THE INDEPENDENT INSTITUTE OF EDUCATION

Varsity College

CORPRO SA
CORPORATE PROJECT CONSULTANTS SOUTH AFRICA

Financial Management
(the 2nd best subject)

PRESENTED BY

Thinus Nienaber

Managing Working Capital

Learning Unit 3

Learning Outcomes.

- Calculate the level of working capital in a business;
- Identify and explain the dangers of overtrading;
- Understand the effects of external and internal events and actions on cash flow;
- Prepare a debtors collection schedule as well as a creditors settlement schedule;
- Calculate an effective interest rate;
- Calculate an approximate Annual Percentage Rate (APR).

Working Capital Management.

- What is working capital?
  - Current assets - unpredictable
  - Current liabilities - predictable
  - Net working capital
- Working capital and business cash flow.
- Current ratio – Impact on Risk and Profitability
- How to finance Working capital.
- What is the cost of Working capital?

Working Capital Management.

Example 3.1

Question 3.1

- Scenario 1
- Scenario 2

Debtors: Schedule of receipts

- Not always rigid.
- Create schedule of expected collection.
- Creditors payment schedule?

Debtors: Schedule of receipts

Example 3.2

Cost of Money

Finance working capital with:

1. Revenue,
2. Profits,
3. Debt.

Prime overdraft rate vs Repo rate

Business finance rates higher than mortgage rates. Why?

Cost of Money

Compounding (R1 mio vs 1c per day)

$FV = PV \times (1+r)^n$

Nominal rates

Effective rates ( )

Annual Percentage rates

Managerial Accounting

Learning Unit 4

Learning Outcomes.

- Calculate the total production, administration, selling and distribution costs of a product;
- Distinguish between fixed, semi-fixed, semi-variable and variable costs;
- Carry out a simple breakeven analysis;
- Calculate a selling price by using the mark-up or the margin;
- Apply the concepts of chargeable hours and total hours worked.

Costing a product.

Correct costing - COS

1. Production (Manufacturing) costs:
   - Direct material,
   - Direct labour,
   - Manufacturing overheads.

2. Non-Production (non-manufacturing) costs:
   - Administrative costs,
   - Marketing, distribution and selling costs.

Costing a product.

1. Sources of information.
   - Direct material,
   - Direct labour,
   - Manufacturing overheads.

2. Product costs – inventory costs

3. Period costs

Costing a product.

Controllable vs uncontrollable costs.

Sunk costs

Opportunity costs

Controlling Inventory and Overhead costs

Learning Unit 5

Learning Outcomes.

- Identify appropriate cost centres and elements of costs;
- Explain how inventory costs could be controlled in the most efficient way;
- Demonstrate how inventory can be valued according to the FIFO or weighted average method of valuation;
- Illustrate how the most economical ordering quantity for items of inventory can be ascertained;
- Record and analyse information with respect to allocation, apportionment and absorption of overhead costs;
- Establish overhead costs in accordance with the organisation's procedures.

Inventory concepts.

Trading organisation: Inventory – items purchased to sell for profit.

Manufacturing organisation: Inventory – three different components (all are current assets):

1. Direct material – Raw materials / Primary materials;
2. Work-in-progress – Incomplete work / Half-finished work;
3. Finished goods – Completed work.

Stock (Inventory)-piling.

Normal stock;
Buffer stock;
Safety stock;
Speculative stock;
Stock-in transit;
Overstocking;
Understocking;
Average stock;
Maximum stock.

Inventory costs.

Material cost control

- Stock take;
- Valuation of stock – dilemma (small co vs manufacturing organisation).

Valuing inventory

- First-in-first-out (FIFO)
- Weighted average cost.

Method should be:

- Most suitable;
- Be disclosed in notes to financials;
- Applied consistently.

Job Costing

Learning Unit 7

Learning Outcomes.

- Explain the **steps** involved in job costing;
- Identify **overhead application rates**;
- **Calculate the cost** of a job;
- **Calculate the profit or loss** of a job;
- Identify and calculate **over or under-absorbed overheads;**
- Calculate the cost of a job taking into account **work-in-process and finished goods**;
- Identify and complete **a job order cost sheet**;
- Account for **normal and abnormal wastage**;
- Prepare relevant **ledger accounts** for a job costing system.

Steps in Job Costing.

1. Allocation
2. Primary apportionment.
3. Secondary apportionment.
4. Calculate the total overhead costs.
5. Calculate the overhead absorption rate.
6. Calculate the cost and selling price of the job.

Ledger accounts in job costing.

1. Material control account.
2. Work-in-process account.
3. Finished goods.
4. Labour control account.
5. Factory overheads control account.
6. Cost of sales.

Thank you