

ENGINEUITY TUTORIAL



Making Financial Decisions



Making Financial Decisions

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	-72,961	(The current overdraft limit for the cash account is 625,000)
Capital base:	4,134,990	4,134,990	
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)

INVESTMENTS

Name	Initial Value	Increase by	Reduce by	Required
Adapt TP	101,700	0	0	101,700
Altax Wind Energy Centre	102,800	0	0	102,800
Asia Pacific Solutions	207,362	0	0	207,362
DAX International	101,900	0	0	101,900
Kruger Asset Management	102,300	0	0	102,300
Morgan Fritz	103,700	0	0	103,700

It is the beginning of period 5, and the Financial Manager needs to review the financial structure of the company, and decide upon any changes that need to be made.

One of the main responsibilities of the Financial Manager is to look after the interests of the company's shareholders.



Making Financial Decisions

Financial Performance

Navigate to "Main menu/Making decisions/Financial decisions/Key information/Share price history"

Management consultants report Graphical analysis

OPERATIONAL

SHAREHOLDERS

INVESTMENTS

Summary

Dividend payments to shareholders

Other internal factors affecting the company share price

Period	Status	Year/qtr	Share price			Equity		Change in share price due to influencing factors				
			Start of the period	% change	End of the period	No. of shares	Equity value	Dividend paid to s/holders	Company value changes	Forward margin changes	Gearing ratio changes	World events
1	History	2024 (Q1)	1.00	-6.80 %	0.93	5,000,000	4,650,000	0.00 %	-6.80 %	0.00 %	0.00 %	0.00 %
2	History	2024 (Q2)	0.93	14.02 %	1.06	5,000,000	5,300,000	0.00 %	-7.98 %	22.00 %	0.00 %	0.00 %
3	History	2024 (Q3)	1.06	-11.07 %	0.94	5,000,000	4,700,000	0.00 %	-6.25 %	-4.82 %	0.00 %	0.00 %
4	History	2024 (Q4)	0.94	15.61 %	1.09	5,000,000	5,450,000	0.00 %	9.83 %	7.28 %	-1.50 %	0.00 %

The Company was **originally funded** from a share (equity) issue of 5,000,000 shares of value 1, with an equity value of 5,000,000.

At the end of the History the share price stands at **1.09**, and the equity value at **5,450,000** ($5,000,000 \times 1.09$).

The share price is influenced by **internal factors**, related to the company's decisions :-

- The level of dividend paid to the shareholders, which is under the direct control of the Financial Manager
- Changes in the value of the company
- Changes in the future profitability of the company
- Changes in the debt burden of the Company

and **external factors** (world events), outside of the company's control.



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Company value:	4,781,791	4,781,791

(The current overdraft limit for the cash account is 625,000)

DIVIDEND

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

CAPITAL

DIVIDEND

Dividends are taxable payments declared by a company's board of directors and given to its shareholders, normally quarterly. They provide an incentive to own stock in stable companies even if they are not experiencing much growth.

The dividend paid to shareholders is one of the key factors that affects the company **share price** :-

- **Insufficient dividend** will disappoint the shareholders and reduce the share price
- **Sufficient dividend** will keep the shareholders content, with no change in the share price
- **Ample dividend** will make the shareholders very happy, and increase the share price

The affect on share price is determined by the **% of the company's equity** that is paid as a dividend.

The **equity** of the company at any time is the overall share value.

$$\text{EQUITY} = \text{NUMBER OF SHARES} \times \text{CURRENT SHARE PRICE}$$

Clues as to the affects of different levels of dividend are available by examining what happened in the History, using the **Key information/Share price history** option.



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Navigate to "Main menu/Making decisions/Financial decisions/Key information/Share price history"

Management consultants report Graphical analysis

OPERATIONAL

SHAREHOLDERS

INVESTMENTS

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Dividend payments to shareholders

Other internal factors affecting the company share price

Dividend payments to shareholders

Period	Status	Year/qtr	Shareholder expectation	Initial equity	Dividend paid	Dividend paid as a % of equity	Change in share price
1	History	2024 (Q1)	History Level	5,000,000	100,000	2.00 %	0.00 %
2	History	2024 (Q2)	History Level	4,650,000	93,000	2.00 %	0.00 %
3	History	2024 (Q3)	History Level	5,300,000	106,000	2.00 %	0.00 %
4	History	2024 (Q4)	History Level	4,700,000	94,000	2.00 %	0.00 %

Since period 1 the company has paid a dividend of 2% of equity every period (8% per annum), and this has been **sufficient to keep the shareholders content** because there has been no change in the share price.

In period 5 we could pay a higher dividend than 2% to try and improve the share price. However, this strategy could be counter productive because dividend payments come out of the cash account and reduce the company value, which adversely affects the company share price, and the positive affects of the extra dividend could be offset by the reduction in the value of the company.

The key is to find a careful balance so that dividend levels do not compromise the financial stability of the business, but do improve the share price.

In period 5 we will continue to pay a 2% dividend, to at least keep the shareholders satisfied, **but look to increase this in the future as the company grows and becomes more profitable.**

KEY POINTS

Shareholder expectations can change as the operating performance of the company changes, and may be higher or lower than the History level. This will affect the level of dividend that needs to be paid to keep them content.



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Investments:	719,762	719,762	
Company value:	4,781,791	4,672,791	

DIVIDEND

Amount to pay shareholders: (2% of Equity of 5,450,000)

CAPITAL BASE

Increase by: (limited to 289,449)

Reduce by: (limited to 992,398)

INVESTMENTS

Add investment

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	Training providers	101,700	<input type="text" value="0"/>	<input type="text" value="0"/>	101,700
Altax Wind Energy Centre	Wind farm	102,800	<input type="text" value="0"/>	<input type="text" value="0"/>	102,800
Asia Pacific Solutions	Management consultants	207,362	<input type="text" value="0"/>	<input type="text" value="0"/>	207,362
DAX International	Management consultants	101,900	<input type="text" value="0"/>	<input type="text" value="0"/>	101,900
Kruger Asset Management Plc	Management consultants	102,300	<input type="text" value="0"/>	<input type="text" value="0"/>	102,300
Morgan Fritz	Investment banking	103,700	<input type="text" value="0"/>	<input type="text" value="0"/>	103,700

Display details for Adapt TP

Remove investment for Adapt TP

The dividend payment comes out of the cash account, and the value of the company is reduced by 109,000.



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DIVIDEND	
Amount to	£ Equity of 5,450,000)

The **value** of the Company at any time is measured by its assets, and the other main responsibility of the Financial Manager is to **make the best use of the assets** to try and increase the company value.

After paying dividend the assets consist of :-

CASH IN THE BANK (-181,961)

This can either be in credit (positive) or in **overdraft (negative)**, when it is considered a liability.

The current **overdraft limit** is shown in red.

CAPITAL BASE (4,134,990)

This is the company's investment in plant, equipment, facilities, buildings etc (infrastructure), which determines the level of work that the company can undertake.

INVESTMENTS (719,762)

The company's cash investment in other concerns, which may or may not be construction-related.

The company is currently valued at **4,672,791**.

KEY POINTS

Not only is the company based in the UK, but its bank account is held in a UK Institution. Hence, the company is **subject to UK financial rates**, such as interest and tax rates.



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Company value:	4,781,791	4,672,791

(The current overdraft limit for the cash account is 625,000)

DIVIDEND	
Amount to pay shareholders	(2% of Equity of 5,450,000)

CAPITAL	
Amount to pay shareholders	ed to 289,449)
Amount to pay shareholders	to 992,398)

An **increase in company value** can be achieved in several ways.

MAKING EFFECTIVE USE OF THE COMPANY'S ASSETS

A number of choices are available :-

- Using cash to increase the Capital Base to win more work and support further growth.
- Selling off a % of the Capital Base to raise cash, which may be required if the cash account has exceeded the overdraft limit, or if the Capital Base is not being fully utilised.
- Using cash to invest further in other companies who offer a better return than can be obtained from the bank, or who may be able to offer benefits to reduce costs on jobs in progress, or conversely, selling off investments to raise cash.

OPERATING PROFIT

Generating operating profit increases the cash account, and hence the value of the company, and is achieved through good job and overhead management. Although having no direct control over these functions, which is responsibility of other people, such as the Overhead and Construction Managers, the Financial Manager must monitor progress in these areas to ensure the company is being run as profitably as possible.

We will now look at some of these options in more detail.



Making Financial Decisions

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

Job	Country	Type	BIM	Size	App Value	Duration	Description	Sector	Client	Job	Bid	Bid value
75	United Kingdom	DB	Yes	Small	3,000,000	3	Construct state of art composting unit	Water & Sewage	Fenland	75	No	0
78	Qatar	DB	Yes	Large	19,000,000	5	Entertainment complex development phase 1	Building & Commercial	Doha	78	No	0
81	United Kingdom	BO	Yes	Medium	11,000,000	3	Construction of prototype solar chimney	Energy	Edinburgh	81	No	0
83	United States	BO	No	Medium	11,000,000	3	Charging infrastructure for electric vehicle	Transport	San Francisco	83	No	0
85	New Zealand	BO	Yes	Small	2,000,000	2	New abattoirs	Industrial	Wellington	85	No	0

CAPITAL BASE

The value of work that can be undertaken is governed by the size of the company's capital base.

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, 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).

Since the company is looking to grow, and take on more work, it is decided to try and increase the capital base by a significant amount.



Making Financial Decisions

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	-471,410
Capital base:	4,134,990	4,424,439
Investments:	719,762	719,762
Company value:	4,781,791	4,672,791

(The current overdraft limit for the cash account is 625,000)

DIVIDEND

Amount to pay shareholders: (2% of Equity of 5,450,000)

CAPITAL BASE

Increase by: (limited to 289,449)

Reduce by: (limited to 992,398)

The capital base is increased by 289,449, the maximum increase allowed in the period.

The increase in the capital base comes out of the cash account, and since assets are only being moved around, the value of the company does not change.

KEY POINTS

- If the capital base is being **underutilised**, it may be appropriate to reduce it to raise cash for other uses, such as further investments or reducing an overdraft.
- There are limitations on the changes to the capital base each period, defined in the **Industry parameters**.
- The capital base **depreciates** by a % each year, as shown in the **Industry information**.

Display details for Adapt IP
Remove investment for Adapt TP



Making Financial Decisions

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

Job	Country	Type	BIM	Size	App Value	Duration	Description	Sector	Client	Job	Bid	Bid value
75	United Kingdom	DB	Yes	Small	3,000,000	3	Construct state of art composting unit	Water & Sewage	Fenlands Council	75	No	0
78	Qatar	DB	Yes	Large	19,000,000	5	Entertainment complex development phase 1	Building & Commercial	Doha Development Group	78	No	0
81	United Kingdom	BO	Yes	Medium	11,000,000	3	Construction of prototype solar chimney	Energy	Fenlands Council	81	No	0
83	United States	BO	No	Medium	11,000,000	3	Charging infrastructure for electric vehicle	Transport	Los Angeles County Group	83	No	0
85	New Zealand	BO	Yes	Small	2,000,000	2	New abattoirs	Industrial	Manitaki Products	85	No	0

The change to the capital base takes immediate effect on the **Procurement Screen**, and the increase of 289,449 will enable **2,894,490** of additional new work to be won.

Display details for job 75

Display client details

Yes



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INVESTMENTS

Name	Description	Initial Value	Increase by	Reduce by	Required
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Altax Wind Energy Centre	Wind farm	102,800	0	0	102,800
Asia Pacific Solutions	Management consultants	207,362	0	0	207,362
DAX International	Management consultants	101,900	0	0	101,900
Kruger Associates Plc	Management consultants	102,300	0	0	102,300
Morgan Stanley	Investment banking	103,700	0	0	103,700

INVESTMENTS

The core business of the company is procuring and progressing contracts, and if done successfully the company will report a healthy operating profit, and increase the company's value. However, there are alternative ways of increasing the value of the company, such as by investing in other concerns, which may or may not be construction-related.

There are **two ways** of increasing the company's value through investments :-

- **Investment returns**; that change the value of the investments
- **Investment benefits**; that reduce costs on jobs in progress (build or risk costs)

We can examine the company's current 6 investments by using the **Display details** option.

We will first look at the investment in **Asia Pacific Solutions**.



Making Financial Decisions

Investment Details

ASIA PACIFIC SOLUTIONS

Desc: Management consultants

Profile: For over 40 years, Australian based Asia Pacific Solutions have been saving their clients millions by providing risk mitigation solutions at all stages of the construction process, and they recently invested in a state of the art computer system to stay at the forefront of their field.

The company operate solely with contractors in the energy sector worldwide, although 75% of their turnover is within the Asia Pacific region, which they serve from their Gold Coast headquarters, along with around 20 regional offices.

PERFORMANCE HISTORY

PERIOD RETURNS

Period	% return to investors	Company investment		Information for investors
		Amount invested	Investment return	
1	3.0 %	0	0	Nothing to report
2	2.6 %	0	0	Nothing to report
3	2.7 %	100,000	2,700	Nothing to report
4	2.3 %	202,700	4,662	Nothing to report

BENEFITS - REDUCTION IN JOB COSTS

	Build cost	Risk cost	% of total
Industrial	0	0	0 %
Building & Commercial	0	0	0 %
Transport	0	0	0 %
Energy	0	3,315	100 %
Water & Sewage	0	0	0 %
	0	3,315	

INVESTMENT RETURNS

Cash returns vary each period depending upon the performance of an investment, and either increase or reduce the value of an investment.

Whether or not the investment has been a success, in terms of the cash return, and would be worth investing further in would depend upon looking deeper into the prevalent bank rates, both credit and overdraft rates (as defined in the **Industry parameters**) at the time the investments were made, as well as the balance of the cash account.

During periods 1 to 4 the returns from **Asia Pacific Solutions** were good, between 2.3 and 3.0% each period, and it is certainly worth considering further investment if the cash account will support it.



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4	2.3 %	202,700	4,662	Nothing to report

BENEFITS - REDUCTION IN JOB COSTS

	Build cost	Risk cost	% of total
Material	0	0	0 %
Build	0	0	0 %
	0	0	0 %
	0	3,315	100 %
	0	0	0 %
		3,315	

INVESTMENT BENEFITS

As well as investing in other companies to yield a better return than can be obtained from the bank, there is **potentially an even more lucrative reason** for investing in other concerns.


If enough money is invested in particular concerns, **costs may be reduced** on work in progress in specific sectors :-

- **BUILD COST REDUCTIONS;** These are earned by investing in businesses that supply commodities that are used directly in the construction phase, such as materials and plant e.g., investing in an asphalt company would reduce build costs for any Transport work being undertaken.
- **RISK COST REDUCTIONS;** These are earned by investing in management consultants that offer risk management services to the construction industry.

If the investment profile indicates potential benefits to jobs in progress, the benefits are only accrued if enough money is invested.



Making Financial Decisions

 **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

INVESTMENTS

Restrictions

There cannot be more than: 6 investments at any point in time

For each investment the maximum increase in the investment is limited to: 100000 each period

Benefits for jobs in progress

A minimum amount of: 200000 needs to have been invested to obtain any benefits for jobs in progress

For investments that deliver cost reductions, once the minimum amount has been invested to obtain benefits, and depending on how much has been invested, the build cost reductions are between: 0.3 and 0.5 %

For investments that deliver management services, once the minimum amount has been invested to obtain benefits, and depending on how much has been investment, for risks that strike the risk cost reductions are between: 30 and 40 %

For investments that deliver job delay reductions are between: 25 and 30 %

The **Industry parameters** show that a **minimum amount of 200,000 needs to be invested** to obtain any benefits. This is the amount invested after the financial decisions have been made in the period.

As the **increase in an investment in a period is limited to 100,000**, it would take at least 2 periods to gain any cost reductions from an investment.

KEY POINTS

If an investment is not performing well, with negative investment returns, and the value of the investment falls, it may take longer than 2 periods for the investment value to reach the minimum level to gain any benefits.



Making Financial Decisions

Industry parameters

FINANCE

OVERHEADS

PROCUREMENT

JOB PROGRESSION

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For each investment the maximum increase in the investment is limited to: 100000 each period

Benefits for jobs in progress

A minimum amount of: 200000 needs to have been invested to obtain any benefits for jobs in progress

For investments that deliver build cost reductions, once the minimum amount has been invested to obtain benefits, and depending upon how much has been invested, the build cost reductions are between: 0.3 and 0.5 %

For investments that provide risk management services, once the minimum amount has been invested to obtain benefits, and depending upon how much has been investment, for risks that strike the risk cost reductions are between: 30 and 40 %

job delay reductions are between: 25 and 30 %

Cease trading

Once the minimum investment threshold has been met, the cost reductions for each applicable job in progress are :-

- Build cost reductions of between 0.3 and 0.5%
- Risk cost reductions of between 30 and 40% for each risk that strikes

In the case of investing in risk management companies, as well as risk cost reductions, a further benefit is that if a risk strikes the potential job delay is also reduced, by between 25 and 30%.

KEY POINTS

There are 2 tiers of cost reductions, a lower and upper tier. You are not told the investment required to obtain the upper tier saving, and this knowledge can only be acquired as time progresses, but there is a linear increment between the two tiers as the investment increases.



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BENEFITS - REDUCTION IN JOB COSTS

	Build cost	Risk cost	% of total
Industrial	0	0	0 %
Building & Commercial	0	0	0 %
Transport	0	0	0 %
Energy	0	3 315	100 %
Water & Sewage		0	0 %
		3,315	

During period 4 the investment in Asia Pacific Solutions was 202,700, just enough to obtain benefits, but were any benefits gained ?

The benefits from investing in **Asia Pacific Solutions** are **reductions in risk costs in the energy sector**. This is clear from the phrase in the company's profile that states ".... The company operates solely with contractors in the energy sector worldwide"

We can see that to date risk costs have been reduced on energy jobs by 3,315 with potentially a lot more to follow in the future.

KEY POINTS

- If enough money is invested, benefits can be accrued even if the investment is performing badly. However, **poorly performing investments can cease trading**. This will be discussed further in due course.
- The **benefits are cumulative** e.g., a job can receive cost reductions from more than one investment each period.



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DAX International	Management consultants	101,900	0	0	101,900
Kruger Asset Management Plc	Management consultants	102,300	0	0	102,300
Morgan Fritz	Investment banking	103,700	0	0	103,700

The company's long-term strategy is to target jobs in the building and commercial, transport and energy sectors.

Bearing this in mind on close investigation of all the current investments the following decisions are made :-

1. Adapt TP provide build cost reduction for transport jobs, so **this investment will be increased by 100,000** (the maximum allowed in one period) to obtain even more benefits, in this case build cost reductions for transport jobs.
2. To increase the **investment in Asia Pacific Solutions by a further 100,000** to obtain even more benefits, in this case risk cost reductions for energy jobs.
3. To **reduce the investments in the Atlas Wind Energy Centre, DAX International, Kruger Asset Management Plc and Morgan Fritz to 0**, and remove them completely, as none of them on close examination provide any benefits to us as a contractor in the construction industry. We will be looking for other investments to take their place.



Making Financial Decisions

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Change period Key information Help

ASSET BASE

	Before decisions	After decisions	
Cash account:	-72,961	-260,710	(The current overdraft limit for the cash account is 625,000)
Capital base:	4,134,990	4,424,439	
Investments:	719,762	509,062	
Company value:	4,781,791	4,672,791	

DIVIDEND

Amount to pay shareholders: (2% of Equity of 5,450,000)

CAPITAL BASE

Increase by: (limited to 289,449)

Reduce by: (limited to 992,398)

INVESTMENTS

Add investment

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	Training providers	101,700	100000	0	201,700
Altax Wind Energy Centre	Wind farm	102,800	0	102800	0
Asia Pacific Solutions	Management consultants	207,362	100000	0	307,362
DAX International	Management consultants	101,900	0	101900	0
Kruger Asset Management Plc	Management consultants	102,300	0	102300	0
Morgan Fritz	Investment banking	103,700	0	103700	0

Display details for Adapt TP

Remove investment for Adapt TP

Investments can be removed quickly using the **Remove investment for ...** option, which has the following affect :-

1. For **existing investments**, where the “Initial value” is > 0, the “Reduced by” level is set to the “Initial Value” to set the “Required” level to 0 to show that the investment has been removed, but it will not disappear from the investment list until the following period.
2. For **new investments**, where the “Initial value” is 0, the investment will be immediately removed from the investment list.



Making Financial Decisions

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	-260,710
Capital base:	4,134,990	4,424,439
Investments:	719,762	509,062
Company value:	4,781,791	4,672,791

(The current overdraft limit for the cash account is 625,000)

DIVIDEND
Amount to pay shareholders: (2% of Equity of 5,450,000)

CAPITAL BASE
Increase by: (limited to 289,449)
Reduce by: (limited to 992,398)

INVESTMENTS

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	Training providers	101,700	100000	0	201,700
Altax Wind Energy Centre	Wind farm	102,800	0	102800	0
Asia Pacific Solutions	Management consultants	207,362	100000	0	307,362
DAX International	Management consultants	101,900	0	101900	0
Kruger Asset Management Plc	Management consultants	102,300	0	102300	0
Morgan Fritz	Investment banking	103,700	0	103700	0

Any increase in investment comes out of the cash account, and any reduction in investment goes into the cash account.

However, since money is being moved between assets, the value of the company is unchanged.



Making Financial Decisions

MAKING Financial decisions for period 5 in the Early Years

Change period Key information Help

ASSET BASE

Before decisions

Cash account: -72,961

Capital base: 4,134,990

Investments: 719,762

Company value: 4,781,791

DIVIDEND

Amount to pay shareholders:

CAPITAL BASE

Increase by: 289449 (limited by 100000)

Reduce by: 0 (limited by 100000)

INVESTMENTS

Add investment

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	Training providers	101,700	100000	0	201,700
Altax Wind Energy Centre	Wind farm	102,800	0	102800	0
Asia Pacific Solutions	Management consultants	207,362	100000	0	307,362
DAX International	Management consultants	101,900	0	101900	0
Kruger Asset Management Plc	Management consultants	102,300	0	102300	0
Morgan Fritz	Investment banking	103,700	0	103700	0

Display details for Adapt TP

Remove investment for Adapt TP

The company now has 2 current investments.

The **Industry parameters** show that there can be no more than 6 investments, so it is possible to invest in 4 further concerns.

The **Add investment** option can be used to review a selection of other companies that can be invested in.

INVESTMENTS

Restrictions

There cannot be more than: **6** investments at any point in time

For each investment the maximum increase in the investment is limited to: **100000** each period



Making Financial Decisions

Investment Opportunities

Display investments where the profile contains the phrase:

[All]

Name	Description	Status
Adapt TP	Training providers	Already investing in
Altax Wind Energy Centre	Wind farm	Already investing in
Asia Pacific Solutions	Management consultants	Already investing in
DAX International	Management consultants	Already investing in
Dynasty Consulting	Management consultants	Available
Enerstrom Nuclear Services Group	Nuclear energy services	Available
Florida Fitness	Leisure providers	Available
GG Global Fashion	Fashion retailer	Available
Kilkhampston Brick Supplies	Suppliers	Available
Kruger Asset Management Plc	Management consultants	Already investing in
Morgan Fritz	Investment banking	Already investing in
National Aggregate Plc	Suppliers	Available
Perth Homes Plc	Specialist housebuilders	Available
Raon Corporation	Management consultants	Available
Retail Remedies	Management consultants	Available
RGH Excavators Plc	Suppliers	Available
Sungsam	Electronics	Available

ADAPT TP

Conveniently situated just off the M25 near Dartford, Adapt TP is a family run company established over 10 years ago offering a high standard of construction plant training in a friendly but professional atmosphere for the transport sector both in the UK and internationally.

Adapt TP utilise a multi million pound state of the art training facility, and are able to improve the productivity of the workforce with the objective to reduce build costs.

The training team consist of experienced individuals with a variety of backgrounds and are highly knowledgeable and experienced in the field of construction training.

PERIOD RETURNS

Period	% return to investors	Company investment		Information for investors
		Amount invested	Investment return	
1	2.0 %	0	0	Nothing to report
2	1.6 %	0	0	Nothing to report
3	1.7 %	0	0	Nothing to report
4	1.7 %	100,000	1,700	Nothing to report

For each available concern, the following information is given :-

- The **profile** describes the concern, and gives clues as to whether or not benefits may be accrued by investing in the business.
- The **period returns** gives the % return given in previous periods to all investors, and details any monies the company may have invested.
- The **information for investors** is news about the company that can highlight any issues that investors need to be aware of, such as if the company is having problems, and may cease trading.

Taking into account the current cash account balance, bank rates, potential returns and benefits from the concerns, a decision would now be made about whether or not its worth investing any cash in any of the available opportunities.



Making Financial Decisions

Investment Opportunities

Display investments where the profile contains the phrase:

[All] ▼

Name	Description	Status
Adapt TP	Training providers	Already investing in
Altax Wind Energy Centre	Wind farm	Already investing in
Asia Pacific Solutions	Management consultants	Already investing in
DAX International	Management consultants	Already investing in
Dynasty Consulting	Management consultants	Available
Enerstrom Nuclear Services Group	Nuclear energy services	Available
Florida Fitness	Leisure providers	Available
GG Global Fashion	Fashion retailer	Available
Kilhampton Brick Supplies	Suppliers	Available
Kruger Asset Management Plc	Management consultants	Already investing in
Morgan Fritz	Investment banking	Already investing in
National Aggregate Plc	Suppliers	Available
Perth Homes Plc	Specialist housebuilders	Available
Raon Corporation	Management consultants	Available
Retail Remedies	Management consultants	Available
RGH Excavators Plc	Suppliers	Available
Sungsam	Electronics	Available

Select

RGH EXCAVATORS PLC

Ron Gordon Howard launched the construction equipment manufacturing and supply company that bears his initials, in 1952. He began his business in a brick outbuilding measuring only 15 feet by 13 feet.

Today, UK-based RGH Excavators Plc has one of the largest factories in the world, employing thousands of workers, and supplying its unique range of excavators and related products to contractors working in all sectors of the global construction industry.

PERIOD RETURNS

Period	% return to investors	Company investment		Information for investors
		Amount invested	Investment return	
1	1.5 %	0	0	Nothing to report
2	1.0 %	0	0	Nothing to report
3	1.8 %	0	0	Nothing to report
4	1.5 %	0	0	Nothing to report

After a detailed examination of the investments that the company is not already investing, with a status of 'available', the decision is made to invest in **RGH Excavators Plc**, whose profile indicates that they supply excavators to contractors working in all sectors of the construction industry; an excellent choice to improve job and company profitability.

KEY POINTS

The list of available investments is not static, and can increase as time goes by, so the Financial Manager must be looking each period at potential new investments that are in line with the company's growth strategy.



Making Financial Decisions

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	-360,710	(The current overdraft limit for the cash account is 625,000)
Capital base:	4,134,990	4,424,439	
Investments:	719,762	609,062	
Company value:	4,781,791	4,672,791	

DIVIDEND

Amount to pay shareholders: (2% of Equity of 5,450,000)

CAPITAL BASE

Increase by: (limited to 289,449)

Reduce by: (limited to 992,398)

INVESTMENTS

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	ing providers	101,700	100000	0	201,700
Altax Wind Energy Centre	rm	102,800	0	102800	0
Asia Pacific Solutions	ment consultants	207,362	100000	0	307,362
DAX International	ment consultants	101,900	0	101900	0
Kruger Asset Management Plc	ment consultants	102,300	0	102300	0
Morgan Fritz	anking	103,700	0	103700	0
RGH Excavators Plc		0	100000	0	100,000

The company now has 3 current investments, and there is scope for more as the Cash Account balance is still well short of the 625,000 overdraft limit.

The **Add investment** option is used again to search for another suitable investment that ties in with the company's long term strategy to target jobs in the building and commercial, transport and energy sectors.



Making Financial Decisions

Investment Opportunities

Display investments where the profile contains the phrase:

[All]

Name	Description	Status
Adapt TP	Training providers	Already investing in
Altax Wind Energy Centre	Wind farm	Already investing in
Asia Pacific Solutions	Management consultants	Already investing in
DAX International	Management consultants	Already investing in
Dynasty Consulting	Management consultants	Available
Enerstrom Nuclear Services Group	Nuclear energy services	Available
Florida Fitness	Leisure providers	Available
GG Global Fashion	Fashion retailer	Available
Kilkhampston Brick Supplies	Suppliers	Available
Kruger Asset Management Plc	Management consultants	Already investing in
Morgan Fritz	Investment banking	Already investing in
National Aggregate Plc	Suppliers	Available
Perth Homes Plc	Specialist housebuilders	Available
Raon Corporation	Management consultants	Available
Retail Remedies	Management consultants	Available
RGH Excavators Plc	Suppliers	Already investing in
Sungsam	Electronics	Available

Select

KILKHAMPTON BRICK SUPPLIES

Based on the outskirts of Kilkhampston in Cornwall, UK based Kilkhampston Brick Supplies own several of the most recognised premium brands, and supply primarily to construction contractors working in the building and commercial sector worldwide.

Established over 50 years ago, the Company has... acquisition... and organic growth into a profitable and as... over... 100 million clay units annually, and then... in... new state of the art brick kilns to... come.

PERIOD RETURNS

Period	% return to investors	Company investment		Information for investors
		Amount invested	Investment return	
1	-0.6 %	0	0	Nothing to report
2	-0.4 %	0	0	Nothing to report
3	-0.3 %	0	0	Nothing to report
4	0.4 %	0	0	Nothing to report

After a further detailed examination of the investments that the company is not already investing, the decision is made to invest in **Kilkhampston Brick Supplies**, whose profile indicates that they supply bricks to contractors working in the Building and Commercial sector worldwide, the largest potential sector of work the company is targeting; an excellent choice to improve job and company profitability.

KEY POINTS

Even though the investment return is negative, this will dwarf into comparison with the potential saving from the reduction in build costs across all jobs progressed in the Building and Commercial sector.



Making Financial Decisions

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	-460,710	(The current overdraft limit for the cash account is 625,000)
Capital base:	4,134,990	4,424,439	
Investments:	719,762	709,062	
Company value:	4,781,791	4,672,791	

DIVIDEND

Amount to pay shareholders: (2% of Equity of 5,450,000)

CAPITAL BASE

Increase by: (limited to 289,449)

Reduce by: (limited to 992,398)

INVESTMENTS

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	Training providers	101,700	100000	0	201,700
Altax Wind Energy Centre	Wind farm	102,800	0	102800	0
Asia Pacific Solutions	Management consultants	207,362	100000	0	307,362
DAX International	Management consultants	101,900	0	101900	0
Kilkhampston Brick Supplies	Suppliers	0	100000	0	100,000
Kruger Asset Management Plc	Management consultants	102,300	0	102300	0
Morgan Fritz	Investment banking	103,700	0	103700	0
RGH Excavators Plc	Suppliers	0	100000	0	100,000

Finding an investment opportunity that offers good returns and benefits is not always possible, and often **key decisions have to be made balancing risk and reward**.

For example, an investment opportunity may arise that offers build cost savings in all sectors of the Construction Industry, but the investment returns may not be very good.

In this scenario, the **net gain from the build cost reductions would almost certainly outweigh the negative investment returns**, and it would be still be the most effective option to continue with the investment.

However, the Financial Manager must also bear in mind that the investment may run into difficulty, and **cease trading**, a decision that could impact on the profitability of the company as a proportion of the investment could be lost.



Making Financial Decisions

Investment Details

NATIONAL AGGREGATE PLC

Desc: **Suppliers**

Profile: Based in Swindon, but operating from locations all over the UK, National Aggregate Plc offer a diverse range of products and services, including aggregates, asphalt, concrete, mortars, bricks, specialist plasters, bagged aggregates, silica sands and an extensive range of industrial minerals and materials, which they supply to contractors working in the industrial, building & commercial and transport sectors of the construction industry, in both the UK and worldwide.

The company recently underwent a management shake up to try and reverse the fortunes from a number of their loss making quarries.

PERFORMANCE HISTORY

PERIOD RETURNS

Period	% return to investors	Company investment		Information for investors
		Amount invested	Investment return	
1	-1.3 %	0	0	Nothing to report
2	-1.5 %	0	0	Nothing to report
3	-1.6 %	0	0	Nothing to report
4	-2.0 %	0	0	Nothing to report
5	-1.2 %	100,000	-1,200	Nothing to report
6	-1.6 %	198,800	-3,181	Nothing to report
7	-1.4 %	295,619	-4,139	Directors call emergency board meeting
8	-1.7 %	291,480	-4,955	Threat of administration next period

BENEFITS - REDUCTION IN JOB COSTS

	Build cost	Risk cost	% of total
Industrial	12,263	0	18 %
Building & Commercial	32,145	0	47 %
Transport	23,617	0	35 %
Energy	0	0	0 %
Water & Sewage	0	0	0 %
	68,025	0	

INVESTMENTS THAT CEASE TRADING

How do we know if one of our investments may cease trading ?

The clues lie in the **information for investors**, which should be carefully monitored each period for signs that the company may be in trouble.



Consider the example of **National Aggregate PLC**. The directors called an emergency board meeting in period 7, and in period 8 it became obvious that there was a threat of administration in period 9.

Faced with this information, **at the beginning of period 9** the Financial Manager must decide whether to remove all the investment in National Aggregate PLC, or continue investing in the hope that the company does not go bust.

We will now look at what happens if the investment concern does go bust.



Making Financial Decisions

 **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

INVESTMENTS

Restrictions

There cannot be more than: 6 investments at any point in time

For each investment the maximum increase in the investment is limited to: 100000 each period

Benefits for jobs in progress

A minimum amount of: 200000 needs to have been invested to obtain any benefits for jobs in progress

For investments that deliver build cost reductions, once the minimum amount has been invested to obtain benefits, and depending upon how much has been invested, the build cost reductions are between: 0.3 and 0.5 %

For investments that provide risk management services, once the minimum amount has been invested to obtain benefits, and depending upon how much has been investment, for risks that strike the risk cost reductions are between: 30 and 40 %

job delay reductions are between: 25 and 30 %

Cease trading

If an investment company ceases trading, the amount invested recovered is between: 25 and 85 %

If an investment concern ceases trading , a % of the current investment is recovered, as defined in the **Industry information**.

The **actual amount recovered** depends upon how badly the investment concern is performing, with the minimum % recovered from those performing the worst.

KEY POINTS

The money recovered when an investment ceases trading is paid into the cash account. The net value of the company will fall by the amount lost.