SECOND CARNEGIE INQUIRY INTO POVERTY
AND DEVELOPMENT IN SOUTHERN AFRICA

Where does all the surplus go?
A note on the analysis of your
employer's profits
by
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WHERE DOES ALL THE SURPLUS GO? : A NOTE ON THE ANALYSIS OF YOUR EMPLOYER'S PROFITS.

ABSTRACT

This is a working document to aid worker organizations in the analysis and interpretation of their employer's profits in the South African context.

Owners of capital often find it "convenient" to distort the profit figure reflected in their financial statements (to avoid paying higher taxes, to deceive other owners of capital and, more recently, to deceive the workers). If wage negotiations are to be based on these figures it is important that their origin be fully understood.

The paper briefly outlines various "tricks" the controllers of capital employ to distort the manner in which the surplus earned by workers is expressed in the financial statements. Several examples of such distortions are given. In addition, suggestions are made as to how accounts can be analysed and how various results should be interpreted.

The paper also contains, amongst others, appendices covering:
(i) Sources of information about analysing financial statements.
(ii) Main categories of employers and how to investigate who owns your company.
(iii) A glossary of commonly used financial terms.

1. INTRODUCTION.

This paper sets out to demonstrate how the profits of employers
can be analysed by attempting to estimate the surplus produced by the workers. This approach will enable negotiations to take place in a framework other than that imposed by the owners of capital.

Unfortunately both time constraints and a lack of expertise of the author in this particular area have prevented the production of a more comprehensive appraisal of useful techniques of analysis. Nevertheless it is hoped that this paper will stimulate the production of a more detailed (and useful) booklet which would allow workers more say in the determination of their wages.

Although this paper does not deal with the broader issues surrounding the use of profits as a basis of wage determination it should in no way be construed as supporting the current economic structure. There is obviously a risk attached to concentrating solely on improving wages to the detriment of broader issues but it is felt that the increased awareness the workers might gain of both the distribution of the surplus they produce and of management's attempts to demonstrate an identity of interests between workers and the company will strengthen unions.

The examples cited in this paper are in the main drawn from three companies. These companies have not been "chosen" in any way to highlight the points being brought out in this paper but are simply the first three companies I investigated since starting to write this paper. I am sure a more thorough study would discover a wider variety of examples.

2. INITIAL INVESTIGATIONS.

It is the intention of this section to provide those readers who are either short of time (or of stamina) with a preliminary "quick approach to the analysis of company accounts". Although
the statistics which are computed here do not reveal all the surplus produced by the workers and can be manipulated by "creative accounting", they nevertheless can provide some useful information.

This section is mainly applicable to limited liability companies but some of the computations (where relevant) could be performed on the accounts of other types of employers.

2.1. What type of company?

The first thing the investigator needs to do is establish what type of company is being investigated. The procedure for this is outlined in Appendix 4. Once this has been established copies of the annual Financial Statements covering several years must be obtained. Methods of doing this are outlined in Appendix 4.

All companies are obliged by law to produce annual financial statements which are supposed to be a record of the company's profitability and wealth. These accounts are produced primarily for the shareholders and not for the workers. There is a general tendency for secrecy both to keep competitors in the dark and to discourage adverse public attention focussing on the company and this has the consequence that workers are also prevented from finding out about the company's profitability.

2.2. Who owns your company?

It is important to know who owns your company so that you have an idea of the target of bargaining and of the places where the surplus may be hidden.

It is also important to know, if the employer is a private company, whether it is owned by a public company since this would
mean that it has to submit returns to the Registrar.

The procedure for finding this out is outlined in Appendix 4.

It is often difficult to establish the wealth of the owners of companies. If the owners own more than one company they can shuffle profits from one company to another. Companies are obliged to keep a register of their directors' directorships which is open to inspection by the public for a fee of 25 cents. In addition McGregor's Who Owns Whom lists the directorships of the directors of public companies. These sources should be consulted and if there is time then all the companies of which they are directors should be investigated.

2.3. Read the Chairmans' Statement and Directors' Report.

These documents can be useful in determining the background or context into which the figures are to be placed, pointing out and explaining unusual items and giving an idea of future expectations.

The chairperson's statement can be useful in explaining increases/decreases in profits but it should be remembered that the companies often have information which they do not wish to divulge and there will be a general tendency to portray the management in as favourable a light as possible. Poor performance is often blamed on others (the government, suppliers or workers).

Often the chairperson's statement provides an excuse for airing prejudices.

- In its 1982 report Lucem's chairperson had the following to say about academics and union activities.
"We suffered during the year, one strike in the group. This, far from being an attempt to improve worker conditions, was purely a politically instigated one. A well conceived infiltration in our workforce by a few union individuals was carried out followed by strike action targeted toward the disruption of shop floor level management. I regret to say that a great deal of the planning of the operation was done by staff and student members of a local university. Although it is usually impossible to legally pin down the blame for those assaults which are inflicted on workers trying to come back to work against the wishes of the strike organisers, one can at least say that the degree of coincidences is remarkable."

Details of what should appear in the Directors' Report are outlined in Appendix 2 but the amount of information appearing under these headings varies considerably from company to company. Nevertheless a reading of this report together with the chairperson's statement over a number of years should give the investigator a "feel" for the directors' attitudes and plans and also a measure of how successful their anticipation has been in the past.

2.4. Calculate the shareholders' return.

The first calculation which needs to be done is to estimate how much the owners of the capital (shareholders) have benefited from the surplus produced by the workers. The analysis of this surplus is covered in more detail in Section 2.

The amount by which the shareholders' funds have increased can be estimated by adding to the net income (attributable to shareholders) any increases in reserves not reflected in the income statement (e.g. revaluation of assets or profit from the sale of fixed assets) and dividing this figure by the
shareholders' funds (equity capital (excl. interests of outside shareholders in subsidiaries) + reserves - intangibles). This figure (expressed as a percentage) can be compared with the percentage increase in wages over the same period. It is often also useful to compare this figure with the rate of interest which banks offer to their depositors.

Over the period 1979 - 1983 the shareholders of the Argus group received the following returns on their funds.

<table>
<thead>
<tr>
<th>Year</th>
<th>79</th>
<th>80</th>
<th>81</th>
<th>82</th>
<th>83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (incl. extraord. items) (R'000)</td>
<td>8084</td>
<td>8566</td>
<td>15501</td>
<td>19081</td>
<td>23145</td>
</tr>
<tr>
<td>Shareholders' interests (R'000)</td>
<td>47585</td>
<td>52039</td>
<td>60557</td>
<td>72995</td>
<td>88862</td>
</tr>
<tr>
<td>Return (%)</td>
<td>17,0</td>
<td>16,5</td>
<td>25,6</td>
<td>26,1</td>
<td>26,0</td>
</tr>
</tbody>
</table>

Comparing this with the increases in wages over the same period of something like 12% p.a. gives one an idea of how much of the surplus produced by the workers is going into the owners' pockets.

It is important to note that the shareholders funds (and hence the growth in the capitalists' share) may be understated if it contains undervalued assets. Check to see what proportion of the fixed assets is "land and buildings" and whether these have been revalued recently (there must be a note in the Notes to the Balance Sheet if this has been the case). If a significant proportion of the assets are of this type and haven't been revalued recently then it is quite possible that the shareholders' funds are grossly understated.

A further clue, if the company is listed, to the undervaluation of the shareholders' funds could be given by inspection of the
"market capitalization" of the company—(share price x the number of issued shares). If this is consistently above the value of shareholders' funds then it probably indicates an undervaluation of assets. However, it should be borne in mind that market capitalization is not a very good indication of the value of the company since share prices are subject to many influences which are not easy to quantify particularly such as the return the shareholders expect to get in the future.

It is always advisable to repeat these calculations over a number of years (say, 5) as this gives a better picture as to the growth in the capitalists' share.

2.5. Directors' emoluments (pay).

This figure can be found in the notes to the accounts and can sometimes be substantial in the case of private companies. This figure is usually divided into two parts ("For executive, managerial or other services" and "For services as directors"). To get an idea of how much the directors earn divide the "executive" amount by the number of "Executive Directors" including the managing directors.

Although it is sometimes useful in showing how directors' pay has increased or the size of the directors' pay compared with that of the workers, it is often an inadequate guide to their true remuneration. Directors often receive perks (company car, subsidized mortgage, expense accounts, etc.) which are hidden in the expenses of the company. Besides, directors of large companies are often directors and/or shareholders of other companies who might pay them. In addition they may do business with their companies on very favourable terms and, although they are supposed to list any interests in "significant" contracts made by the company, the phrasing of this leaves some scope for abuse.
It is often useful to check how many "beneficial" shares the directors own. This should be stated in the Directors' Report. From these you can calculate what they received in dividends. Add this to their pay.

In 1983 the directors of the Argus group owned 0.97% of the issued shares. This entitled them to dividends of nearly R45000 for the year. In addition it is stated that 14000 of these shares were allotted to the directors and a further 31000 shares were set aside for "senior executives". These are further examples of hidden remuneration.

2.6. Compare with the workers' pay.

Companies incorporated in South Africa are not obliged to show how much they pay workers (as are companies in the U.K. or U.S.A) although some do. If the company does show this figure then the growth in this figure can be compared with the growth in return to shareholders and the growth in directors pay.

If the company also gives statistics on the number of employees the average "benefit" should be worked out (total employee benefit/number of employees) and the growth in this figure can be compared with the above figures.

It will be noticed that the average "employee benefit" is usually much higher than the average wage which the workers received during the year. There are a number of reasons for this, the main ones being that employee benefits include:

(a) canteen and other facilities provided by the company (the cost of which are open to manipulation);
(b) pension fund and medical aid contributions, made by the company (if the scheme is a "final salary" scheme then these contributions are open to manipulation);
(c) the salaries and benefits paid to the bosses which are substantially higher than those of the workers and so give a false impression of how much the workers are earning.

This distinction is demonstrated by examining the Argus group accounts for 1983. Not only was the average employee benefit about R6400 p.a., which is much higher than the average wage earned by the workers, but the growth in this figure (about 18% p.a.) has been more rapid than the growth in wages over the last few years (about 12% p.a.).

In such situations workers should attempt to find out from management what makes up the "employee benefits" figure and renegotiate the "package" of benefits.

2.7. How sound is the company? (Ratios).

The number and diversity of the ratios that can be calculated from the company accounts is only limited by the extent of accountants' imagination. The essence of the approach is to decide which ratio or ratios are appropriate for measuring a given objective. The few shown below only give a cursory indication of the state of affairs in three of the areas of concern; dependency on labour, financial soundness and profitability. A more in depth study would certainly find some of the other ratios (outlined in most introductory books on management accounting) useful.

(a) Labour intensity.

Again, if the company publishes the cost of labour (employee benefits) a measure of how "labour intensive" the company is can
be worked out by dividing the cost of labour by the sales plus any increase in stocks for the year. (This figure might be distorted in periods when the average wage is rising rapidly).

By comparing this figure with other companies an idea can be gained of how much more (or less) the company depends on its labour force. (A highly labour intensive manufacturing company might have a ratio of 45% whereas a finance company ratio could be as low as 5%). But it is also relevant to look at the trend of this figure over a number of years to see if management has been pursuing an active policy of replacing workers by machines.

Although for the Argus group this ratio only fell from 24.8% in 1979 to 24.4% in 1983 the group is involved in a project to "modernize production methods" (as stated in the chairperson's report) so this figure would need to be monitored closely in the future.

It should be noted, however, that if it appears that the company is becoming more labour intensive then the trend in the ratio of labour cost to profit (excluding exceptional items) should be examined to see if it confirms this view. If not, the company is probably cutting down on sales and earning more from rents, loans or leasing or even changing the composition of its sales with the consequence that workers could be made redundant in the future.

(b) Liquidity.

Liquidity is a measure of the company's ability to withstand credit squeezes - when creditors want payment but cash is slow to come in. This can be measured by the "current ratio" (current assets divided by the current liabilities). The higher this figure the greater the liquidity of the company but how large this figure should be depends on the industry in which the company operates and the state of the economy. Accountants are
Usually happy with a figure greater than 2 and it would seem that anything below 1 is a danger signal (that the company might experience cash flow problems in the future) in any industry. This is particularly so if there has been a downward trend over the last few years.

Greater liquidity does not necessarily mean that the company can afford to pay higher wages than they would otherwise have been able to do, it simply means they have cash. On the other hand a low current ratio indicates that the company is short of cash which could mean that they will be trying to keep future cash payments down (i.e., keep wages low).

It can be argued that the current assets include some items which are not readily convertible into cash (e.g., stock and part of the accounts receivable) and for this reason another ratio, known as the "quick ratio" (current assets less stocks, divided by current liabilities) is often employed by accountants. Again it is difficult to decide on absolute levels but comparison with other companies in the industry and over time will give an indication of the liquidity position.

For the Argus group the liquidity ratio was only 1.07 and the quick ratio was well below 1. Since this figure appears to be low compared with SAAN (2.30 and 1.96) and since it has been decreasing over the last few years it would seem to indicate that the group could run into cash flow problems in the future if this ratio is not improved.

(c) Profitability

This can be crudely estimated by dividing the profit before tax by the capital employed (net fixed assets + net current assets (i.e., current assets less current liabilities) + investments - intangibles). This gives the owners (and you) some idea of the
return you are earning for them on the assets they own. This figure can usefully be compared with the increases in wages that the workers have received in the past.

If this ratio is below the increase in the CPI over a number of years then something is being hidden. Either the assets are overvalued or profits are understated since the shareholders would not be prepared to accept less than the rate of inflation as a rate of return on their investments.

3. ESTIMATING THE SURPLUS PRODUCED BY THE WORKERS, FROM THE INCOME STATEMENT.

An example of an income statement is given in Appendix 5 but there are many variations on this theme. The general rationale is as follows:

Sales (turnover)
+ Stocks (at the end of the year)
- Stocks (at the beginning of the year)
- Wages
- Raw materials, fuels etc.
- Overheads
= TRADING PROFIT
- Depreciation
- Director's pay
- Interest payments
= PROFITS BEFORE TAX
- Taxes
- Minority interests
- Dividends
= RETAINED PROFITS (stays with the company to increase assets)
The sort of information that a company is required to show in its income statement is outlined in Appendix 2. The numbers next to the entries refer to comments about those entries in the Notes to the Income Statement.

Generally the income statement is supposed to give a "true and fair view" of how much the assets of the company earned for the shareholders. The actual representation of this depends largely on the motivation of the directors when producing the accounts but whatever this is it has the effect of covering up the surplus produced by the workers. It is the aim of this section to uncover this surplus.

At first sight it appears that the profit before tax (pre-tax profit) is the surplus produced by the workers but this figure is a distortion of the actual surplus. A number of items need to be added back to this figure since they are either ways of hiding profit (eg. depreciation, valuation of stocks, etc.) or of redistributing it to other capitalists (interest paid, rents, etc.).

A first approximation to the size of the surplus is given by the following:

\[
\text{SURPLUS} = \text{Profit before tax} + \text{Directors' pay} + \text{Interest paid} + \text{Part of the depreciation (not used to replace plant and machinery)} + \text{Exceptional expenses (deducted before arriving at pre-tax profit)} + \text{Rent paid (if given)} + \text{Pension contributions (if given)} + \text{Government grants (if any)}
\]

It is often difficult to get all the information you may need to
do this computation so when in doubt make a "realistic, onerous" assumption which will put the onus on management to provide more information.

(a) Profit before tax.

The profit before tax of the Argus group can be seen from the Income Statement in Appendix 5 to be R20 965 000.

(b) Directors' emoluments (pay)

This is usually mentioned in the Notes to the Income Statement but the figures shown are usually an inadequate guide to the benefits they actually receive from the company (such as expense accounts, subsidised mortgages and company cars). It is often difficult to put a value on these benefits but observation of the directors over a period of time (e.g., who pays for the servicing/petrol for their cars, who has given them a mortgage on their house, etc.) can often give rise to useful information. From the Notes to the Financial Statements in Appendix 5 we see that the directors received R217 000 during the year.

(c) Interest payments:

This constitutes a part of the surplus earned by the workers since it is merely a transfer from one capitalist to another (e.g., shareholders to the banks). There is a tendency for companies to finance expansion by raising loans rather than issuing more capital since the gearing effect means higher profits later. It can also prove to be a cheaper way of financing expansion during inflationary times. But loans tend to understate profits in the early years.
The relevant figure from Notes to the Financial Statements in Appendix 5 is R8 855 000.

Management will aim to show an identity of interest between workers and the firm by arguing that interest is a necessary cost of obtaining the finance for expansion.

But: (i) it is only under capitalism that the firm has to pay for the use of the accumulated wealth of others; (ii) there is no guarantee that the investments are in the workers' interests (the workers have no say); and (iii) a check on the generous dividend policy of the company over the last few years will probably show that much of the "expansion" could have been financed by retaining profits rather than distributing them.

Between 1979 and 1983 the Argus group paid out nearly R16 million in dividends. Had it used this to finance its expansion programme rather than borrow the money the saving in interest would have been R2,2 million in 1983 alone.

(d) Depreciation.

Depreciation is a tax free deduction from profits meant to provide for future investment in replacement of old machinery. It is a very important figure which is often manipulated to hide profit. The two basic ways of calculating depreciation; the straight line method and the reducing balance method both depend on assumptions made about the life of the machine and its value at the end of its useful life. The reducing balance method, which depreciates assets by a percentage of the value at the start of the year, leads to an understatement of profits in the earlier years. The straight line method, which depreciates assets by a fixed amount each year over their life, understates profits in the later years of the machine's life.
Since the owners are required to estimate both the useful term and the resale value of the assets there are many opportunities for hiding profits. Part of the problem is to decide how much of the depreciation charge is being used to specifically replace old machines since not only does the company get initial and investment allowances for new investment in manufacturing equipment (amounting to about 55% of the initial cost of the machinery) but also new machines are usually more productive than the old ones and hence replace more than the old machine. There is of course no guarantee that this is in the workers' interests.

The estimation of how much of the depreciation should be added back to the profit when estimating the surplus produced by the workers is quite a complicated process.

First one must estimate by how much production (measured by turnover) has increased over the previous year excluding increases in the value of turnover which are due to inflation. If the turnover for the previous year exceeds the current year's turnover then the additional production is obviously 0.

i.e. Additional production
over the year
= Turnover for current year
- Turnover for the previous year
- Inflation for the year x previous year's turnover

Next one has to use this figure to estimate what amount of the plant and machinery represents additional or new capacity bought.

i.e. Additional capacity bought
= plant and machinery at the end of the year
x additional production
÷ turnover at the end of the year

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Since the Initial and Investment allowances amount, together, to 55% of the purchase price of new machinery and corporation tax is 46.2% the figure for the cost of plant and machinery replaced during the year = 

(Plant and machinery at the end of the year
- plant and machinery at the end of the previous year
- revaluation of plant and machinery (if any)
- additional capacity purchased (from above)
- proceeds from the sale of old plant and machinery during the year
- 0.55 x 0.462 x amount spent on new plant and machinery during the year)

Finally the part of the depreciation which should be added back to profits can be determined. If the cost of the plant and machinery purchased during the year is negative then the whole of depreciation for the year should be added back to profits and if the cost of plant and machinery is greater than the depreciation allowed for the year then none of the depreciation should be included in the surplus, otherwise the amount should be:

Depreciation for the year
- cost of plant and machinery replaced during the year.

From Appendix 5 we can see that the relevant calculation for the Argus group for 1983 were (R'000):

Additional production = 324 160 - 269 899 - 0.11x269 899 = 24 572
Additional capacity = 58 950x24 572/324 160 = 4 469
Cost of plant and mac. = 19 420 - 4 469 - 1 016 - 7 461.5 = 6 474

Since the depreciation is R6 545 000 one can add R71 500 to the estimate of surplus. Although this figure is relatively small it should be noted that the group has been replacing much of its machinery over the last four years (its purchases for 1983
amounted to almost half of its total plant and machinery) and this means that depreciation will be one of the main ways of hiding profits in the future.

- In 1981 City Tramways (part of the Tollgate group) showed an increase in the book value of their buses of about R16 million yet only purchased R800 000 worth of new buses. Further investigation reveals that they revalued existing buses by R13 million. Taking this into account leads to the realization that assets purchased cost R886 500 while depreciation amounted to nearly R3,75 million!

Management will argue that depreciation is like any expense of running the business, like the electricity. They will argue that the provision is necessary to provide for future investment - to provide jobs - in an attempt to show an identity of interests. Depreciation is not an expense, the money stays with the company and there is no guarantee that it will be used to the benefit of the workers.

It is often illuminating to examine how the dividend payout compares with the expenditure on new assets. This money could be used to finance new investments instead.

(e) Exceptional Items:

Exceptional costs (i.e., costs which are unlikely to be repeated in the years to come) which were deducted before arriving at pre-tax profits should be added back since these costs are not part of the production process but usually reflect management incompetence. Exceptional profits should probably be deducted but this depends on the nature of the profits.

If the adjustment for exceptional items are made after the pre-
tax profit has been arrived at, then they can be ignored.

(f) Rent:

Over the last 15 years the cost of property and hence rents have increased substantially. This has resulted in a redistribution of the surplus from trading companies to property owners. This has been due to a number of factors: companies selling property to raise money; growth of property development companies; growth of institutional investors as property owners; to name but a few.

The amount paid as rent is not often shown in the accounts so it might have to be estimated by applying industry averages or examining details of the leases in a recent prospectus (if there has been one).

The figure arrived at should be treated in a similar way to the interest paid by the company.

(g) Pension contributions:

It is important for workers to know how much the company has spent on pensions since this represents money which belongs to them which they are losing control of.

Management will argue that the pension funds are for the workers but there are a number of reasons why pension contributions should still be included in surplus.

Firstly, pension funds are usually controlled by management (or their appointees) and the funds are invested in other companies' shares and property which is often not in the interest of workers.
Secondly, if the pension scheme is a "final salary" scheme, the size of the contribution that management makes is determined by them (provided that in the long run the actuary can be assured that there will be sufficient funds). This means that they choose to make contribution high when they wish to supress profits. With "fixed contribution" schemes the bosses' contribution is decided during negotiations with the workers).

Thirdly, it could be argued that the state should be responsible for providing pensions for everyone.

4. PLACES WHERE PROFITS MAY BE HIDDEN.

The record of the profits of a firm can be distorted in many ways. Some of the more obvious methods are discussed below. Although the list is by no means exhaustive, practice at looking for these tricks will train the investigator in the ways of the wily accountants.

(a) Transfer pricing:

This refers to the pricing of goods and services which are "transfered" from one part of a business to another - in other words not sold on the open market. As can be imagined there is much scope for abuse to ensure that profits appear in one company rather than another, particularly when the companies are privately owned and run by the owners.

Items which are particularly susceptible to this sort of manipulation are loans, rents and materials. For example, loans are often offered by the holding company to subsidiaries or associated companies at lower than market rates of interest ( or by subsidiaries to the holding company at higher than market...
rates) in order to transfer profits to a lesser known subsidiary or associated company or vice versa. This information is usually available from either the notes to the accounts or the directors' report. Of course the company to which the profit is filtered does not have to be one mentioned in the notes, it could be an independent company owned by one of the directors or a relative of one of the directors in which case tracing the profit can be very difficult.

Since less information is usually given about the costs incurred running the business many firms prefer to use rent and/or the costs of materials and services used in production as a vehicle to transfer profits but the rationale is the same.

- It does not suit Tollgate to show the true profits in the financial statements of City Tramways as this would hamper their chances when applying for fare increases.

They filter profits to other subsidiaries by using them to service City Tramways and charging for these services. For example:

- Tours and Services buys all the supplies for the group. It contributes about 10% of the group's profit and has a mark up of 40-50% profit margin on the goods supplied.

- Moving Media handles the advertising space on the buses. It also accounts for about 10% of the group profit with a 15-20% profit margin.

- Tollgate Property owns the property, which it rents to the other companies, it has a 25-60% profit margin and accounts for about 5% of the group's profits.

In addition there are:

- Central Workshop Supplies - maintenance and bus bodies
- Tollgate Computer Centre
- Leerdm - a building company
- Shield Insurance (which is no longer a subsidiary) - insures buses.
Profits are also manipulated by a rather complicated system of inter-company loans.

(b) Contribution to group expenses:

A second, similar, method of hiding profits is the practice of requiring the subsidiary to contribute to the group's expenses. Since it is difficult to ascertain how much the subsidiary has benefited from group activities the practice is also open to manipulation.

Check the Notes to the Financial Statements to see if they contain a statement to the effect that the parent company makes a management charge. Also examine the accounts to see how much of the directors' pay is paid by the firm.

(c) Valuation of stock:

By undervaluing the stock which the firm has at the end of the year the owners can understate the trading profit for the year. Again, since it is often difficult to decide on the "true" value of these raw materials and particularly finished goods there is much scope for understating profits. The firm should tell you how stocks were valued in the Notes but often this is only a general statement so one may have to resort to comparing one's knowledge of the stocks and materials in the firm with the published figures. If the published figure is going down while you know the warehouses are full then there is probably something strange going on.

Some firms in South Africa use a method of valuing stocks called LIFO (last in first out) which assumes that the goods in stock are old and should be valued at the first recorded purchase price.
rather than at current purchase prices. This can obviously lead to severe undervaluation in times of inflation.

This process can best be explained by means of an example.

<table>
<thead>
<tr>
<th></th>
<th>Method A</th>
<th>Method B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock at the beginning of the year</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Stock bought during the year</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>Total cost of stock</td>
<td>1100</td>
<td>1100</td>
</tr>
<tr>
<td>Value of stock at the end of the year</td>
<td>200</td>
<td>50</td>
</tr>
<tr>
<td>Cost of the stock sold</td>
<td>900</td>
<td>1050</td>
</tr>
<tr>
<td>Value of sales during the year</td>
<td>2000</td>
<td>2000</td>
</tr>
<tr>
<td>Gross trading profits (before expenses)</td>
<td>1100</td>
<td>950</td>
</tr>
</tbody>
</table>

In other words any method which understates the value of the stock at the end of the year (e.g., LIFO) will understate the profits.

Another method of decreasing trading profits is to include overheads (such as advertising) in the cost of the stocks so it is useful to find out how the company treats its overheads.

(d) Research and Development:

Some overhead expenses often arise before the product is sold, such as "Research and Development" and "Advertising" or "Capital Development Costs" in the case of the building industry, and should be written off over a number of years and not all at once. Profits are often reduced by treating these items as expenses as and when they arise instead of creating a balance sheet item and deducting part of it from profits each year over a number of years.

Companies don't usually give a breakdown of their expenses so it is often difficult to check. But if you know that the company has
a "R and D" department and there is no relevant item in the Balance Sheet then they must be deducting the costs from the profit.

(e) Depreciation:

As has been mentioned earlier, how one allows for depreciation depends on what assumptions are made particularly as to the rate of depreciation and the estimate of the useful life of the assets, the resale value of these assets when they are no longer of use and the system of depreciation to be used. Apart from these opportunities to over depreciate, profit can be hidden in three other major ways.

Firstly by depreciating freehold property. Property has been booming particularly over the last 10 years so any attempt to write down the value of land (and sometimes the buildings on it) must be an attempt to hide profits. Indeed, by not revaluing these properties upward the company is understating its asset position.

Secondly, by undervaluing leasehold properties. Often leasehold properties are decreased in value so that they will have no value in the accounts when the lease expires but no account is taken of the value of the lease on the market. A 20 year lease which has 10 years to run could probably be sold for much more than it is valued in the accounts since property prices, interest rates and hence rents have risen so much in the past few years.

Thirdly, by fixing the resale value at too low a level. This provides an excellent means of transferring valuable assets (hence profits) from one company to another. Sometimes the decision is simply a reflection of management's incompetence, as in the case of Lucem's sale of its computer interests at a loss of R7 million, but most often it is done to benefit the owners as in
the case of Tollgate Holdings where City Tramways can sell its buses at a loss to one of the subsidiaries in the touring business.

(f) Mistakes and exceptional items:

It might be difficult to spot these items since they sometimes indicate management incompetence in which case they are well hidden. They can be either deducted from (or added to) profits before or after tax or they may be deducted from (or added to) the reserves directly. For example profits from the sale of property can be added to the reserves without "distorting" the profits (but still building the assets of the company). Hence the Notes to the Financial Statements (with particular reference to the build up of reserves) and the Directors' Report and Chairman's Statement should be read carefully.

Exceptional items are important to the workers for another reason. Negotiations are not only based on last year's profits but also current and future profits and it is essential that these figures are not estimated from distorted accounts.

(g) Warranty liabilities (guarantees offered on products):

The workers are, of course, interested in the soundness of the company but there are no absolute measures of soundness and since the owners have control of the company they can manipulate provisions, such as that for warranty liabilities, for their own ends. Over provision can not only hide profits but it also increases the financial strength of the company with consequent reduction of reliance on the workforce.
(h) Deferred taxes:

The tax provided for in the Income Statement but not paid is transfered to either a Tax Equilization or Deferred Taxation account. (Such transfers should be mentioned in the Notes).

Surplus may be hidden in this account. Although it ostensibly provides for possible future taxation due to differing depreciation methods etc., if the business is expanding the tax will never have to be paid since as long as investments increase the deferred taxes will increase.

(i) Deferred sales:

Depending on what the company produces the treatment of income from sales often provides a means of understating the surplus in any one year. The date the profits are recorded in the accounts can be varied depending on which is most convenient for the owners, particularly with large items such as ships and houses and long term contracts such as hire purchase agreements.

(j) Associated companies:

In South Africa the accounts of associated companies do not have to be consolidated. This means that the only share in their profits accounted for in the Income Statement is the dividends that they pay which more often than not bear no resemblance to the true share in profits.

The profits being hidden in this way are becoming sizable because of the monopolizing of capital taking place in this country today. This means that the few big companies are buying the shares of more and more companies, which then become associates of them.
Finally, in addition to the items mentioned above it should be borne in mind that the most powerful means of hiding profit is by not providing information in the first place.

There are differences between the amount of information various companies make available but in most cases the information leaves much to be desired particularly private companies not owned by public companies and partnerships.

5. HOW THE BALANCE SHEET CAN HELP.

The Balance Sheet reflects the accumulated wealth of the company. It consists of two "sides" (although most companies prefer to print the one "side" above the other). The "sides" always "balance" which means that they add up to the same total.

The money put up by the shareholders plus the accumulated retained profits plus the long term loans fall under the "Capital Employed" or "Financed By" side.

The other "side" often called "Employment of Capital" or "Assets Employed" represents what the money has been spent on or where it is invested. This side includes fixed assets and current assets less current liabilities.

The usefulness of some of the figures has been outlined in the previous sections but there are a number of other uses of the Balance Sheet which will be briefly described here:
5.1. Capital Structure.

(a) Share Capital:

The Notes state what the authorised share capital of the company is and how much of this has been issued and the changes to this over the year. This might give an indication of future plans. Comparison with the number of shares held by the directors will give an indication of how much of the company they own, directly.

(b) Reserves:

These comprise non-distributable reserves, which in the opinion of the directors are not available for distribution as dividends (which of course does not mean that they will not be distributed in the future) and distributable reserves.

These figures give a measure of the accumulated profits. It is often interesting to compare these figures with the capital originally put up by the original owners.

(c) Loan Capital:

The Notes give details of the company's borrowings such as the assets on which the loans are secured, redemption dates, interest rates etc., but not details of who the lenders are. For these sorts of details one has to look up the register at the company's head office which is open to public scrutiny on payment of 25 cents.

Inspection of the register is often useful if one suspects intergroup loans - to check whether profits are being siphoned from one company to another.
Balance Sheet figures also enable the "Debt Equity Ratio" (long term liabilities plus preference share capital plus overdraft (if stable over the year), divided by the ordinary share capital plus reserves) to be checked. This figure can be compared with that of future years to investigate a trend and with other, similar companies to see if it is higher.

A company with a high proportion of loan capital is in a risky position because the money which is financing much of the business takes a fixed amount of the profits. If the profits grow all the extra goes to the ordinary shareholders but if profits fall or finance charges increase more rapidly than profits the company will try to cut back on the wages of the workers - arguing that costs have risen and the company is in financial straits. Although it is likely in such an event that the company will not pay any dividend it is still very much a "heads-they-win-tails-we-lose" situation as far as the workers are concerned.

By 1982 Lucem was financing so much of its business by debt that they had to pay more than R5,75 million in interest in 1983 (their distributable reserves were only R5,2 million). This together with management's almost total incompetence were responsible for the near collapse of the company in that year.

Fixed-interest borrowing has another disadvantage in that often the loans are secured against particular pieces of property which means that the directors' freedom to sell parts of the business is restricted by the lender. Hence the management of the company can sometimes be dictated from outside.
5.2. Assets.

(a) Categories of assets:

The figures in the Balance Sheet and Notes highlight how much of the company's money is invested in the various categories of assets. A disproportionate investment in leasehold properties and leasehold plant and machinery could be an indication of the owners "lack of commitment" to the enterprise since it is much easier for them to switch to another line of business (which might well be less labour intensive) if they don't own the machinery and factories.

Figures for intangible assets such as trade marks and goodwill might also be a useful indication of the company's soundness.

(b) Subsidiaries:

The Notes must list all the subsidiaries of the holding company and what proportion of the share capital it owns, and all its associated companies. This information can be of use in comparison with information about the company's suppliers, "landlords" and financiers to check, once again, for siphoning of profits.

(c) Provisions:

Provisions may be either explicit (e.g., under separate headings in the Balance Sheet or the Income Statement in which case they are usually specified under Reserves) or implicit (usually unspecified undervaluation of assets or overvaluation of liabilities). In either case they should be treated with a great deal of suspicion since the workers have no control over that
money. Indeed it is one of the favourite ways in which the owners attempt to alter the flow of profits from year to year. Workers should be particularly suspicious of undervalued assets since this could indicate that the company is ripe for asset stripping.

Management will argue that it is necessary to be conservative in estimates in order to keep the company on a "sound footing" once again trying to create an identity of interests between them and the workers. The workers should reject such arguments since there is no guarantee that the workers will benefit from provisions which prove to be too conservative.

In its 1983 accounts Lucem have provided R6,7 million for loses on the disposal of certain businesses which is part of the reason for their huge losses which no doubt were used to argue for low increases in wages but no mention is made of how any over provision will be treated.

6. CONCLUSION

As was mentioned in the introduction, this note is intended to be a working document and as such hardly deserves a conclusion. However, there are three points which have been mentioned but which need to be stressed again.

The first is that investigation of company financial statements is an on going process. It takes time to build up the necessary expertise and particular experience of your company in order to interpret the meagre information provided by the companies. The investigator needs to build up a file over the years of all information concerning the company and its executives and their fringe benefits. (The information collected to fight the last bus fare increase ran to three "lever-arch" files)!

The second point concerns the approach to such an analysis. Be
sceptical! Management are only concerned with the workers to the extent to which they contribute to maintaining profit. Management will spend much time trying to convince workers of an identity of interests. This argument manifests itself particularly when management are attempting to be prudent (e.g., by employing inflation accounting or conservative depreciation or setting up reserves which may never be used and eventually the money is given to the shareholders). Workers can only accept these arguments if they are assured of a say on how the profits arising from these measures will be distributed - i.e., worker control.

- In March 1981 Tollgate Holdings gave their shareholders an extraordinary dividend of R57 million (which was more than the market value of their shares!). This money arose from the sale of finance companies which was built up mainly from the profits set aside for depreciation. Even Jan Pickard, one of the major shareholders was shocked by the size of the dividend and said that it "had not benefited the company's image".

The third point concerns the availability of information. As can be seen from the foregoing there is a paucity of available information (even where the companies are obliged to lodge financial statements). If profits are to be used in determining wages in negotiations more information will have to be forthcoming which means that the acquisition of this information needs to become a central feature of wage negotiations.

Finally, it should be stressed that this is just a preliminary note. After more practical experience has been gained it is hoped that an attempt will be made at drafting a booklet to aid workers in the determining of their wages and increase their awareness of the operation within which they generate surplus to the profit of the owners of capital.
APPENDIX 1: SOURCES OF INFORMATION

The sources of information may be divided into three groups.

1. Books:

(i) Your Employers' Profits by C. Hird (London: Pluto Press, 1975) from which much of the material for this note was gathered. The analysis is in the U.K. context but it offers greater detail.


(iii) McGregor's Who Owns Whom edited by R. McGregor (Published by Purdy Publishing Company (Pty) Ltd.) is an invaluable book for looking up listed companies, their subsidiaries and associated companies, directors and their directorships. It should be available in major public libraries and in most university libraries.

(iv) Stock Exchange Year Book (published by the J.S.E.) or FACTS Investors Guide (published by FACTS Investment Guide (Pty) Ltd.) give various statistics in respect of listed companies.

(v) The Penguin Dictionary of Commerce edited by M. Greener (Harmondsworth: Penguin Press, 1974) can be used to supplement the glossary in Appendix 3. (It should be borne in mind that this book is mainly for use in the U.K. so some of the definitions are not strictly accurate).
2. Financial Press:

(a) Weekly: The Financial Mail is probably the best source of weekly comment on the activities of companies, followed by Finance Week and the Sunday Times (Business Section) with lighter comment. Most major public and university libraries keep copies of the former two items.

(b) Daily: Daily newspapers are useful for topical comment and news.

3. Company Financial Statements (and Prospectuses):

(a) Public companies: From either the company's head office or a Business library or from the Registrar of Companies in Pretoria.

(b) Private companies who are subsidiaries of public companies: From the Registrar of Companies.

(c) Although it might prove too expensive, there are agents who are prepared to get company information for a fee. Two such agencies are:
   (i) Dunn and Bradstreet who investigate credit worthiness.
   (ii) Spoor and Fisher who will get company financial statements from the Registrar of Companies.
APPENDIX 2: SUMMARY OF DISCLOSURE REQUIREMENTS UNDER THE COMPANIES ACT 1973, AS AMENDED.

Every public company and all private companies which are subsidiaries of a public company must file, annually, a certified copy of its balance sheet (including income statement and other annexures) and certified copies of the auditors' report and directors' report.

The following particulars must be shown together with corresponding amounts of the preceding year (except if these returns are the first).

A. BALANCE SHEET

(a) Share Capital and Shares:
   (i) The number and nominal value (where applicable) of the authorized share capital.
   (ii) The number and amount of issued share capital per class.
   (iii) Share premium account.
   (iv) Details of redeemable preference shares.
   (v) Details of convertible preference shares.

(b) Reserves and Provisions:
   (i) Reserves - aggregate amount and under headings appropriate to the company's business.
   (ii) Movements on reserves and provisions.

(c) Debentures:
   (i) Amount of different classes of debentures.
   (ii) Details of convertible debentures.
   (iii) Debentures of company held for the company by nominee of trustee.
(iv) Redeemable debentures which may be reissued.

LIABILITIES

(i) Liabilities - aggregate amount and under headings appropriate to the company's business

(a) Overdrafts, Loans and Dividends:
   (i) Aggregate amount of bank overdrafts
   (ii) Aggregate amount of other borrowings, repayable wholly or in part more than one year from date of balance sheet, and details of terms of borrowing.
   (iii) Aggregate declared or recommended dividend.

(b) Secured Liabilities:
   (i) Liabilities secured on assets of the company, specifying the assets on which it is secured.

(c) Indebtedness to Companies in Group:
   (i) Aggregate amount of indebtedness to subsidiaries.
   (ii) Amounts of other inter-group indebtedness.

ASSETS

(i) Assets - under headings appropriate to the business. Fixed assets, current assets and other assets to be separately identified.

(a) Fixed Assets:
   (i) Methods used to arrive at amount of fixed assets under each heading.
   (ii) Normal method: Difference between cost or valuation and aggregate amount provided or written off for depreciation. Each of these amounts must be shown
separately.

(iii) Fixed assets included at a valuation.
(iv) Details of land and buildings held.

(b) Interest in Subsidiaries:
(i) Shares in and aggregate amounts owing from subsidiaries.

(c) Indebtedness of Holding Company and Fellow Subsidiaries:
(i) Aggregate amount of indebtedness of holding companies and fellow subsidiaries, distinguishing debentures from other.

(d) Loans to, and Security for, Directors, Managers and Employees:
(i) Aggregate amount of loans and security for employees or officers of the company.

(e) Goodwill, Patents and Trade Marks:
(i) Amount of goodwill, patents and trade-marks.

(f) Investments:
(i) The aggregate amounts, under separate headings, of the companies listed and unlisted investments other than subsidiaries.
(ii) Market value of listed investments where it differs from stated amount.
(iii) Directors' valuation of unlisted investments or details of the investments in the Notes to the Balance Sheet.
(iv) Names of and percentage held in all companies in which a material amount is invested.
(v) Profits or realization of investments used to write down the amount of the remaining investments.

(g) Current Assets:
(i) Amount of stock and where stock and work in progress is material it must be classified under appropriate sub-
headings.

(ii) Manner in which stock in trade or work in progress is computed.

(h) Preliminary Expenses, Commissions and Discounts:
   (i) Certain expenditure, stated under separate subheadings, incurred on any issue of share capital or debentures or in connection with shares or debentures but not yet written off.

NOTES TO BALANCE SHEET.

(a) Shares or debentures held by subsidiary.

(b) Options and preferential rights to shares.

(c) Amount of share capital which directors are authorized to issue.

(d) Amount of arrears of fixed cumulative dividends for each class of shares.

(e) Contingent Liabilities:
   (i) Particulars of any charge on the assets of the company.
   (ii) General nature of any contingent liabilities not provided for.

(f) Contracts for future Capital Expenditure.

(g) Details of funds employed in loans or securities.

(h) Basis of conversion of foreign currency.
B. INCOME STATEMENT

(a) Profits or losses on share transactions and any amounts applied to write down investments if not already dealt with.

(b) Income from investments distinguishing between listed and unlisted investments.

(c) Aggregate amount and type of income from subsidiaries.

(d) Aggregate amount of dividends paid and proposed showing part provided by capital profits.

(e) Aggregate amount of profits or losses on disposal of non-current assets.

(f) Amount and nature of provisions.

(g) Amount and nature of provision for taxation for current financial year and, if any, for other financial years.

(h) Amounts set aside respectively for redemption of share capital and loans.

(i) Transfer or proposed transfers to or from reserves and provisions, if material.

(j) Charges and credits relating to prior years, if material.

(k) Amount of interest payable on any loans, debentures and overdrafts.

(l) Amount and rate of interest on share capital paid out of capital during the year.

(m) Amounts charged to revenue for hire of plant and machinery.
(n) Amounts of remuneration paid to non-"bona fide" employees.

(o) Auditors fees and fees for other services.

(p) Turnover (unless the directors are of the opinion that disclosure would be either harmful or meaningless in which case they must give reasons):
   (i) Aggregate amount of turnover for the year or percentage increase/decrease over the previous year.
   (ii) Where there might be doubt as to what is meant by turnover the basis of determination should be indicated in the Notes to the Income Statement.
   (iii) Method by which turnover is arrived at and a statement to the effect if it differs from previous year's method.

NOTES TO THE INCOME STATEMENT

(a) If depreciation is either not provided for or provided for by a method other than a depreciation charge the method so used must be stated.

(b) Financial year and reason for not providing for taxation if provision is made.

(c) Factors materially affecting items shown in the Income Statement.
STATEMENT OF SOURCE AND APPLICATION OF FUNDS

This statement must show the following:

(1) funds derived from -
   (i) net income (before deduction of taxes, dividends paid and proposed, and internal provisions and retentions);
   (ii) the disposal of specified fixed and other non-current assets;
   (iii) the proceeds of loans raised and debentures issued;
   (iv) the proceeds of shares issued;
   (v) repayments received on loans and advances made; and
   (vi) any reduction in net working capital (being current assets less current liabilities); and

(2) funds applied to -
   (i) meeting any loss;
   (ii) the acquisition of specified fixed and other non-current assets;
   (iii) the redemption of any loans and debentures;
   (iv) loans and advances made and the purpose for which made;
   (v) liability for taxes;
   (vi) dividends paid and proposed; and
   (vii) any increase in net working capital (being current assets less current liabilities).

DIRECTORS' REPORT

(a) Preliminary:
   (i) Any matter not prescribed which is necessary to understand the state of affairs of the company.
   (ii) Where any amounts are stated the corresponding amounts of the preceding financial year must be stated.
(b) General Review:
(i) General review of operations of the company during the accounting period dealing with everything material to the appreciation of the state of the company's affairs including a statement estimating the various proportion of profit or loss attributable to various classes of business of the company.
(ii) Deal with any material fact or circumstance which has occurred between the date of balance sheet and the date of the report.

(c) Specific Matters:
(i) Nature of the business of the company and of its subsidiaries and any major changes therein during the financial year.
(ii) Amount, purpose for and circumstances in which any shares and debentures have been issued during the year.
(iii) Major change in nature or policy with respect to fixed assets of the company or its subsidiaries during the accounting period.
(iv) Amount of declared, paid or proposed dividend in respect of each class of shares.
(v) Any part of the business which is being managed by a third person or company in which a director has an interest.
(vi) Names of directors and name and address of secretary and any changes during the accounting period.
(vii) Name of company's holding company and its ultimate holding company and if incorporated in a foreign country, the name of that country.

MATTERS TO BE STATED WHERE THE COMPANY IS A HOLDING COMPANY

(a) General information (if the holding company is not a wholly owned subsidiary):
(i) Name and country of incorporation, if foreign.
(ii) Name of any third person managing any of the business of the company or its subsidiaries during the accounting period.
(iii) Accounting period of any subsidiary which is different from the company and the reason for this.

(b) Financial information in respect of subsidiaries:
(i) Details of shares and amounts owing in respect of companies which were subsidiaries during previous accounting periods but are no longer subsidiaries, if material to the financial position of the holding company.
(ii) Aggregate amount of profit and loss respectively after taking into account taxation paid.

(c) General review:
(i) General review of operations of the group during the accounting period dealing with everything material to the appreciation of the state of the group's affairs including a statement estimating the various proportion of profit or loss attributable to various classes of business of the group.
(ii) Deal with any material fact or circumstance which has occurred between date of balance sheet and date of the report.
ARTICLES OF ASSOCIATION:

These are the internal regulations on the running of a company. They must be registered when the company is formed.

ASSET-STRIPPING:

The process of identifying and exploiting the concealed value or potential of a company's assets (normally property).

If an asset-stripper gains control of a company he may close a factory that can be profitably sold, or he may sell it and then continue to rent it, maintaining the established business. If the factory is closed - or moved to cheaper premises - there will be redundancies. This will be justified by saying that if the company were paying the market rent - instead of occupying the property for nothing - then its profits would be much lower. The asset-stripper will say that if the property were sold, the company could get a much higher return by investing the proceeds elsewhere. To keep the factory going is therefore a waste of resources. This means: to keep the factory going is not as profitable as selling it.

The asset-stripper is usually after property. You can find out if your employer is liable to be asset-stripped - either by the existing management or by being taken over - by discovering the value of the property and how recently it has been revalued.
The company is more liable to be asset-stripped the higher the value of the property in relation to the market capitalization (in the case of public companies), or to profits (in the case of private companies).

Asset-stripping is a real threat to the workers even if the factory is kept open.

AUDITORS:

The auditors - almost always a firm of accountants - are appointed by the shareholders to produce the annual accounts. The confirmation of their appointment is a formality at the Annual General Meeting - in fact they are usually appointed by the directors.

BANKRUPTCY:

A company is bankrupt when its liabilities (money the company owes) exceed its total assets (what it owns and is owed). When this happens the company is insolvent. The greater the difference between the company's total assets and its liabilities, the further away it is from bankruptcy. The total assets and liabilities can be worked out as follows.

Total assets = fixed assets + current assets - goodwill - research and development assets.

Goodwill is not counted as an asset because it is intangible.

Liabilities = current liabilities + outside or long-term liabilities.

Outside liabilities = preference capital + loan capital + minority interests + deferred liabilities.

So in the Balance Sheet shown in Appendix 5 the sum would work
out as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>107 736</td>
</tr>
<tr>
<td>Current assets</td>
<td>83 098</td>
</tr>
<tr>
<td>Total assets</td>
<td>190 834</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>77 551</td>
</tr>
<tr>
<td>Deferred liabilities</td>
<td>146</td>
</tr>
<tr>
<td>Preference capital</td>
<td>-</td>
</tr>
<tr>
<td>Minority interest</td>
<td>20 439</td>
</tr>
<tr>
<td>Loan capital</td>
<td>27 257</td>
</tr>
<tr>
<td>Total assets less outside</td>
<td>125 393</td>
</tr>
<tr>
<td>liabilities</td>
<td>65 441</td>
</tr>
</tbody>
</table>

This R65,4 million constitute the ordinary shareholder's funds: the value of the part of the business belonging to the shareholders. The company's solvency can be measured by expressing the ordinary shareholder's funds as a percentage of the total assets of the company. The higher the percentage the greater the company's solvency and the further it is away from bankruptcy. In the example given the solvency ratio is 34%.

(65 441/190 834 x 100).

Remember:

The assets in the Balance Sheet may be worth either more or less than the figures shown there. For example stocks may be overvalued. Debtors may include some bad debts, thus overstating assets. Fixed assets may include undervalued freehold property.

The solvency ratio for South African manufacturing industry as a whole is 50% per cent.

The solvency ratio can increase or decrease from year to year. The fact that the ratio is decreasing does not necessarily mean the business is contracting. An increase or a decrease can represent either an expansion or a contraction of the business.
If the expansion of the business is financed by retained profits or issuing more shares, then the assets will increase without increasing the outside liabilities. As a result the ratio will rise. But if fixed-interest capital is used to expand, the ratio will fall.

If a company is contracting, but can improve its liability position - by reducing the bank overdraft or paying its bills more quickly, the ratio might increase even though the company's business is falling, threatening job security.

But:
These sort of movements can happen only over a short time period. But if the company goes on losing money, the solvency ratio will fall.

So:
Use the solvency ratio as a guide to how soundly based the company is. If it has been falling over a long period of time, that means the company's position has been deteriorating. If it is very low but has remained unchanged, then the company is vulnerable to a sudden change for the worse. If the fall is a recent phenomenon, see if it is due to the way new expansion has been financed.

An important point is that a company can be insolvent and go bankrupt, even though it is potentially profitable. The need to buy large amounts of plant and materials before orders are delivered and paid for may mean that more money is leaving the business than is coming in, so that liabilities are continually mounting. Often it is a liquidity crisis - a shortage of ready cash - that causes the appointment of a Receiver and the closure of a business - even though the company is not insolvent and even though it is potentially profitable.
CAPITAL EMPLOYED OR SHAREHOLDERS' FUNDS OR EQUITY:

This is another name for ordinary shares. Equity interest refers to that part of the business that belongs to the ordinary shareholders. It can be calculated from the Capital Employed side of the Balance Sheet by adding together the ordinary share capital, the reserves and any surplus on the revaluation of property that has been incorporated in the accounts, less any goodwill that appears on the other side of the Balance Sheet.

In the Balance Sheet shown in Appendix 5 the value of the equity interest is R88,9 million. This is how much the shareholders would receive if the company was sold at its asset value, assuming the assets are not under- or over-valued.

COMPANIES:

Associated: A company of which the investee owns between 20 and 49%, inclusive, of the share capital.

Dormant: A company which still retains registration but is no longer trading (i.e., it could still be reactivated).

Holding or Parent: This is the name given to the controlling company in a group of companies. It is the ultimate owner of the subsidiary companies. A typical structure for a company is:

- Lucem's corporate structure is as follows:
Lucor Corporation Ltd (HOLDING COMPANY)

42%

Lucem Holdings Ltd

100%

Brick & Clay Holdings Ltd

100%

Lucem Industrial Corporation Ltd

- Whollyowned subsidiaries
- Operating division: (22 companies)
- Associated companies: (6 companies)
- Dormant subsidiaries: (41 companies)

Although the financial statements of the subsidiaries may be useful in determining the size of the real profit the company is making, the financial statements of the parent company are a better guide.

Listed: A listed company is one which has its shares listed on the Stock Exchange which means that it is easier for the public to buy shares. Companies become listed either to get capital by selling new shares to the public or to create a market for the shares so that the owners can sell their shares. Most public companies are listed.

In order to become listed a company has to satisfy certain conditions laid down by the Stock Exchange and the Companies Act and must issue a prospectus when it offers it shares for sale.

Private: A limited liability company subject to the following
restrictions:
(i) Restriction on the right to transfer shares.
(ii) Number of shareholders is limited to 50 (excluding employees or ex-employees).
(iii) Prohibition on asking the public to buy shares.

Public: A limited liability company where the directors cannot restrict the purchase and sale of shares, where shares can be offered to the public and with no upper restriction on the number of shareholders.

Subsidiary: A subsidiary company is a company that is owned by another company, its parent company.

Nominee: A nominee company is a company that acts as agent for a person or another company. Most commonly, nominee companies are used to hold shares on behalf of someone. This means that when a shareholder is shown as a nominee company, it is virtually impossible to discover who the real owner of the shares is. Occasionally the shareholders of the nominee company - which can be established from the Registrar - may give a clue to the identity of the people for whom the nominee company is acting.

CURRENT ASSETS:

Assets which are expected to be cash within a year.

Stocks: These are goods bought or made but not yet sold.

Debtors: This figure represents money owed to the company for products sold.
CURRENT LIABILITIES:

This amount represents money owed by the company which has to be paid within the next year.

Creditors: This figure represents money owed by the company to their suppliers.

Tax: This is money owed to the receiver of revenue and is often a valuable source of short-term finance.

DEPRECIATION:

A measure of the amount by which the usefulness of a fixed asset has diminished. The methods of calculating this are somewhat arbitrary since they are based on assumptions as to duration and scrap value which are difficult to justify.

DIRECTORS:

These are persons who manage the company on behalf of the shareholders. They are usually appointed by the shareholders at annual general meetings. The manner of their appointment is normally specified in the Articles of Association.

The annual Financial Statements will list the directors and details of directors' pay must be shown. If the directors appear to be paid very little, check on any other wealth they may own.
- Do they have any shares in the company?
- Do they have any other directorships?
- Did they start the company? If so, they will probably have become rich when the company became public. This information will come from the prospectus when the company was made public.
Interests (shareholdings): Directors are obliged to disclose the number of shares that they own in the company. They must also disclose the number of shares that are held in trust, of which they are trustees. These figures appear in the Director's Report under the headings "Beneficial" and "Non-beneficial" respectively.

EQUITY METHOD:

This is a method of accounting for a company's share of the profits of an associated company (legally defined as a company of which the investee holds between 20 and 49% of the shares).

Traditional accounting methods simply recognise the dividends paid by the associated companies as income and record the investment at cost in the balance sheet. The equity method recognises the company's share of the earnings or losses of associated companies subsequent to the date of investment as income and records the investment at acquisition cost adjusted by the investor's share of these earnings (or losses) less dividends paid.

Although this method has the obvious advantage of revealing profits which would otherwise be hidden it should be borne in mind that there is no legal obligation on companies to follow this method so that those that do are free to define what they regard as being "associated companies" (provided, of course, that their share of ownership is not more than 50%, in which case the company owned is legally a subsidiary and profits must be consolidated).
FIXED ASSETS:

These are assets which the company owns which it does not intend selling soon (e.g., factories, land, machinery, etc.). Normally the company publishes a table in the Notes to the Financial Statements detailing its land and buildings and plant and machinery.

Freehold Property: This is property owned by the company. It is often undervalued (not having been revalued for a number of years).

Goodwill: This is a non-tangible asset - i.e., it is not an asset which has a physical existence in the same way as machinery. It can arise when a company takes over another and pays more than the other's asset value, usually for a trademark or monopoly position.

Leasehold Property: This is property that the company doesn't own but rents for a fixed rent only to be increased at specific times in the future. Leasehold property is often undervalued (being written down from original purchase price over the term of the lease despite the fact that rapidly rising rents make the lease more valuable).

GEARING:

This is the relationship between a company's borrowings, on which it pays fixed interest, and the money which belongs to shareholders, i.e., fixed interest borrowing/shareholders' funds.

Highly geared companies are able to produce larger pre-tax profits for a fixed level of pre-interest profits since a large proportion of the money which is financing the business takes only a fixed amount of the profits. But these companies are more
at risk if pre-interest profits fall (since they still have to pay a fixed amount of interest).

**INFLATION ACCOUNTING:**

In times of rising prices a R of profit is worth less at the end of the year than at the beginning. Traditional accounting methods ignore this and as such, accountants argue;

(i) it is difficult to distinguish how much of the trading profit is simply due to increases in the value of stock because of rising prices,

(ii) depreciation is likely to be inadequate since cost of machinery is rising, and

(iii) no account is taken of the loss of purchasing power of cash.

Inflation accounting aims to show the company's profits in terms of the value of the R at the end of the accounting period. The most common method is to use some measure of inflation (e.g. CPI) to increase the value of all the company's non-monetary assets (stocks, land and equipment) by the percentage increase in the index between the date when they were bought and the year end.

The net result is a decrease in the amount shown as profit since the system attempts to express the value of the profits in terms of rands when the company was started.

Workers should reject such a system unless they can be guaranteed that their wages will also increase by a minimum of the inflation rate, since the shareholders are insuring that their investment doesn't devalue and yet the workers have no control over these extra provisions.
INVESTMENTS:

The Notes to the Financial Statements will show changes in fixed assets - additions to and disposals on plant and machinery. All companies must publish a Source and Use of Funds table: this shows how much has been invested and where the money came from. Companies have to disclose their future intended spending. These are called capital commitments. When these have been authorized but not contracted for, it means the company has not yet signed the contracts for the work. Such decisions can easily be reversed if necessary.

LIQUIDITY:

A company's liquidity is its ability to pay its bills. A liquid asset is one that can be turned into cash within a year. If a company's current assets exceed its current liabilities then it is said to be liquid. This means that it can pay its bills and carry on its business without difficulties. The extent of a company's liquidity or current ratio, is measured by the ratio of current assets to current liabilities. It is worked out as follows:

\[
\frac{\text{Current assets}}{\text{Current liabilities}}
\]

In the example of the Balance Sheet in Appendix 5 the liquidity ratio is 1,07. This means that for every R the company owes it has R1,07 owed to it. The higher the ratio, the greater the company's liquidity. Companies with high liquidity are in a strong position during credit squeezes - when bank money is short. But the liquidity ratio is not always an accurate guide to the company's ability to pay its bills because current assets cannot always be turned into cash easily.

The most common current asset is stocks. So there is a second
The ratio used to judge the company's liquidity: the quick ratio. This is worked out as follows:

\[
\text{Quick assets} \quad \frac{\text{Current liabilities}}{}
\]

Quick assets are the current assets minus stock and work in progress.

These ratios are useful to workers as signpost to the way in which the company is managed and to the security of their jobs. The lower these ratios the more vulnerable the company is to its suppliers and the bank - the main headings under current liabilities. The company may encounter problems if trading conditions get difficult and suppliers press to be paid or the bank asks for its money back. As long as the company as a whole is solvent (i.e. not bankrupt) and providing there are easily realizable fixed assets which can be sold or used as security for borrowing the liquidity problem can be overcome. But a company with liquidity problems may start selling property to raise money to improve its current assets position, or it may close down an activity that is not very profitable but which ties up a lot of assets.

If the liquidity ratio is very high this may mean:
- The company is carrying too high a level of stocks.
- The company is not collecting money owed to it quickly.
- The company is keeping a high proportion of assets in current assets, that could be used more usefully elsewhere.

If the ratios show a sharp decrease from one year to the next (i.e. liabilities rise relative to assets) this could mean the company is having to borrow or delay paying bills.

If the company is expanding production, the stock figure may increase but as the stocks have been financed from either overdrafts or trade creditors, there will probably be no change in the ratios.
But if the ratios show a continuing decline over a period of years it probably means that the company is heading for a liquidity crisis.

**MARKET CAPITALIZATION:**

This is the value of the company on the stock market and may often exceed the capital employed because the share prices are related to the profitability and potential profitability of the company rather than its asset value. The market capitalization can be worked out by multiplying the price of the Company's shares (probably quoted in the Financial Mail or daily newspaper) by the number of shares in issue.

In the case of private companies, making necessary provisions for the undervaluation of property, the value of equity interest is the best guide to the minimum value of a company. If it is a successful company, the goodwill of the business will be worth something in addition to the asset value.

**MEMORANDUM OF ASSOCIATION:**

This is a document filed with the Registrar on the formation of the company. It contains the name, nationality, objects, limited liability statement, details about authorized share capital, etc.

**LOAN CAPITAL:**

The loan capital is money which has been lent to the company for a fixed period of time at a fixed rate of interest.

Companies show the different types of loans and on what they are secured, the date on which the loan is to be repaid and the rate
of interest paid. The two main types are debentures and unsecured loans.

**Debentures:** Debentures are loans secured against an asset of the company, so if the company goes bankrupt the debenture holder will be paid back from the sale of the asset. They are entitled to be paid back before the company's creditors.

**Deferred liabilities:** These are debts the company has which do not have to be paid within the next year, for example; deferred taxes, special loans, pension contributions owing and amounts owing on acquisition of other companies.

**MARKET RENT:**

The rent that could be obtained for property if it were let at today's prices. A lot of companies lease property on terms agreed years ago, so the rent today is well below the market rent.

**PROFITABILITY:**

Measuring profitability: There are two ways in which profitability can be measured:
- The profits made from the company's sales.
- The profits made from the company's assets.

The profits made from the company's sales is called the profit margin. The profit made from the company's assets is called the return on the capital employed.

If a company's sales are R1000 and its profits R100, then the profit margin is 10 per cent. \((\frac{R100}{R1000} \times 100\%)\).

But arguments that companies are very unprofitable because they
have low margins should be distrusted. They ignore the return on capital and the risk - or lack of it - involved.

- In 1983 Pick and Pay's pre-tax margin was 3,9% or about 4c in every R you spent there.
  But: The return on "shareholder's interests" was 43%.

There is little risk in retailing. The goods are sold for cash, but the suppliers have to wait for their money.

When companies claim they are not profitable, look at both the margin and return on capital ratio.

PROFITS:

Past: In the case of public companies, these are obtainable from the Stock Exchange Hand Book or annual accounts. Some public companies have a table of profits over the years in the accounts.

For private companies which are owned by public companies the profit record can be established from accounts, which are obtainable from the Registrar.

Present: From the Income Statement.

Future: It is impossible to forecast future profits from the Balance Sheet alone because they depend on many factors including the company's competitive position and demand for its product. Profits are likely to increase for one of three reasons:
- An increase in sales.
- An increase in prices.
- The result of management moves to increase the return on the company's assets. This could involve redundancies, factory closures and changes in the use of assets.
Increases in prices and the volume of sales may be referred to in the Chairman's Statement. Companies have no statutory obligation to disclose the size of their order book. There may be clues in the Balance Sheet - has there been a build-up of stocks, ready for sale?

Changes in the use of the assets will also generally be referred to in the Chairman's statement. Have profits been exceptionally depressed by reorganization? Has there been an improvement in the company's liquidity? Has there been a change in the company's fixed assets, representing new investment?

**PROVISION:**

Any amount which is deducted from profits as an expense without actual payments being made. (The directors may expect to have to make the payments sometime in the future). Such amounts should be mentioned on the "Capital Employed" side of the balance sheet.

**REGISTRAR:**

Refers to the Registrar of Companies as appointed under section 7 of the Companies Act, 1973 as amended. (In the case of co-operatives, the Registrar of Co-operatives as appointed under the Co-operatives Act of 1981).

**RESERVES:**

**Distributable:** These are accumulated profits accruing to the owners which have not been distributed.

**Non-distributable:** These are funds which belong to the
shareholders but which may not be distributed, or are in the
director's opinion not available for distribution (e.g., share
premiums, revaluation reserves, etc.).

Share premium account: When shares are sold at a value above the
authorised value (nominal value) the extra (premium) is
transfered to the share premium account.

SHARES:

Ordinary: The owners of a company are its shareholders, the
people who have subscribed a sum of money to the company's
capital and in return own a share of all the proceeds of the
company. There can be various categories of owners, some entitled
to preferrential dividend payments, others subject to special
voting conditions. The details of the share capital appears in
the Articles of Association.

Preference: Preference shares differ from ordinary shares in that
they are entitled to a fixed dividend but do not share in profits
beyond this. On winding up, preference shares must be repaid
before ordinary shares. In the normal course of events preferrence
shareholders cant vote.

Some preference shares are "cumulative", which means that if
dividends aren't paid in bad years they accumulate while others
merely gain the vote if their dividends are not paid. These
conditions can be checked from the company's Articles of
Association.

Rights Issue: This occurs when the company offers existing
shareholders the right to buy new shares, in proportion to their
existing holdings, at a price usually below market price. If the
shareholders do not wish to purchase the new shares they can sell
their rights to them to other investors.
Script (Capitalization or Bonus) Issues: This is an issue of shares to existing shareholders by the "capitalizing" of existing reserves - no payment is made on the issue. For example, suppose the Balance Sheet looks like this:

<table>
<thead>
<tr>
<th>Capital Employed</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>10 000</td>
</tr>
<tr>
<td>Distributable Reserves</td>
<td>30 000</td>
</tr>
<tr>
<td>Employment of Capital</td>
<td>40 000</td>
</tr>
</tbody>
</table>

| Fixed Assets   | 20 000 |
| Net Current Assets | 20 000 |

| 40 000 |

If the company made a script issue of two new shares for every one old one, the Capital Employed "side" would look like this:

| Share Capital | 30 000 |
| Distributable Reserves | 10 000 |

| 40 000 |

STOCK EXCHANGE:

The Stock Exchange is the building which houses the Stock Market, where shares are bought and sold. Stockbrokers advise investors which share to buy, and carry out the business for them. The Stock Exchange is chiefly a market place in which second hand assets - can change hands. It is of hardly any importance in raising new money to invest in industry. When someone buys a share, they buy the right to a share in the company's profits - the share already exists and the money does not go to the company. Of course, originally the company did receive money from the original subscriber for the shares. About 73% of the shares
on the Johannesburg Stock Exchange are controlled by three companies; Anglo American, Sanlam and Barlow Rand.

TAXATION:

Company tax: The government taxes most companies at 46.2% on profit earned for the financial year 1 March to 28 February. Most companies' accounting periods don't coincide with the government's financial year and tax only has to be paid within nine months after the end of the government's financial year which falls in the company's accounting period. This means that at the end of the company's year, tax is owed to the receiver. This is often a significant form of short-term financing for the company.

Deferred tax account (Taxation Equilisation Account): This reserve reflects taxation which the company may be liable to pay some time in the future. It usually arises as follows: Depreciation allowed for tax purposes usually differs from depreciation used in the accounts, (though the total over the "life" of the assets might be the same) which means that the taxation shown in the accounts is not the taxation that is paid in that year. The difference is transferred to/from the taxation equilisation account. In other words it operates as a provision. But if companies are growing the tax equilisation account will also grow and they will never have to pay this provision.

Initial and investment allowances: If the company brings new machinery or plant into use in a process of manufacture (other than in mining or farming where different allowances apply), it can deduct an "initial allowance" of 25% and an "investment allowance" of 30% of the cost of the machinery or plant from the taxable income in that year for tax purposes. This means that the government pays 25.4% (55% x the corporation tax rate of 46.2%) of any new machinery or plant that a company buys.
**Income Tax:** Anyone receiving an income above a certain amount pays income tax on it.

Many overseas countries also require the owners of capital to pay a tax on the increased value of any capital they own. The South African government does not. This means that the owners of shares prefer to see the directors taking actions which will enhance the value of their shares rather than receiving more dividends (on which they would have to pay Income Tax).

**Other allowances (scraping and repair):** If the company scraps any machinery for a value less than the income tax value of the goods then the difference may be deducted from income for tax purposes.

The cost of repairs to machinery is also a deductible expense for tax purposes.

**TURNOVER:**

An accounting term for the gross takings or total sales before any deductions.

**VALUE ADDED ACCOUNTS:**

This is a method of presenting the accounts which is seen by the accounting profession as meeting the needs for financial information of "other parties" whose interests are affected by the operations of the firm (particularly the workers). At the moment about 20% of South African companies include value added statements in one form or another.

The value added by a corporation represents its contribution to
society (in goods and services) and is equal to the output it generates through trading less the cost of bought-in materials and services from other companies which would be covered by their value added statements. This income represents the sole source of funds available to the enterprise for distribution to creditors, government, shareholders and workers. The value added statement reports to show this division.

The guiding example given to the profession which is adapted from a British report "The Corporate Report" is given below:

<table>
<thead>
<tr>
<th>Year to Dec.</th>
<th>Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>103,9</td>
</tr>
<tr>
<td>Bought in materials and services</td>
<td>67,6</td>
</tr>
<tr>
<td>VALUE ADDED</td>
<td>R 36,3</td>
</tr>
</tbody>
</table>

Applied in the following way:

- **TO PAY EMPLOYEES**
  - (wages, pensions and fringe benefits)
  - 25,9

- **TO PAY PROVIDERS OF CAPITAL**
  - Interest on loans
    - 0,8
  - Dividends to shareholders
    - 0,9

- **TO PAY GOVERNMENT**
  - Corporation tax payable
    - 3,9

- **TO PROVIDE FOR MAINTENANCE AND EXPANSION OF ASSETS**
  - Depreciation
    - 2,0
  - Retained profits
    - 2,8

<table>
<thead>
<tr>
<th>VALUE ADDED</th>
<th>R 36,3</th>
</tr>
</thead>
</table>

Value added statements can be used as an ideological weapon by assuming that businesses are partnerships between labour and capital and that the division of added value is just. Value added statements may significantly understate the return to government...
and capital.

When applied to productivity schemes the system is open to manipulation.
APPENDIX 4: MAIN CATEGORIES OF EMPLOYERS AND HOW TO FIND OUT WHO YOU WORK FOR.

A) THE MAIN FORMS OF EMPLOYERS:

(1) Limited liability companies which comprise:
   (a) Public companies;
   (b) Subsidiaries; and
   (c) Private companies.

(2) Partnerships.

(3) Building Societies, Trustee Savings Banks, Mutual Life Assurance Companies and Co-operatives.

(4) Public corporations (utility companies).

(5) Local authorities and government organizations.

It is estimated that in South Africa in 1983 about 71% of the work force was employed by employers of types (1), (2) and (3) and 29% by employers of types (4) and (5).

1. Limited Liability Companies:

Most of the registered companies in South Africa are limited liability companies. This means that the company's wealth is owned by the owners of the company's shares. These owners' liability (financial obligation) is limited to their share of the company. This means that the shareholders have no obligation to pay any debts over and above the value of their share in the company. The great advantage of limited liability to the capitalist is that the risk is limited but the prospect of reward are unlimited.

Hence to protect the interests of other businesses the government requires public companies and private companies which are subsidiaries of public companies to produce annual Financial Statements which must be lodged with the Registrar of Companies.
(i) Public vs private companies:

There are two types of limited liability companies, private and public. A public company is one where shares are offered to the public and there is no restriction on the number of shareholders. Hence all but a very few public companies have their shares quoted on the Johannesburg Stock Exchange.

Private companies on the other hand are limited by certain restrictions, namely they must limit their shareholders to 50 (excluding employees and ex-employees), they may not offer their shares to the public and that shareholders may only sell their shares with the permission of the Board of Directors.

2. Partnerships:

Very few workers are employed by partnerships but they are mentioned here for completeness.

A partnership is a collection of people (must be fewer than 20) who jointly carry on the same business with a view to making a profit. Anyone sharing in the profit is a partner and is liable for any debts of the partnership.

As far as the worker is concerned it is difficult to find information about the profits of partnerships (there are no statutory requirements for partnerships to publish financial information) and in addition their job security is only as great as the 'interest or lives of the partners'.

3. Building Societies and Trustee Savings Banks and Mutual Life Assurance Companies:

These bodies do not have shareholders in the same way that
companies do but are responsible to depositors in the case of building societies and trustee savings banks and policyholders in the case of mutual life assurance. They operate in much the same way as if they were owned by shareholders except that they operate to make profits for their policyholders/depositors.

4. Public Corporations:

The following is a list of public corporations which are not run for profit but, theoretically, to provide services for the public (eg. travel, electricity, fuel).

1. Aluminium Investment Corporation of South Africa (Pty) Limited
2. Armaments Corporation of South Africa Limited
3. Atlantis Diesel Engines (Pty) Limited
4. Atomic Energy Corporation of South Africa
5. Bophuthatswana National Development Corporation Limited
6. Ciskeian National Development Corporation Limited
7. Corporation for Economic Development Limited
8. Electricity Supply Commission
9. First National Development Corporation of South West Africa Limited
10. Fisheries Development Corporation of South Africa Limited
11. Industrial Development Corporation of South Africa Limited
12. Iron and Steel Industrial Corporation Limited
13. KwaZulu National Development Corporation Limited
14. Lebowa Development Corporation Limited
15. Mining Corporation Limited
16. Phosphate Development Corporation (Pty) Limited
17. Qwa Qwa Development Corporation Limited
18. Rand Water Board
19. Rehoboth Investment and Development Corporation Limited
20. South African Abattoir Corporation
21. South African Bank Note Company (Pty) Limited
22. South African Broadcasting Corporation
23. South African Coal, Oil and Gas Corporation Limited
24. South African Development Corporation for Inventions
25. South African Gas Distribution Corporation Limited
26. South African Gas Corporation Limited
27. South African Gas Corporation Limited
28. South Atlantic Cable Company (Pty) Limited
29. Southern African Development Bank
30. South-West African Broadcasting Corporation
31. South-West Africa Water and Electricity Corporation (Pty) Limited
32. Southern Oil Exploration Corporation (Pty) Limited
33. Southern Oil Exploration (South-West Africa)
34. Transkei Development Corporation Limited
35. Tsonga Development Corporation Limited
36. Venda Development Corporation Limited

(b) Agricultural control boards

1. Banana Board
2. Canning Fruit Board
3. Chicory Board
4. Citrus Board
5. Cotton Board
6. Dairy Board
7. Dried Fruit Board
8. Dry Bean Board
9. Egg Board
10. Mohair Board
11. Tobacco Board
12. Lucerne Seed Board
13. Maize Board
14. Meat Board
15. Mohair Board
16. Oilseeds Board
17. Potato Board
18. Rooibos Tea Board
19. Tobacco Board
20. Wheat Board
21. Wool Board
Certain government departments can also be included in this category although they are run differently (e.g., SATS and the department of Post and Telecommunications).

5. Local Authorities:

Local Authorities exist to service the community and implement government policy and as such are not run for profit. Nevertheless these bodies can earn surpluses from the sale of services and these surpluses they then use to reduce the rates that ratepayers have to pay.

- In attempting to convince the CTCC not to cut electricity supply due to the drought the City Engineer pointed out that the City Council could expect to make R18,6 million surplus from the sale of electricity, which it was estimated would result in a 10% reduction in rates.

(b) HOW TO FIND OUT WHO YOU WORK FOR AND WHERE TO FIND THEIR ACCOUNTS.

It is important to know who you work for and whether your company is public or private so that you can assess the total target for bargaining, particularly since surplus can be hidden in different places.

Since the directors of private companies are usually also the shareholders it is often more difficult to establish the wealth of private companies since it may be distributed to another company owned by the shareholders. This is less possible with a public company which has thousands of shareholders.

Although directors have to file a list of their directorships with the Registrar of Companies (P.O. Box X429, Pretoria. 0001) it is possible for owners of private companies to disguise their ownerships.
(1) Limited liability companies:

The first step would be to check if you work for a limited liability company.

By law these companies must use the word "Limited" (or Ltd) in their name so check any official correspondence, invoices or receipts to find out the full name of the company you work for. If the word "Limited" does not appear in the name then you are employed by one of the other groups of employers and the name that does appear on official correspondence should give you an idea as to which type it is.

If the company is a limited liability company the next step is to find out whether it is a public or a private company. Private companies are required to use the word "Propriety" (or Pty) in their name and this again should appear on any official correspondence.

All limited liability companies which are not private are public and as such are required to publish their annual Financial Statements. Copies are obtainable from the company's head office or most Business School libraries. If you have trouble with these sources then copies can be ordered from the Registrar.

As far as private companies are concerned the task is more complicated. Only companies which are subsidiaries of public companies have to lodge returns with the Registrar. These the investigator can get hold of. Private companies which are not owned by public companies and partnerships are not obliged to do this and it is very difficult to get hold of copies of their accounts.

It should be noted that the Registrar's office may furnish a person with annual financial statements free of charge if they
are for research purposes at an "institution of higher learning", otherwise the person has to pay for each copy obtained.

In order to find out who owns the company being investigated a good place to start is McGregor's Who Owns Whom, which, provided the company is a listed public company, tells you who it guesses to be the real owner. This is useful to know when it comes to searching for the surplus. With private companies the task is again more difficult and one probably has to resort to either going through the list of subsidiaries and associated companies of the companies in McGregor's Who Owns Whom to see if the name of the company appears there, or requesting to see the copy of the share register at the company's head office. The share register is open to the public (on payment of 25 cents) and must show the names of all the shareholders.

(2) Building Societies, Trustee Savings Banks, Mutual Life Assurance Companies and Co-operatives:

Mutual life assurers must produce annual financial statements for their policyholders and buildings societies and trustee saving banks must produce annual financial statements for their depositors and these are usually obtainable, free of charge, from the company's head office.

Co-operatives must register with the Registrar of Co-operatives and a copy of the annual financial statements can be obtained from that office.

(3) Public Corporations:

These bodies all produce annual Financial Statements, copies of which can usually be obtained from the corporations head office.
(4) Local Authorities and Government Departments:

Local authorities have to produce accounts for the benefit of the ratepayers. These are published annually and can be viewed at the authorities offices.

Government departmental accounts are obtainable from the government printers for a fee.

In most instances where copies of the annual financial statements are available to the public copies will be found in Business School and Accounting departmental libraries.
### Balance sheets

**At February 28**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R000</td>
<td>R000</td>
<td>R000</td>
<td>R000</td>
</tr>
<tr>
<td><strong>Capital employed:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital and premium</td>
<td>2</td>
<td>9 679</td>
<td>8 710</td>
<td>9 971</td>
</tr>
<tr>
<td>Non-distributable reserves</td>
<td>3</td>
<td>4 441</td>
<td>548</td>
<td>3 918</td>
</tr>
<tr>
<td>Distributable reserve - Retained income</td>
<td></td>
<td>74 742</td>
<td>63 737</td>
<td>61 760</td>
</tr>
<tr>
<td>Ordinary shareholders’ funds</td>
<td></td>
<td>88 862</td>
<td>72 995</td>
<td>75 649</td>
</tr>
<tr>
<td>Outside shareholders’ interest in subsidiary companies</td>
<td></td>
<td>20 439</td>
<td>17 462</td>
<td>—</td>
</tr>
<tr>
<td>Loans</td>
<td>4</td>
<td>27 257</td>
<td>21 946</td>
<td>13 464</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td></td>
<td>146</td>
<td>244</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>136 704</td>
<td>112 647</td>
<td>89 113</td>
</tr>
<tr>
<td><strong>Employment of capital:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>5</td>
<td>107 736</td>
<td>80 492</td>
<td>72 884</td>
</tr>
<tr>
<td>Interest in subsidiary companies</td>
<td>6</td>
<td>23 421</td>
<td>19 600</td>
<td>15 066</td>
</tr>
<tr>
<td>Investments</td>
<td>7</td>
<td>5 547</td>
<td>12 555</td>
<td>(12 427)</td>
</tr>
<tr>
<td><strong>Net current assets (liabilities)</strong></td>
<td></td>
<td>136 704</td>
<td>112 647</td>
<td>89 113</td>
</tr>
</tbody>
</table>

### Details of net current assets (liabilities)

<table>
<thead>
<tr>
<th>Stock</th>
<th>42 115</th>
<th>39 315</th>
<th>8 031</th>
<th>6 346</th>
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</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>31 622</td>
<td>28 341</td>
<td>19 111</td>
<td>18 472</td>
</tr>
<tr>
<td>Bank balances, deposits at call and cash</td>
<td>9 361</td>
<td>4 674</td>
<td>345</td>
<td>834</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>77 551</td>
<td>59 775</td>
<td>39 914</td>
<td>26 258</td>
</tr>
<tr>
<td>Creditors and taxation</td>
<td>33 650</td>
<td>35 666</td>
<td>11 383</td>
<td>12 255</td>
</tr>
<tr>
<td>Bank overdrafts and other current borrowings</td>
<td>40 916</td>
<td>21 214</td>
<td>25 456</td>
<td>11 018</td>
</tr>
<tr>
<td>Dividend payable</td>
<td>2 985</td>
<td>2 895</td>
<td>3 075</td>
<td>2 985</td>
</tr>
<tr>
<td><strong>Net current assets (liabilities)</strong></td>
<td>5 547</td>
<td>12 555</td>
<td>(12 427)</td>
<td>(606)</td>
</tr>
</tbody>
</table>
## Income statements

FOR THE YEAR ENDED FEBRUARY 28

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>R000</td>
<td>R000</td>
<td>R000</td>
<td>R000</td>
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<tr>
<td>Turnover</td>
<td>11</td>
<td>324 160</td>
<td>269 899</td>
<td>142 925</td>
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<td>Trading income</td>
<td>12</td>
<td>17 483</td>
<td>28 681</td>
<td>6 423</td>
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<tr>
<td>Income from subsidiary companies</td>
<td>13</td>
<td>324</td>
<td>233</td>
<td>2 596</td>
</tr>
<tr>
<td>Income from investments</td>
<td>14</td>
<td>3 158</td>
<td>2 479</td>
<td>2 308</td>
</tr>
<tr>
<td>Net income before taxation and extraordinary items</td>
<td></td>
<td>20 965</td>
<td>31 393</td>
<td>11 327</td>
</tr>
<tr>
<td>Taxation</td>
<td>15</td>
<td>3 372</td>
<td>11 751</td>
<td>(831)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>17 593</td>
<td>19 642</td>
<td>12 158</td>
</tr>
<tr>
<td>Net income attributable to outside shareholders in subsidiary companies</td>
<td></td>
<td>3 799</td>
<td>4 837</td>
<td></td>
</tr>
<tr>
<td>Net income before extraordinary items</td>
<td>16</td>
<td>13 794</td>
<td>14 805</td>
<td>12 158</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td></td>
<td>5 552</td>
<td>(561)</td>
<td>4 892</td>
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<tr>
<td>Net income</td>
<td></td>
<td>19 346</td>
<td>14 244</td>
<td>17 050</td>
</tr>
<tr>
<td>Transfer to non-distributable reserve</td>
<td></td>
<td>3 863</td>
<td>—</td>
<td>3 918</td>
</tr>
<tr>
<td>Dividends</td>
<td>17</td>
<td>4 478</td>
<td>4 273</td>
<td>4 613</td>
</tr>
<tr>
<td>Retained income for the year</td>
<td></td>
<td>11 005</td>
<td>9 971</td>
<td>8 519</td>
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<tr>
<td>Retained income at beginning of year</td>
<td></td>
<td>63 737</td>
<td>53 766</td>
<td>53 241</td>
</tr>
<tr>
<td>Retained income at end of year</td>
<td></td>
<td>74 742</td>
<td>63 737</td>
<td>61 760</td>
</tr>
</tbody>
</table>
Notes to the financial statements

1. Accounting policies:
The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies:

1.1 Basis of consolidation
The group consolidated financial statements incorporate the financial position and results of the holding company and its subsidiaries except foreign subsidiaries where local currency restrictions limit the remittance of funds. The investment in these foreign subsidiaries is written off and their results are accounted for only to the extent of dividends received.

The results of subsidiaries are included from the effective dates of acquisition or to the effective dates of disposal.

1.2 Fixed and leased assets
Depreciation is provided on various bases on all fixed assets with the exception of land, certain trading and residential buildings, publishing rights and capital works in progress. The rates of depreciation are considered appropriate to the estimated useful lives of the assets concerned.

In addition to assets included in the balance sheet, certain plant, equipment and vehicles required for the purposes of the group’s business are leased. The finance lease charges are taken into account in arriving at the trading income.

1.3 Stock
With the exception of one subsidiary company, the methods of determining the values of stock on hand are consistent with those used in the previous year.

Stock has been valued at the lower of cost or net realizable value generally determined on a first-in, first-out basis as follows:

| Raw materials — newsprint and materials in the main trading companies at purchase cost. Other materials at average cost. | Consumable stores and maintenance spares — newspaper printing and publishing companies at average cost. CNA chain of retail stores at purchase cost. The usefulness of maintenance spares is reviewed periodically and values are written down where necessary. Work in progress and finished goods — at material cost plus labour and production overheads. Merchandise — at purchase cost less provision for deterioration except in the case of a subsidiary company which applies the last-in, first-out basis of determining cost — refer note 19. |

1.4 Current taxation
Current taxation is calculated at current rates on the net income for the year after taking into account investment allowances, income and expenditure which is not subject to taxation and assessed or estimated tax losses brought forward from prior periods.

1.5 Deferred taxation
Deferred taxation is calculated on the liability method on timing differences with the proviso that a deferred tax asset is only raised when the realisation of such an asset is reasonably assured.

1.6 Foreign currencies
Foreign assets and liabilities, except those which are covered by forward exchange contracts, are translated into Rand at the approximate rates of exchange ruling at the balance sheet date.

1.7 Presentation
All financial figures are stated to the nearest R1 000. For purposes of comparison, the previous year's figures have been regrouped where necessary.
### 3. Non-distributable reserves:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>548</td>
<td>467</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Adjustments arising from changes in the composition of the group</strong></td>
<td>30</td>
<td>81</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Transfer from income statement</strong></td>
<td>3863</td>
<td>—</td>
<td>3918</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>4441</td>
<td>548</td>
<td>3918</td>
<td>—</td>
</tr>
</tbody>
</table>

Consisting of:

- Unrealised surplus arising from the acquisition of fixed assets as a result of fluctuations in foreign currency exchange rates: 3863
- Surplus on realisation of fixed assets: 228
- Reserve arising on consolidation: 350

### 4. Loans:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7.25% Unsecured loans</td>
<td>10 707</td>
<td>12 538</td>
<td>10 707</td>
<td>12 538</td>
</tr>
<tr>
<td>11.7% Secured loan</td>
<td>5 000</td>
<td>5 000</td>
<td>5 000</td>
<td>5 000</td>
</tr>
<tr>
<td>19.45% Secured loan</td>
<td>4 300</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>16.2% Revolving acceptance credit</td>
<td>4 000</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>17.25% (1982 — 15.37%) Revolving acceptance credit</td>
<td>2 000</td>
<td>2 000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>19.46% (1982 — 15.67%) Secured loan</td>
<td>9 54</td>
<td>9 54</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>19.46% (1982 — 15.67%) Secured loan</td>
<td>6 87</td>
<td>6 87</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>19% — 20% Secured loans</td>
<td>41 0</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>13.375% Secured loan</td>
<td>37 6</td>
<td>47 0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>12% Secured loan</td>
<td>40 0</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Carried forward: 28 834

13
## APPENDIX 5 : EXAMPLE OF FINANCIAL STATEMENT

<table>
<thead>
<tr>
<th>Loans (continued)</th>
<th>Group 1983 R000</th>
<th>Group 1982 R000</th>
<th>Company 1983 R000</th>
<th>Company 1982 R000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brought forward</td>
<td>28 834</td>
<td>22 049</td>
<td>15 707</td>
<td>17 538</td>
</tr>
<tr>
<td>16.75% Secured loan</td>
<td>325</td>
<td>350</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Loan secured by mortgage of land and buildings, the book value of which is R2 369 000 (1982 — R2 369 000). The loan is repayable by annual instalments of R25 000.</td>
<td>330</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>19.5% Secured loan</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Loan secured by mortgage of land and buildings the book value of which is R2 291 000. The loan is repayable by annual instalments of R22 000 commencing on December 1, 1985.</td>
<td>29 489</td>
<td>22 399</td>
<td>15 707</td>
<td>17 538</td>
</tr>
<tr>
<td>Other:</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>9.5% Unsecured loan</td>
<td>1 000</td>
<td>1 000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>The loan is repayable in full on April 1, 1983.</td>
<td>508</td>
<td>582</td>
<td>508</td>
<td>582</td>
</tr>
<tr>
<td>19.5% (1982 — 15.9%) Secured loan</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Loan secured by mortgage of land and buildings, the book value of which is R3 667 000 (1982 — R3 714 000). The loan is repayable by annual instalments of R74 000 subject to the full amount being repayable on three months' notice given by the mortgagor or mortgagee.</td>
<td>367</td>
<td>416</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>19.45% (1982 — 15.67%) Secured loan</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Loan secured by mortgage of land and buildings, the book value of which is R1 311 000 (1982 — R1 311 000). The loan is repayable by annual instalments of R50 000 subject to the full amount being repayable on three months' notice given by the mortgagor or mortgagee.</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>16% Secured loans</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Less: Portion payable within one year included in bank overdrafts and other current borrowings (Note 9)</td>
<td>4 107</td>
<td>2 858</td>
<td>2 751</td>
<td>2 282</td>
</tr>
<tr>
<td>In terms of the Articles of Association the company's borrowings are limited to</td>
<td>27 257</td>
<td>21 946</td>
<td>13 464</td>
<td>15 838</td>
</tr>
<tr>
<td>Total group borrowings, guarantees and unexpired portion of lease agreements amount to</td>
<td>31 364</td>
<td>24 804</td>
<td>16 215</td>
<td>18 120</td>
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### 5. Fixed Assets:

<table>
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<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Freehold land and buildings</td>
<td>38 610</td>
<td>4 164</td>
<td>34 446</td>
<td>32 970</td>
<td>3 834</td>
<td>29 136</td>
</tr>
<tr>
<td>Buildings on leasehold land</td>
<td>157</td>
<td>47</td>
<td>110</td>
<td>91</td>
<td>29</td>
<td>62</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>72 865</td>
<td>13 915</td>
<td>58 950</td>
<td>53 487</td>
<td>13 957</td>
<td>39 530</td>
</tr>
<tr>
<td>Vehicles</td>
<td>6 895</td>
<td>3 773</td>
<td>3 122</td>
<td>5 548</td>
<td>2 896</td>
<td>2 652</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>15 523</td>
<td>7 057</td>
<td>8 466</td>
<td>13 489</td>
<td>7 059</td>
<td>6 430</td>
</tr>
<tr>
<td>Publishing rights</td>
<td>2 732</td>
<td>2 732</td>
<td>0</td>
<td>2 682</td>
<td>2 682</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>136 692</td>
<td>28 956</td>
<td>107 736</td>
<td>108 267</td>
<td>27 775</td>
<td>80 492</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Freehold land and buildings</td>
<td>17 962</td>
<td>3 724</td>
<td>14 238</td>
<td>17 719</td>
<td>3 432</td>
<td>14 287</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>67 842</td>
<td>11 699</td>
<td>56 143</td>
<td>49 115</td>
<td>12 048</td>
<td>37 067</td>
</tr>
<tr>
<td>Vehicles</td>
<td>1 111</td>
<td>534</td>
<td>577</td>
<td>1 022</td>
<td>473</td>
<td>529</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>3 896</td>
<td>1 970</td>
<td>1 926</td>
<td>2 950</td>
<td>1 847</td>
<td>1 103</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>90 811</td>
<td>17 927</td>
<td>72 884</td>
<td>70 786</td>
<td>17 800</td>
<td>52 986</td>
</tr>
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</table>

A register containing details of the group and company land and buildings is available for inspection at the registered office of The Argus Printing and Publishing Company Limited.
### 6. Interest in subsidiary companies:

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Listed shares at cost less amounts written off</td>
<td>5.333</td>
<td>5.333</td>
<td>3.90</td>
<td>3.92</td>
</tr>
<tr>
<td>Unlisted shares at cost less amounts written off</td>
<td>5.723</td>
<td>5.725</td>
<td>9.982</td>
<td>7.611</td>
</tr>
<tr>
<td>Amounts owing by subsidiary companies</td>
<td>15.705</td>
<td>13.336</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owing to subsidiary companies</td>
<td>2.115</td>
<td>1.650</td>
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<td></td>
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### 7. Investments:

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed shares at cost less amounts written off</td>
<td>11.085</td>
<td>10.960</td>
<td>8.463</td>
<td>8.463</td>
</tr>
<tr>
<td>Unlisted</td>
<td>8.189</td>
<td>8.705</td>
<td>4.142</td>
<td>4.219</td>
</tr>
<tr>
<td>Shares at cost less amounts written off</td>
<td>5.307</td>
<td>5.117</td>
<td>2.871</td>
<td>3.419</td>
</tr>
<tr>
<td>Advances</td>
<td>2.882</td>
<td>2.588</td>
<td>1.271</td>
<td>1.200</td>
</tr>
<tr>
<td>Housing loans to senior staff</td>
<td>9.95</td>
<td>6.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan portion of taxation</td>
<td>2.177</td>
<td>2.294</td>
<td>1.486</td>
<td>1.497</td>
</tr>
<tr>
<td>Argus Executive Share Scheme Trust</td>
<td>975</td>
<td></td>
<td>975</td>
<td></td>
</tr>
<tr>
<td>Market value of listed shares</td>
<td>23.421</td>
<td>19.600</td>
<td>15.066</td>
<td>14.179</td>
</tr>
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</table>

### 8. Stock:

<table>
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<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>6.834</td>
<td>6.049</td>
<td>5.446</td>
<td>4.832</td>
</tr>
<tr>
<td>Consumable stores and maintenance spares</td>
<td>3.603</td>
<td>2.525</td>
<td>2.585</td>
<td>1.514</td>
</tr>
<tr>
<td>Finished goods</td>
<td>19</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work in progress</td>
<td>1.185</td>
<td>1.062</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandise</td>
<td>30.474</td>
<td>29.658</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total raw materials</td>
<td>42.115</td>
<td>39.315</td>
<td>8.031</td>
<td>6.346</td>
</tr>
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</table>

### 9. Bank overdrafts and other current borrowings:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdrafts</td>
<td>10.991</td>
<td>12.653</td>
<td>7.144</td>
<td>8.736</td>
</tr>
<tr>
<td>Portion of loans payable within one year (Note 4)</td>
<td>4.107</td>
<td>2.858</td>
<td>2.751</td>
<td>2.282</td>
</tr>
<tr>
<td>Other current borrowings</td>
<td>25.818</td>
<td>25.703</td>
<td>15.561</td>
<td></td>
</tr>
<tr>
<td>Total borrowings</td>
<td>40.916</td>
<td>21.214</td>
<td>25.456</td>
<td>11.018</td>
</tr>
</tbody>
</table>

### 10. Commitments and contingent liabilities:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments for capital expenditure contracted</td>
<td>1.837</td>
<td>15.977</td>
<td>380</td>
<td>15.260</td>
</tr>
<tr>
<td>Commitments for capital expenditure approved but not contracted</td>
<td>8.396</td>
<td>15.606</td>
<td>4.003</td>
<td>4.075</td>
</tr>
<tr>
<td>Total commitments</td>
<td>10.233</td>
<td>15.977</td>
<td>3.347</td>
<td>12.335</td>
</tr>
<tr>
<td>Guaranteed amounts due within one year</td>
<td>3.376</td>
<td>4.318</td>
<td>3.347</td>
<td>2.877</td>
</tr>
<tr>
<td>Guarantees for employees' housing loans</td>
<td>106</td>
<td>244</td>
<td>86</td>
<td>44</td>
</tr>
<tr>
<td>Claims which may result from pending litigation</td>
<td>59</td>
<td>32</td>
<td>52</td>
<td>32</td>
</tr>
</tbody>
</table>
### APPENDIX 5: EXAMPLE OF FINANCIAL STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>Group 1983</th>
<th>Company 1982</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R000</td>
<td>R000</td>
</tr>
<tr>
<td><strong>11. Turnover:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newspaper advertising revenue</td>
<td>127 848</td>
<td>111 904</td>
</tr>
<tr>
<td>Newspaper circulation revenue</td>
<td>32 317</td>
<td>28 937</td>
</tr>
<tr>
<td>Retail and wholesale sales of merchandise</td>
<td>152 370</td>
<td>120 362</td>
</tr>
<tr>
<td>Property rentals</td>
<td>3 196</td>
<td>2 539</td>
</tr>
<tr>
<td>Revenue from commercial printing and annual publications</td>
<td>3 040</td>
<td>1 770</td>
</tr>
<tr>
<td>Other</td>
<td>5 389</td>
<td>4 487</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td><strong>324 160</strong></td>
<td><strong>269 899</strong></td>
</tr>
</tbody>
</table>

Turnover includes inter-company transactions where these were in the course of normal business on an arms-length basis.

<table>
<thead>
<tr>
<th></th>
<th>Group 1983</th>
<th>Company 1982</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R000</td>
<td>R000</td>
</tr>
<tr>
<td><strong>12. Trading income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>After charging the items set out below:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors’ remuneration</td>
<td>431</td>
<td>339</td>
</tr>
<tr>
<td>Audit fees</td>
<td>414</td>
<td>330</td>
</tr>
<tr>
<td>Fees for other services</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Depreciation of fixed assets</td>
<td>6 545</td>
<td>3 931</td>
</tr>
<tr>
<td>Finance lease charges</td>
<td>2 167</td>
<td>1 643</td>
</tr>
<tr>
<td>Interest paid</td>
<td>8 885</td>
<td>3 130</td>
</tr>
<tr>
<td>Fixed loans</td>
<td>3 329</td>
<td>1 456</td>
</tr>
<tr>
<td>Bank and other borrowings</td>
<td>5 471</td>
<td>1 621</td>
</tr>
<tr>
<td>Subsidiary companies</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td><strong>Less on sale of fixed assets</strong></td>
<td>801</td>
<td>143</td>
</tr>
<tr>
<td><strong>Provision for trading losses in subsidiary companies</strong></td>
<td></td>
<td>(24)</td>
</tr>
<tr>
<td>Remuneration paid for managerial services</td>
<td>59</td>
<td>67</td>
</tr>
<tr>
<td>Remuneration paid for technical services</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Emoluments of directors of the company</td>
<td>217</td>
<td>137</td>
</tr>
<tr>
<td>For services as directors</td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>For managerial and other services</td>
<td></td>
<td>155</td>
</tr>
<tr>
<td>Pensions</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td><strong>Less: Paid by subsidiary companies</strong></td>
<td></td>
<td>235</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18</td>
</tr>
<tr>
<td><strong>13. Income from subsidiary companies:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>324</td>
<td>233</td>
</tr>
<tr>
<td>Fees</td>
<td></td>
<td>2 271</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td>167</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>324</strong></td>
<td><strong>233</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Company 1982</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R000</td>
</tr>
<tr>
<td><strong>Less: Paid by subsidiary companies</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                      | 1 676 |
| **14. Income from investments:** | 1 960 |
| Listed investments — dividends | 2 122 | 1 676 |
| Other investments — dividends and interest | 1 036 | 803 |
| **Total** | **3 158** | **2 479** |

|                      |  | **1 676** |
| **Interest** |  | 158 |

|                      |  | **3 158** |

|                      |  | **2 479** |

|                      |  | **1 739** |
|-----------------------------|----------|----------|----------|----------|
|                             | R000     | R000     | R000     | R000     |
| **15. Taxation:**          |          |          |          |          |
| Current:                    |          |          |          |          |
| South African normal taxation |        |          |          |          |
| Foreign income and withholding taxation | 4 066    | 11 497   | —        | 5 645    |
| Deferred taxation           | (738)    | 115      | (821)    | 77       |
| Tax attributable to timing differences arising during current year |          |          | (826)    |          |
| Change in rate of taxation on previous year's timing differences |          |          | 115      | (903)    |
| Adjustment of prior periods' taxation |          |          |          |          |
| South African normal taxation | (670)    | (31)     | (640)    | (36)     |
| Deferred taxation           |          |          |          |          |
| Assessed losses brought forward and set-off against current taxable income have reduced the tax charge for the year by |          |          | 3 402    | 11 782   |
| Assessable losses, after setting off deferred taxable income, which are available for the reduction of future taxable income are estimated at |          |          | (30)     | (11)     |
| Of which the ordinary shareholders' interest is estimated at |          |          | (670)    | (647)    |
| 6 844                        | 1 688    | 6 579    | —        |          |
| 6 838                        | 859      | 6 579    | —        |          |
| &nbsp;                        |          |          |          |          |
| **16. Extraordinary items:** |          |          |          |          |
| Reduction in liability arising from the acquisition of fixed assets as a result of fluctuations in foreign currency exchange rates | 5 827    | —        | 5 827    | —        |
| Surplus on sale of land and buildings | 932      | 660      | —        | 78       |
| Surplus (loss) on disposal of portion of the group | 563      | (228)    | 65       | 805      |
| Amounts written off investments | (1 020)  | (865)    | (1 000)  | (845)    |
| Attributable to outside shareholders |          |          | 6 302    | (344)    |
| 750                          | 217      | 4 892    | —        | 38       |
| 5 552                        | (561)    | 4 892    | —        | 38       |
|                             |          |          |          |          |
| **17. Dividends:**          |          |          |          |          |
| No. 152 paid to shareholders registered on December 3, 1982 | 1 538    | 1 423    | 1 538    | 1 423    |
| No. 153 payable to shareholders registered on June 3, 1983 | 3 075    | 2 985    | 3 075    | 2 985    |
| Less: Attributable to 45 000 shares held by a subsidiary | 4 613    | 4 408    | 4 613    | 4 408    |
| 135                          | 135      |          |          |          |
| 4 478                        | 4 273    | 4 613    | 4 408    |          |
|                             |          |          |          |          |
| **18. Earnings per share:** |          |          |          |          |
| Earnings per share represent the net income in cents after taxation but before extraordinary items, and after deducting the net income attributable to outside shareholders, divided by the weighted average number of ordinary shares in issue | 908      | 1 028    | 800      | 786      |
| Earnings per share after adjusting for shares in the company held by a subsidiary are | 936      | 1 061    |          |          |
|                             |          |          |          |          |
| **19. Change in the basis of accounting:** |          |          |          |          |
| During the year a subsidiary company changed its method of determining the value of its retail merchandise stock from the first-in, first-out basis to the last-in, first-out basis. The effect of the change in 1983 has been to reduce group net income before extraordinary items by R806 000 and to reduce earnings per share by 53 cents. |          |          |          |          |
APPENDIX 5: EXAMPLE OF FINANCIAL STATEMENT

Source and application of funds statement

FOR THE YEAR ENDED FEBRUARY 28

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R000</td>
<td>R000</td>
<td>R000</td>
<td>R000</td>
</tr>
<tr>
<td><strong>Source of funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income before taxation</td>
<td>20,965</td>
<td>31,393</td>
<td>11,327</td>
<td>17,041</td>
</tr>
<tr>
<td>Taxation</td>
<td>3,372</td>
<td>11,751</td>
<td>8,311</td>
<td>5,715</td>
</tr>
<tr>
<td>Net income after taxation</td>
<td>17,593</td>
<td>19,642</td>
<td>12,158</td>
<td>11,326</td>
</tr>
<tr>
<td>Items not affecting the flow of funds</td>
<td>7,248</td>
<td>4,188</td>
<td>4,125</td>
<td>1,887</td>
</tr>
<tr>
<td>— Depreciation, loss on sale of fixed assets, deferred taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds derived from operations</td>
<td>24,841</td>
<td>23,830</td>
<td>16,283</td>
<td>13,213</td>
</tr>
<tr>
<td>Reduction in liability arising from the acquisition of fixed assets as a result of fluctuations in foreign currency exchange rates</td>
<td>5,639</td>
<td>—</td>
<td>5,827</td>
<td>—</td>
</tr>
<tr>
<td>Increase in share capital and premium</td>
<td>969</td>
<td>2,386</td>
<td>990</td>
<td>2,450</td>
</tr>
<tr>
<td>Adjustment arising from changes in the group’s interest in subsidiary companies</td>
<td>30</td>
<td>81</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Increase in outside shareholders’ interest in subsidiary companies</td>
<td>915</td>
<td>257</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds of loans raised</td>
<td>8,965</td>
<td>12,538</td>
<td>—</td>
<td>12,538</td>
</tr>
<tr>
<td>Proceeds from sale of fixed assets</td>
<td>3,020</td>
<td>2,472</td>
<td>289</td>
<td>384</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>2,004</td>
<td>2,008</td>
<td>171</td>
<td>154</td>
</tr>
<tr>
<td>Plant, machinery, vehicles, furniture and fittings</td>
<td>1,016</td>
<td>464</td>
<td>118</td>
<td>230</td>
</tr>
<tr>
<td>Proceeds from sale of shares in subsidiary companies</td>
<td>—</td>
<td>240</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from realisation of investments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Decrease in net current assets</td>
<td>7,008</td>
<td>5,172</td>
<td>11,821</td>
<td>10,698</td>
</tr>
<tr>
<td><strong>Application of funds:</strong></td>
<td>51,387</td>
<td>46,976</td>
<td>35,278</td>
<td>40,133</td>
</tr>
<tr>
<td>Partial repayment of loans</td>
<td>3,654</td>
<td>2,856</td>
<td>2,374</td>
<td>2,282</td>
</tr>
<tr>
<td>Acquisition of fixed assets</td>
<td>36,677</td>
<td>32,354</td>
<td>24,521</td>
<td>23,670</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>7,251</td>
<td>956</td>
<td>345</td>
<td>515</td>
</tr>
<tr>
<td>Plant, machinery, vehicles, furniture and fittings</td>
<td>29,376</td>
<td>28,716</td>
<td>24,176</td>
<td>23,155</td>
</tr>
<tr>
<td>Publishing rights</td>
<td>50</td>
<td>2,682</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Increase in net amounts owing by subsidiary companies</td>
<td>—</td>
<td>—</td>
<td>1,883</td>
<td>4,166</td>
</tr>
<tr>
<td>Purchase of shares in a subsidiary company</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>218</td>
</tr>
<tr>
<td>Increase in investments</td>
<td>4,841</td>
<td>5,689</td>
<td>1,887</td>
<td>5,389</td>
</tr>
<tr>
<td>Dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>— Members</td>
<td>4,478</td>
<td>4,273</td>
<td>4,613</td>
<td>4,408</td>
</tr>
<tr>
<td>— Outside shareholders</td>
<td>1,737</td>
<td>1,804</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Decrease in net current assets:</strong></td>
<td>51,387</td>
<td>46,976</td>
<td>35,278</td>
<td>40,133</td>
</tr>
<tr>
<td>Increase in stock</td>
<td>(2,800)</td>
<td>(13,402)</td>
<td>(1,685)</td>
<td>(927)</td>
</tr>
<tr>
<td>Increase in debtors</td>
<td>(3,281)</td>
<td>(5,226)</td>
<td>(839)</td>
<td>(3,867)</td>
</tr>
<tr>
<td>Decrease (increase) in bank balances, deposits at call and cash</td>
<td>(4,687)</td>
<td>6,568</td>
<td>489</td>
<td>3,405</td>
</tr>
<tr>
<td>Increase (decrease) in creditors and taxation</td>
<td>(2,016)</td>
<td>8,936</td>
<td>(872)</td>
<td>3,031</td>
</tr>
<tr>
<td>Increase in bank overdrafts and other current borrowings</td>
<td>19,702</td>
<td>7,468</td>
<td>14,438</td>
<td>8,205</td>
</tr>
<tr>
<td>Increase in dividend payable</td>
<td>90</td>
<td>828</td>
<td>90</td>
<td>851</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,008</td>
<td>5,172</td>
<td>11,821</td>
<td>10,698</td>
</tr>
</tbody>
</table>
These papers constitute the preliminary findings of the Second Carnegie Inquiry into Poverty and Development in Southern Africa, and were prepared for presentation at a Conference at the University of Cape Town from 13-19 April, 1984.

The Second Carnegie Inquiry into Poverty and Development in Southern Africa was launched in April 1982, and is scheduled to run until June 1985.

Quoting (in context) from these preliminary papers with due acknowledgement is of course allowed, but for permission to reprint any material, or for further information about the Inquiry, please write to:

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