

ENGINEUITY TUTORIAL



Capital Base



The **capital base** is the company's investment in the infrastructure of the business, such as plant, equipment, buildings etc, and **determines the level of work that the company can undertake.**



Capital Base

MAKING Procurement decisions for period 5 in the Early Years

Change period Key information Help

PROCUREMENT RESTRICTIONS

Company Based Limitations

NUMBER OF JOBS IN PROGRESS

At the start of the period, the number of jobs in progress is: 5 (job progression screen)
The number of jobs in progress after bidding cannot exceed: 10 jobs
Hence, the maximum number of jobs that can be won is: 5 jobs during bidding

AMOUNT OF WORK THAT CAN BE WON

The initial forward workload is: 20,822,000 (job progression screen)
The current value of the capital base is: 4,134,990 (financial decision screen)
The current capital base can support forward workload of: 41,349,900 (10 x capital base)
Hence, the value of work that can be won cannot exceed: 20,527,900 during bidding

At the time a company bids for new work (on the **Procurement Screen**), the value of the work in progress cannot exceed 10 times the capital base.

Hence, in the example shown the current capital base of 4,134,990 can support up to 41,349,900 of work in progress.

Since the company already has work in progress (initial forward workload) of 20,822,000 (**Job Progression Screen**), the value of additional work that can be won during the bidding process is 20,527,900 (41,349,900 – 20,822,000).

To grow the business, and take on more work, the capital base can be increased on the **Financial Screen**.



Capital Base

MAKING Financial decisions for period 5 in the Early Years

Change period Key information Help

ASSET BASE

	Before decisions	After decisions	
Cash account:	-72,961	-362,410	(The current overdraft limit for the cash account is 625,000)
Capital base:	4,134,990	4,424,439	
Investments:	719,762	719,762	
Company value:	4,781,791	4,781,791	

DIVIDEND

Amount to pay shareholders: (0% of Equity of 5,450,000)

CAPITAL BASE

Increase by: (limited to 289,449)

Reduce by: (limited to 992,398)

MAKING Procurement decisions for period 5 in the Early Years

Change period Key information Help

PROCUREMENT RESTRICTIONS

Company Based Limitations

NUMBER OF JOBS IN PROGRESS

At the start of the period, the number of jobs in progress is: 5 (job progression screen)
 The number of jobs in progress after bidding cannot exceed: 10 jobs
 Hence, the maximum number of jobs that can be won is: 5 jobs during bidding

AMOUNT OF WORK THAT CAN BE WON

The initial forward workload is: 20,822,000 (job progression screen)
 The current value of the capital base is: 4,424,439 (financial decision screen)
 The current capital base can support forward workload of: 44,244,390 (10 x capital base)
 Hence, the value of work that can be won cannot exceed: 23,422,390 during bidding

Increasing the capital base by the maximum allowed in the current period, 289,449, takes immediate effect on the **Procurement Screen**, and the amount of additional work that can be won during the bidding process is increased by 2,894,490 to 23,422,390.



Capital Base

Industry parameters			
FINANCE	OVERHEADS	PROCUREMENT	JOB PROGRESSION
CASH ACCOUNT	Credit rate:	1.8 % per annum	
	Overdraft rate:	6.2 % per annum	
	Overdraft limit:	625,000	
CAPITAL BASE	Increase limited to:	7 % this period	
	Sold off limited to:	24 % this period	
	Depreciation rate:	2.5 % per annum	
	Capital cost:	25 % per annum	

There are **limitations on the changes** to the capital base each period, based upon the prevailing economic environment, defined in the **Industry parameters**.

KEY POINTS

- Changes to the capital base affect the cash account, with an increase in the capital base reducing the cash account, and a reduction in the capital base increasing the cash account.
- 50% of the unused capital base increase allowed in a period is carried forward to the following period.



Capital Base

Financial Performance

Management consultants report Graphical analysis

Navigate to "Main menu/Measuring performance/Assessing performance/Financial analysis"

OPERATIONAL

SHAREHOLDERS

Summary

Assets and liabilities

Each period the capital base depreciates by a %, reducing the overall value of the company, as defined in the **Industry parameters**.

The depreciation occurs at the end of the period.

Per	Status	Year/qtr	Cash account			Capital base			Gearing ratio	Company value		
			Start period	% change	End period	Start period	% change	End period		Start period	% change	End period
1	History	2024 (Q1)	1,000,000	-12.91 %	870,920	4,000,000	-0.63 %	3,975,000	0.000	5,000,000	-3.08 %	4,845,920
2	History	2024 (Q2)	870,920	-18.22 %	712,275	3,975,000	-0.63 %	3,950,156	0.000	4,845,920	-3.79 %	4,662,431
3	History	2024 (Q3)	712,275	-28.96 %	506,028	3,950,156	-0.62 %	3,925,468	0.000	4,662,431	-2.75 %	4,534,196
4	History	2024 (Q4)	506,028	-114.42 %	-72,961	3,925,468	5.34 %	4,134,990	0.015	4,534,196	5.46 %	4,781,791

PERIOD 4

ON A LINE IN THE THE SUMMARY ABOVE TO SHOW THE PERIOD DETAILS

CASH ACCOUNT

Start of the period:	506,028
Impact of financial decisions:	-929,528 ?
Investments ceasing trading:	0
Net operating profit:	350,539
End of the period:	-72,961

CAPITAL BASE

Start of the period:	3,925,468
Increased by:	235,528
Reduced by:	0
	4,160,996
Capital base utilisation:	77 ? % (after bidding)
Depreciation:	26,006 (2.5% pa)
End of the period:	4,134,990

INVESTMENTS

Start of the period:	102,700
Increased by:	600,000
Reduced by:	0
Reduced by (ceased trading):	0
Investment returns:	17,062 ? (2.4 %)
End of the period:	719,762

COMPANY VALUE

Cash account:	-72,961
Capital base:	4,134,990
Investments:	719,762
	4,781,791 ?

Industry parameters

FINANCE

OVERHEADS

PROCUREMENT

JOB PROGRESSION

CASH ACCOUNT

Credit rate:	1.8 % per annum
Overdraft rate:	6.2 % per annum
Overdraft limit:	625,000

CAPITAL BASE

Increase limited to:	7 % this period
Sold off limited to:	24 % this period
Depreciation rate:	2.5 % per annum
Capital writing down:	25 % per annum



Capital Base

Industry parameters			
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Any increases in the capital base can be used to reduce the company's tax burden (corporation tax), known as **capital writing down**.



Capital Base

Financial Performance

Navigate to "Main menu/Measuring performance/Assessing performance/Financial analysis"

Management consultants report Graphical analysis

OPERATIONAL

SHAREHOLDERS

INVESTMENTS

Summary

Assets and liabilities

Per	Status	Year/qtr	Cash account			Capital base			Investments			Gearing ratio	Company value		
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3	History	2024 (Q3)	712,275	-28.96 %	506,028	3,950,156	-0.62 %	3,925,468	0	100.00 %	102,700	0.000	4,662,431	-2.75 %	4,534,196
4	History	2024 (Q4)	506,028	-114.42 %	-72,961	3,925,468	5.34 %	4,134,990	102,700	600.84 %	719,762	0.015	4,534,196	5.46 %	4,781,791

PERIOD 4

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CAPITAL BASE

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Increased by:	235,528
Reduced by:	0
	4,160,996
Capital base utilisation:	77 ? % (after bidding)
Depreciation:	20 (2.5% pa)
End of the period:	

INVESTMENTS

Start of the period:	102,700
Increased by:	600,000
Reduced by:	0
Reduced by (ceased trading):	0
Investment returns:	17,062 ? (2.4 %)
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COMPANY VALUE

Cash account:	-72,961
Capital base:	4,134,990
Investments:	719,762
	4,781,791 ?

The company's **capital base utilisation**, also known as the **capital employed**, measures how much of the company's capital base is being used.

Not utilising the capital base is a waste of resources that could be directed elsewhere, and can hinder growth.

Consider the following example where a company is in period 5, and the financial performance is being reviewed for period 4.

For Period 4 the company's capital base utilisation was 77%, indicating that the capital case was being very well utilised.

We can use the ? Drill down to see how the capital base utilisation of 77% was calculated.



Capital Base

Measuring Performance

Assessing performance Help

KEY PERFORMANCE INDICATORS

PERFORMANCE SUMMARY

CLICK ON THE DATA IN A COLUMN TO SEE HOW THE SELECTED KEY PERFORMANCE INDICATOR WAS CALCULATED

End of period	Status	Year/qtr	Turnover	Gross profit to Turnover	Operating Profit to Turnover	Company Value	Capital Employed	Contract Completion	Forward Workload	Forward Margin	Share Price	Client Satisfaction	Total
4	History	2024 (Q4)	40	170	120	170	130	80	70	100	70	50	1,000
5	Early Years	2025 (Q1)	51	141	84	165	157	105	103	143	72	70	1,091
6	Early Years	2025 (Q2)	62	147	102	168	175	110	95	127	77	85	1,148
7	Early Years	2025 (Q3)	68	177	147	178	188	122	101	137	89	101	1,308
8	Early Years	2025 (Q4)	80	178	156	183	199	122	87	115	91	114	1,325

A **key performance indicator** measures the average capital employed over time.