

ENGINEUITY TUTORIAL



Cash Account



Cash Account

MAKING Financial decisions for period 5 in the Early Years

Change period Key information Help

ASSET BASE		
	Before decisions	After decisions
Cash account:	-249,890	-249,890
Capital base:	4,383,088	4,383,088
Investments:	719,767	719,767
Company value:	4,852,965	4,852,965

(The current overdraft limit for the cash account is 600,000)

DIVIDENDS

Amount to pay shareholders (10% of Equity of 5,200,000)

CAPITAL

Capital base (increased to 262,985)

Company value (increased to 876,618)

The company has a UK bank account, known as the **cash account**, which can be :-

- In **credit (positive)**, when it is considered an asset
- In **overdraft (negative)**, when it is considered a liability

KEY POINTS

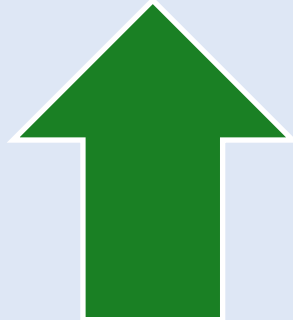
Going overdrawn, and utilising the company's available overdraft is a sensible strategy to achieve growth, providing that the money is used effectively.

Effective use of the overdraft facility involves increasing the capital base to try and procure more work, as well as targeting investments based upon the company's long term marketing strategy. If successful in these area the additional profit generated will improve the value for the company, and this will easily compensate for any overdraft interest payments.



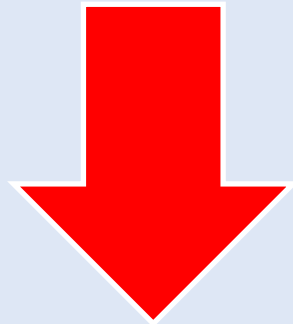
Cash Account

INCREASED BY



- The company generating an operating profit
- Selling off a % of the capital base
- Selling investments

REDUCED BY



- The company making an operating loss
- Dividend payments to shareholders
- Increasing the capital base
- Increasing investments



Cash Account

Industry parameters

- FINANCE
- OVERHEADS
- PROCUREMENT
- JOB PROGRESSION

CASH ACCOUNT

Credit rate: 2 % per annum
 Overdraft rate: 6.6 % per annum
 Overdraft limit: 500,000

CAPITAL BASE

Increase in capital base each period
 ...

Interest is earned/paid on the cash account balance at the beginning of the period, and affects the net operating profit in the period.

The prevalent interest rates each period are defined in the **Industry parameters**.

CREDIT INTEREST

If the cash account is in credit, interest is earned at the annual rate shown.

OVERDRAFT INTEREST

If the cash account is overdrawn, interest is paid at the annual rate shown.

... 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 %

MISCELLANEOUS

Cost of the management consultants report: 10,000 each period
 Corporation tax rate: 25 %

Fixed for all periods
 Can vary each period



Cash Account

Industry parameters

FINANCE	OVERHEADS	PROCUREMENT	JOB PROGRESSION
CASH ACCOUNT	Credit rate: 2 % per annum		
	Overdraft rate: 6.6 % per annum		
	Overdraft limit: 600,000		
CAPITAL BASE	Increase limited to: % this period		
	Sold off limited to: % this period		
	Depreciation: per annum		
	Capital writing: annum		
INVESTMENTS	Restrict		
	There are investments at any point in time		
	For the investment is limited to: 100000 each period		

The amount of money that can be borrowed from the bank is not unlimited.



The current **overdraft limit**, imposed by the bank depending upon the economic climate, is shown in the **Industry parameters**.

What happens if the overdraft limit is exceeded ?

KEY POINTS

The 'base' overdraft limit imposed by the bank is normally the same for all companies. However, it **may be reduced** even further for a specific company if the company's current share price falls too far relative to the price at the start of the History. This will be reported in the **Management consultants report**.

Corporation tax rate: 25 %

 Fixed for all periods
 Can vary each period



Cash Account

MAKING Financial decisions for period 9 in the Early Years

Change period Assessing performance Industry information Help

ASSET BASE		
	Before decisions	After decisions
Cash account:	-637,552	-637,552 WARNING! Cash account exceeded overdraft limit
Capital base:	4,133,993	4,133,993
Investments:	1,219,135	1,219,135
Company value:	4,715,576	4,715,576

DIVIDEND

Amount to pay shareholders: (0% of Equity of 3,950,000)

CAPITAL BASE

Increase by: (limited to 537,419)

Reduce by: (limited to 1,198,858)

INVESTMENTS Add investment

Name	Description	Initial Value	It
Adapt TP	Training providers	108,259	
Asia Pacific Solutions	Management consultants	440,742	
DAX International	Management consultants	322,990	
Kruger Asset Management Plc	Management consultants	114,472	
Morgan Fritz	Investment banking	118,535	
Raon Corporation	Management consultants	114,137	

Validating Decisions

The overdraft limit on the cash account cannot exceed 600,000.

You need to take all possible measures to reduce the overdraft to below the limit. These measures may include :-

- > Reducing dividend payments
- > Reducing the size of the capital base
- > Reducing investments

OK

Consider the following example.

It is period 9, and after decisions were processed last period the company's overdraft has reached 637,552. This has exceeded the current limit in period 9 of 600,000, and as a result a warning message is displayed.

As soon as the Financial Decisions Screen is closed a **critical warning message** appears. The message informs the Financial Manager that all possible measures need to be taken to reduce the overdraft to below the limit.

The Financial Manager wishes to increase the capital base to support growth, but to reduce the overdraft limit will also sell off some investments that are not need.



Cash Account

MAKING Financial decisions for period 9 in the Early Years

Change period Assessing performance Industry information Help

ASSET BASE		
	Before decisions	After decisions
Cash account:	-637,552	-581,555
Capital base:	4,133,993	4,633,993
Investments:	1,219,135	663,138
Company value:	4,715,576	4,715,576

DIVIDEND

Amount to pay shareholders: (0% of Equity of 3,950,000)

CAPITAL BASE

Increase by: (limited to 537,419)

Reduce by: (limited to 1,198,858)

INVESTMENTS

Name	Description	Initial Value	Increase by	Reduce by	Required
Adapt TP	Training providers	108,259	0	0	108,259
Asia Pacific Solutions	Management consultants	440,742	0	0	440,742
DAX International	Management consultants	322,990	0	322990	0
Kruger Asset Management Plc	Management consultants	114,472	0	114472	0
Morgan Fritz	Investment banking	118,535	0	118535	0
Raon Corporation	Management consultants	114,137	0	0	114,137

The warning message has now disappeared, and the cash account balance is just below the overdraft limit.

KEY POINTS

- If all possible measures have been taken, and the cash account balance **still exceeds** the overdraft limit, then no further action needs to be taken, and the user is not prevented from moving to another screen.
- The cash account **can exceed** the overdraft limit when decisions are processed, but when decisions are made for the following period all possible measures need to be taken to reduce the balance to below the overdraft limit.