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Executive Summary

The contributions of the accounting and finance departments to driving businesses towards success are indispensable. The following context showcases how accounting functions help Pan African Resources Plc. in managing invoices and billing, payroll and accounts payable and receivables, as well as preparing financial reports. Apart from that, with the help of finance functions, the firm can identify investment opportunities, manage working capital, raise capital, establish internal controls and make financial plans. Other than that, the financial performance of PAR Plc. was also recognised with the help of specific financial ratios, such as ROCE, current ratio, net profit margin and more. The liquidity and profitability of PAR Plc. Deteriorated in 2022 as compared to 2021. Therefore, some recommendations have been suggested that can enhance the performance standard of the firm. As a result, investors can provide the firm with the required funds for its mine acquisition project.

Table of Contents

Introduction	4
Task 1: Functions of Accounting and Finance within Pan African Resources Plc.	5
Defining accounting and finance with examples	5
Critically analysing the finance and accounting functions within Pan African Resources	6
Task 2: Calculation of financial ratios to identify the financial health of Pan African Resources	9
Explaining the financial reports of Pan African Resources	9
Highlighting the financial health of PAR Plc. for the years 2021 and 2022 by using financial ratios.....	10
Assessing the ratio outcomes to acknowledge possible causes and effects of changes.....	12
Conclusion	15
References.....	16

Introduction

The report aims to derive information based on the financial wealth of a company before inviting investors for a new project investment. The objectives are to demonstrate the importance of both the finance and accounting departments towards the welfare of the company. The accounting department is termed as a specific department within the company which collects, organises, records and analyses all the financial data which are collected from the daily operations of the business. (Esam, 2024). On the other hand, the Finance department is responsible for managing all financial processing of the company, such as financial decisions, allocation of funds and others. Here, the importance of the finance and accounting department will be described in relation to Pan African Resources Plc. Thus, the important role of the finance and accounting department will be evaluated by describing the functional process and key operations undertaken by the department. Moreover, the financial health of this organisation will be analysed with the help of certain financial ratios such as current ratio, net profit margin, return on capital employed and others. Moreover, the financial statements, like income statements and balance sheets of the firm, will be assessed based on the provided information. The perspectives of investors on the firm's decision to purchase a mine within 5 years, which will require \$150 million.

Task 1: Functions of Accounting and Finance within Pan African Resources Plc.

Pan African Resources PLC is an African-focused gold producer which is listed on the Johannesburg Stock Exchange as well as the London AIM market, along with the Level 1 ADR programme, which is sponsored by the Bank of New York Mellon. Around 5000 employees work for this company, which belongs mainly to the mining industry. Moreover, the headquarters of this company is located in Rosebank, Gauteng. (panafricanresources, 2024). The company possesses and operates high-quality operations in South Africa with a production capacity of more than 200,000 oz of gold each year along while committing zero environmental harm.

Pan African Resource Plc is planning to expand its business by acquiring another mine within the next five years. The overall acquisition is estimated at \$150 million, which the company plans to raise from different sources of funding. Other than this, it will help the company expand in a wider range with the capacity to bring effective competition within the market.

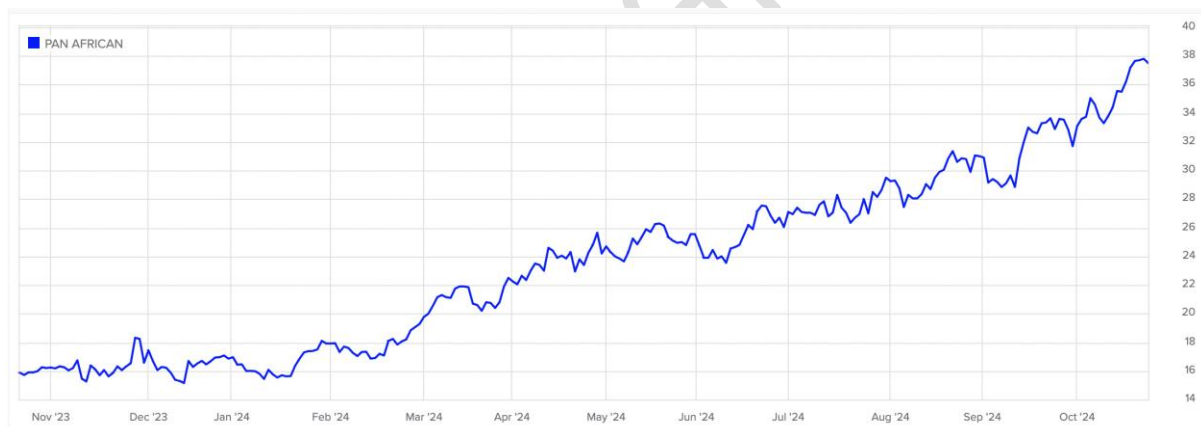


Figure: Share price of Pan African Resource Plc

Source: (londonstockexchange, 2024)

Defining accounting and finance with examples

Accounting

Accounting is acknowledged as the procedure of monitoring business transactions like income and expenses over a particular period. This process can also help in providing information on the business health of the company, which can stimulate its strategic growth and resource management (Iwuozor, 2024). There are various types of accounting which manage different domains of business. As an example, financial accountants of PAR Plc. Record and process financial transactions and overall cash

flow, along with preparing financial statements. Other than that, the management accountants of PAR Plc. Focus on interpreting financial information and making well-informed decisions. Tax accounting aids the firm in preparing and submitting tax returns before the deadline.

Finance

The study of finance depicts how organisations manage their assets and money, as well as the production and distribution of these financial resources. Apart from that, finance involves the evaluation of financial information, the creation of financial strategies and the allocation of financial resources to achieve business goals. (Mather, 2022). As an example, the finance function helps PAR Plc in strategic decision-making, resource allocation, risk management and more.

Critically analysing the finance and accounting functions within Pan African Resources.

Roles of the Accounts Department

Invoicing and billing: The Accounting Department of Pan African Resources is responsible for creating and monitoring invoices to analyse sales margin. The department also ensures the customers are satisfied with the billing and invoicing process, or it can negatively impact the business. Other than that, the department also ensures that the invoicing and billing systems are aligned with other accounting processes.

Budgeting: The accounting department is responsible for generating and revising the budgets and forecasts of the company. Budgeting is one of the most powerful tools for planning, implementing and assessing organisational operations, which provides a well-defined financial plan. (Schmidt, 2024). To avoid problems, the department ensures that its budget projections are dependent on accurate and reliable data.

Financial reporting: Preparing financial reports on a quarterly or yearly basis is one of the primary roles of the accounting department within Pan African Resources. Accounting teams need to prepare financial statements based on accurate data. However, inaccurate financial statements can make shareholders lose interest in investing in the company. (Russo, 2022). Therefore, the team needs to comply with all the accounting regulations, such as IFRS standards, to prepare accurate and transparent financial reports.

Accounts payable and receivables: The accounting teams of PAR Plc. are also accountable for ensuring the firm pays all its vendors on time. If the firm fails to pay off its vendors, it can lead to negative consequences, such as damaged relationships with suppliers, poor reputation and more. (Luenendonk, 2024). Apart from that, the accounting team also managed the accounts receivable by driving the company to collect payments from clients as soon as possible.

Managing payroll: Financial accountants are primarily responsible for managing the payroll system and worker compensation within PAR Plc. The accounting team ensures the completeness and accuracy of all the payroll data and processing to avoid further issues. They also focus on acknowledging and resolving all types of payroll discrepancies and mistakes.

Roles of the Finance Department

Managing working capital: Often, companies like Pan African Resources encounter specific challenges regarding effectively managing working capital. Hence, the finance department of the firm focuses on formulating an effective strategy to properly maintain working capital. As a result, the firm can easily carry out its daily business operations without any complexities (Boisjoly *et al.*, 2020). This function also allows them to monitor and regulate the inventory, cash flow and liabilities of the company.

Raising capital: The success of a business depends on its ability to raise capital from internal and external sources. The Finance Department of Pan African Resources is responsible for making well-informed decisions on accumulating capital from specific sources. (Mather, 2022). After evaluating the financial status of the business, the finance team determines whether equity financing or debt financing will be beneficial for the business.

Investing capital: Choosing appropriate investment opportunities is another important function of a business for long-term success. Moreover, the finance department of PAR Plc. Focuses on assessing multiple investment options and determining where to distribute funds (Klychova *et al.*, 2019). The team also evaluates potential risks and returns of all the investment opportunities while undertaking this function.

Establishing internal controls: The finance team is accountable for identifying potential risks, establishing a control environment, segregating duties, executing the control system over financial reporting, as well as monitoring the effectiveness of the control system (Chalmers *et al.*, 2019). The finance department utilises auditing

and accounting procedures to ensure the accuracy and integrity of regular compliance and financial statements.

Managing Risk: The finance department plays a crucial role in managing all kinds of risk and analysing high or low-risk factors from every investment. Furthermore, it also describes the managerial operations of Pan African Resource Plc to invest in the correct area after inspecting the risk factors (Chalmers *et al.*, 2019). Apart from this, the measurement of risk is very important for analysing the business growth and maximising potential for business development.

Conclusion of the explanation

It can be concluded from the above that both the finance and accounting department manages and operate all the financial funds, decision-making and allocation of resources. Moreover, it helps in enhancing the business function by promoting growth and increasing efficiency. Other than this, the Pan African Resource Plc can expand by acquiring another mine with the resources, which can help in developing business growth. Apart from this, it has been analysed accordingly that the role of the finance and accounting department can measure all possible risks for future development.

Task 2: Calculation of financial ratios to identify the financial health of Pan African Resources

Explanation of the financial statement and its main elements

Financial statements or reports provide information on the financial performance and business health of the organisation. These statements also act as the foundation for effective financial planning, which allows companies to manage their financial activities and boost financial performance.

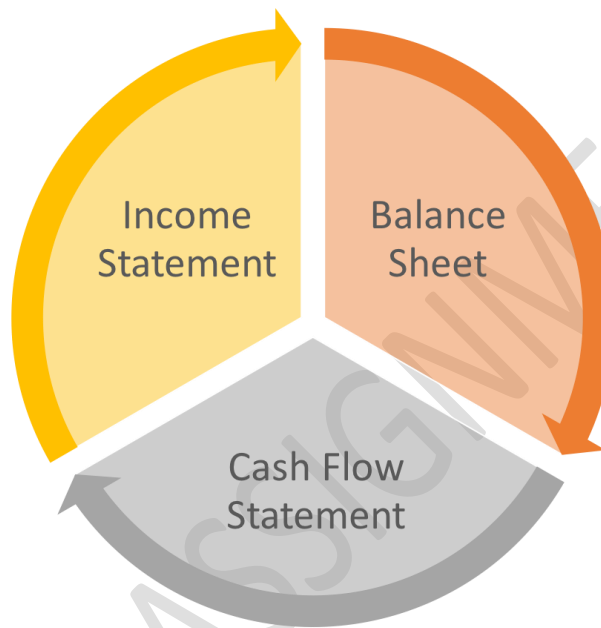


Figure 1: Financial statements

Source: (BDC, 2024)

Income statement: Known as the profit and loss statement. This financial report provides a summary of the organisation's expenses, income, as well as profit or losses over a particular time frame. Assessing income statements allows firms like PAR Plc. to acknowledge potential risks, distribute resources and assess growth opportunities. (Masciocchi, 2020). The income statement of PAR Plc. for the years 2021 and 2022 has been provided. It can be observed that the sales margin of the firm increased from \$316,000 in 2021 to \$336,200 in 2022. However, due to high expenses, the net profit reduced from \$86,800 in 2021 to \$68,500.

Balance Sheet: Acknowledged as the statement of financial position, the balance sheet depicts information on the liabilities and assets of the company. Moreover, the balance sheet is considered one of the significant tools that help the firm and its stakeholders to acknowledge the financial position of the business and make informed

decisions. The balance sheet of PAR Plc, for 2021 and 2022, has been provided, outlining current and non-current assets as well as current and non-current liabilities (Amond, 2024). It can be observed that the asset margins of the company decreased from \$478,000 in 2021 to \$465,000.

Cash flow statement: Although there is no information on the cash flow statement of the firm, it is still one of the most significant statements, which encapsulates information on all the cash activities of the firm (BDC, 2024). With the help of this statement, financial professionals of PAR plc. can determine whether they possess enough funds to pay liabilities and purchase assets.

Highlighting the financial health of PAR Plc. for the years 2021 and 2022 by using financial ratios

Ratios	Formulas	2021	2022	Changes in ratios
Return on Capital Employed (ROCE)	$(\text{GP} - \text{Operating expenses} / \text{Total assets} - \text{Total liabilities}) * 100$	$(129,500 - 35,200) / (478,000 - 156,000) * 100$ $= (94,300 / 322,000) * 100$ $= 29.29\%$	$(145,100 - 70,600) / (465,000 - 122,200) * 100$ $= (74,500 / 342,800) * 100$ $= 21.73\%$	29.29% - 21.73% $= 7.56\%$
Net Profit Margin	$(\text{Net Profit} / \text{Sales}) * 100$	$(86,800 / 316,000) * 100$ $= 27.47\%$	$(68,500 / 336,200) * 100$ $= 20.37\%$	27.47% - 20.37% $= 7.1\%$
Current Ratio	$\text{Current Asset} / \text{Current Liability}$	$79,400 / 81,000$ $= 0.98$	$60,600 / 62,200$ $= 0.97$	0.98 - 0.97 $= 0.01$

Debtors collection period	(Trade Receivables/Credit Sales) * 365	(24,400/316,000) * 365 = 28.18 Days	(18,500/336,200) * 365 = 20.08 Days	28.18 - 20.08 = 8.1 Days
Creditors Collection Period	(Trade Payables/Credit Purchase) * 365	(76,400/179,200) * 365 = 155.61 Days	(60,100/190,500) * 365 = 115.15 Days	155.61 - 115.15 = 40.46 Days

Assessing the ratio outcomes to acknowledge possible causes and effects of changes

Return on capital employed

Definition: It is one of the important profitability ratios which is used by financial professionals of firms like PAR Plc to assess their capital efficiency and profitability (Doyle, 2024).

Comparison: With the help of a step-by-step formula, the values of ROCE are identified for the years 2021 and 2022. The ROCE of PAR Plc. decreased from 23.75% in 2021 to 18.50% in 2022.

Meaning: It can mean the firm is not properly utilising its capital to generate profits.

Reasoning: Other than that, other reasons can lead to low ROCE, such as poor revenue growth, inadequate cost control, high debt levels, poor management decisions, economic downturn, lack of diversification and more.

Ways to Improve: In order to improve the ROCE margin, the organisation needs to streamline its operations, foster continuous evaluation and monitoring and optimise capital allocation.

Net profit margin:

Definition: This particular profitability ratio helps financial professionals of PAR Plc. Estimate the specific percentage of the overall profit that it generates from its total sales revenue. (Strohkorb, 2024).

Comparison: The net profit margin of PAR Plc. was 27.47% in 2021, and the margin decreased to 20.37% in 2022. Despite high sales revenue in 2022 as compared to 2021, the net profit margin reduced due to high expenses.

Meaning: The company is making a loss as the expenses are increased, but the profit income is constant.

Reasons: Apart from that, other reasons for this decline in net profit margin include high operating expenses, high COGS, inefficient supply chain management, poor inventory management, low sales volumes, ineffective marketing strategies, poor pricing strategies and more.

Ways to Improve: The company needs to streamline overall operations, execute a more effective inventory management system, use cost-cutting measures and strengthen relationships with suppliers in order to boost net profitability.

Current ratio:

Definition: The current ratio is categorised as a liquidity ratio, which allows financial experts to acknowledge the firm's capability in paying short-term debts with its current assets (Sadden, 2021).

Comparison: There is a slight difference between the current ratio values of the two years; for instance, the current ratio of PAR Plc. in 2021 was 0.98 and 0.97 in 2022. After dividing the current assets by current liabilities, the values of the current ratios for the years 2021 and 2022 are identified.

Meaning: Since the margins are below 1, it means the company struggles to cover its near-term obligations with available current assets.

Reasoning: The reasons for the decline in the current ratio margin in 2022 include low current assets, overstocking, high accounts payable, poor liquidity management, economic downturn, high current liabilities and others.

Ways to Improve: Henceforth, the firm should focus on restructuring or repaying debts, improving cash flow management, eliminating unused assets, reducing inventory levels and reducing current liabilities to improve the current ratio and liquidity position.

Debtors' Payment Period:

Definition: Although the efficiency ratio does not impact the financial health of the firm, it is still important to measure the efficiency of the firm (Sadden, 2021).

Comparison: Pan African Resources Plc. took 28.18 days in 2021 and 20.08 days to collect money from customers, businesses or others that owed money to the business for products or services provided.

Meaning: It means the firm is able to quickly collect its money from debtors.

Reasons: The cash sales operation of the company is very impressive, but it can affect the revenue growth of the company.

Ways to improve: Moreover, PAR Plc. can streamline invoices, improve customer relationships, establish clear payment terms and automate collection processes to improve average receivables days.

Creditors Payment Period:

Definition: Calculating this particular efficiency ratio allows firms like PAR plc to measure the average days they take to pay their vendors, suppliers and other creditors.

Comparison: The payable days of PAR Plc. Decreased from 149.52 days in 2021 to 114.73 days in 2022.

Meaning: It can be observed that the payable day is significantly higher than the industry standards, which means the firm faces problems in regard to paying its creditors.

Reason: Thus, the company is purchasing goods on high credit dates, which results in an increase in purchasing price.

Ways to Improve: PAR Plc. Needs to optimise its cash flow, negotiate optimum payment conditions from suppliers and implement AP automation software to reduce the number of payable days (Bostan and Dragomirescu, 2024).

Investors' perspective on the firm's performance

The perspectives of investors are important when it comes to assessing the financial position and business health of the company. Investors or shareholders are considered important stakeholders as they provide the business with the required funds to expand the business or invest in growth and development projects (Crane, 2020). Here, the profitability, liquidity and efficiency of Pan African Resources have been identified and compared between 2021 and 2022. After evaluating the financial status of the firm, it can be acknowledged that the profitability and liquidity of the firm deteriorated in the current year for multiple reasons. The company is focusing on collecting around \$150 million for its mine acquisition project. However, deteriorated ROCE and net profit margin can negatively impact the investment decisions of investors. Henceforth, Pan African Resources Plc. Needs to improve its financial performance, specifically in terms of ROCE, to positively influence investors' investment decisions.

Conclusion

In order to improve liquidity and profitability position, the firm needs to implement effective strategies like recruiting talented employees, strengthening marketing strategies, reducing costs, improving payable days, streamlining business processes and more. Therefore, implementing these strategies can allow Pan African Resources Plc to influence the investment decisions of investors. Despite low ROCE or net profitability, investors should provide the firm with the required funds for its mine acquisition project. Moreover, investing in the project can enhance the firm's potential for growth and ROI. The firm should also formulate an effective plan by addressing the potential risks of the project. Here, the aforementioned context portrayed the role and functions of the accounting department within PAR Plc., such as invoicing and billing, budgeting, financial reporting, accounts payable and receivable and managing payroll. The role of the finance department has also been highlighted, for instance, managing working capital, raising capital, investing capital, establishing internal controls and financial planning. After that, different types of financial ratios have been used to acknowledge and compare the financial health of PAR plc. in 2021 and 2022. Based on the outcomes of the ratio, reasons for the change and recommendations have been provided.

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