variable costs and at last the net surplus, shall be accumulated month by month, so one always can get a hold of the economic result from the beginning of the business year as well as from the last period.

Result Analysis

10.06 After each period, the Result Calculation shall be compared with the budget for the same period. The differences shall be analysed and discussed among the staff at the staff meetings and among the board members at the Board Meetings. The result for the period can be compared with that of other societies/shops or with a previous period and discussed as above. A very simple analysis of the result of three shops is given below :—

10.07 *Result Calculation*

Shop number	1		2		3	
	Amount	%	Amount	%	Amount	%
1. Turnover	100,000	100	110,000	100	90,000	100
2. ./ Cost of Goods	80,000	80	90,000	82	70,000	78
3. —Gross Surplus/ Contribution	20,000	20	20,000	18	20,000	22
4. a. ./ Wages costs	6,000	6	8,000	7.3	7,000	7.7
b. ./ Rent costs	3,000	3	5,000	4.5	2,000	2.2
c. ./ Stock costs	300	0.3	300	0.2	300	0.4
d. ./ Fitting costs	700	0.7	700	0.6	700	0.8
e. ./ other running expenses.	1,000	1	1,500	1.4	900	1
f. ./ Joint costs	2,000	2	3,000	2.7	1,100	1.2
g. ./ Leakage costs	1,000	1	1,000	0.9	1,000	1.1
5. —Net surplus	6,000	6	500	0.4	7,000	7.6

10.08 *Comments*

1. The turnover varies between the three shops and it depends on :

- the business area
- the sales policy
- the composition
- the sales promotion activities etc.

2—3. The variations between the three shops in “cost of goods” and gross surplus can depend on :

- the price level
- the composing of assortment
- the price deductions etc.

Shop number two has perhaps a higher turnover of staples than the others.

4. (a) The variation in wage costs can depend on :

- the sales premises
- sales per employee
- the skill of the staff
- the selling system
- the sales policy
- the work organisation
- the Manager's qualifications as personnel leader etc.

Shop number three is perhaps a small manual service shop with a very limited assortment of staples and a good assortment in non-food.

(b) The variation in rent costs can depend on:

- store location
- the age of the premises etc.

Perhaps shop number two is a new shop which has not yet reached the right sales volume.

4. (c) The value of the fittings is the same for the shops. If one should analyse the efficiency of the shop according to the value of fittings, shop number two would be the best one.

As one can see, the stock costs and fitting costs are the same in amount but not in percent.

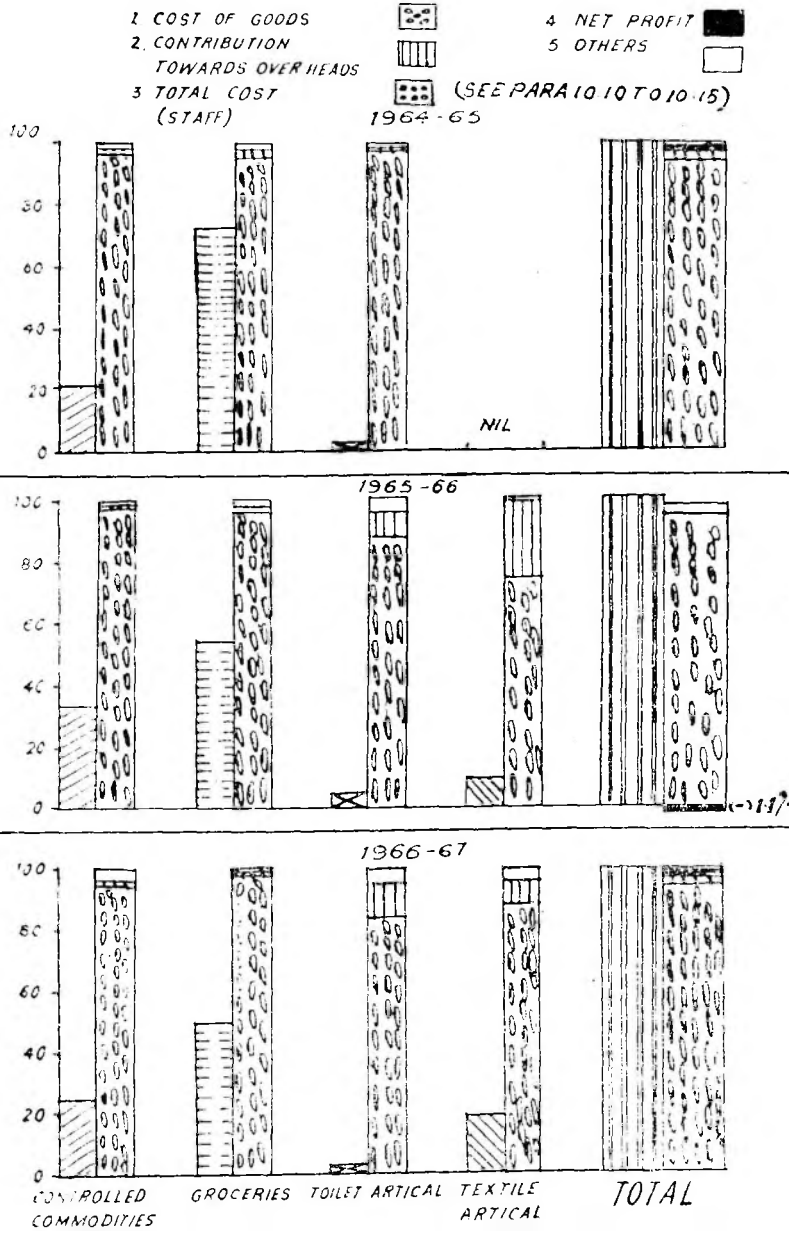
(d) Shop number two has 0.4% higher "other running expenses" than the others. It can be that the staff in shop number two, use the telephone and the lights etc., more than the others and that they might in these cases be less careful than their colleagues in the other shops.

(e) The leakage costs are the same in amount but different in percent in the shops.

5. Shop number two has only 500 in net surplus and that is not enough to cover the need for patronage dividends, interest on members' share capital and making reserves, etc.

RESULT CALCULATION

(A PRIMARY SOCIETY IN INDIA)

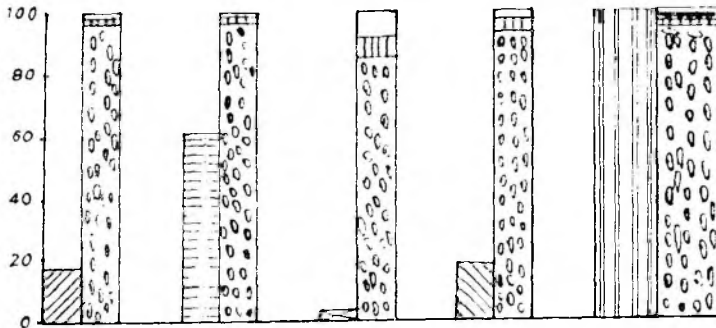


RESULT CALCULATION

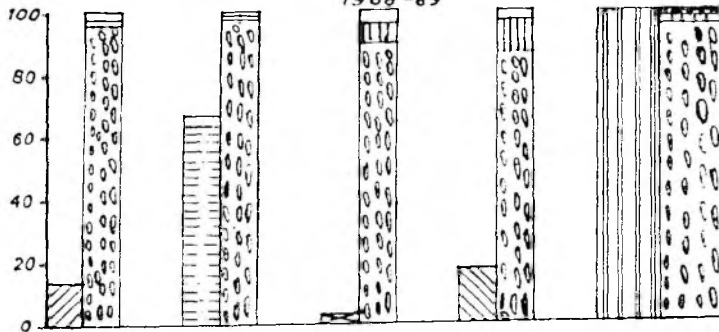
(A PRIMARY SOCIETY IN INDIA)

- | | | | |
|---------------------------------|--|---------------------------|--|
| 1 COST OF GOODS. | | 4 NET PROFIT | |
| 2 CONTRIBUTION TOWARDS OVERHEAD | | 5 OTHERS | |
| 3 TOTAL COST (STAFF) | | (SEE PARA 10.16 TO 10.22) | |

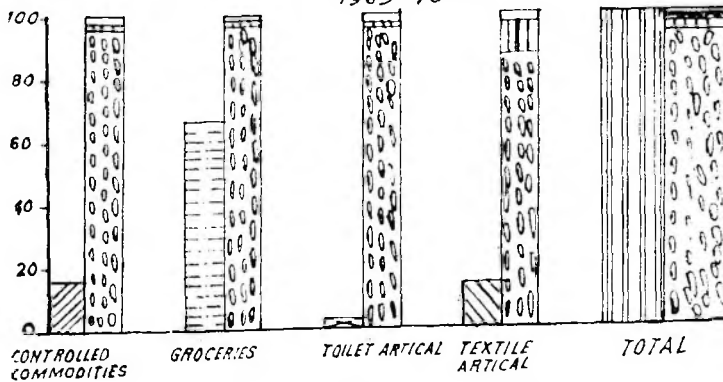
1967-68.



1968-69



1969-70



10.09 One could suppose that shop number two is a new one, which has not yet reached its proper sales volume and therefore uses a low price and a lot of sales promotion activities to reach the volume. As it is a new shop, and it has not yet reached the sales volume, the sales area is too large and so is also the rent costs. The wage costs are too high, but that depends on the sales volume and also perhaps on the work organisation.

10.09.02 If shop number two is an old shop within a business area which is not expanding, the future of that shop is less favourable and one can assume that it has to be closed down.

10.09.03 The two other shops give a good net surplus. But as one can see, it is not only the turnover and gross surplus which decide the net surplus, it is also the fixed and variable costs.

10.10 From the available figures of a primary consumer cooperative society in India (Gujarat State) result calculation and evaluation was undertaken for a period of 6 years from 1964-65 to 1969-70. The statements are attached.

10.10.02 Though these calculations and evaluations are made on a year to year basis, it is necessary that the societies should undertake this exercise every month regularly for comparison with the previous month as also the corresponding month of last year. In addition, the figures should also be compared with the figures estimated in the budget to ask meaningful questions as to "Why" and "How".

10.11 See page 170.

Comments to Statistics 1964-65.

10.12 21.3% of the sale refers to controlled commodities, which has a margin of 3.8%, a stock turnover of 94 times and contributes 6,303 or covers 13.5% of the society's joint costs/overhead and net profit.

10.12.02 The sale of groceries section covers 73.8% of total sales which has a margin of 5.9%, a stock turnover of 23 times but contributes 40,978 or cover 88% of the society's joint costs/overheads and net surplus.

10.11 RESULT CALCULATION OF A PRIMARY CONSUMER COOPERATIVE SOCIETY IN GUJARAT STATE (INDIA)
1964-65

Distribution of Sales	21.3%	73.8%	4.9%	100%
Department/Section	Controlled Commodities	Groceries	Toilet Articles	Textiles
				Total
Sales	244,027	845,351	55,170	1,144,548
Cost of purchases of goods	234,748	795,275	54,212	1,084,235
Contribution towards costs & profit (Gross surplus)	9,279	50,076	958	60,313
Staff costs (direct fixed costs)	2,976	9,098	1,416	13,490
Contribution towards joint costs/overheads and net profit	6,303	40,978	—458	46,823
Joint costs/overheads				38,590
Staff Cost				9,192
(Rent, Elec. Insurance etc.)				29,398
Net profit	2,567	36,532	7,911	8,233
Year end stock value	94	23	7	47,010
Stock turnover				24
Contribution Ratio	Sales—Variable costs x 100 Sales			
Break-even Sales	Fixed costs x 100 Contribution Ratio			
Margin of Safety	Sales—Break-even Sales x 100 Sales			
Net profit per Employee	(19 employees)			
Net profit per sq. ft.	(580 sq. ft.)			
				430
				= 14
				5.3
				1,144,548
				1,084,235 x 100
				5.3
				982,000
				1,144,548
				14%

10.12.03 The toilet section covers 4.9% of the sales but contributes only 1.7% towards the costs resulting in that this section cannot even meet its own direct costs (staff costs) and is thus subsidised by other sections.

10.12.04 The common costs and overheads amount to 38,590 leaving a net surplus of 8,233 or 0.7% of the sales turnover. In addition to the net surplus from the retail business, the society earned 22,297 as interest on fixed deposits and as bonus. The contribution ratio (gross surplus) amounted to 5.3% making the Society's break-even sales to 982,000 (the society has to sell for that amount before being able to fully meet the joint costs/overheads). The margin of safety is 14% thus the sale can decline by that percentage before a loss occurs.

10.12.05 The stock turnover is 24 times, the net profit per employee is 430 and the net profit per sq. ft. is 14.

10.12.06 The operation of the society for the year is satisfactory but the following steps should be taken:

- (i) The operation results of the Toilet Section should be improved through:
 - (a) increasing the contribution ratio (gross profit), and
 - (b) by reducing the staff costs.
- (ii) The net profit will not be sufficient to secure patronage dividend and a proper growth of the institution.
- (iii) Efforts should be made to increase the sales volume.

10.13 See page 172.

Comments to Statistics 1965-66

10.14 The sale of controlled commodities has increased by 90% while the margin has decreased by 100% from 3.8% in 1964-1965 to 1.9% for the year. The staff costs have decreased in percentage from 1.2% to 0.8%. The above have resulted in that the contribution from the controlled commodity section has decreased by approximately 1,100 or 1.5% of sales in spite of a sales increase of 90%. The controlled goods sales of total sales has also increased by 11.6%.

10.13 RESULT CALCULATION OF PRIMARY CONSUMER COOPERATIVE SOCIETY IN GUJARAT STATE (INDIA)
1965-66

Distribution of Sales	32.9%	53.5%	4.2%	9.4%	100%
Department/Section	Controlled Commodities	Groceries	Toilet Articles	Textiles	Total
Sales	471,771	767,159	60,436	133,479	1,432,845
Cost of purchases of goods (direct variable costs)	463,019	746,289	53,179	97,307	1,359,794
Contribution towards costs and profit (net surplus)	8,752	20,870	7,257	36,172	73,051
Staff costs (direct fixed costs)	3,575	7,200	1,560	3,315	15,650
Contribution towards joint costs, overheads & net profit	5,177	13,670	5,697	32,857	57,401
(Staff costs)					72,942
(Rent, Electricity, etc.)					(12,206)
Net Profit	5,124	53,115	9,125	46,152	(60,736)
Year end stock value/	92 times	14 times	7 times	3 times	113,516
Stock turnover					12 times

Contribution Ratio (Gross profit) $\frac{1,432,845 - 1,359,794}{1,432,845} \times 100 = 5.0\%$

Break-even Sales $\frac{88,595 \times 100}{5.0} = 1,760,000$

Margin of safety $\frac{1,432,845 - 1,760,000}{1,432,845} \times 100 = 23\%$

Net profit per employee (23 employees) = 675
Net profit per sq. ft. selling area (780 sq. ft.) = 20

Negative---Sales have to increase with that %age.

10.14.02 The sale of groceries has declined by approximately 80,000 and at the same time the margin has declined from 5.9% to 2.7% or by more than 100%. This is a very serious development. The grocery section has only contributed 13,670 towards the joint costs and overheads compared to 40,978 in 1964-1965. The stock turnover has also decreased from 23 times to 14 times.

10.14.03 The sales of the toilet section have increased by approximately 10% and the margin has increased from 1.7% to 12% while the staff costs have remained constant at 2.6%. The stock turnover is also maintained at 7 times. The performance of the toilet department is satisfactory and very much improved and it is contributing 5,697 towards the joint costs and overheads compared to a negative result of 458 previous year.

10.14.04 A new department has started during the year (the textile department) and its sales, margin and contribution towards joint costs and net surplus is very satisfactory. It contributes 32,857 towards the joint costs and overheads.

10.14.05 The sale of the society for the year has increased by approximately 300,000 mostly due to heavy increase in the controlled commodity section and the new textile section. However, the margin has declined by 0.3% in spite of the very good margin in the textile section. This decline is due to the heavy decline in the margin on the controlled commodity and grocery section.

10.14.06 The joint costs have increased due to the addition of an administrative employee and payment of a rebate amounting to 18,428 at the same time the canteen account has increased by approximately 100% from 9,210 to 17,977 for the year.

10.14.07 The above has resulted in that the society's retail business is running in a loss by 15,541 but due to Bonus and interest on fixed deposits amounting to 33,118, the society is showing a profit.

10.14.08 The stock turnover has decreased from 24 times to 12 times only which is a very serious development. The Break-Even-Sales have increased to 1,760,000 resulting in that the margin of safety is minus 23% resulting in that sales must increase by 23% before a profit occurs. The net profit per employee and sq. ft. selling area is negative.

10.14.09 The sales for the year have had a proper growth and it is encouraging to note the progress of the textile section and the toilet section while the controlled commodities has had a less favourable growth and the development of the groceries department has been a disappointment.

- (A) Improve gross profit of controlled commodities¹
- (B) Increase sales in groceries and improve gross profit
- (C) Decrease joint costs and particularly watch the costs of the Canteen.
- (D) An Advice for making a satisfactory profit during next fiscal year.

1. The reduction in the percentage of gross profit in the sale of controlled commodities compared with the previous year indicates large scale losses, pilferages etc. which have to be investigated and action taken.

10.15 RESULT CALCULATION OF A PRIMARY CONSUMER COOPERATIVE SOCIETY IN GUJARAT STATE (INDIA)
1966-67

Distribution of Sales	24.5%	53.8%	3.3%	18.4%	100%
Department/Section	Controlled Commodities	Groceries	Toilet Articles	Textiles	Total
Sales	459,543	1,008,016	62,117	341,803	1,871,479
Costs of purchases of goods (direct variable costs)	446,359	999,157	52,711	302,939	1,793,166
Contribution towards costs and net profit (gross surplus)	13,184	16,859	9,406	38,864	78,313
Staff costs (direct fixed costs)	5,040	10,227	1,950	4,830	22,047
Contribution towards joint costs/overheads and net profit	8,144	6,632	7,456	34,034	56,266
Joint costs (Staff costs)					43,447
(Rent, Electricity, etc.)					(17,340)
Net profit					(26,107)
Year end stock value	6,275	96,408	12,320	39,169	154,172
Stock turnover	73 times	10 times	5 times	8 times	12 times
Contribution Ratio (Gross Profit)		$\frac{1,871,469 - 1,793,166}{1,871,479} \times 100 = 4.2\%$			
Break-even Sales		$\frac{65,494 \times 100}{4.2} = 1,560,000$			
Margin of Safety		$\frac{1,871,479 - 1,560,000}{1,871,479} \times 100 = 17\%$			
Net profit per employee	(24 employees) = 530				
Net profit per sq. ft. selling area	(780 sq. ft.) = 16				

10.15. See page 175.

Comments to Statistics—1966-67

10.16 The sales of the controlled commodities have been slightly decreased while the margin has increased from 1.9% to 2.8%. The department contributes 8,144 compared to 5,177 previous year towards the joint costs and overheads. However, the stock turnover has decreased from 92 times to 73 times. The operation of the department is satisfactory but the sales should be increased.

10.16.02 The grocery department has increased its sales by approximately 250,000 or approximately 25% while the margin has declined from 2.7% to 1.7%. This results in that the grocery section only contributes 6,632 towards the joint costs and net surplus compared to 13,670 previous year. The stock turnover of the grocery section has declined from 14 times to 10 times. The margin should be improved and the stock turnover increased.

10.16.03 The toilet section has had a small increase in sales and the margin is further improved from 12% to 15% but the staff costs have increased by 2.6% to 3.2%. In view of the improved margin the department is contributing 7,456 towards the joint costs and overheads compared to 5,697 in the previous year.

10.16.04 The textile section has had a tremendous growth in sales from 133,479 to 341,803 while the margin has decreased from 27% to 11.3% resulting in that the contribution to meet the costs on net surplus is only slightly increased in amount.¹ The staff costs in per cent have decreased in view of the increase in sale. The department contributes 34,034 towards the joint costs and overheads compared to 32,857 previous year. The stock turnover is very much increased from 3 times to 8 times. The development of the department has been very satisfactory in spite of decreased margin.

10.16.05 The growth in sales of the society is very satisfactory depending on the increase in sales of groceries and

1. Whether this reduction in the percentage of gross margin of profit is due to deliberate low pricing of goods to face competition or other losses, pilferages has to be investigated and remedial action taken.

textiles. The margin has decreased from 5% to 4.2% depending on the decrease in margin of groceries and textiles. This has resulted in that the contribution towards overheads has slightly decreased.

But in view of that the overheads have decreased the society is now showing a profit amounting to 12,719 compared to a loss of 15,541 in the previous year. The operation of the year is, thus, satisfactory. The society earned an additional amount of 8,818 as interest on fixed deposits and bonus. The break-even-sale has reduced by 200,000 to 156,000 and the sales can now decline by 17% before a loss starts. The net profit per employee amounts to 530 and the net profit per sq. ft. selling area to 16.

10.16.06 The operation of the year has been satisfactory in spite of certain less favourable developments in some departments.

10.17 See page 178

Comments to Statistics—1967-68

10.18 The sale of the controlled commodities has declined by approximately 100,000 while the margin has increased from 2.8% to 3.2%. The contribution of this section towards the joint costs and the overheads has declined from 8,144 to 6,104. The stock turnover has also declined from 73 times to 59 times. Efforts should be made to increase the sales while maintaining the present margin and staff costs.

10.18.02 The grocery section has increased by approximately 25% to 1,260,012. Also the margin has increased from 1.7% to 2.2% while the staff costs have increased by approximately 5,000. The department has improved its operation and is now contributing 11,777 towards the joint costs and overheads compared to 6,632 previous year. The stock turnover is also very much improved from 10 times to 30 times. The operation of the department is very satisfactory.

10.18.03 The toilet section has increased its sales but reduced its margin and is slightly less profitable compared to pre-

10.17 RESULT CALCULATION OF A PRIMARY CONSUMER COOPERATIVE SOCIETY IN GUJARAT STATE INDIA

1967-68

Distribution of Sales	17.5%	61.3%	3.3%	17.9%	100%
Department/Section	Controlled Commodities	Groceries	Toilet Articles	Textiles	Total
Sales	357,697	1,260,012	67,051	368,692	2,053,452
Cost of purchases of goods (direct variable costs)	346,296	1,232,463	57,974	336,130	1,972,863
Contribution towards costs and profit (gross surplus)	11,401	27,549	9,077	32,562	80,589
Staff costs (direct fixed costs)	5,297	15,772	1,950	4,905	27,924
Contribution towards joint costs and overheads	6,104	11,777	7,127	27,657	52,665
Joint costs (Staff costs)					38,398
(Rent Electricity etc.)					(18,000)
Net profit					(20,398)
Year end stock value	6,065	41,426	14,692	66,318	128,501
Stock turnover	59 times	30 times	5 times	5 times	15 times
Contribution (Ratio Gross Profit)	$\frac{2,053,452 - 1,972,863}{2,053,452} \times 100 = 3.9\%$				
Break-even-Sales	$\frac{66,322 \times 100}{3.9} = 1,700,000$				
Margin of safety	$\frac{2,053,452 - 1,700,000}{2,053,452} \times 100 = 17\%$				

Net profit per employee (24 employees) = 600
 Net profit per sq. ft. selling area (1,667 sq. ft.) = 9

vious year. The sales, the margin and the stock turnover should be improved.

10.18.04 The sale of the textile department continues to increase while the margin continues to decline. During the year it has declined from 11.3% to 8.8% resulting in that the contribution towards the joint costs/overheads and net surplus has declined from 34,034 to 27,657. The stock turnover has also declined from 8 to 5 times. Efforts should be made to improve the margin and stock turnover.

10.18.05 The sales of the society have had a satisfactory growth, while the margin has continued to decline from 4.2% in the previous year to 3.9%. In view of this the contribution towards joint costs/overheads and net surplus have decreased by approximately 4,000. The joint costs have declined (rent, electricity, etc.), and the net profit has improved from 12,719 to 14,267. However, this improvement is not in relation to the increase in sales. The stock turnover has increased from 12 times to 15 times. The Break-Even-Sales have increased to 1,700,000 and the margin of safety maintained at 17%, resulting in that the sales can decline by that percentage before a loss starts.

10.18.06 The net profit per employee has improved from 530 to 600 while the net profit per sq. ft. has declined mostly due to increase in sq. ft. selling area (more than doubled).

10.18.07 The operation of the store has been satisfactory in spite of a decline in margin.

10.19 See page 180.

Comments to Statistics—1968-69

10.20 The sale of controlled commodities has continued to decline by approximately 33,000 while the staff costs have increased. This has resulted in that the department contributed only 4,527 towards the joint costs and overheads compared to 6,104, previous year. Also the stock turnover has further declined from 59 times to 40 times. The sales are to be increased and the stock turnover improved.

10.20.02 The grocery section has had a satisfactory growth of sales approximately 20%, while the margin has decreased

10.19 RESULT CALCULATION OF A PRIMARY CONSUMER COOPERATIVE IN GUJARAT STATE (INDIA)
1968-69

Distribution of Sales	13.6%	66.2%	3.4%	16.8%	100%
Department/Section	Controlled Commodities	Groceries	Toilet Articles	Textiles	Total
Sales	323,726	1,552,212	79,767	393,983	2,349,688
Costs of purchases of goods (direct variable costs)	313,109	1,531,402	71,764	344,535	2,260,810
Contribution towards costs and net surplus (gross profit)	10,617	20,810	8,003	49,448	888,878
Staff costs (direct fixed costs)	6,090	16,523	2,100	5,430	30,143
Contribution towards fixed costs	4,527	4,287	5,903	44,018	58,735
Joint Costs					47,854
(Rent, Electricity etc.)					(19,575)
Net Profit	8,112	86,804	14,719	45,365	155,000
Year and stock value	40 times	18 times	5 times	9 times	15 times
Stock turnover					

Contribution Ratio (Gross Profit) $\frac{2,349,688 - 2,260,810}{2,349,688} \times 100 = 3.8\%$

Break-even sales $\frac{77,977 \times 100}{3.8} = 2,000,000$

Margin of Safety $\frac{2,349,688 - 2,000,000}{2,349,688} \times 100 = 15\%$

Net profit per employee = 415 (26 employees)

Net profit per sq. ft. selling area = 12 (900 sq. ft.)

from 2.2% to 1.3% resulting in that the contribution towards the joint costs/overheads and net profit has declined to 4,287 compared to 11,777 in the previous year. The stock turnover has also further declined from 30 times to 18 times. The margin and stock turnover are to be improved.

10.20.03 The toilet section has had a favourable growth in sales (approximately 12,000 or 18%) while the margin has continued to decline from 13.5% to 10%. This has resulted in that the contribution towards joint costs/overheads and net profit have also declined by approximately 1,700. The stock turnover has however slightly improved. The sales, margin and stock turnover are to be further improved.

10.20.04 The sale of the textile section has increased by approximately 7%. Also the margin has developed favourably from 8.8% to 12.5%. Thus the sections contribution towards the overheads has increased from 27,657 to 44,018. The section has had a very satisfactory development during the year.

10.20.05 The society has had a proper growth in sales (11.5%) while the margin has still slightly decreased from 3.9% to 3.8%. The contribution towards the joint costs-overheads has also increased by approximately 6,000. However, the joint costs have increased by approximately 9,500 making the net profit of retail operation to 10,881 compared to 14,267 in the previous year.

10.20.06 The Break-Even Sales have increased to 2,000,000 while the Margin of Safety slightly decreased to 15%. The net profit per employee has declined to 415 compared to 600 in the previous year. The net profit per sq. ft. selling area has increased from 9 to 12 due to that the selling area has decreased by approximately 50%. The joint costs should be watched and reduced and the margin improved.

10.21 See page 182

Comments to Statistics—1969-70

10.22. The sale of controlled commodities has increased by 100,000 and the margin from 3.2% to 3.9%. Thus, the

10.21 RESULT CALCULATION OF A PRIMARY CONSUMER COOPERATIVE SOCIETY IN GUJARAT STATE INDIA

1969-70

Distribution of Sales	15.8%	66.6%	3.2%	14.4%	100%
Department/Section	Controlled Commodities	Groceries	Toilet Articles	Textile	Total
Sales	424,140	1,772,077	83,978	385,599	2,665,794
Cost of purchases of goods (direct variable costs)	407,240	1,702,255	81,150	337,212	2,527,857
Contribution towards costs and net surplus (gross profit)	16,900	69,822	2,828	48,387	137,937
Staff costs	6,270	18,764	2,220	6,840	34,094
Contribution towards joint costs/overheads and net surplus	10,630	51,058	608	41,547	103,843
Joint costs (Staff Costs)					96,676
(Rent, Electricity etc.)					(20,475)
Net Profit	6,011	86,279	9,150	56,291	157,731
Year end stock value	70 times	21 times	9 times	7 times	16 times
Stock turnover					
Contribution Ratio (Gross Profit)		$\frac{2,665,794 - 2,527,857}{2,665,794} \times 100 = 5.2\%$			
Break-even Sales		$\frac{130,770 \times 100}{5.2} = 2,525,000$			
Margin of Safety		$\frac{2,665,794 - 2,525,000}{2,665,794} \times 100 = 5\%$			
Net profit per employee (28 employees)					= 255
Net profit per sq. ft. selling area (900 sq. ft.)					= 8

operation of the section is very much improved and it now contributes 10,630 towards the joint costs and net-surplus compared to 4,527 in the previous year. The stock turnover has also increased from 40 to 70 times. The operation of the department during the year is satisfactory.

10.22.02 The grocery sale has increased by 11.5% and the margin from 1.3% to 3.9%. The section now contributes 51,058 compared to 4,287 for the previous year towards the joint costs and net surplus. The stock turnover is also improved. The operation of the section is satisfactory.

10.22.03 The sale of the toilet section has increased by 6% while the margin has very much declined from 10.0% to 3.3%. The section is now only contributing 608 towards the joint costs and net surplus compared to 5,903 in the previous year. The stock turnover has however improved from 5 to 9 times. The sales and the margin should be further increased.

10.22.04 The sale of the society has had a proper growth (11.5% the margin has also increased to 5.2% and the downward trend is broken. The favourable development has resulted in a contribution towards overheads and net surplus amounting to 103,843 (3.9% of sales) compared to 58,735 (2.5% of sales) in the previous year. However, the joint costs have increased heavily to 96,676 due to giving rebate resulting in that the net profit for the year amounts only to 7,167 compared to 10,881 in the previous year. The stock turnover has slightly improved during the year. The Break-Even sale has increased to 2,525,000 due to the increase in fixed costs (joint costs) and the margin of safety is now only 5% resulting in that the sales can only decrease by 5% before a loss starts.

10.22.05 The net profit per employee has also declined to 255 compared to 415 in the previous year due to decline of net surplus and an increase of employees by 2. The net profit per sq. ft. selling area has also declined due to decline in net profit.

10.22.06 The growth of the society during the year has

been satisfactory in spite of increase in joint costs. This increase refers however to rebate, which is indicative of profitability.

10.23 From the result calculation and evaluation indicated for 6 years, it is obvious, that the society has functioned largely on trial and error basis. If the society had undertaken the result calculation and evaluation regularly every month not only they would have detected the shortcoming promptly at the end of each month but also would have initiated some action which would have avoided the ups and down noticed in the performance and profitability.

10.24 Result calculation and evaluation are not undertaken systematically by the consumer cooperatives in the region. These are managerial tools and are capable of throwing useful light on the shortcomings in the performance. Further, they can help the management to stockpile know-how drawn from the establishment on time to time basis for comparison with similar figures from other societies in the area leading to increased productivity and profitability.

CHAPTER XI

KEY FIGURES

11.01 In a fast moving complex business organisation such as retailing, the management have to review the performance every month (if not every week or fortnight) with the help of a few key figures. The compiling of the key figures should be a routine rigidly followed at the end of each period. The figures so compiled should be checked by the internal auditor to ensure arithmetical accuracy. The key figures should be reviewed by the staff at various levels—pertaining to their area of operation while for the store as a whole the Manager should undertake the review. The key figures and the results of the review should be placed before the Managing Board with suggestions for corrective actions.

11.02 There are several key figures to be compiled in a retail unit. But some of the most important key figures and how they are arrived at are as follows ;

$$(a) \text{ Sale per Member} = \frac{\text{Sale Turnover}}{\text{No. of members}}$$
$$(b) \text{ Sale per Employee} = \frac{\text{Sale turnover}}{\text{No. of employees}}$$

(c) <i>Sale per sq. metre</i> =	$\frac{\text{Sale Turnover}}{\text{Sq. metre space}}$
(d) <i>Stock Turnover</i> =	$\frac{\text{Sale Turnover}}{\text{Average stock value}^1}$
(e) <i>Break-Even Sale</i> — (separately for each commodity group)	$\frac{\text{Fixed expenses} \times 100}{\text{Contribution ratio (Gross surplus in \%)}^2}$
(f) <i>Margin of Safety</i> = (separately for each commodity group)	$\frac{\text{Sale} - \text{Break-Even Sales} \times 100}{\text{Sales}}$
(g) <i>Net Profit Per Employee</i> =	$\frac{\text{Net profit}}{\text{No. of employees}}$
(h) <i>Net Profit per sq. metre</i> =	$\frac{\text{Net profit}}{\text{No. of sq. metre space}}$
(i) <i>Assets—Turnover Ratio</i> =	$\frac{\text{Sale Turnover}}{\text{Assets}}$

11.03 Items covered by (b) to (i) above are to be worked out for commodity groups/departments separately as well as for the society as a whole. Similarly for a society which has branches, these figures should be worked out for each branch separately as well as for the society as a whole.

11.04 The preparation of key figures will call for the documentation of basic data promptly before the end of each day and will by itself be a check on up-to-date maintenance of accounts.

11.04.02 Key figures help in locating the short-comings and trends in business and help the management to take prompt remedial actions before it becomes too late.

11.05 In Japan many societies are compiling the key figures and reviewing them regularly every month. A copy of the statement indicating the key figures by a society in Japan appears on pages 188 to 191.

1. It is both easy and appropriate to determine the stock value on the basis of sale price for purpose of working the key figures. If it is worked out on cost value it may give an inflated ratio. In any case the basis should be clearly stated.

2. For explanations see Chapter IX—Break Even Analysis P. 141.

11.06 When key figures are compiled and stored, they serve a useful purpose for comparisons not only with the previous month or the corresponding month of the previous year but also facilitates comparisons for a number of years. This is a time comparison known as Temporal Comparison.

11.07 The key figures compiled for different group of items (branches) help to measure the performance of each of them which is known as Inter-unit comparison. The figures of the Japanese Consumer Cooperative Society on page 188 to 191 fall under this category.

11.08 When the key figures of several societies or even private retailers in the area are compared, it is known as Inter-firm comparison. Usually in advanced countries figures for inter-firm comparisons are compiled in a Retail Institute located in the area and are published regularly for comparison by the retailers both private and cooperative.

11.09 In Japan the Retail Institute compiles figures for all self-service organisation, integrate them and make available the national averages/norms which the individual retailer including the cooperatives compare with their own performance. These comparisons motivate the retailers to better their performances resulting in higher national efficiency and greater national profitability leading to greater prosperity.

11.10 The consumer cooperatives in the Region have been collecting some figures but there has been no systematic compilation of key figures for review by Manager as also the Managing Board every month.¹ This is basic to the successful functioning of a cooperative society.

1. See Proforma F and G "The Role of a Nominated Director in a Consumer Cooperative Society" by S. Dandapani, Ministry of Railways, India—1970.

**FINANCIAL STATEMENT ANALYSIS (KEY FIGURES)
AS ON 31st MARCH, 1970**

(Figures compiled by one Consumer Cooperative Society in Japan)

NOTE : Money value shown in 1,000 yens unless otherwise indicated.

Particulars	March 1969	March 1970	Increase over 1969	Increase in %
1. No. of membership	160,087	193,566	33,479	120.91
2. Share Capital, Stand- ing	3,391,569	4,017,855	626,286	118.46
3. Total Capital, Stand- ing	8,858,134	12,594,665	3,736,531	142.18
4. Owned Capital (Share Capital+ Fund retained)	4,228,352	5,082,249	853,897	120.19
5. Borrowed Capital (Loans and Coop- Bonds)	4,629,782	7,512,416	2,882,634	162.26
6. Share Capital per Member	21,185	20,757	428	97.98
7. No. of Employees on 31-3-70 (Part-timers Excluded)	2,684	2,934	250	109.31
8. Owned Capital to Total Capital (4/3 x 100%)	47.7	40.4	7.3	
9. Borrowed Capital to Total Capital (5/3 x 100%)	52.3	59.6	7.3	
10. Total Sales (Sales by Prod. Department Excluded)	23,869,804	31,435,457	7,565,653	131.69
11. Gross Surplus in Sales Activities	4,161,432	5,564,194	1,402,762	133.71
12.				
13. Operating Expenses (14+15)	3,512,673	4,623,288	1,110,615	131.62
14. Wages and Salaries including compensa- tion for full-time Directors	2,112,924	2,858,457	745,533	135.28

Yen 359 = US \$ 1.00

Particulars	March 1969	March 1970	Increase over 1969	Increase in %
15. Other Expenses	1,399,748	1,764,831	365,083	126.08
16. Operating Surplus (11 minus 13)	648,758	940,906	292,147	145.02
17. Operating surplus in sales activities, in- cluding external re- venue & external ex- penditures	654,414	866,825	212,411	132.46
18. Operating Surplus (Production Deptt.)	34,775	59,676	24,901	117.61
19. Reserve for Income Tax	160,000	300,000	140,000	187.50
20. Gross surplus (in- cluding that of the production dept.) (Monthly surpluses totalled and divided by 12)	427,863	487,218	59,355	113.87
21. Total Surplus to Total Capital (20/3 x 100%)	483	435	0.48	
22. Owned Capital Sur- plus Ratio (20/4 x 100%)	10.12	10.24	0.12	
23. Share Capital Sur- plus Ratio (20/2 x 100%)	12.61	12.89	0.28	
24. Surplus Ratio, Selling Activities (18/10x100%)	17.43	17.70	0.27	
25. Expenses to Sale (13 x 10 x 100%)	14.71	14.71	0	
26. Personnel Expenses to sale (14 x 10) x 100%	8.85	9.09	0.24	
27. Other Expenses to Sale (15/10 x 100%)	5.86	5.61	0.25	
28. Operating Expenses to Sale (13 plus Ex- ternal Expenditure, divided by Sales)	15.29	15.39	0.10	

Particulars	March 1969	March 1970	Increase over 1969	Increase in%
29. Operating Surplus to Sale (17/10 x 100%)	2.74	2.76	0.02	
30. Net Surplus to Sales (17 plus 18, divided by 10)	1.79	1.55	0.24	
31. Working Capital to Sales (Sales divided by average total capital through the year)	3.06	2.81	0.25	
32. Sales to current assets (Sales divided by the total of Notes receivable, Account receivable, instalment account receivable, Reserve for Bad Debts and Loans to other Co-operatives)	16.36	17.14	0.78	
33. Total Purchase to Current Liabilities (Total purchases divided by total of Notes payable & Account payable on purchase)	7.97	8.99	1.02	
34. Inventory turn-over (sales divided by Inventory,—stock on hand)	2.20	2.05	0.15	
35. Cross ratio (34 x 24)	38.35	36.28	2.07	
36. Current Ratio (Current assets divided by current Liabilities)	116.32	84.72	31.60	
37. Acid Test (Quick assets—Cash, Bank deposits, Notes receivables, Account receivable, Instal-				

Particulars	March 1970	March 1970	Increase over 1969	Increase in%
ment account receive- able, Reserve for bad debts, sales ac- count receivable, and loans to other coops, divided by Current Liabilities)	88.72	57.22	31.50	
38. Fixed Asset Ratio (Fixed assets divid- ed by owned capital)	116.39	163.02	46.63	
39. Liabilities to Owned Capital	109.49	147.82	38.33	
40. Sales per Member, per Month (Yen)	13,557	14,510	953	107.03
41. Sales per Employee per Month (Yen)	701,269	845,459	144,190	120.56
42. Gross Surplus per Employee per Month (Yen)	122,258	149,651	27,393	122.40
43. Net Surplus per Em- ployee per Month (Yen)	11,548	13,104	1,556	113.47

NOTES : Sr. Nos. 1 to 9 show the present state of organisation and capital position;
 ,, 10 to 30 show profitability, 31 to 35 activeness;
 ,, 36 to 39 stability and 40 to 43 efficiency.

CHAPTER XII

INTER-FIRM COMPARISON

12.01 Inter-firm comparison is a managerial tool to measure the efficiency of performance of fast moving complex business enterprises. Such a comparison enables the management to understand:

- (a) the year to year growth,
- (b) the level of efficiency,
- (c) the productivity and profitability of the resources, and
- (d) the ability to stand competition in a given market.

12.02 Inter-firm comparison helps the management to understand the rate of productivity and growth by different competitors in the field. The management—through such comparisons—is able to locate problems and initiate remedial action before it becomes too late.

12.03 When the performance of different units involved in the same enterprise is compared it assumes the position of inter-unit comparison. When the performance of the same unit is compared with the previous performances, it is known as temporal comparison. When such a comparison

Supermarket	Sales				Gross Profit				Personnel Expenditure						Other Expenditure								
	1968	1969	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	
Group 'B'	1	355,387	385,351	29,964	108.4	49,297	13.9	52,393	13.6	3,096	106.3	15,810	4.4	17,521	4.5	1,711	110.8	8,221	2.3	8,154	2.1	-67	99.2
	2	403,850	581,910	178,060	144.1	59,531	14.7	92,664	15.9	33,133	155.7	25,149	6.2	31,320	5.4	6,171	124.5	16,193	4.0	16,591	2.8	398	102.5
	3	255,984	308,642	52,658	120.6	37,810	14.8	41,735	13.5	3,925	104.1	14,533	5.7	14,545	4.7	-79	99.5	7,145	2.8	6,272	2.0	-882	87.7
	4	331,818	346,917	15,099	104.5	50,554	15.2	48,002	13.8	-2,552	94.9	17,449	5.2	16,813	4.8	-636	96.3	9,436	2.8	8,722	2.5	-714	92.4
	5	411,167	383,445	-27,752	93.2	64,634	15.7	56,514	14.7	-8,120	87.4	22,317	5.4	20,968	5.5	-1,331	94.0	11,589	2.8	10,267	2.7	-1,322	88.6
	6	116,522	305,225	188,703	261.9	17,492	15.0	47,871	15.7	30,379	273.7	6,531	5.6	17,036	5.6	10,505	260.8	4,484	3.8	8,998	2.9	4,514	200.7
	7	265,351	323,557	58,206	121.9	43,390	16.3	51,329	15.9	7,939	118.3	16,455	6.2	17,691	5.5	1,236	107.5	8,395	3.2	7,600	2.3	-795	90.5
	8	380,210	403,357	23,147	106.1	68,710	18.1	69,374	17.2	664	101.10	23,791	6.2	24,754	6.1	963	104.0	11,665	3.1	12,783	3.2	1,118	109.6
	9	284,373	340,478	56,105	119.7	49,521	17.4	56,947	16.7	7,426	115.0	16,834	5.9	19,727	5.8	2,893	117.2	7,778	2.7	9,484	2.8	1,706	121.9
	10	199,453	235,978	36,525	118.3	31,053	15.6	36,807	15.6	5,745	118.5	11,741	5.9	13,538	5.7	1,797	115.3	6,141	3.1	6,755	2.9	614	110.0
TOTAL Group 'B'		3,004,115	3,614,830	610,715	120.3	471,992	15.7	553,636	15.3	81,644	117.3	170,610	5.7	193,840	5.4	23,230	113.6	91,056	3.0	95,626	2.6	4,570	105.0
TOTAL Super Mkt.		12,790,215	17,918,197	5,127,982	140.1	2,017,506	15.7	2,840,086	15.8	8,225,80	140.8	633,430	4.9	847,810	4.7	214,380	133.8	376,193	2.9	473,439	2.6	97,246	125.8
TOTAL Home Delivery Service		23,662,452	31,220,785	7,558,333	131.9	4,012,333	16.9	5,386,575	17.2	1,374,242	134.2	1,376,675	5.8	1,793,911	5.7	417,236	130.3	667,241	2.8	876,686	2.8	209,445	131.4
Barber Shop		10,427	12,741	2,314	112.2	1,915	18.4	2,300	18.0	385	120.1	1,852	17.8	1,707	13.4	145	92.2	70	0.7	30	0.2	-40	43.5
Beauty Saloon		9,107	10,381	1,274	114.0	8,442	92.7	9,526	91.8	1,084	112.8	6,175	67.8	6,785	65.3	610	109.9	578	6.3	696	6.7	118	120.4
Sales from Central Ware House		187,812	191,544	3,732	102.0	59,545	31.7	43,462	22.7	-16,083	73.0	831,243	--	1,100,838	--	269,595	132.4	878,887	--	1,202,421	--	323,534	136.8
Retail Units Osaka		207,346	214,666	7,320	103.5	69,902	33.7	55,288	25.7	-14,614	79.1	839,270	--	1,109,330	--	270,060	--	879,535	--	203,147	--	323,612	--
Grand Total Society		23,869,798	31,435,451	7,565,653	131.7	4,082,235	17.1	5,441,863	17.3	1,359,628	133.3	2,215,945	9.3	2,903,241	9.2	687,296	131.0	1,546,776	6.5	2,079,833	6.6	53,357	134.5

INTER FIRM COMPARISON SUPER MARKET OPERATION (Contd.)

Super Market	Operation Profit						Over Head						Total Expenses						Net Operation Surplus (Profit)					
	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%
Group A																								
1	61,814	7.7	70,815	8.4	9,000	114.5	56,557	7.1	54,531	6.5	2,206	96.4	117,652	14.8	118,131	14.0	479	100.4	5,257	0.6	16,283	1.9	11,026	309.7
2	30,538	6.4	116,989	10.0	86,451	383.1	37,238	7.8	102,425	8.7	65,187	275.0	80,834	17.0	181,085	15.4	100,251	224.0	6,700	4.4	14,564	1.3	21,264	417.4
3	118,542	9.2	146,061	9.7	27,519	123.2	86,414	6.7	79,292	5.3	7,122	91.7	166,137	12.9	157,685	10.5	8,452	94.9	32,128	2.5	66,769	4.4	34,641	207.8
4	82,789	8.3	89,726	8.6	6,937	108.4	68,699	6.8	63,741	6.1	4,958	92.8	132,212	13.1	128,617	12.2	3,595	97.3	14,090	1.5	25,985	2.5	61,895	184.4
5	---	---	46,558	7.1	46,558	---	---	---	67,417	10.3	67,417	---	---	---	123,144	18.9	123,144	---	---	---	20,859	3.2	20,859	---
6	99,722	9.4	119,945	10.2	20,223	120.3	73,018	6.9	68,012	5.8	5,006	93.1	148,460	14.0	149,284	12.7	824	100.5	26,704	2.5	51,933	4.4	25,239	194.5
7	55,864	8.9	76,268	9.8	20,404	136.5	44,825	7.1	57,537	7.4	12,712	128.3	93,536	14.9	111,497	14.3	17,961	119.2	11,039	1.8	18,731	2.4	7,692	169.7
8	---	---	48,392	7.6	48,392	---	---	---	57,310	9.0	57,310	---	---	---	107,226	16.8	107,226	---	---	---	8,918	1.4	8,918	---
9	---	---	12,825	5.0	12,825	---	---	---	36,589	14.1	36,589	---	---	---	62,156	23.9	62,156	---	---	---	23,764	9.1	23,764	---
10	45,347	6.4	84,715	8.4	39,368	186.8	55,180	7.7	76,826	7.6	21,646	139.2	117,719	16.5	154,523	15.3	36,804	131.3	9,833	1.3	7,889	0.8	17,722	280.2
11	---	---	57,284	7.9	57,285	---	---	---	64,075	8.9	64,075	---	---	---	120,415	16.8	120,415	---	---	---	6,791	1.0	6,791	---
12	107,068	8.0	140,004	8.5	32,936	130.8	96,145	7.2	110,393	6.7	14,248	114.8	197,894	14.8	233,307	14.1	35,413	117.9	10,923	9.8	29,611	1.8	18,688	271.1
13	37,468	8.2	40,664	8.0	3,196	108.5	33,138	7.2	34,466	6.7	1,328	104.0	72,655	15.7	77,416	15.0	4,761	106.5	4,330	1.0	6,198	1.3	1,868	143.2
14	41,870	6.6	62,900	7.8	18,030	140.2	57,567	8.4	69,379	8.6	11,812	120.5	122,259	17.8	139,591	17.3	17,332	114.2	12,697	1.8	6,479	0.8	6,218	149.0
15	72,559	9.1	86,917	9.6	14,358	119.8	60,211	7.5	62,980	7.0	2,769	104.6	124,116	15.4	129,126	14.3	5,010	104.0	12,348	1.6	23,937	2.6	11,589	193.8
16	40,976	7.6	54,605	8.6	13,629	133.3	38,706	7.2	39,344	6.1	638	101.6	82,181	15.3	82,897	12.9	716	100.9	2,270	0.4	15,261	2.5	12,991	692.3
Sub-Total Group A	797,557	8.2	1,254,667	8.8	457,110	157.3	707,698	7.2	1,044,317	7.3	336,619	147.6	1,455,655	14.8	2,076,100	14.5	620,445	142.6	89,859	1.0	210,350	1.5	120,491	544.1

Super Market	Operat ion Profit						Overead						Total Expenses						Net Operat ion					
	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%	1968	% of sales	1969	% of sales	Increase amount	%
Group B																								
1	25,266	7.2	26,718	7.0	1,452	105.7	23,128	6.5	17,817	4.6	-5,311	44.0	47,159	13.2	43,492	11.2	-3,667	92.2	2,138	0.7	8,901	2.4	6,763	416.3
2	18,189	4.5	44,753	7.7	26,564	243.0	30,759	7.6	51,142	8.8	20,353	166.1	72,131	17.8	99,053	17.0	26,922	137.3	-12,600	-3.1	-6,389	-1.1	6,211	149.3
3	16,123	6.3	21,009	6.8	4,886	130.3	18,211	7.1	15,655	5.1	-2,556	86.0	39,898	15.6	36,381	11.8	-3,517	91.2	-2,088	-0.8	5,354	1.7	7,442	456.4
4	23,669	7.2	22,467	6.5	-1,202	94.9	23,173	7.0	19,308	5.6	-3,865	83.3	50,058	15.0	44,483	12.9	-5,215	89.6	496	0.2	3,159	0.9	2,663	636.9
5	30,728	7.5	25,261	6.5	-5,467	82.2	28,597	6.9	22,055	5.7	-6,542	77.1	62,503	15.1	53,308	13.9	-9,195	85.3	2,131	0.6	3,706	0.8	1,975	154.4
6	6,477	5.6	21,837	7.2	15,360	33.7	8,436	7.2	24,630	8.1	16,194	292.5	19,451	16.6	50,664	16.6	31,213	260.5	-1,959	-1.6	-2,793	-0.9	-834	57.4
7	18,540	6.9	26,038	8.1	7,498	140.4	19,788	7.4	18,984	5.9	-804	95.9	44,638	16.8	44,275	13.7	-363	99.2	-1,248	-0.5	7,054	2.2	8,302	765.2
8	33,254	8.8	31,837	7.9	-1,417	95.7	27,584	7.2	27,659	6.8	75	100.0	63,040	16.5	65,196	16.1	2,156	103.4	5,670	1.6	4,178	1.1	-1,492	73.7
9	24,909	8.8	27,736	8.1	2,827	111.3	20,913	7.3	21,865	6.4	952	104.5	45,525	15.9	51,076	15.0	5,551	112.2	3,996	1.5	5,871	1.7	1,875	146.9
10	13,171	6.6	16,514	7.0	3,343	125.4	15,505	7.8	15,603	6.6	98	100.6	33,387	16.8	35,896	15.2	2,509	107.5	-2,334	-1.2	911	0.4	3,245	239.0
Sub-Total Group B	210,326	7.0	264,170	7.3	53,844	125.6	216,214	7.2	234,718	6.5	18,594	108.6	477,790	15.9	524,184	14.5	46,394	109.7	-5,793	-0.2	29,452	0.8	35,250	708.0
Total Super Market	1,007,883	8.0	1,518,837	8.5	510,954	150.7	923,822	7.2	1,279,035	7.1	355,213	138.4	1,933,445	15.0	2,600,284	114.4	666,839	134.5	84,061	0.8	239,802	1.4	155,741	285.3
Total (Home Service, delivery)	1,968,417	8.3	2,715,978	8.7	747,561	137.9	1,713,756	7.2	2,305,255	7.4	591,499	134.4	3,757,672	15.8	4,975,852	15.9	1,218,180	132.4	254,661	1.1	410,723	1.3	156,062	161.3
Barber Shop	-7	-0.1	563	4.4	570	-	-	-	-	-	-	-	1,922	18.5	1,737	13.6	-185	90.4	-7	-0.1	563	4.1	590	-
Beauty Saloon	1,689	18.6	2,045	19.8	356	121.1	-	-	-	-	-	-	6,753	74.1	7,481	72.0	1,728	110.8	1,689	18.6	2,045	19.8	356	121.1
	-	-	-	-	-3,626	-	-	-	-2,000	-	1,626	-	-3,626	-	-2,000	-	1,626	-	3,626	-	2,000	-	-1,626	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	-	4	-	-	-	-4	-	-4	-
Sales from Central Warehouse	-1,650,585	-	-2,269,797	-	-609,212	136.9	-1,710,130	-	-2,303,259	-	9,593,129	134.7	-	-	-	-	-	-	59,545	31.7	43,462	22.7	-16,083	73.0
Retail Units Osaka	-1,648,903	-	-2,257,189	-	-608,286	-	-1,713,756	-	-2,305,255	-	-591,499	-	5,049	-	17,222	-	21,073	-	64,853	-	43,066	-	-16,897	-
Grand Total Society	319,514	1.3	458,789	1.5	139,275	142.6	0	-	0	-	0	-	3,762,721	15.8	4,983,074	15.8	1,220,353	122.4	319,514	1.3	458,789	1.5	139,295	143.2

is made between different societies, it is known as Inter-Firm Comparison.

12.04 In the matter of temporal comparisons, the management is able to understand the performance on year-to-year or even period-to-period basis.

12.05 While compiling data for a temporal comparison, if information is collected groupwise, commodity-wise or product-wise, the comparison becomes far more meaningful¹ and lends itself to locating the problem more specifically than for all commodities together. This is, however, difficult to achieve.

12.06 Temporal comparison enables the management to arrive at a decision either to expand the business in a particular commodity/product wherein the inputs (resources) can be applied to achieve the desired profitability and where a particular product can be eliminated to avoid losses.

12.07 In many of the advanced countries, the compilation of data in regard to retailing for developing the needed norms to serve for the purpose of both temporal and inter-firm comparisons is undertaken by retailing institutes. The institutes make sure that the identification of the firm from where data is obtained is not revealed to those to whom the processed data in terms of norms is furnished.

12.08 Apart from stimulating competitive individualism characteristic of a democratic set-up, the temporal and inter-firm comparisons carry the necessary ingredients to stimulate efficiency in the country as a whole for achieving much better targets in performance with resultant advantages accruing to the community.

12.09 The societies in Japan are compiling data for temporal and inter unit comparison for watching their performance. These results are also compared with the sales budget figures, the failures, and achievements carefully analysed with a view to learning lessons and taking correc-

1. To achieve this, the initial documentation should be planned in such a manner that desired data becomes available automatically.

tive steps. The causes for variations are also discussed in staff meetings for motivating them for greater efforts.

12.10 At the national level, the Cooperative Movement in Japan has been undertaking inter-firm comparisons on a selective basis for developing norms and comparing standards of performances. On the same lines, the self-service organisation is also compiling inter-firm comparison of performance not only for year-to-year or period-to-period comparison but also unit-to-unit with that of the targets laid down in the sales budgets. These studies are published in their magazines developing the efficiency norms at the national level which the cooperatives also follow.

12.11 In the Region, inter-firm comparison is relatively little known among the retail trade as a whole, and specially among the consumer cooperatives. In the absence of a Retail Research Institute, it will be necessary for the apex organisations to undertake the responsibility of compiling inter-firm comparisons and making the norms/averages known to the participating societies for comparison and improvement on month-to-month, and year-to-year basis. Inter-firm comparison is a managerial tool and should be applied as a means to improving productivity and profitability of consumer cooperative societies in the Region.

12.12 A statement indicating the inter unit comparisons for different supermarkets by a cooperative society in Japan is attached.

CHAPTER XIII

EFFICIENCY AUDIT

13.01 Documentation of all transactions is a basic requirement for the smooth functioning of any complex retail business. This assumes added significance to a consumer cooperative store whose ownership rests with a large number of members. Further, the basic records contribute to the compilation of data for drawing up the needed profit/loss statement as also the balance sheet. These functions fall under "Accounts" and are usually the responsibility of the society's Accounts department.

13.02 Audit—on the other hand—is an examination of accounts by an authorised person or persons.¹ Before certifying a balance sheet as representing correctly and truly the financial position of the concern, the auditor has to satisfy about the system of documentation, the in-built mechanism to detect omissions and commissions the extent of reliability he can place on arithmetical accuracies, etc. Audit is expected to express an independent opinion about the

1. Meaning as given by Chambers Twentieth Century Dictionary original Edition, 1952, p. 67.

soundness of the financial position of the cooperative on which the members—who are the owners and who have subscribed the needed capital draw satisfaction.

13.03 In most developing countries the audit is the responsibility of the State so far as the consumer cooperatives are concerned. The Auditors belong to the State cooperatives department—do not have any specialised training nor are they paid adequately. They stick to checking a few basic records, certify the balance sheets with a few objections. Since the audit reports are not properly followed up, the managements assign little attention and go about in their own way.

13.04 Audit plays an important role in the development of consumer cooperatives in a developed organisation. Some of the duties of the district and local auditors in such a situation are to :

- (a) make a legal audit and submit a report thereon;
- (b) see that the decisions of the Board are not contrary to the law or the statutes of the society, and that the society's assets are not booked at more than their real value;
- (c) recommend or reject acquitting the Board of liability for the past year's management.

13.04.02 It is the duty of the local auditors (*i.e.*, the auditors elected by the local society's members from among themselves) to :

- (a) ensure that all income and expenditure is entered in the cash-book daily;
- (b) ascertain that the statements in the cash-book are correct and supported by the necessary vouchers;
- (c) check the cash in hand at least once a month and make sure that it agrees with the balance shown in the cash-book;
- (d) generally see that good order prevails in the routine management of the property of the society.

13.04.03 In a few of the large societies a special accountant is appointed who receives his instructions from the auditors.

13.04.04 It is the duty of the district auditors to :

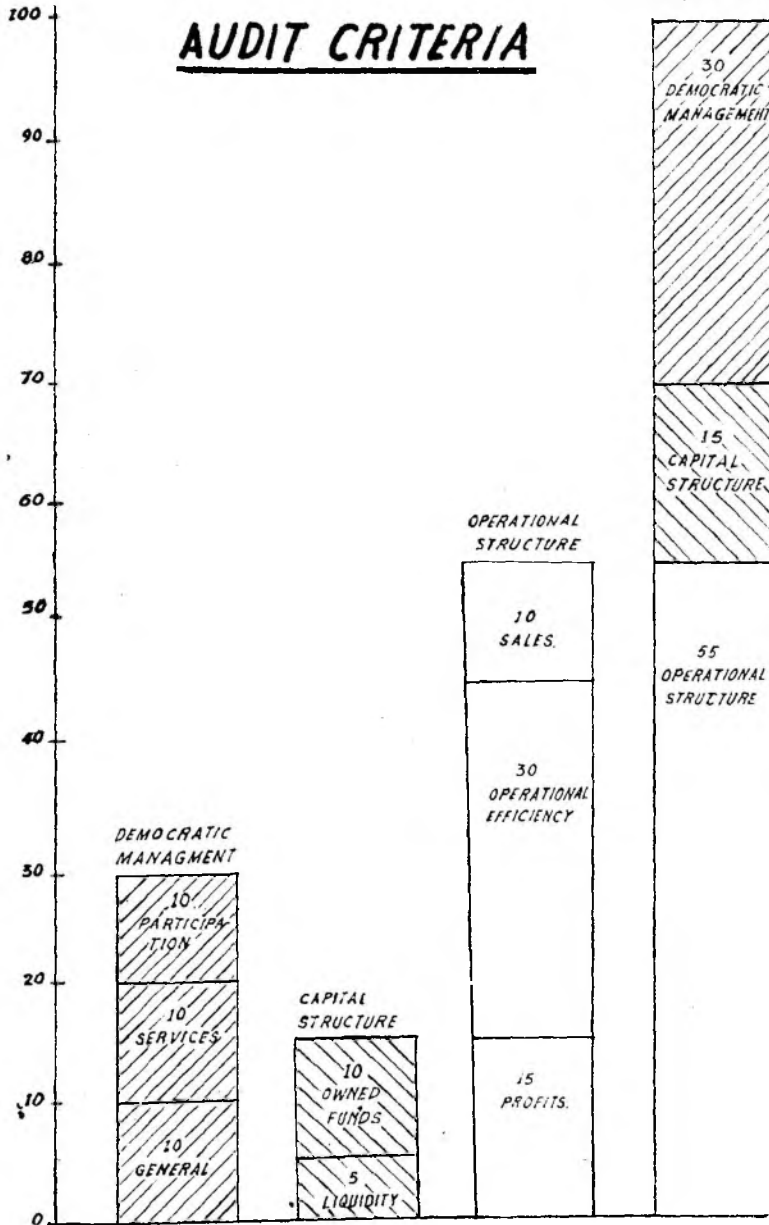
- (a) see that the accounts of the society are kept in a legal, systematic and clear manner;
- (b) examine the management of the society from a professional and cooperative view-point, and during his visits to inform the Board of the society of his findings.

13.04.05 District auditors must visit each society at least twice yearly. One of these visits should coincide with the time for closing the accounts, and the other should take place during the following half year. One visit shall be paid without warning. In addition to the two official visits the auditor must also visit the society whenever circumstances so demand. It is his duty to see that the books of the society are kept in a legal, systematic and clear manner, and if the society has several different sales departments, that their individual results are also clearly set out. He must also ensure that the internal control of cash in hand, stocks and other assets is satisfactory.

13.04.06 During the final audit the District Auditor must be convinced that the local auditors have properly fulfilled their duties in examining the accounts and also make sure that :

- (i) the liabilities for the foregoing year are correctly booked;
- (ii) no liabilities have been carried forward to the accounts of the current year;
- (iii) depreciation has been made according to rule;
- (iv) the assets included in the society's balance-sheet are not over-valued;
- (v) all insurances are adequate.

13.04.07 It is also his duty to ascertain that securities are in safe-keeping.



13.04.08 During his official visit the auditor will devote his attention principally to examining the society's stocks, sales conditions, stock and cash control, and the general management of the business. He must also visit the various shops of the society in order to gain an impression of the conditions prevailing there and become acquainted with the staff of the society and the problems which may arise at the different shops.

13.04.09 The auditor must also go through the accounts for a given period together with the local auditors, in order to convince himself that they are well acquainted with their work, and to instruct them where necessary.

13.05 Efficiency audit is one in which the auditor should be able to point out the *defects in the non-utilisation of resources—liquid assets, current assets, fixed assets, manpower etc., quantifying the business loss and profitability*. The Audit should be able to make use of the data made available to them from different units, work out the efficiency norms and pin-point the defects and suggest remedial measures. With the availability of vast mass of data and annual accounts of different shops in the region, the auditor is eminently in a position to compile temporal comparisons.

13.05.02 Inter-firm comparisons and inter unit comparisons are for competitive efficiency all leading to greater productivity and profitability.

13.05.03 The auditor has the opportunity to see the store at work from a short as well as a long range point of view and is, therefore, in a position to suggest schemes of amalgamation for improving economic viability etc. Similarly the auditor is in a position to suggest modern accounting method—centralised accounting, or other innovations which would help management to proceed at a faster rate.

13.05.04 The auditor can suggest pooling of finances through a common bank for a common purpose adding considerable resources for the store that needs it.

13.05.05 The auditor can locate weak spots and suggest

remedial measures for consideration of the Management.

13.06 All these functions of the audit are often lost sight of largely due to want of knowledge in retailing, adequate status including monetary incentive and a desire to play a vital role for growth and prosperity on the part of the auditors. Further, audit being a Government's responsibility, takes place somewhat leisurely after the close of the year by which time often it becomes too late to take any remedial measures.

13.07 If the audit is not merely to be a postmortem exercise on the activity, Audit has a role to play as an important managerial tool. For this internal auditors should be used not only for checking up the correctness of the entries, classification and postings but also for working out norms and averages in a daily, weekly, monthly, quarterly, half yearly and yearly review and for taking timely and adequate action to minimise the damage and maximise profitability.

13.08 An efficiency audit can only come into being when established audit criteria gains acceptance from Management. The present audit classifications such as A, B, and C in most developing countries are far too general to be of any use. Further, they are not determined by any measure of objectivity.

13.08.02 Certain indicators by which the efficient and successful working of the consumer cooperatives can be evaluated in a scientific and systematic way which in turn will make the audit classification more objective in character, were worked out by a study group¹ and they are given below :

Details of Heads	Marks
(A) <i>Democratic Management</i>	
(a) Democratic management	10
(b) Service rendered	10
(c) General	10
	30

1. The study group appointed by Vaikunth Mehta National Institute of Cooperative Management, Poona, submitted its report on 7.11.1968

(B) <i>Capital Structure and Operational Liquidity</i>	15	15
(C) <i>Operational Structure</i>		
(a) <i>Operational Structure</i>	40	
(b) <i>Profitability</i>	15	55
		100

13.08.03 For purposes of clarity, study team worked out details for sub-heads as well as under:

(A) <i>Democratic Management</i>	30 marks
1. <i>Participation :</i>	
(a) <i>Increase in membership (10 to 15%)</i>	2 marks
(b) <i>Member participation</i>	1 mark
(c) <i>Convening of regular Board meeting at least once a month or as provided in the bye-laws and convening of general body meeting once a year</i>	3 marks
(d) <i>Periodical verification of stocks</i>	4 marks
TOTAL	10 marks
2. <i>Services Rendered :</i>	
(a) <i>Pre-packing</i>	1 mark
(b) <i>Price marking</i>	1 ,,
(c) <i>Self-service system</i>	2 marks
(d) <i>Salesmanship</i>	2 ,,
(e) <i>Looking into complaints</i>	1 mark
(f) <i>Payment of rebate</i>	1 ,,
(g) <i>Home delivery</i>	1 ,,
(h) <i>Other services</i>	1 ,,
TOTAL	10 marks
3. <i>General :</i>	
(a) <i>Up-to-date maintenance of records and Accounts</i>	1 mark
(b) <i>Internal check in operation</i>	2 marks
(c) <i>Rectification of audit defects</i>	2 ,,

(d) Adoption of business practices like job charts, etc.	1	„
(e) Adoption of budgeting system	1	„
TOTAL	<hr/> 10 marks <hr/>	
 (B) Capital Structure :		
1. Increase in share capital and percentage of owned funds to working capital	10	marks
2. Liquidity—current assets to current liabilities	5	„
TOTAL	<hr/> 15 marks <hr/>	
 (C) Operational Structure		
1. Increase in sales :	55 marks	
Controlled commodities	2	marks
Non-controlled commodities		
(a) Textiles	4	marks
(b) Other household goods	4	„
TOTAL	<hr/> 10 marks <hr/>	
2. Turn-over and other business efficiency ratios :		
(a) Sales to stock (Stock rotation)	10	marks
(b) Sales per square foot per year	3	„
(c) Sales per employee per year	3	„
(d) Sales to establishment	3	„
(e) Sales to shortages	5	„
(f) Sales to debtors	2	„
(g) Unsaleable/damaged/slow moving stock to total stock	4	„
TOTAL	<hr/> 30 marks <hr/>	
3. Profit Ratio :		
Percentage of Sales	Percentage of Working Capital	
(a) Gross Profit	5	marks
(b) Net Profit	10	„
TOTAL	<hr/> 15 marks <hr/>	

13.08.04 The criteria are laid down in such a manner that they will stimulate working efficiency and through performance ensure consumer protection and customer satisfaction.

13.09 The Audit—as carried out at present—is generally not satisfactory largely due to lack of business experience on the part of the auditors. The solution to this problem lies in the ability of the societies to engage the services of qualified and competent auditors such as Chartered Accountants to go into the question of efficiency audit. But, this may not be possible for a large number of societies in view of their small size in the region. It will be more appropriate for the apex organisations to take over this question, develop the necessary audit department with a view to toning up the system with—advantages accruing to the Movement as a whole. This will also help the backward integration and stimulate considerable expansion in business.

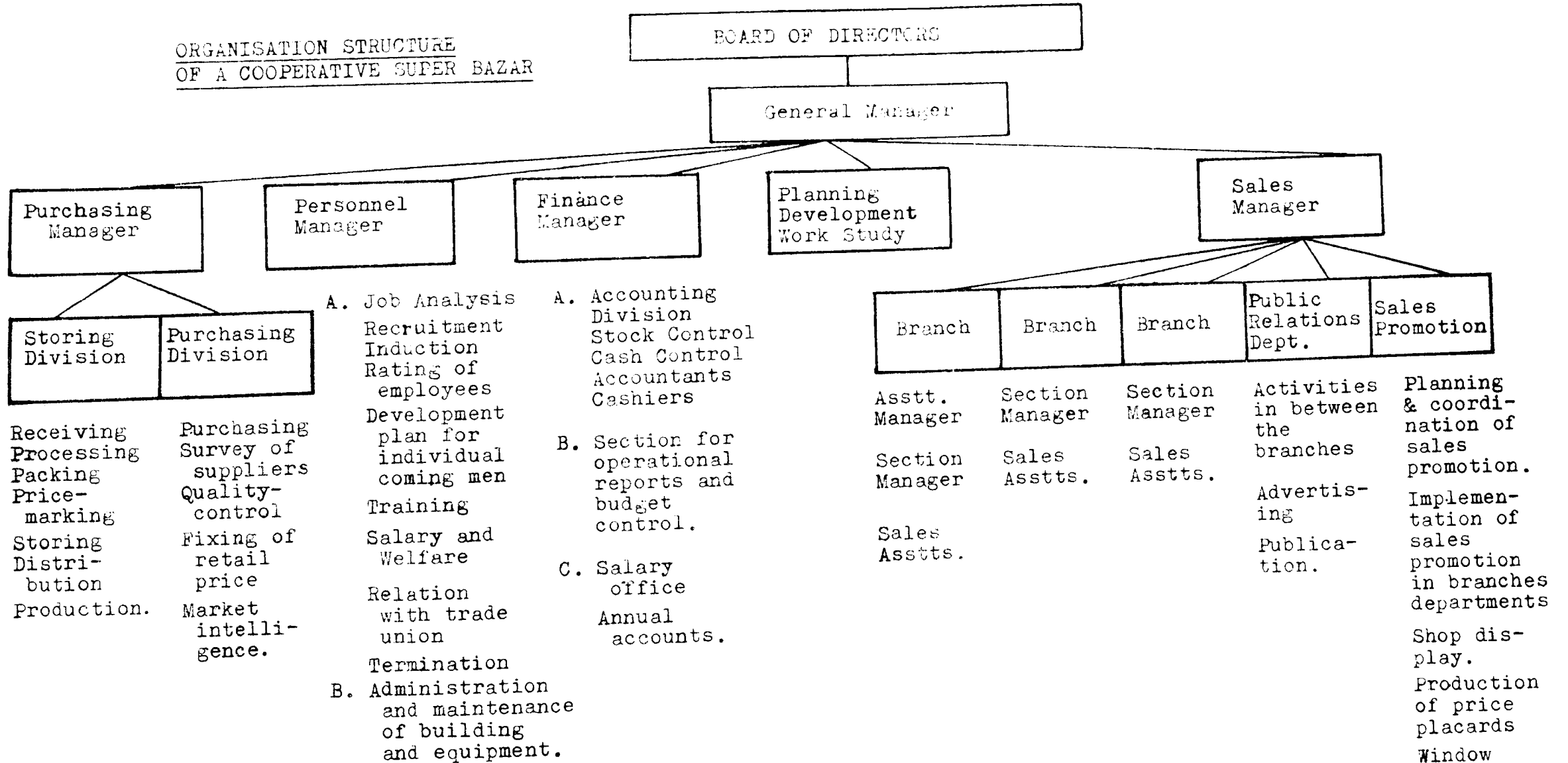
CHAPTER XIV

ACCOUNTABILITY

14.01 In many of the developing countries where the consumer cooperatives are being organised rapidly, the problems of man-management have special significance. Since these cooperatives are largely sponsored and promoted by Government agencies, the employees have an expectation to fall in line with the government servants not only for purpose of wages, allowances, holidays, working hours etc., but also in the matter of accountability. Unlike the Government organisation, a fast moving retail complex can only function successfully if authority and responsibility are closely related with minimum external rules to govern this process. An awareness in regard to the accountability must start even before the recruitment is thought over and continued at all stages of relationship with the employees in clear terms.

14.02 While a time-wage may smack the Government wage policy, a business complex should provide adequate safeguard and the needed incentive to match the wage with the productivity. Overlapping labour regulations and administrative culture characteristic of Government employment

ORGANISATION STRUCTURE
OF A COOPERATIVE SUPER BAZAR



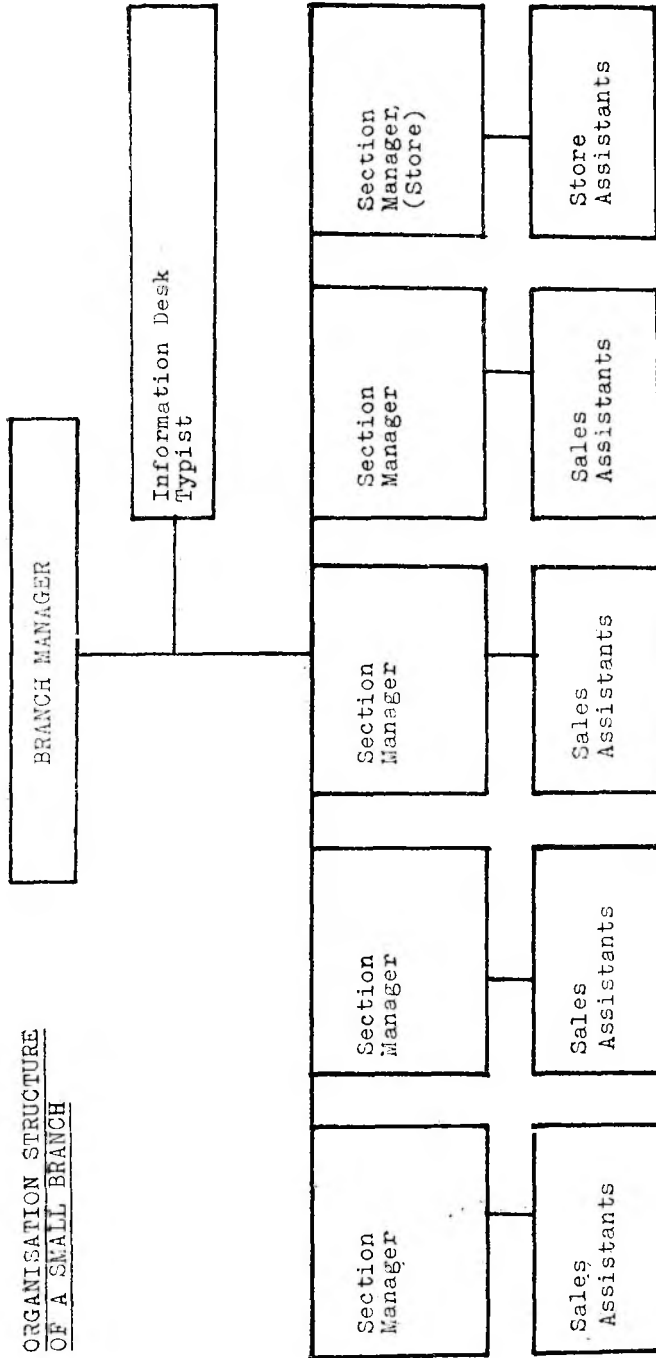
- NOTE: 1) The General Manager, Sales Manager, Finance Manager, Purchase Manager and Personnel Manager shall meet regularly once a day for 30 minutes and once a week for two hours for a careful review of the performance and to implement the policies laid down by the Managing Committee.
- 2) At an appropriate stage of development, a special cell for engineering works should be added.

have a tendency to permeate into these voluntary organisations which resemble in some way a semi-government institution in the developing countries. It will be difficult to achieve a measure of progress in the matter of retailing unless this aspect is taken up seriously and wages and other conditions are provided in such a manner that they are conducive to a growth.

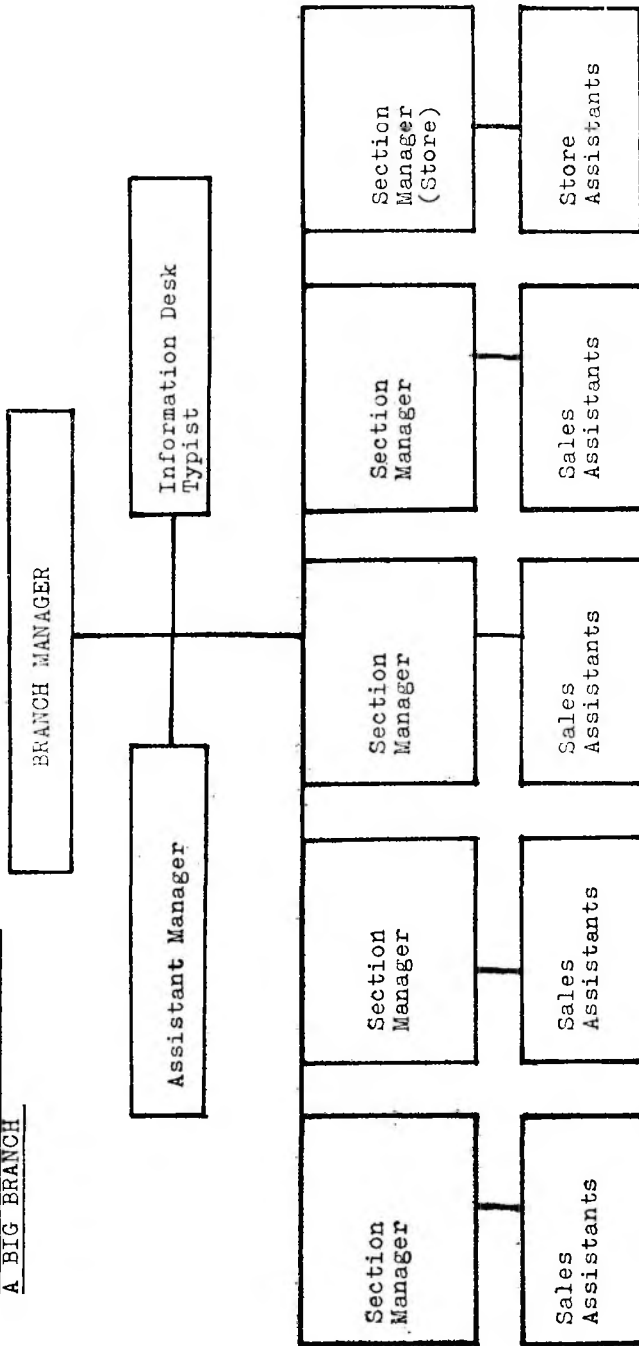
14.03 The organisational structure,¹ job description, duties and responsibilities of a few categories of staff normally engaged in a consumer cooperative are indicated in the statements on page 206 and 207. They should be considered tentative and suitably modified to meet the needs of local situations.

1. See Chapters XXIV & XXV "Sale—A Profile : An Introduction to Sales Management in Retailing" by R. Arvidsson & S. Dandapani, ICA 1972.

ORGANISATION STRUCTURE
OF A SMALL BRANCH



ORGANISATION STRUCTURE OF
A BIG BRANCH



JOB DESCRIPTION

BRANCH MANAGER

Place in the Organisational Structure

Placed direct under the Sales Manager.

Responsibility—Authority

He is responsible for the entire activities of the Branch and also for achieving the targets in the approved budget.

He is authorised to take decisions in matters concerning the day-to-day running of the Store which makes it possible for him to achieve the targets.

He will observe and function within the framework decided by the Management and observe all laws, rules and directions issued by public authority in respect of retail distribution of goods.

Duties

Personnel Policy

Within the framework of the personnel policy laid down by the management, adopt such practices which inspire team spirit and good results.

Work-Organisation	<p>Supervise and instruct the staff in their work according to their duties. He will be responsible to allot the work to the personnel according to the work load and worked out programmes. Supervise that the staff treatment to the customers is in a polite way.</p> <p>He is responsible for the induction of employees.</p> <p>Evaluate the working of staff under him and recommend their increments, confirmation etc.</p> <p>In collaboration with the Section Managers, work out plans for the staff working hours.</p> <p>Keep record of employees in his store.</p>
Training	<p>He is responsible to see that staff achieve the right theoretical as well as practical training as their job demands. Assist the head office to plan and organise its staff training programme.</p>
Recruitment/ Termination	<p>Recommend recruitment, transfer, promotion and termination of employees.</p>
Management meetings	<p>Arrange weekly meetings with the Section Managers and other officers and at these meetings discuss matters concerning management of the store.</p>
Staff Meetings	<p>He is responsible to see that regular staff meetings are held by the Section Managers.</p>
Supervising the Staff	<p>Supervise that instructions, rules and regulations are observed by all employees.</p>
Staff Purchases	<p>He is responsible to see that the staff</p>

	when making their own purchases are following the procedures laid down.
Stock-taking	He is responsible for organisation and coordination of stock-taking.
Budgeting	Work out budgets according to instructions from Head Office in collaboration with the Section Managers.
Budget Evaluation	Informing the staff concerned about the results achieved, deviation from the budget and discuss these with the Section Managers.
Ordering	Supervise that the ordering of goods takes place according to worked out routines and also assess the quantity of goods issued to various sections.
Buying	Supervise that goods are bought from sources approved by the management.
Assortment	In collaboration with the Head Office decide about the suitable assortment for the Branch. Ensure that the Branch is working within the framework regarding assortment, stock value, turnover of stock and that the assortment is kept up-to-date and that the goods are kept in proper storage to avoid shop soiling.
Leakage	Ensure that leakage in the Branch is not above the limits allowed in the approved budget.
Pricing	Decide in matters concerning pricing and supervise that the price fixed is in accordance with the Head Office intention.
Sales Planning	Collect the basic information for the preparation of Sales Promotion Plan, from the Section Managers and in

collaboration with the Sales Promotion Manager work out a Sales Promotion Plan for the Branch.

He is responsible to see that the planned activities are implemented in his branch in collaboration with the employees of the Sales Promotion Department.

Supervise the result of previous activities.

Space
Utilisation

Planning of the space needed for various departments of various seasons and also changes in the location of departments, commodity group etc. and also the utilisation of equipment, furniture and fixtures.

Control

Supervise that the internal control system is functioning (stock-control, cash control, staff purchases).

Market

Supervise the stores' operational area and the development within the area (competitors, customers etc.).

Supervise the competitors way of marketing their stores and goods.

Public Relations
Contacts

In collaboration with the Head Office get in touch with Press, other organisations, elected members, municipal authorities etc., and inform them about the activities of the Store.

Keep in touch with customer complaints.

Financial Powers

He will be authorised to approve payments upto Rs. 50/- at a time for general expenses subject to a maximum of Rs. 500/- a month. A statement giving details of such accounts will be submitted to the Sales Manager.

JOB DESCRIPTION

SECTION MANAGER

Place in the Organisational Structure

Placed direct under the Manager of the Branch and is bound to follow his directions. He is also bound to follow the directions of the Assistant Manager in matters within the fields of which he is in charge.

The Section Manager is authorised to direct the staff placed under him in the organisational structure.

Responsibility—Authority

Section Manager is responsible for the “Duties” mentioned in this statement and he is also responsible to see that the approved budgets are followed.

He is generally to work within the general direction of the Branch Manager.

Duties

Personnel Management	Distribute, instruct and supervise the employees in their work and check
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that the duties of the Sales Assistant are done according to the worked out job description and work organisation.

Stimulate them to good performance and a good team-spirit.

Supervise that the staff treat the customers in a polite way and also see that they try to do their very best for the customers.

To discuss and make recommendations to the Branch Manager concerning necessary changes in the staff composition and the duties of the staff.

Budgeting

Work out budgets for the department, according to the routines decided by the Head Office, in collaboration with the Branch Manager.

Evaluating of Budgets

After the meeting in which the budgeted results have been compared to the result achieved and the deviations have been discussed, the Section Manager is bound to act and take measures strictly according to what have been discussed and decided at the meeting.

Assortment

He is bound to supervise the assortment and give recommendations to the Branch Manager concerning changes.

Storing

He is responsible to see that the stock-in-trade are up-to-date and that the worked out procedures are followed concerning stock value, speed of stock etc.

Buying/Ordering	<p>Order the goods as per worked out routines and worked out time schedules.</p> <p>Supervise that the goods are bought from sources approved by the Head Office.</p>
Arrival Control	<p>Supervise that the arrival control is working according to the worked out routines (price, quantity and quality).</p>
Pricing	<p>Follow the prices decided by the Head Office and Branch Manager.</p>
Sales Management	<p>He shall work out and collect the basic information for the preparation of sales plan and hand it over to the Branch Manager.</p> <p>He shall participate in the decision of the total "Planning of Sales and Public Relations Activities" for the Branch.</p> <p>He is responsible to see that the planned activities are implemented on his section in collaboration with the Branch Manager and the employees of the Sales Promotion Department. He is also responsible to see that the Sales Assistants are taking active part in the Sales Promotion activities of the department.</p>
Goods Display	<p>Instruct the staff in goods display and how to keep the dust away.</p> <p>Make recommendations to the Manager concerning changes in location of goods and utilisation of the space and also necessary changes in furniture, fixtures and other equipment.</p>

Personnel
Management

Supervise that the staff when making their own purchases are following the worked out procedure.

In collaboration with the Branch Manager work out budget concerning staff and labour costs and within this framework adjust the need of staff according to the work loads.

Grant casual leave and short leave to the staff, give his assessment of the staff working under him.

Work out a detailed work—organisation for the section and discuss this with the Branch Manager. The approved work organisation for the section shall be put at the “Notice Board” and consist of (i) Written work-organisation, (ii) Time schedule, (iii) Drawing of the department showing the areas of responsibility.

Work out plans and statements for the staff’s working hours, working days and holiday. The approval of these has to be taken from the Branch Manager.

Staff Information

Arrange weekly staff meetings and provide information concerning sales, costs, results, assortment, new commodities, sales plans, sales promotion plans and how to implement these plans in the section, work out various targets, in collaboration with the staff, staff rules and regulations etc.

Control

Supervise that the staff are following the various instructions and the staff rules and regulations.

Stock-taking

Organise and check the stock taking of the department.

Leakage

Responsible to see that the staff are following worked out instructions concerning shop lifters. Ensure that the leakage is kept to the minimum and in no case exceeds the limit fixed by the management. He will also be responsible for the stocks.

Responsible for the furniture, fixtures and equipment used in the department and that they are taken care of well.

Claim for
Compensation

The claim for compensation from customers or exchange of goods shall be handled by the Section Manager. It should be handled properly. This is to remember that the store's goodwill can very easily be spoiled if these things are not handled with care.

He is responsible to see that the campaign goods and other commodities included in the sales plan are available in the department at the right time and in right quantities.

To scrutinise the sales performance during the sales planned period and work out statements for the sales of various campaign goods, new articles etc. Work out written comments for the sales performance and to grade the activities and kind of goods as poor, fair or good. This "evaluation of sales performance" shall be handed over to the Branch Manager who will work out a total "evaluation of sales performance" for the whole store.

Cleaning

He is responsible to see that the cleaning of the department is done in a proper way.

JOB DESCRIPTION

SECTION MANAGER (BRANCH STORE)

Place in the Organisational Structure

Placed direct under the Branch Manager and is bound to follow his directions.

The Section Manager Branch, Store, is authorised to direct staff placed under him in the organisational structure.

Responsibilities--Authorities

He is responsible for the duties stated under "Duties" in this statement. He is also authorised to take decisions in matters concerning the stated duties.

He is bound to work within the framework and regulations decided by the Branch Manager.

Duties

Personnel Management	Distribute, instruct and supervise the employees under him in their work
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	and check that the duties are performed according to worked out job-descriptions and work organisation.
Budgeting	Work out budgets for staff and labour costs in collaboration with the Branch Manager and within this framework adjust the need for personnel.
Arrival Control	Responsible for checking the bulk goods received against the purchase orders/challans. Responsible for quantity control, quality control and control of the cost price and checking of the goods against invoices or delivery notes. Registering of invoices and marking the notes with retail price.
Price Marking	Responsible for the price marking of the goods according to worked out routines and the decided retail price. Also to see that the price is marked at a special place and also date of delivery.
Delivery of Goods from Store to Salesman	Collect the orders from the Section Managers according to worked out time schedule. Collecting the goods in the store and transport it to their place at the sales department. Responsible to see that the Section Manager is informed about the goods delivered.
Arranging of Goods in the Store Room	Responsible to see that the goods in the store room are kept in good

	order and that dirt and dust are kept away by the staff of the store. The goods in the store room should be located after a worked out plan based on (i) internal transportation, (ii) Commodity groups, and (iii) the location of goods in the sales department.
Leakage	Ensure that the leakage is kept to the minimum and in no case exceeds the limit fixed by the management. He will also be responsible for the stocks.
	Responsible for the furniture, fixtures and other equipment used in the store and that they are taken well care of.
Returning/ Compensation	Responsible for returning of goods and claiming of compenstion according to worked out procedures and agreements.
Empties	Responsibilities to see that the empties are taken care of according to worked out instructions and that they are properly stored and returned/sold.
Stationery	Requisition of stationery such as paper bags, paper roles etc., and storing of such common material for the Branch.
Time of Delivery	Responsible to see that goods ordered from Head Office or other suppliers are delivered at right time and at right place. Special attention must be paid to the goods included in the "Plan for sales and Sales Promotion activities".

Personnel Management	<p>Work out plans and statements for the staff working hours, working days and holidays. The approval of these has to be made by the Branch Manager.</p> <p>Grant casual leave or short leave to the staff under him.</p>
Staff Information	<p>Arrange weekly staff meetings and give information concerning sales, costs, results, sales planning, rules and regulations, and how to improve the functioning of the store etc.</p>
Stock-taking	<p>Organise and check the stock-taking of the department.</p>
Control	<p>Responsible to see that the staff are following worked out instructions, rules and regulations.</p> <p>Ensure and be responsible for any shortages or pilferage in the store.</p>
Sales Planning	<p>Participating in the decision of the "Sales and Public Relations Activities" and have to collaborate with the Section Managers and Branch Manager in matters concerning procurement of goods.</p>
Cleaning	<p>He is responsible to see that the cleaning of the store is done in a proper way.</p>

JOB DESCRIPTION

SALES ASSISTANT/SALES MAN

Place in the Organisational Structure

Placed direct under the Section Manager and is bound to follow his directions.

Responsibilities—Authorities

He/she is responsible in doing the duties stated under “Duties” in this statement.

He/she is bound to work within the framework and regulations decided by the Manager of the Store.

Duties

Selling	Selling of goods and contact with the customers and if needed his/her selling shall be enlarged to neighbouring sections/departments.
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- Ordering Order the goods at the fixed time, prepare and send the indent through the Section Manager who shall check the quantities indented.
- Arrival Control Check quality, quantity, price marking and registering of the goods according to the delivery note.
- Storing Inform the Section Manager about the need to take measures for clearing some kind of goods.
 Filling up the goods in the shelves and racks and check at the same time that the goods are price marked and are in good order.
- Display of Goods Before filling up the goods, *the salesman shall clean the shelves and racks and always keep the dust away*. The goods shall be displayed and the "finish" of the racks and shelves shall be done according to the instructions from the Section Manager in collaboration with the Sales Promotion Manager and the staff employed at the Sales Promotion Department.
- Care of Goods Each day before the store is opened the Sales Assistant shall check the display of goods in the shelves and racks from dust. At the same time the quality and price marking of the goods shall be checked.
 The Sales Assistant is responsible to keep the area for which he/she is responsible, according to the "Drawing" in good order and keep the dirt and dust away.
 If goods are damaged they should *at once* be removed from the sales area and *re-packed by the salesman*. If even

the quality is not fair the goods should be returned or credited and thrown away or "Clearing, Sold". Decision of the three last alternatives has to be taken by the Section Manager as per procedure to be laid down by the management.

Price Marking

The Sales Assistant shall check every day the price marking of the goods as well as the price placards noted at the shelves etc. Price placards shall be ordered and worked out by the Sales Promotion Department according to worked out routines.

Price Changes

The Salesman shall on directions from the Section Manager work out statement for price changes and also adjust and change the prices on the goods as well as the price placards on the shelves etc. The Section Manager has to sign the price changes statement and after that these statements have to be countersigned by the Branch Manager.

Claim for Compensation

Claim for compensation or exchange shall always be handled by the Section Manager and therefore the Salesman shall always keep the customer in touch with the Section Manager in these matters. This contact must be arranged in a polite way because the store's goodwill can very easily be spoiled.

Control

The salesman shall try to prevent shop-lifting and report any shortages to the Section Manager immediately. If shop-lifting is discovered these things shall be handled according to procedures laid down.

JOB DESCRIPTION

SALES PROMOTION MANAGER

Place in the Organisational Structure

Placed direct under the Sales Manager and is bound to take directions from him.

The Sales Promotion Manager is authorised to direct the staff placed under him in the organisational structure.

Responsibilities—Authorities

The Sales Promotion Manager is responsible for the duties stated under “Duties” of this statement. He is also authorised to decide in the matters concerned.

He is bound to work within the framework and regulations decided by the Sales Manager.

Duties

Personnel
Management

Distribute the work, instruct and stimulate the staff and also supervise that they are doing their duties

according to worked out job descriptions, work-organisation, time schedule and area responsibility.

Budgeting

Work out budgets concerning staff and labour costs and within this framework adjust the need of personnel.

Work out budgets for costs of advertising and costs for other Sales promotion activities.

Evaluation of Budget

Take measures to adjust the results according to what have been decided and discussed at the meeting for "Budget Evaluation".

Sales Planning & Public Relations Planning

In collaboration with the Sales Manager and Branch Managers, work out monthly and half-yearly "plans for sales and public relations activities". These plans should be approved by the Sales Manager.

Implementation of Sales and PR Plan.

Responsible to see that the approved plans are implemented in collaboration with the Branch Manager and that the following work are done by the Sales Promotion Department.

Decoration of windows and other places in the departments suitable for display.

Arranging of demonstrations.

Arranging of other exhibitions.

Displaying of the campaign goods, new articles and all other goods included in the sales plan in such ways that it gives a high sales total.

Produce and distribute leaflets among the customers.

Prepare drafts and layout for advertisement and advertise in the newspapers. "Advertising price-posters" etc.

Producing of other price placards (for the shelves and racks etc.).

Responsible for the furniture and fixtures and other equipment used for S.P. activities and also the utilisation of them among the departments.

Decorate the store and various departments with advertisement posters etc. according to the sales promotion plan.

Preparing of tapes and manuscript for the loudspeaker customers radio.

The "Planning of sales and S.P. activities" shall also include a drawing over the store. On this drawing the places for advertising posters and other S.P. activities as well as the places where to place the campaign goods etc. should be marked. The S.P.M. has to see that the activities are well spread over the store and coordinated between the various departments.

Responsible for the whole "Finish" of the store.

Evaluating the total sales performance for the period and report it to the Sales Manager. After that, the performance should be discussed at the

	monthly sales meeting and measures taken.
Personnel Management	<p>Participating in employment of employees.</p> <p>Give permission for not more than one free day.</p> <p>Work out a detailed work organisation for the department and discuss this with the Sales Manager. The approved work organisation for the department shall be noted at the "Notice Board" consisting of (1) Written work organisation, (2) Time schedule, (3) Drawing over the stores showing areas of responsibility.</p> <p>Work out plans and statements for the staff working hours, working days and holidays. The approval of these has to be done by the Sales Manager.</p>
Staff Information	Arrange weekly staff meetings and give information concerning sales, costs and other sales performance and outcomes of realised sales and P.R. plans. Also how to improve S.P. activities etc.
Control	Supervise that the staff is following the worked out instructions and rules and regulations.
Cleaning of the Workshop	Responsible to see that the workshops operated by the S.P. Department are kept in a good order and that dirt and dust are kept away by the staff.

Lighting	Responsible for the lighting of the whole store.
Stationery	Responsible for ordering of stationery for the P. R. Department from the Head Office or buying from sources approved by the Head Office.
Checking the Competitors	<p>Supervise the sales and P. R. activities done by the competitors and report and discuss them with the Manager if any action needs to be taken.</p> <p>The S.P.M. shall study other enterprises and other societies sales planning and P. R. activities in order to improve and bring new ideas to the store.</p>

CHAPTER XV

CENTRALISED ACCOUNTING

15.01 In a retail unit, account keeping is both laborious and costly. Nevertheless, no planning can be undertaken in regard to a complex retail business without adequate field data in one's own shop. Since the transactions are fast moving and they involve a good deal of money, basic documentation, howsoever large a routine may be, should receive the highest importance. Often the experience in developing as also developed countries, is that the account-keeping function is a specialised one and when carried out with care and promptitude has a good deal to offer to the management for decision-making.

15.02 When societies do not acquire a large size, it becomes difficult to find the needed specialists to take over the accounting function not only to ensure the basic documentation but also the exercises to be made and to use them as a managerial tool. The task of maintaining accounts to the satisfaction of the auditors or the members in a general body meeting is the least part of account-keeping in a society.

15.03 In the case of a small society, even if the manager and the management are aware of the need for using accounts as a managerial tool, often they land up with *ad hoc* considerations on account of financial constraints imposed by the inadequate volume handled leading to small or no profits. In such cases, the only course open to them is to centralise the accounting. The societies will feed the raw-material *viz.* the basic data and expect the finished produce in terms of norms, ratios, percentages, etc. for a moderate fee. Account keeping at the society proper will be reduced to the basic documentation and all the other functions calling for a high degree of expertise and sophisticated accounting techniques will be taken over by the accounting centre.

15.04 As pointed out earlier, in regard to the pooling of finance¹, the desire to go in for a centralised accounting is preceded by a decision to exercise a closer cooperation among the cooperatives in a given area than at present. In other words, autonomous considerations give in slightly in favour of business consideration. The centralised accounting paves the way for amalgamation and for undertaking a large-scale retail operation for the benefit of the consumers in the area.

15.05 In the case of Denmark² where the experiment of centralised accounting was carried out somewhat successfully an agreement was entered into as a pre-requisite to the organisation of accounting centre. The agreement specifies duties in connection with the accounting of the local society as well as for the accounting centre.

15.06 The duties of the primary society are the following;

- (i) to pay the fee quarterly or as stipulated in the agreement;
- (ii) to submit regularly, without fail, weekly or 10-daily as stipulated, cash blanket reports, trading reports,

1. See Chapter IV—Capital—Source and Use.

2. "Rationalisation of Consumer Movement in Western Europe" by S. Dandapani, Ministry of Railways, Government of India.

branch shop goods report, creditors and debtors' reports and reports on sundry items with all supporting vouchers and necessary information;

- (iii) to submit all information for the quarterly, half-yearly and year-end statements, such as stock-taking reports, extracts or proceeding records, bank statements etc.;
- (iv) to collaborate closely with the consultants, account clerks and other Accounting Centre personnel placed at the disposal of the society.

15.07 The duties of the Accounting Centre are:

- (i) to provide the capital necessary to establish the centre initially and to cover the costs of operating the centre without any liability on the part of the affiliated societies to pay more than the agreed fee;
- (ii) to return to each client society, within a few days of receipt of same, all vouchers and other supporting documents to the society, after having checked, controlled and processed them;
- (iii) to provide a monthly trial balance (a maximum number of 10) and a year-end financial statement;
- (iv) to offer advice and guidance by the Accounting Consultant as required by the client society.

15.08 The consumer cooperatives in the developing countries have tremendous potentialities for going in for centralised accounting as a means to undertaking economy in expenditure, efficiency in the performance and for undertaking large-scale retailing with the necessary in-built strength for facing the competitor on one hand and protecting the consumers on the other.

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SELECT INDEX

- Assets 2.10.05, 2.10.06 4.09.
Allocation Method 2.25.09
Advertisement 7.12.10.
Audit Criteria 13.08.21.
Accountability 14.01.
Accounts Centre 15.07.
- Business techniques 1.08, 1.09.
Budgeting 2.14, 2.02.03, 7.03,
7.04.
Borrowings 4.02.
Business surplus 4.02, 4.03.
Budget forecast 7.02.
Budgeting concept 7.06.
Budget system 7.08.
Budgetary Planning 7.11.
Budgetary control 7.25.
Break Even point 7.26.02, 9.00.
Branded articles 8.01.14.
Break Even Formulas 9.03.04.
- Consumption 1.02, 1.06.02.
Consumption Pattern 1.06.
Cost structure 2.06.04.
Cost Analysis 2.07, 2.29
Contributory Method 2.25.09,
2.28, 3.05.11, 3.06.03.
Cost centres 2.26, 2.27.
Cost carrier 2.27.02.
Contribution 3.05.08, 3.06,
3.07, 3.09, 9.03.04.
Capital 4.01, 4.02.
Capital Composition 4.08.
Capital Costs 4.10, 5.04.
Cash inflow—outflow 5.01.
Cash Credit 5.10.01, 5.11.06.
Cash Control 6.01, 6.06.
Cash Registers 6.03.
Cash deficit 6.11.
Control of empties 8.03.
Complaints 8.05.04.

- Credit sales 8.05.26.
 Centralised accounting 15.01.
 Depreciation 2.10.05, 2.25.
 Dead Capital 2.11.02.
 Direct cost 2.28.05.
 Direct fixed costs 2.28.07.
 Depreciation 4.02.
 Diversification 4.09.03.
 Dividend 6.02.
 Economic Ethic 1.02.
 Evaluation 3.09.
 Expenditure Budget 7.22.
 Efficiency audit 13.08.
 Free Market 1.01, 1.03, 1.07
 Fixed costs 2.07.02, 2.28.09,
 3.08, 4.68.02.
 Fitting costs 2.10, 2.10.06.
 Financial Budget 7.23.
 Gross value Control 8.02.05.
 High Wage low cost 2.13.05.
 Hidden reserve 4.02.
 Home delivery 8.05.26
 Income/Expenditure 2.01, 2.29.
 Inter-action 2.09.
 Inter-stimulation 2.05.
 Inventory 8.01.
 Inter-firm comparison 12.01.
 Joint costs 2.18, 2.18.04, 2.28.10,
 3.05.08, 3.07.04.
 Jumping fixed costs 2.28.09.
 Key figures 11.01.
 Key figure formulas 11.02.
 Lighting 2.16.06.
 Leakage costs 2.17.
 Low cost High Wage 2.13.05.
 Low costs 2.19.
 Low cost-Highefficiency 2.19.02
 Leakages 8.05.
 Mark up 3.05.05, 3.08.03.
 Margin 3.05.05, 3.08.03.
 Managerial tool 3.09.
 Margin of safety 7.26.02.
 Optimum prices 1.02.
 Overheads 3.05.09, 3.07.04.
 Profits 1.01, 1.02
 Profiteering 1.01
 Profitability 2.20, 3.01, 4.09.04.
 Period costs 2.21.04.
 Periodicity 2.24.
 Pricing 3.01, 7.18.
 Pooling of finances 4.07.
 Purchase Budget 7.12.08, 7.21.
 Pay role Budget 7.12.09.
 Profit Budget 7.12.11.
 Production Budget 7.20.
 Product mix 9.03.03.
 Retail trade 1.05.
 Rationalisation 1.06.
 Retailing techniques 1.08,
 2.10.04.
 Rent costs 2.09.
 Result Calculation 2.25.04,
 7.03.03.
 Result oriented Pricing 3.01,
 3.05.
 Reserves 4.02, 4.08.03.
 Result calculation 10.01, 10.07.
 Result analysis 10.06.
 Retail research Institutes 12.11.

Sale 2.06.03.
Sale Mixture 2.06.03, 2.06.04.
Sale forecasts 2.06.04.
Stock costs 2.11
Stock turnover 2.12, 3.03, 4.4.
Sale per employee 2.13.05 to
2.13.09.
Sale turnover 3.03.
Sales Budget 7.12.07, 7.19,
7.20.02.
Sale forecast 7.29.
Stock control 8.02.
Stock Taking 8.04.
Training 6.09.02.
Temporal comparison 12.04,
12.06.
Unit control system 8.02.13.
Variable costs 2.07.02.
Variable direct cost 2.28.06.
Wage costs 2.11.04, 2.13.
Work organisation 2.15.
Working capital 5.04, 5.05.
Wholesale 5.06.01, 5.06.02.

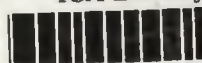
The International Cooperative Alliance

is one of the oldest of existing international voluntary bodies. It is a world-wide confederation of cooperative organisations of all types. Founded by the International Cooperative Congress held in London in 1895, it has now 164 affiliates spread over 64 countries and is serving over 255 million members at the primary level. It is the only international organisation entirely and exclusively dedicated to the promotion of cooperation in all parts of the world.

Besides the Head Office of the ICA, which is in London, there are two other offices of the ICA, *viz.*, the Regional Office & Education Centre for South-East Asia located in New Delhi, India, and the office for East and Central Africa at Moshi, Tanzania. The Regional Office in New Delhi was started in 1960 and the office in Moshi in 1968. The main tasks of the Regional Office & Education Centre are to develop the general activities of the Alliance in the Region, to act as a link between the ICA and its affiliated national movements, to represent the Alliance in its consultative relations with the regional establishments of the United Nations and other international organisations, to promote economic relations amongst member-movements, including trading across national boundaries, to help in the supply of technical assistance, to conduct educational activities for the movements in the Region and to bring out publications on the various aspects of cooperative development.

A greater part of the activities of the Regional Office & Education Centre is supported by the Swedish Cooperative Movement and the Swedish International Development Authority (SIDA). The Regional Office has so far conducted over 85 educational programmes of various types. These were attended by nearly 2,200 participants from the different countries of the South-East Asian Region.

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