WAGE NEGOTIATIONS

...SOME PRACTICAL INFORMATION

T.U.R.P.

TRADE UNION RESEARCH PROJECT

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Wage negotiations... Some practical information

The intention of this booklet is to assist unionists, shop stewards and organisers with preparation for wage negotiations.

It raises ideas on how to deal with the common arguments that are used by management.

This booklet is not a complete guide to wage negotiations. It concentrates mainly on economic factors which form only one part of wage negotiations.

The handbook is divided into two sections.

Section One deals with:

- Information about ownership, control and structure of South African companies
- How to read and understand the information in a company's annual report

Section Two deals with wage-related issues and it includes:

- Inflation
- Subsistence levels and other surveys
- Wages and wage policy

The booklet concludes with a checklist of information needed by wage negotiators and ends with a glossary of terms and a reference list.

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SECTION ONE

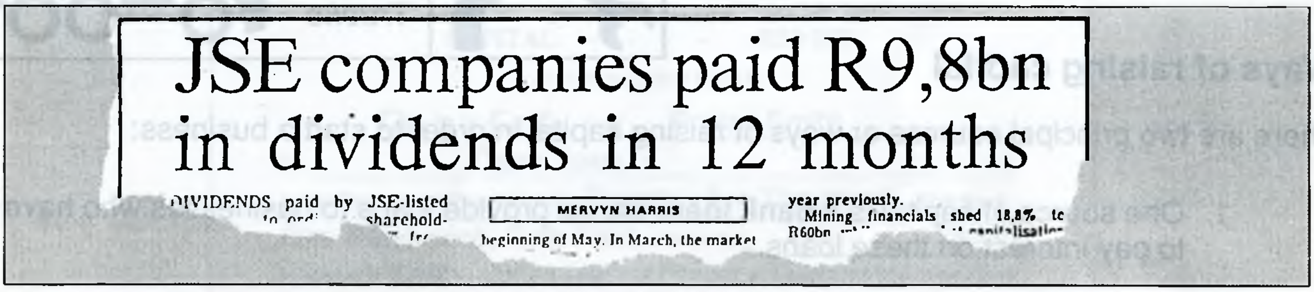
COMPANY INFORMATION

Chapter One: Ownership, control and structure of companies

This chapter contains information about the following:

1. How companies are set up

2. How shares make money



JSE companies paid R9,8bn in dividends in 12 months

DIVIDENDS paid by JSE-listed sharehold-

MERVYN HARRIS

beginning of May. In March, the market

year previously.

Mining financials shed 18,8%

3. Different types of companies

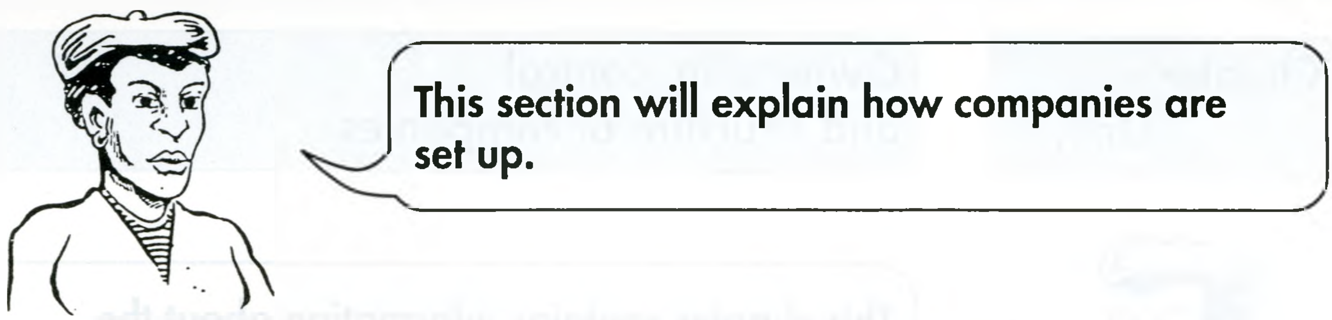
4. Ownership and management in a typical company

5. The structure of a group of companies

6. Where to find information on companies

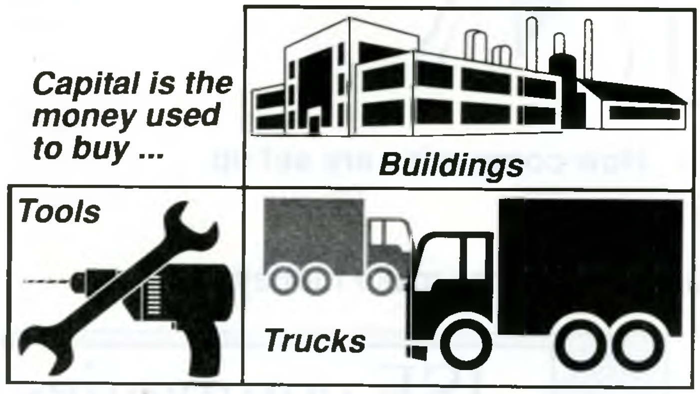
In this chapter you will find explanations for these words

- associate company
- capital
- dividend
- holding company
- multinational
- private company
- public company
- share
- shareholder
- stock exchange
- subsidiary company



South Africa (SA) has a capitalist economy. Companies in SA exist in order to make profit. The company's profits go to those people who own the shares of the company and who control the company.

To set up a business or company, the owner/s first need **capital.** Capital is the money that is used in a business to buy machines, factories, tools etc. and to cover other costs which will assist in the generation of income (profit).

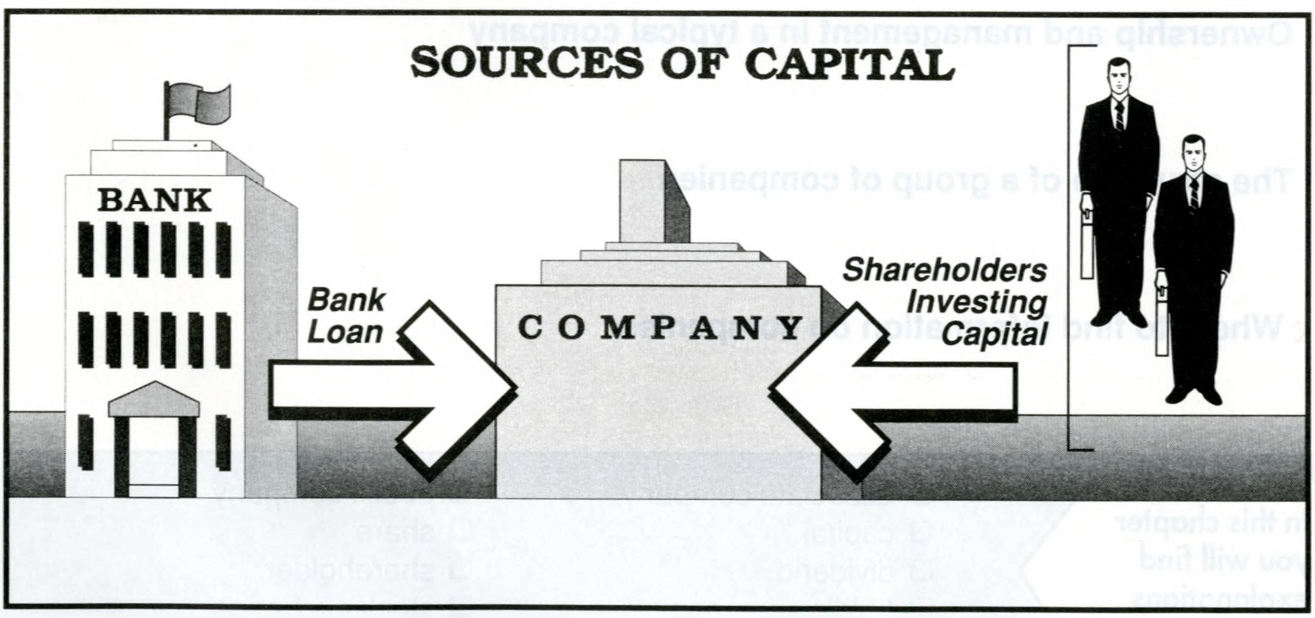


Ways of raising capital

There are two principal sources or ways of raising capital in order to start a business:

1. One source of capital is a **bank loan**. Banks provide loans to businesses who have to pay interest on these loans.

2. The other source of capital is by asking people or other companies to put (invest) money into the company. They will then become the **shareholders** of the company.



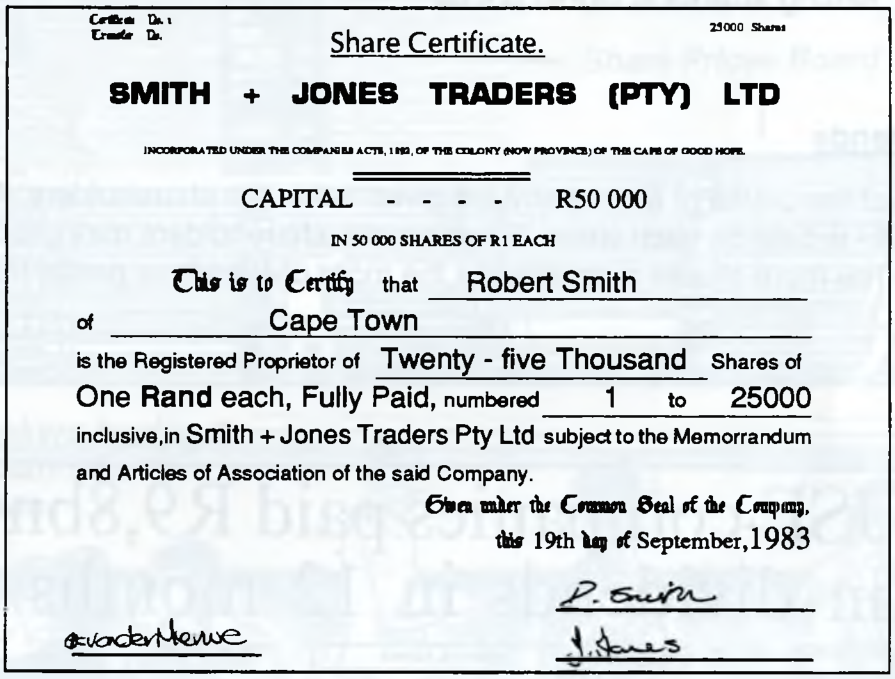
In return for investing capital in the business, the shareholder will now own a portion of the business, and will thus be entitled to a share of the profits made by the business.

Investing through shares

> When a company gets started, the price of a share is fixed at a certain amount, for example, R1 a share. If the company needs, for example, R70 000 to get started, it will issue 70 000 shares. The R70 000 is therefore raised by selling 70 000 shares at R1 a share.

Shares can be resold for much more and sometimes even less than the original price of the share. This is explained on the next page.

When people buy shares they are given a **share certificate** which states how much each share cost and how many shares were bought.


25000 Shares

Share Certificate.

SMITH + JONES TRADERS (PTY) LTD

INCORPORATED UNDER THE COMPANIES ACTS, 1892, OF THE COLONY (NOW PROVINCE) OF THE CAPE OF GOOD HOPE.

CAPITAL - - - - R50 000

IN 50 000 SHARES OF R1 EACH

This is to Certify that Robert Smith

of Cape Town

is the Registered Proprietor of Twenty - five Thousand Shares of One Rand each, Fully Paid, numbered 1 to 25000 inclusive,in Smith + Jones Traders Pty Ltd subject to the Memorrandum and Articles of Association of the said Company.

Given under the Common Seal of the Company, this 19th day of September,1983

Example of a share certificate

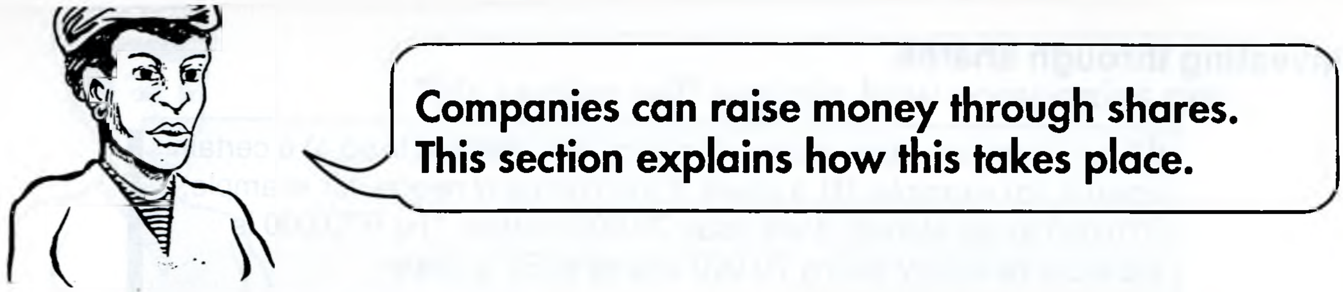
All companies must have a **share register** which lists the names of all the shareholders. Any member of the public can look at the register.

Shares represent ownership and control

Shares are used to measure **ownership** of a company. They are also used for **voting rights** at shareholders' meetings which are held at least once a year.

At these meetings, important decisions are made about the company. For example, the shareholders appoint directors to make profits for the company and to control the company on their behalf.

Those with the most shares have the most votes. Any shareholder with 51 % of the shares can control a company because that shareholder would control 51% of the voting rights of the company.



Shareholders of a company need not do any work at all to benefit from the profits that the workers make. All they have to do is invest their money in the company by buying shares.

They can make money from owning shares in two different ways:

1. By collecting **dividends** on shares or
2. By **selling shares** at higher prices.

Collecting dividends

Each year some of the profits of a company are given out to the shareholders. An amount - called a **dividend** - is paid on each share. For example, shareholders may get 30c for each share they own. The more shares a person has the more dividends or profits that person receives.

JSE companies paid R9,8bn in dividends in 12 months

DIVIDENDS paid by JSE-listed ... sharehold-

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...eginning of May. In March, the market

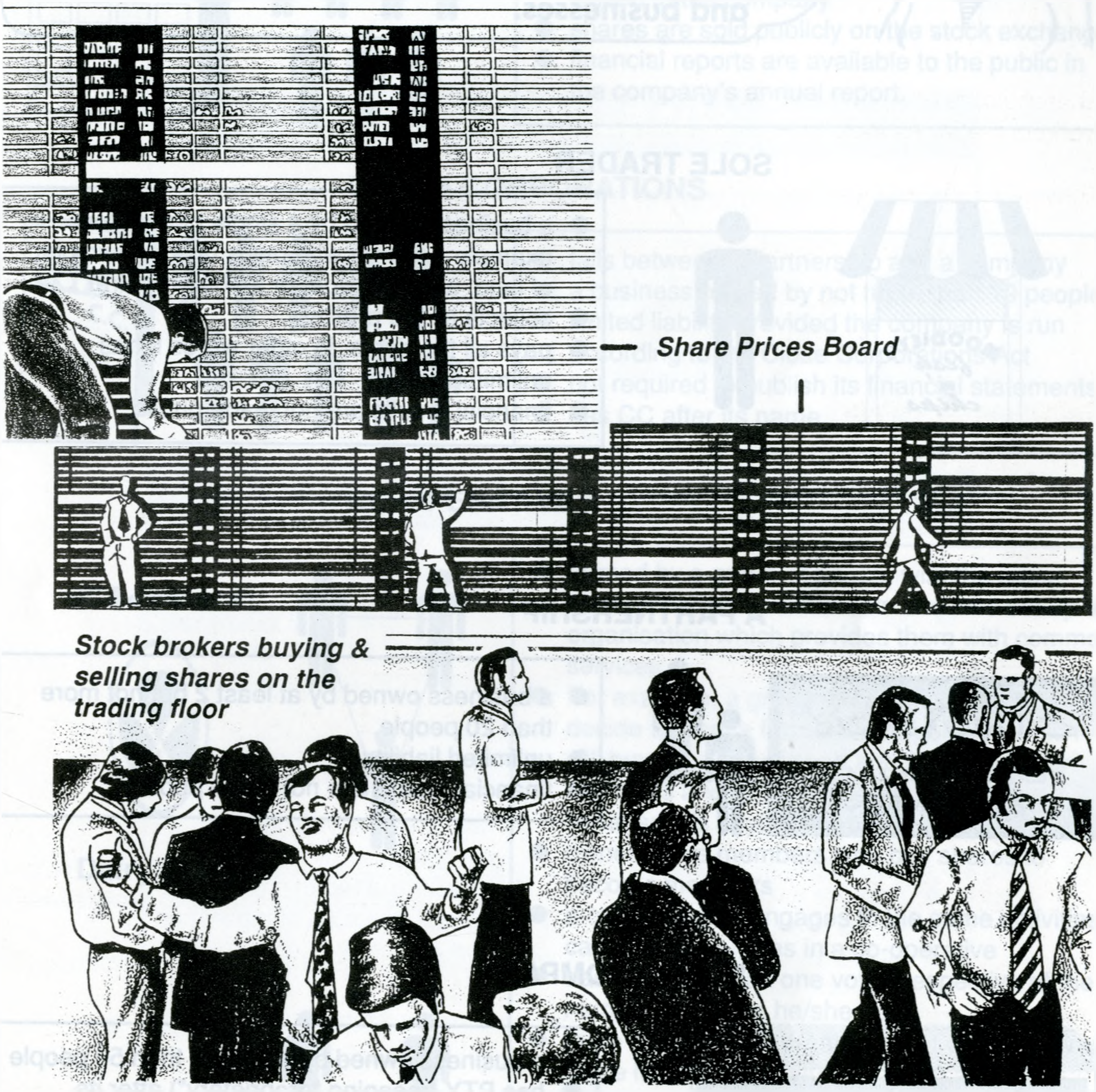
year previously.

Mining financials ...hed 18,8% to

Selling shares

If a company makes huge profits and pays out high dividends then a lot of people will want to own shares in that company and the value of each share will increase. Someone who invested in a new company by buying shares for R1 each might be able to sell them at R3 each. If 300 shares had been bought then a profit of R600 would have been made. Large companies buy thousands of shares and make enormous profits in this way.

The place where people buy and sell the shares of public companies is called the **stock exchange**. Some companies and even individuals make it their business to just make profits by buying and selling shares on the stock exchange.



However, huge losses can also be made through buying and selling shares on the stock exchange. In October 1987, the stock exchanges throughout the world experienced a "crash" which means that share prices dropped so low that shareholders lost millions of Rand.

Companies can be owned by a single person or by many people or by other companies. This section outlines the different types of companies and businesses.

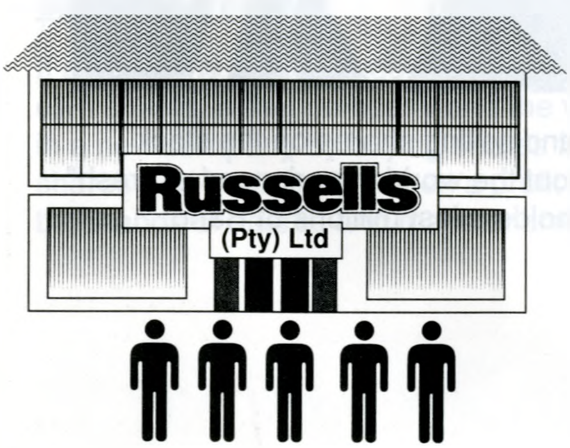
SOLE TRADER

- a business owned by a single person for example a farmer who owns his/her own plot of land, a shopkeeper or a shoe repairer
- collects all the profits
- pays all the debts, in other words it has unlimited liability
- financial results are not made public.

A PARTNERSHIP

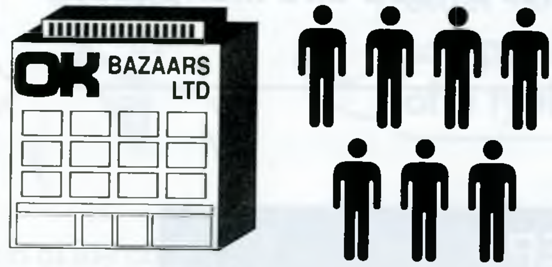
- a business owned by at least 2 but not more than 20 people.
- unlimited liability
- financial results are not made public.

PRIVATE COMPANY



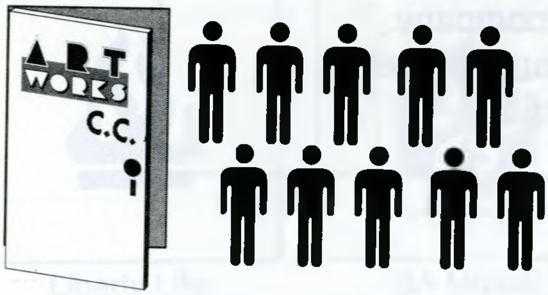
- a business owned by not more than 50 people
- has PTY (meaning "proprietary") after its name because the shareholders decide who can buy shares in the company
- has LTD (meaning "limited") after its name because responsibility for paying debts is limited to the company and not the individual owners
- shares cannot be sold publicly
- financial reports are not made public.

PUBLIC COMPANY



- a business owned by 7 or more people
- has LTD after its name because liability is limited to the company
- shares are sold publicly on the stock exchange
- financial reports are available to the public in the company's annual report.

CLOSE CORPORATIONS



- falls between a partnership and a company
- a business owned by not more than 10 people
- limited liability provided the company is run according to the Close Corporations Act
- not required to publish its financial statements
- has CC after its name.

CO-OPERATIVES

Clover

Dairy Co-Op

SAWCO
Sarmcol Workers Co-operative

- formed by a group of people with the same aims, activities and interests and who set up an organisation which provides them with common services
- For example, a group of small farmers may decide to form a farmers' co-operative which will buy supplies of seed and fertiliser for its members and get them at a lower price because it is buying in bulk
- owned by its members who buy shares to become members
- a company that engages in the same activities can also buy shares in a co-operative
- each member has one vote irrespective of the number of shares he/she has
- there are many different types of co-operatives; these include agricultural, trading and consumer co-operatives etc.
- a 'workers co-operative' is another type of co-operative which is organised and run by the workers, for example, the Sarmcol Workers Co-operative run by Numsa
- the number of people who own a co-operative depends on the type of co-operative that they form; liability is limited or unlimited depending on the decision of the group of people involved.

So how are companies owned and managed? This is how:

SHAREHOLDERS

- invest their money in the company by buying shares
- they are the actual owners of the company
- appoint directors to run the company for them
- benefit from the profits of the company.

DIRECTORS

- make decisions on the running of the company
- usually own some shares in the company
- appoint managers
- two kinds of directors: executive and non-executive

EXECUTIVE DIRECTORS

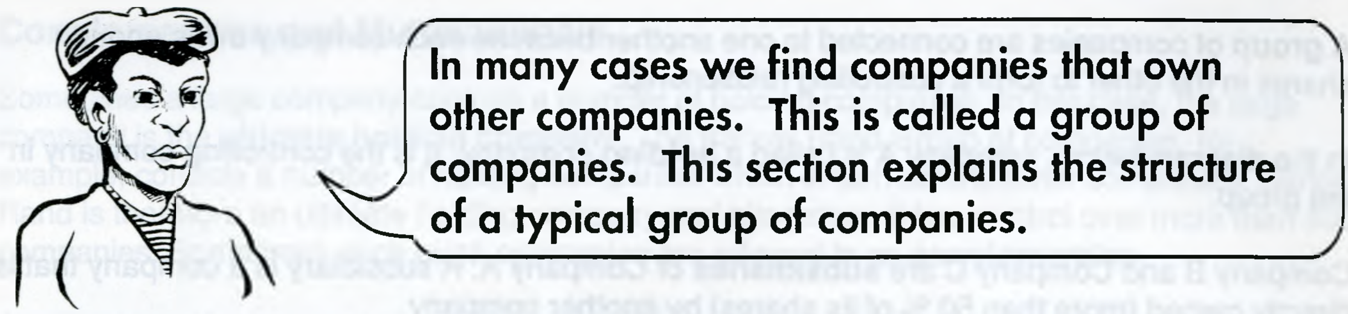
- work full time for the company.
- Receive a director's fee higher than other directors
- can be directors of more than one company

NON-EXECUTIVE

- attend and vote at board meetings
- receive a director's fee
- can be directors of more than one company

MANAGERS

- they make the day to day decisions about running the company
- they are chosen by the board of directors
- they are the employees of the board of directors



Most of the companies in South Africa are ultimately controlled by the seven large companies which are shown below.

("FSI") to be renamed FSI

Liberty Life | SA Mutual | FS Group | Rembrandt

Sanlam Assuring your tomorrow

Sanlam | Anglo American | Anglovaal Limited

Anglo American controls nearly 45 % of all the companies whose shares are listed on the Johannesburg Stock Exchange (JSE).

This control comes about through the **ownership of shares**. It works like this:

- Shareholders control a company through the Board of Directors that they appoint at a shareholders meeting.
- Shareholders with the most number of shares have the most votes at shareholders meetings.
- Shareholders with the most votes will be able to choose the directors they want and influence the way the company is run.

There are several kinds of relationships between controlling and controlled companies. The diagram on the next page shows the different kinds of relationships between companies:

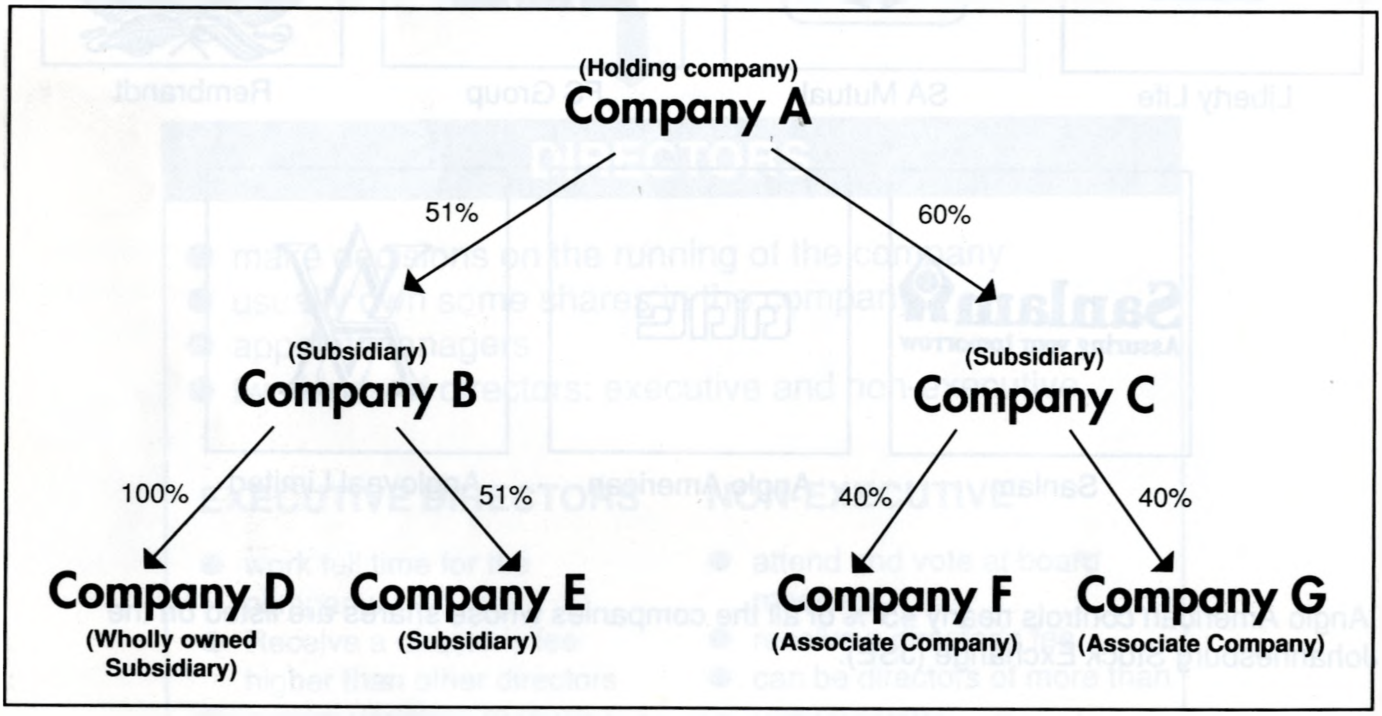
A **group** of companies are connected to one another because each company owns enough shares in the other to form a controlling relationship.

In the diagram below, company A is called a **holding** company. It is the controlling company in the group.

Company B and Company C are **subsidiaries** of Company A. A subsidiary is a company that is directly owned (more than 50 % of its shares) by another company.

Company D is a **wholly owned subsidiary** of Company B. A wholly owned subsidiary is a company that is 100% owned by another company.

Company E is an **associate** of Company C. An associate company is a company that has between 20 % and 49 % of its shares owned by another company.



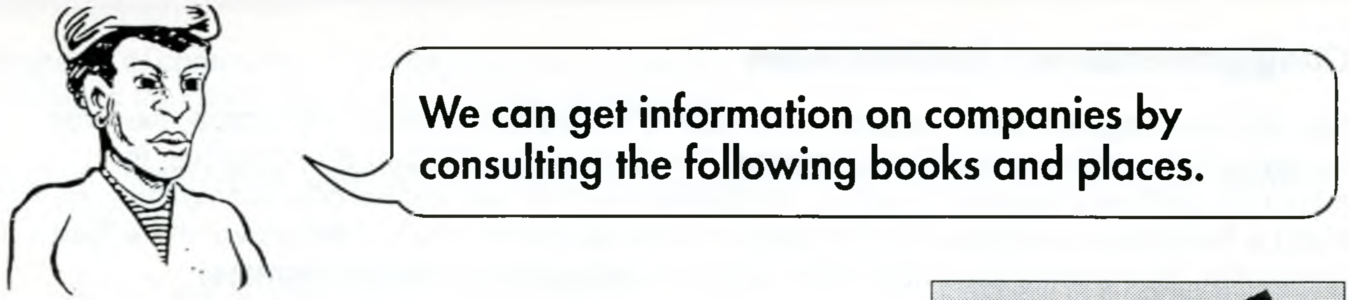
Conglomerates and Multinationals

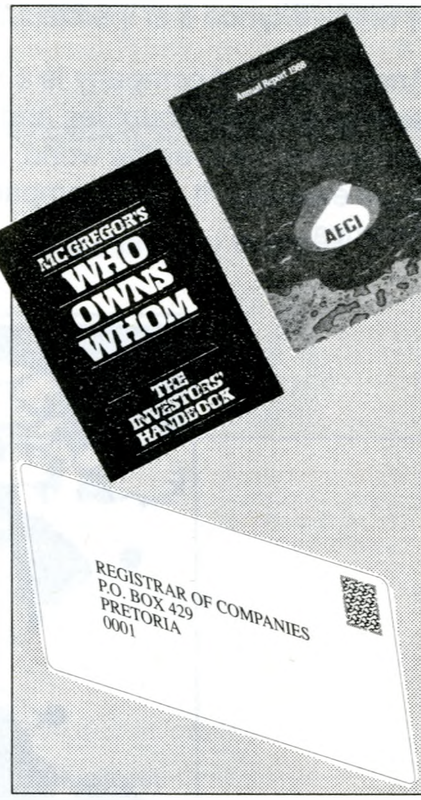
Sometimes a large company controls a number of holding companies. In this case, the large company is the **ultimate holding company**. The Barlow Rand Group of companies, for example, controls a number of holding companies which in turn control other companies. Barlow Rand is therefore an ultimate holding company and altogether, it has control over more than 400 companies. Sometimes such huge companies are referred to as **conglomerates**.

Another type of company is a **multinational**. This is a huge company that owns companies in several different countries and exploits the labour in these countries. Most of the smaller companies all over the world, are dominated by multinationals. Anglo American Corporation is a good example. It owns companies in Botswana, Zambia, South Africa, Britain, and South America.

Some of the many countries in which Anglo American owns companies.

Sometimes companies undergo rationalisation which means that they close down unprofitable sections of the company and expand or renovate the most profitable sections. Also, companies are continuously being bought or sold; for instance, multinationals often take over smaller companies. So the ownership and structure of companies change from time to time.





1. As far as ownership of public companies which are listed on the JSE are concerned, the best place to look is in a book called ***Who Owns Whom***. This book, which is written by **McGregors**, should be available at public libraries or at your local economic service organisation office.

2. If the company is a **public** company, it will put out an **annual report** each year. Different companies have different financial year ends, so these reports come out at different times. The annual report has a list of subsidiary companies at the back of the report. You can get the Annual Report by writing to the secretary of the company concerned.

3. Not all **public** companies are listed on the JSE. A way of getting the annual financial statements of an unlisted **public** company, is by writing to the **Registrar of Companies**, PO Box 429, Pretoria 0001. The Registrar cannot always provide the information on unlisted companies because these companies have a right not to submit their financial information to the Registrar.

4. There is also a **Registrar of Co-operatives** which provides financial information on co-operatives. Their address is: Private Bag X237 Pretoria 0001.

5. **Sole traders, partnerships and private companies** do not have to publish their annual reports as public documents. It is very difficult to get information about these companies. However, if the company is a **subsidiary** or an **associate** company which is owned by a large, public company, the parent company's annual report may have some information about it.

6. The **embassies** of the different countries are useful places to consult when looking for information on **multinationals**.

7. Another good place to look for information about companies and multinationals is in business newspapers and magazines. Examples are the ***Business Day*** newspaper and the ***Financial Mail*** magazine. Although most of the information given is on public companies, there are sometimes articles on other companies.

Chapter Two:	Understanding company reports

This chapter will help you to find certain information in a company report. It will also help you understand how a company operates financially.

1. How reliable company reports are

2. How to read through a company report

3. How a company operates financially

In this chapter you will find explanations for these words

- ❑ directors' emoluments
- ❑ extraordinary items
- ❑ fixed assets
- ❑ net profit
- ❑ operating profit
- ❑ production costs
- ❑ retained income
- ❑ retained profits
- ❑ turnover
- ❑ value added statement

Annual reports are put out for two main reasons:

Firstly, all companies that are listed on the Johannesburg Stock Exchange (JSE) are required to make their annual reports available to the public. So there is a **legal duty** to provide an annual report.

The second reason is so that the shareholders, or owners of the company, can see how their company is doing. The aim of the annual report is to **satisfy the shareholders** and any prospective shareholders, that the company is doing well and is likely to do better in the future.

In many cases the annual report paints a rosier picture than the actual situation in the company. Management usually does this in order to attract potential shareholders and maintain or even increase the price of their shares.

The chairman's statement may warn the shareholders that times will be difficult, and usually blames the economy or the market, but he seldom blames the management of the company.

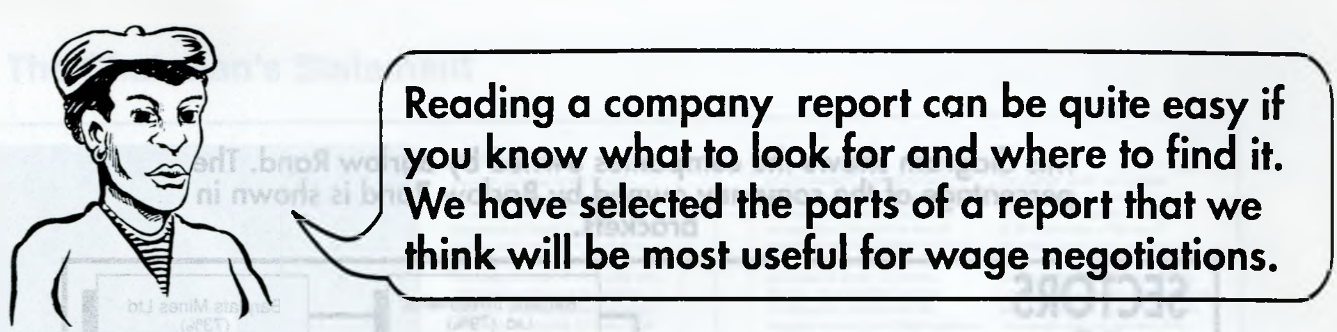
Limited financial information

The financial information is really quite limited. It does not show all the inside dealings that have taken place. With the huge conglomerates that operate in the country, goods can be exchanged within the group, some companies can be made to show a loss when they may have actually made a profit and some companies that are in a bad financial situation can be made to seem to be doing alright. Sometimes, in the case of companies that give a lot of credit, management may say that the profits shown in the report are only "on paper" because the money is still owed to the company.

Whilst there are limitations to annual reports, companies are legally bound to publicly announce certain information about the financial performance of the company. Further, the accounting practices adopted by companies are in line with accepted standards in the accounting profession. All companies are bound by these standards. Thus, there are some controls on the reporting of financial information for public companies.

Unions can use the information

The financial information is of limited use and the unions can only use what is given in the report as they do not have any "inside" information. If the company is projecting itself as a profitable company then unions can make use of this. Similarly if the company has spent lots of money on expansion or given its directors huge increases, then the union can use this information to argue for increased wages.



The most useful parts of company reports are:

1. The list of directors
2. The structure of the company
3. The chairman's report
4. The income statement (the profit and loss statement)
5. The interim report
6. A note on retained profits
7. The balance sheet
8. Directors' pay
9. The Value Added Statement
10. A list of subsidiaries

1. The list of directors

The list is usually found right at the beginning of the report. It includes the names of the executive and non-executive directors. It is useful to know how many directors there are for calculating the average payments to each director.

G W H Relly
Chairman
Chairman Anglo American Corporation of South Africa Limited, Director Anglo American Industrial Corporation Limited and Director De Beers Consolidated Mines Limited

A W Clements*
Deputy Chairman
Finance Director Imperial Chemical Industries PLC

M A Sander
Managing Director
Director Anglo American Industrial Corporation Limited

R F D Allen*
Regional Executive African and Eastern Region, Imperial Chemical Industries PLC Chairman ICI (South Africa) Limited

W G Boustred
Deputy Chairman Anglo American Corporation of South Africa Limited and Chairman Anglo American Industrial Corporation Limited

R Brown*
Director ICI Chemicals and Polymers Limited

B E Bullett*
Alternate to N F Oppenheimer Alternate Director Anglo American Corporation of South Africa Limited and Director Anglo American Industrial Corporation Limited

J A Holmes*
Executive Director Anglo American Corporation of South Africa Limited

A B Nieuwoudt
Executive Director

J Ogilvie Thompson
Chairman De Beers Consolidated Mines Limited and Deputy Chairman Anglo American Corporation of South Africa Limited

N F Oppenheimer
Deputy Chairman Anglo American Corporation of South Africa Limited and Deputy Chairman De Beers Consolidated Mines Limited

M P Parker*
Managing Director ICI (South Africa) Limited

G M Thomas
Executive Director

J C von Solms
Executive Director

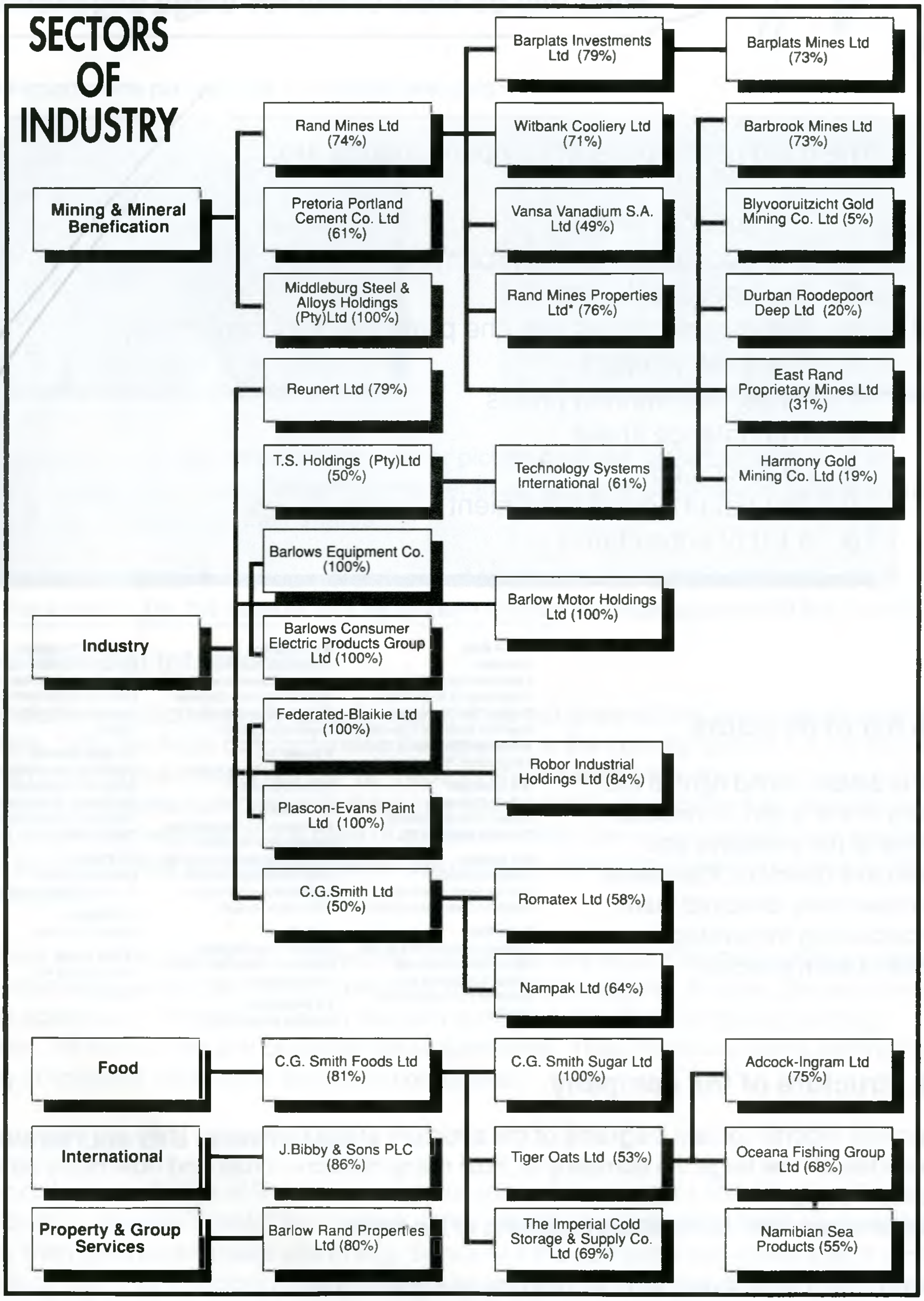
*British

2. The structure of the company

Some annual reports contain diagrams of the structure of the company. They are very useful in giving an idea of how large the company is, how many divisions it has and how many other companies it owns.
The diagrams are also found at the beginning of the report.

On the next page is an example of a company group structure

This diagram shows the companies owned by Barlow Rand. The percentage of the company owned by Barlow Rand is shown in brackets.



3. The Chairman's Statement

Results

Another milestone in the Group's strong growth record was reached as earnings attributable to ordinary shareholders topped the five hundred million rand mark for the first time in the Group's 94-year history. Earnings per share of 187,2 cents were 28% ahead of those of the previous year and have now grown consistently every year for the last 22 years. Total dividends of 84 cents per share have been declared and these are covered 2,2 times by earnings.

The buoyancy in private consumption expenditure throughout the financial year to 31 March 1989 resulted in an increase of approximately 4% in real terms or some 17% in monetary terms. Against this background, Group turnover increased by 22%, demonstrating once again the effectiveness of the Group's mass market activities.

Despite new investment of one billion rand over the year, the increase in net assets amounted to only 30%, with the closing level of gearing at 46% still well below the Group's self-imposed constraint of 60%. This confirms that the Group remains in an extremely sound financial position.

Economic environment

The South African economy showed signs of severe overheating during 1988. Government expenditure continued to grow above budgeted levels and the alarming 28% growth in money supply enabled expenditure in the

On the country's external account, persistent outflows of capital, rising imports and disappointing gold earnings have brought the level of reserves of gold and foreign exchange down to a mere five billion rand, equivalent to about 1,5 months imports. The situation could not be allowed to continue and the stringent monetary and fiscal measures introduced by the authorities will, hopefully, succeed in cooling the economy. The ever-present danger in such action, however, is that selective measures such as hire purchase controls damage certain areas of the economy without addressing the underlying causes of the problem.

The outlook for the next twelve months is for a much reduced rate of real growth in gross domestic product, with growth in private consumption expenditure likely to be no more than marginally positive. Interest rates could once more rise above the 20% level and inflation is also expected to move up to higher levels. All this at a time when the most critical needs in the economy are employment creation, the generation of sufficient wealth to redress the wide discrepancies in educational standards and facilities, and the provision of housing on a massive scale for the rapidly growing population.

Unfortunately, manipulation of the supply and demand valves of the economy is not nearly enough. Bold

The outside world, to a greater or lesser extent, has lost patience with the unwillingness or inability of the authorities to face up to the major issues which confront us. Disinvestment and sanctions continue, despite increasing evidence that they will not achieve the intended objectives and are damaging the interests of the very people they are meant to help.

However, South Africa's role in recent developments in Angola and Namibia has resulted in a willingness of the major powers to reassess their attitude to South Africa. This has created a favourable climate in which to address the vital issue of a proper political accommodation of all South Africans, regardless of race. It is an opportunity we must not squander.

The SAB Group, straddling as it does the consumer markets of South Africa, will continue to play its part in the generation and spreading of wealth. Its massive investment programmes present the strongest possible vote of confidence in the future of the country. Its extensive socio-economic involvement confirms its deep commitment to positive change.

Prospects

The restrictive monetary and fiscal measures now in place will retard the pace of domestic expenditure in the South African economy and severely inhibit consumer demand.

The chairman's report generally says something about the trading of the company. This is normally very vague. The chairman gets away with saying things like " ...the company's performance for the year has been satisfactory..."

The statement normally explains why profits have fallen or risen and gives details of expansion in the company.

<u>Information useful to workers</u>

Sometimes this information is useful for workers. If, for example, the report says that profit increases have been achieved due to increased efficiencies and productivity, this means that workers have been working harder. This can be used to support a demand for increased wages.

Other information usually contained in this report is a statement of the chairman's view of business developments in the country, the company's industrial relations principles (or problems), statements on the political situation in the country, etc.

Another useful piece of information is the chairman's predictions of the company's future prospects. If the company is expecting a growth in profits in the coming year this can be used to argue for wage increases.

There is a limit to what these statements can hide and how misleading they can be. Because they want to portray the company in the best possible light to the shareholders, they reveal only the favourable aspects of the company's activities. This is also a powerful incentive to try to switch the blame for any problems onto the workers.

4. The Income Statement

The income statement is sometimes called the profit and loss account. It contains information which can be extremely useful to workers.

On page 24 is a copy of the income statement of Barlow Rand.

The following need to be considered when reading an income statement:

a) The Year End

The year end refers to the end of the financial year of a company. A company's financial year can end in any month. Its financial period can also cover any period, for example 14 months or 53 weeks.

In this case, Barlow Rand's 1989 financial year ended on the 30 September 1989. This means that the results of the income statement shows **what Barlow Rand has made during the period stretching from 1 October 1988 to 30 September 1989.**

INCOME STATEMENT OF BARLOW RAND LTD. 1989

for the year ended 30 September 1989

Holding Company		Group	
1988	1989	1989	1988

It is important for wage negotiators to know the financial year end and the financial period of a company. Firstly, the financial information may be out of date at the time set for wage negotiations. In the case of Barlow Rand for example, if wage negotiations take place in July 1989, then the union will only be able to make use of the financial results ending 30 September 1988 which will be 9 months out of date.

Secondly, the financial periods of companies change from time to time. For example, Barlow Rand's financial period may stretch over 14 months in 1990 compared to 12 months in 1989. When this happens, management argue that it is unfair to compare the results of the two financial periods because the one is longer than the other.

b) Comparison with the previous year

1988 results are alongside 1989 figures to enable you to compare the two years.

INCOME STATEMENT OF BARLOW RAND LTD. 1989

for the year ended 30 September 1989

Holding Company		Group
1988	1989	1989

Remember that any increases in profit or turnover over the previous year must be higher than the inflation rate for that period, if the company is to show a **real increase**. For instance in this income statement, the turnover increased by 24.8%. The inflation rate in September 1989 was 14.9%. This means that the turnover increased by 9.9% more than the increase in prices.

c) Comparison over a five year period

It is also very useful to compare the profits and turnover of a company **over a period of five years** instead of two years. Sometimes the company's profits only rise slightly when compared to the previous year but when compared to profit figures of five years ago, the increase is much higher. A five year comparison therefore gives a more general picture of the company's performance and it gives us a good indication of the profit and turnover trends in the company. Most company reports give a **"five year review"** in the annual report. It is usually found near the beginning of the report under headings like "historical review" or "salient features" etc.

Historical Review

Years ended 31 December

	1988	1987	1986	1985	1984	1983
Financial statements (R millions)						
Turnover	**4 083**	3 276	2 819	2 346	2 017	1 621
Trading cash flow (1)	**630**	513	471	387	356	351
Net trading income	**473**	369	332	253	235	244
Financing costs	**75**	66	69	91	78	39
Taxation	**163**	111	105	53	48	61
Net income attributable to ordinary shareholders	**255**	213	175	114	112	136
Total shareholders' interest	**1 169**	1 040	926	839	815	827
Deferred taxation	**111**	104	95	64	71	106
Interest bearing debt	**673**	525	483	627	546	415
Total funding	**1 953**	1 669	1 504	1 530	1 432	1 348
Represented by:						
Fixed assets and investments	**1 181**	1 069	959	979	938	810
Current assets less interest free liabilities	**772**	600	545	551	494	538
Depreciation of fixed assets	**157**	144	139	134	121	107
Expenditure on fixed assets (2)	**244**	219	127	174	274	123
Increase in net working capital	**229**	128	47	82	77	68
Net cash flow (3)	**303**	261	226	167	151	162
Ordinary share performance (cents per share)						
Earnings	**165**	138	113	74	72	88
Dividends	**75**	66	60	55	55	55
Net asset value	**733**	651	582	530	511	517
Profitability and asset management						
Net trading income to turnover (%)	**11.6**	11.3	11.8	10.8	11.7	15.1
Trading cash flow to turnover (%)	**15.4**	15.7	16.7	16.5	17.6	21.7
Return on assets (%) (4)	**14.5**	13.3	13.6	10.5	10.6	[illegible]
Return on ordinary [illegible]	**22.5**	21.2	19.4	[illegible]	[illegible]	[illegible]

d) Figures expressed in millions

You will see that "Rmillion" is written just below the years 1988 and 1989. This means that all the figures below are in millions. For instance, **turnover is R26 431.9 million.**
If this was to be written with all the 0's it would look like this: **R26 431 900 000.**

INCOME STATEMENT OF BARLOW RAND LTD. 1989

for the year ended 30 September 1989

Holding Company				Group	
1988	1989			1989	1988
R million	R million		Notes	R million	R million

Some companies that deal with smaller amounts of money have "R 000's" written at the top of the column. If this is the case then you only have three numbers after the decimal point. If the Barlow Rand turnover was in R000's then it would look like this -
R26 431 900.

e) Holding company or Group Figures

You will see that on the **left** of the page are figures for the **Holding company** and on the **right** are the figures for the **Group**. You should always use the group figures. The figures for the Holding company are only the financial figures for the company that controls the Group.

INCOME STATEMENT OF BARLOW RAND LTD. 1989

for the year ended 30 September 1989

Holding Company		Group
1988	1989	

INCOME STATEMENT OF BARLOW RAND LTD. 1989

for the year ended 30 September 1989

Holding Company					Group	
1988	**1989**				1989	1988
R million	**R million**			Notes	R million	R million
4.0	**5.0**		**Turnover**	1	**26 431.9**	21 178.8
315.8	**378.5**		**Operating profit before interest**	2	**2 764.7**	2022.6
11.0	**10.0**	(minus)	Interest paid	4	**491.0**	302.8
304.8	**368.5**		**Operating profit**		**2 273.7**	1 719.8
2.1	**2.6**	(plus)	Income from investments	5	**283.0**	220.9
306.9	**371.1**		**Profit before taxation**		**2 556.7**	1 940.7
22.4	**5.4**	(minus)	Taxation	6	**837.1**	640.1
284.5	**365.7**		**Profit after taxation**		**1 719,6**	1 300.6
		(plus)	Share of associate companies' retained profits		**10.6**	23.5
			Profit after taxation including associate companies		**1 730.2**	1 324.1
		(minus)	Attributable to			
			- outside shareholders in subsidiaries and 6% preference - shareholders in Barlow Rand Limited		**729.4**	582.0
284.5	**365.7**		**- ordinary shareholders in Barlow Rand Limited**		**1 000.8**	742.1
-108.9	**1.2**	(minus)	Extraordinary items	7	**-84.8**	-138.4
175.6	**366.9**		**Earnings of ordinary shareholders after extraordinary items**		**916.0**	603.7
112.1	**50.0**	(plus)	Retained surplus at beginning of year		**1 758.1**	1 394.5
287.7	**416.9**		**Available for appropriation**		**2 674.1**	1 998.2
237.7	**314.2**	(minus)	Dividends on ordinary shares	8	**314.2**	237.7
	6.8	(plus)	Transfers to/from reserves	9	**2.2**	-2.4
50.0	**109.5**		**Retained surplus at end of year**		**2 362.1**	1 758.1
			Earnings per share before extraordinary items (cents)	10	**543.8**	408.2

f) The Income Statement itself

The following are explanations of the most important items listed in the income statement:

Turnover:
All the money brought into the company through sales of the goods that the company produces. It includes goods sold on credit.

Operating profit before interest:
This is sometimes called Trading Profit. It is the wealth left in the company after all operating expenses like rent, wages, depreciation etc. have been paid.

Interest paid:
The amount of money that the company has paid to banks as interest on the amount of money it has borrowed.

Income from investments:
The dividend the company received from any shares it owns in other companies.

Profit before taxation:
The profit that remains before taxes are paid to the government.

Taxation:
The amount of money the company has paid to the government as taxes.

Profit after taxation:
It is the profit made by the company after interest payments and taxation. This is also called net profit or net income. Many companies use the word "income" instead of profit.

Share of associate companies' retained profits:
The company's share of the profits of associated companies. (For an explanation of what an associate company is see page 14)

Attributable to outside shareholders in subsidiaries and 6% preference shareholders in Barlow Rand Limited:
The amount that was paid out to Barlow Rand's shareholders in its subsidiaries and to 6% of its preference shareholders.

Ordinary shareholders in Barlow Rand Limited:
This amount of money available to the ordinary shareholders of Barlows before extraordinary items have been paid.

Extraordinary items:
Details of any extraordinary items. As the name suggests, an extraordinary item is one which is not part of the company's normal business operations. For example, Barlow Rand sold some of the properties that the group owned. Since the selling of properties is not part of the business operation of Barlow Rand, these sales are classified as extraordinary items.

Retained surplus:
The amount of profit that has been retained (kept) by the company for use in the future. The profit which a company makes is used to pay wages and salaries to employees, dividends to shareholders, taxation to the government and interest on loans. The balance of profits after these "commitments" have been met is retained in the company. This is Retained surplus. It is also called Retained Income or Retained Profits.

Available for appropriation:
The amount of profits that is available for "appropriation" (to be taken) by the shareholders.

Dividends on ordinary shares:
The total amount that was paid out to shareholders of the company as dividends.

g) Income Statement calculations

We can also work out the following by using the information in the income statement:

Profit margins

Profit margins give us some indication of the **efficiency** of the company as well as the **profitability** of the company. In some cases for instance, companies make huge profits but their profit margins drop. This would mean that although the company's profits are increasing, its profitability is decreasing. Management then uses the drop in profit margins to argue for a lower wage increase. It is therefore useful to work out in advance what the profit margins are of a company and to compare them to the margins of previous years. In the case where profit margins have increased, the union is presented with a good argument for a high wage increase.

Operating margins go up

COMPANY COMMENT
Michael Chester

HUNTS, the manufacturing and distribution conglomerate, secured firmer hold on a record of an unbroken run of higher and higher operating margins since formation four years with a 25 percent jump attributable profit to the R60-million in the 12 months December 31.

formance a lot easier by setting out results with comparisons in pro forma fashion for the 1988 financial year that takes into account the first full-year contributions flowing from the deals

in a swap for 6,7 million of its own convertible debentures.

That cleared the decks for Teamcor to place the Vektra debentures with financial institutions for R35-million — and Hunts to place the Teamcor debentures with them for another R35-million. (In

Profit margins express the profit as a percentage of the sales. In other words, profit margins tell us **how much profit is made on every Rand of sales.**

We can work this out in the following way:

PROFIT ÷ TURNOVER (SALES) X 100

The answer we get will be written as a percentage. So if the answer is 12% then it means that the company makes 12 cents on every Rand of goods that it sells.

Sales per employee

In most cases, the annual report mentions the number of employees in the company. This information is usually found in the "five year review". This gives us an opportunity to work out how much each employee made in sales. We can do this by dividing the turnover (sales) by the number of employees.

TURNOVER (SALES) ÷ NUMBER OF EMPLOYEES

This will tell us the **average amount each employee made in sales**. Remember that "employees" include management and if management was excluded, then the amount each employee made in sales would be higher. Sales per employee can be used to show how the workers' contribution to the company's turnover has increased.

The income statement is supplemented by the **notes** that are attached to the income statement. These notes explain the information that is summarised in the income statement in more detail. You will see that some of the items in the income statement have numbers under the heading "Notes".

5. The Interim Report

All public companies publish an **"interim report"** after the first half of their financial year. The interim report tells us how the company has performed over **the first half of the year** compared to the first half of the previous year. It is used by management as an indication of how the company will be doing in the next half of the financial year.

When wage negotiations start long after the end of the company's financial year, in addition to using the year end results, it is useful to use the interim results. The interim results will be the latest financial information available to the public. The interim results are published in the business newspapers and magazines like ***Business Day*** and the ***Financial Mail.***

BOUMAT LIMITED

(Reg. No. 04/01284/06)

Interim Report

Six months ended 30 September 1989

Estimated consolidated group profit	6 Months ended 30 September 1989 R'000	1988 R'000	Change %	Year ended 31 March 1990 Forecast R'000	1989 Actual R'000
Sales	487 932	418 069	+16,7	954 843	842 710
Operating profit as a % of sales	5,5%	6,0%		5,4%	6,5%
Operating profit	26 808	24 877	+ 7,8	51 105	55 025
Interest paid	5 773	3 556	+62,3	13 453	8 308
Profit before tax	21 035	21 321	— 1,3	37 652	46 717
Tax	10 517	10 660	— 1,3	18 826	23 413
Profit after tax	10 518	10 661	— 1,3	18 826	23 304
Outside shareholders' interests	196	416	—52,9	394	556
Equity earnings	10 322	10 245	+ 0,8	18 432	22 748
Weighted average ordinary shares in issue	22 438 278	20 489 159	+ 9,5	22 590 177	20 679 973
Earnings per ordinary share	46,0 cents	50,0 cents	— 8,0	81,0 cents	110,0 cents
Interim dividend per ordinary share	22,5 cents*	19,0 cents*	+18,4	45,0 cents*	38,0 cents*

Consolidated balance sheet	30.9.89 R'000	30.9.88 R'000
Fixed assets and investments	21 082	19 091
Stock	191 962	156 559
Debtors	167 967	154 063
Assets	381 011	329 713
Creditors, tax and dividends	189 404	205 739
Capital employed financed by:	191 607	123 974
Fixed capital	133 877	112 031
Ordinary shareholders' funds	108 654	85 428
Automatically convertible debentures	23 008	23 008
Outside shareholders' interests	2 215	3 595
Debt	57 730	11 943
Medium-term borrowings	13 200	13 000
Short-term borrowings and bank balances	44 530	(1 057)
Debt/capital employed	,30	,10
Debt/fixed capital	,43	,11
Total debt/fixed capital	1,85	1,94

*payable only on those shares in respect of which shareholders do not elect to take up bonus shares

First six months

As reported at our annual general meeting early in August, the group's results for the first four months of the financial year were ahead of forecast although trading in July softened slightly. This downward trend, particularly in gross margins, continued in August and September.

Nevertheless, compared with 1988, operating profit grew by 7,8%, but a large increase in interest paid, due to the combined impact of higher interest rates applied to higher borrowings, reduced profit before tax by just over 1%. Lower outside shareholders' interests, however, contributed to marginally higher equity earnings. The diluting effect of the 9,5% increase in shares in issue following our bonus share issues in January and July 1989 accounts for the drop in earnings per share. However, in accordance with our stated distribution policy, the interim dividend will be increased by 18,4%.

Higher borrowings were required to finance the 16% increase in assets, in line with the growth in sales, and to replace the lower level of funding from creditors. The ratio of total debt to fixed capital has improved from 1.94:1 in 1988 to 1,85:1 in 1989.

Next six months

The recently announced new financing arrangements for low-income housing augur well for our future prospects, but will have little impact in the short-term. We expect a further decline in building activity in the next six months, particularly in residential construction, and we anticipate increased pressure on margins, in a fiercely competitive environment.

Our revised forecast for the financial year ending on 31 March 1990, is tabled above.

With effect from 1 July 1989, your group acquired 100% of the equity of Seaboard Industrial Products (Pty) Limited for a cash consideration of R1 170 000. Seaboard is an old-established and respected distributor of ceramic tiles and sanitaryware with its headquarters and major operations in Natal and its acquisition significantly strengthens our share of the tile market.

Bonus share offer and interim dividend

Shareholders registered as such at the close of business on Friday 22 December 1989 ("the last day to register"), will be offered the election to receive 1 bonus ordinary share credited as fully paid out of share premium, for every 20 ordinary shares held by such shareholders on the last day to register. A dividend No. 66 of 22,5 cents will be declared on 22 January 1990 on each ordinary share held by such shareholders on the last day to register and in respect of which no bonus share election is made.

Shareholders will be entitled to exercise the bonus share election in respect of the whole or any part of their shareholdings, but only in respect of a number of shares which is a multiple of 20. Any lesser number of shares will rank for the interim dividend.

Bonus share election forms will be posted to shareholders on Wednesday 27 December 1989 and must be lodged with the transfer secretaries by 4 pm on Friday 19 January 1990 ("the election closing date") in order to be valid. No late postal forms of election will be accepted.

The new bonus shares (which will be listed on The Johannesburg Stock Exchange with effect from the commencement of business on Monday 22 January 1990) will rank on issue *pari passu* in all respects with the other issued ordinary shares of the company.

Share certificates in respect of the new bonus shares and dividend warrants in respect of dividend No. 66 will be despatched to shareholders on 26 January 1990.

In terms of the Republic of South Africa Income Tax Act 1962, as amended, non-resident shareholders' tax of 15% will be deducted from dividends payable to shareholders whose addresses are outside the Republic of South Africa.

ID Brittan
DJ Gevisser
Directors, on behalf of the board.

2 November 1989

Transfer office
Central Registrars Limited
PO Box 4844
2000 JOHANNESBURG

Registered office
Boumat Limited
PO Box 65725
2010 BENMORE

Directors
ID Brittan (Chairman) S Borsook (Deputy Chairman) (Br) DJ Gevisser (Group Managing Director) OC Buchel PR Glendining KJ Hipper (German) BBH King AL Kolbe H Moskow CBN Schreuder RT Trusler

An example of an Interim Report

6. A note on retained income

a) What is retained income used for?

The retained income which accumulates over the years is normally used for expansion purposes. It is used to open new factories, to take over smaller companies and to purchase new machinery.

Retained income is on rare occasions used to pay dividends to shareholders. In periods when a company makes low or no profits, funds are transferred from retained income and used to pay dividends to shareholders. This effectively means that shareholders are sometimes paid from previous year's profits.

b) The extent of retained income

The figures below give us some indication of the vast sums of profits which are retained in companies. The figures show the balance on the retained income for a few companies in 1989.

COMPANY	RETAINED INCOME (1989)
Anglo American	R 646 000 000
Anglovaal	R 146 000 000
Barlow Rand	R 2 362 000 000
Pick 'n Pay	R 134 000 000
SAB	R 271 000 000
Tiger Oats	R 799 000 000

Clearly, companies retain vast sums of wealth.

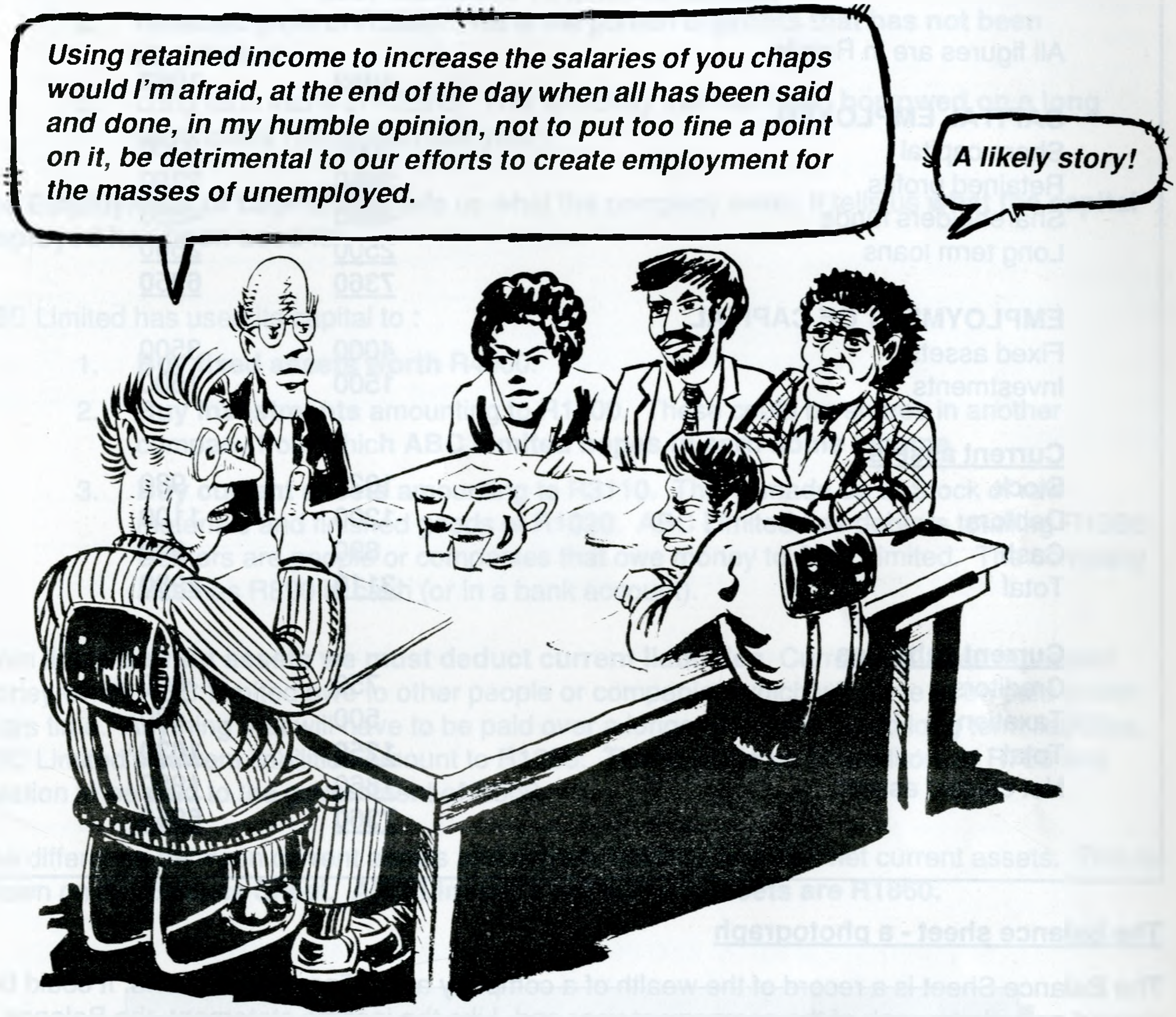
c) Retained income can be used for the benefit of workers

In the same way that Retained income is sometimes used for the benefit of shareholders, it could easily be used for the benefit of workers. Previous years profits created by workers could be used to meet workers' present day wage and benefit demands.

d) Retained income and unemployment

Management is bound to counter workers' demands for a share of retained income. Since retained income is sometimes used for expansion purposes, management would contend that retained income is used to open new factories and thus create new employment opportunities for the millions of unemployed workers in the country. Management would thus argue that using retained income for the benefit of employed workers would be detrimental to creating employment for the masses of unemployed.

The fact of the matter is that capitalists are not productively investing the huge profits that are being created by workers.



Companies are not investing in new factories which could create employment. The level of fixed investment in the national economy has decreased substantially over the past few years.

Instead, capitalists are seeking other outlets for their profits. This accounts for the high levels of trading of shares on the stock exchange. Also, profits are being used to buy up smaller companies and disinvesting companies. These forms of **"unproductive investment"** do nothing to create employment. In fact, these buy-outs are frequently followed by retrenchments which increase unemployment.

Thus, it can safely be said that retained income is not being used in the interests of workers. Workers have every right to demand a share of retained profits.

7. The Balance Sheet

Below is an example of a typical balance sheet

ABC LIMITED

Balance Sheet at 31 December 1989

All figures are in Rands

	1989	1988
CAPITAL EMPLOYED		
Share capital	2000	2000
Retained profits	2860	2350
Shareholders funds	4860	4350
Long term loans	2500	2600
	7360	**6950**
EMPLOYMENT OF CAPITAL		
Fixed assets	4000	3500
Investments	1500	1500
Current assets		
Stock	1020	980
Debtors	1200	1100
Cash	890	900
Total	**3110**	**2980**
Current liabilities		
Creditors	750	600
Taxation	500	430
Total	**1250**	**1030**
Net current assets	1860	1950
	7360	**6950**

The balance sheet - a photograph

The Balance Sheet is a record of the wealth of a company at the financial year end. It could be viewed as a photograph of the company at year end. Like the income statement, the Balance Sheet also has notes which explain and add to the information covered in the Balance Sheet itself. Also, the Balance Sheet gives comparative figures. This means that the current year's figures and the previous year's figures are shown side by side so that they can be compared.

The Balance Sheet has two "sides", which are normally printed one below the other. One side of the Balance Sheet is shown under the heading **"Employment of Capital".** This side shows all the assets that the company owns. The other side shows how these assets have been financed (bought). This side is shown under the heading **"Capital Employed".**

Both sides of the Balance Sheet will always add up to the same total. This is because the assets of a business cannot be financed by anything other than the money put into the business.

We would interpret the Balance Sheet as follows:

The **Capital Employed** side tells us that ABC Limited h**as three sources of capital** (finance).

1. The share capital of R2000. This is the money that has been **invested in the company by its shareholders.**
2. Retained profit of R2860. This is the portion of **profits that has not been distributed.**
3. Long term loans of R2500. This is money that has been **borrowed on a long term basis** (more than one year).

The **Employment of Capital** side tells us what the company owns. It tells us **what the capital employed has been used** for.

ABC Limited has used its capital to :

1. **Buy fixed assets worth** R4000.
2. **Buy investments** amounting to R1500. These could be shares in another company from which **ABC Limited hopes to earn some income.**
3. **Buy current assets** amounting to R3110. This is made up of Stock of raw materials and finished goods of R1020. ABC Limited has debtors totalling R1200. Debtors are people or companies that owe money to ABC Limited. The company also has R890 in cash (or in a bank account).

From these **current assets we must deduct current liabilities.** Current liabilities represent money which ABC Limited owe to other people or companies which will have to be paid in one years time. Anything that will have to be paid over a longer period is called long term liabilities. ABC Limited's current liabilities amount to R1250. This is made up of creditors of R750 and taxation to be paid to the government of R500.

The difference between current assets and current liabilities is called net current assets. This is shown on the Balance Sheet. **ABC Limited's net current assets are R1860.**

The Balance Sheet is useful for the following reasons:

1. We can find out what the company owns.
2. We can find out the financial position of the company and its solvency. We can examine whether the company is in a position to meet all its debts.
3. The Balance Sheet tells us how the company has been financed.
4. Together with the income statement the Balance Sheet helps us to assess the company's profitability.

8. Directors' emoluments

Directors' emoluments refer to the fee or salary that is paid to the directors by the company. This item does not appear in the list of items **in the Income Statement**. It is found in the notes to the income statement, usually in the note to the operating profit before interest.

The figure that is given is the total amount of money paid to the total number of directors. It is therefore possible to work out the average monthly salary of the directors in a company. We can do this by dividing the total figure by the number of directors and **then divide by 12. In other words:**

		4. OPERATING INCOME		
		This is stated after recognising the following:		
		4.1 Significant items		
		Charges		
15 803	16 946	Depreciation of fixed assets (other than fixtures – see below) (Notes 1(f) and 1(j))	17 989	16 646
31 666	35 424	Provision for replacement and renewal of fixtures and for modernisation and maintenance of shop premises and equipment (Note 1(f))	38 450	33 940
133 592	173 626	Operating lease charges – premises	154 148	138 397
9 960	17 363	– other	17 948	12 192
		Credits		
		Attributable earnings of associated finance company	400	334
		Other associated and non-consolidated subsidiary company income	24	544
6 117	7 139	Management fees received from subsidiary companies		
		4.2 Miscellaneous statutory items		
38	120	Loss on disposal of fixed assets	120	38
		Fees:		
51	–	Share transfer	–	51
208	206	Administration	206	208
		Auditors' remuneration:		
[illegible]	459	Audit	475	[illegible]
23	30	Other services (preparation of certificates and consulting services)	30	23
		Emoluments of the directors of the Company:		
4	4	Fees		
2 505	2 975	Executive emoluments		
		5. INTEREST		
		Interest payable		
2 303	5 934	Finance leases	5 934	2 303
4 617	3 807	Loan capital	3 812	4 622
16 908	24 903	Other	26 010	18 153
23 828	34 644		35 756	25 078
1 162	2 259	Deduct – interest received on deposits and advances	2 313	1 162
1 957	855	Net interest receivable from subsidiaries		
20 709	31 530	Net interest paid	33 443	23 916

TOTAL DIRECTORS EMOLUMENTS ÷ NUMBER OF DIRECTORS ÷ 12 (MONTHS)

For example, the directors' emoluments of OK Bazaars in 1990 was R2 979 000 and it has 15 directors ("alternate directors" are not included). So, to work out the average amount of **money that each director gets** every month:

R2 979 000 ÷ 15 ÷ 12 = R16 550

This figure is only an average figure. Executive directors usually earn more than the average and they earn more than non-executive directors.

Nevertheless, this information can be very useful for the union. The directors' salary can be used to show the very wide gap that exists between the workers' wages and that of the directors and it could possibly be argued that the directors should receive less and that the money could be used to boost the wages of the workers instead. It can also be used to compare the percentage increase in the directors' salary with management's proposed wage increase for the workers. For instance OK Bazaars paid out R2 509 000 to its directors in 1989 and R2 979 000 in 1990. As the number of directors did not change, this works out to an increase of 18.7% for the directors.

9. Value added statement

The value added statement shows how the wealth created in a company during the financial year, has been distributed. The wealth created is worked out by subtracting the cost of the materials bought from the sales.

The statement therefore shows what portion of wealth created has been paid to workers, to the shareholders, to the government and the portion that has been reinvested in the company.

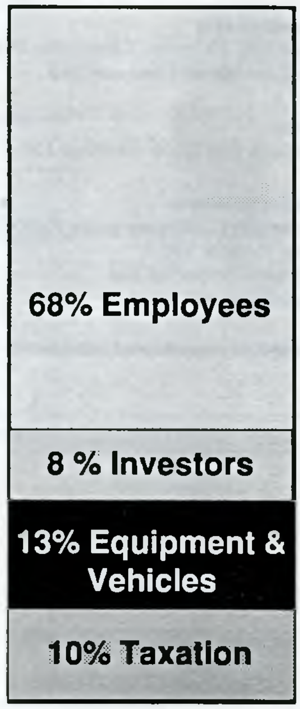
In most cases, the value added statement shows that the portion **paid to the employees is the largest**. But "employees" include management and other higher paid workers who receive a much higher portion of the wealth created.

The value added statement can however be used to compare the portion that has been paid to the employees over a number of years. In many cases, the portion decreases slightly from year to year and sometimes despite the increase in the number of employees. It can also be used to compare the portion given to the employees of one company to the portion given to the employees of another company in the same industry. For example we can compare the employees' portion at Pick 'n Pay to that of OK Bazaars.

PICK & PAY STORES LTD:

Value Added & its Distribution

Pick & Pay Stores Ltd	**1988**		**1989**	
	Rm	**%**	**Rm**	**%**
Sales	3038		3 869	
Less: Amounts paid for merchandise & expenses	2 681		3 401	
Value added	357	100	468	100
Employees: salaries, wages and other benefits	241	**67**	320	**68**
Investors: dividends & interest	28	**8**	37	**8**
Equipment & vehicles	31	**9**	60	**13**
Taxation	38	**11**	48	**10**
Value added - distributed	338	**95**	465	**99**
Value added - retained	19	**15**	3	**1**



The above Value Added Statement shows that in 1989, 68% of the wealth created was paid to the employees in the form of salaries, wages and other benefits. In 1988 Pick 'n Pay allocated 67% of wealth to employees' salaries.

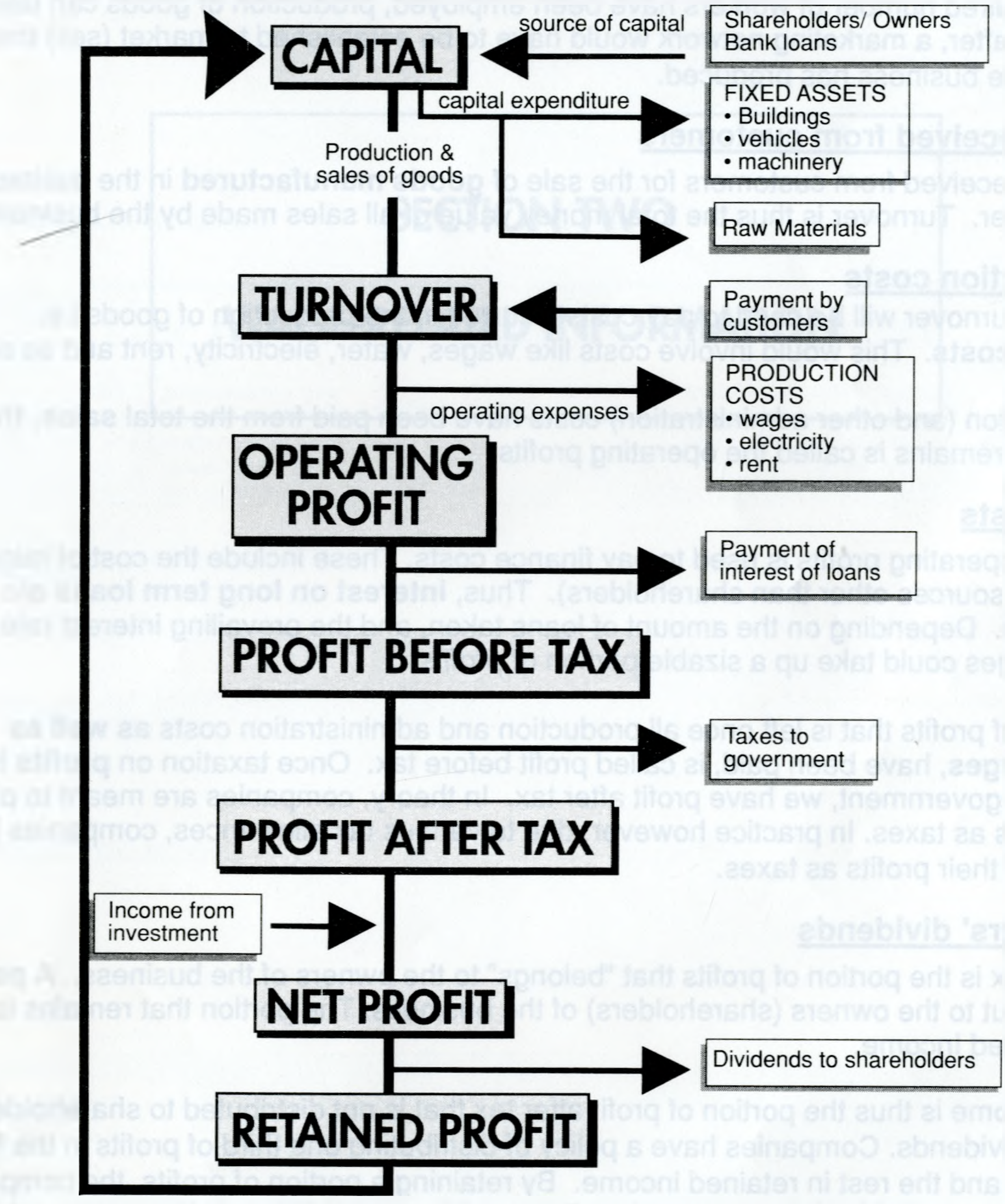
10. A list of subsidiaries

Every company report must have a list of the company's subsidiaries. This information is usually shown at the back of the report. This list gives details of all the subsidiaries and associated companies (and other investments) that the company has.

	Issued capital	Effective holding		Interests of holding company			
				Shares*		Net indebtedness	
		1989	1988	1989	1988	1989	1988
Interests in consolidated subsidiaries	R000	%	%	R000	R000	R000	R000
Beverages							
Alrode Brewing Company (Pty) Ltd	9 500	**100**	100	**73 666**	69 018	**(23 964)**	(23 749)
Amalgamated Beverage Industries Ltd	1 000	**70**	70	**80 724**	69 602	**—**	8 114
Appletiser Pure Fruit Juices (Pty) Ltd	2 000	**100**	100	**8 364**	8 364	**34 639**	13 103
Bier en Mout Beleggings (Edms) Bpk	—	**100**	100	**45 404**	41 045	**5 776**	6 443
Ohlsson's Brewery Transkei (Pty) Ltd	100	**70**	70	**14 539**	5 404	**3 748**	5 454
Ohlsson's Cape Breweries Ltd	3 520	**100**	100	**32 443**	28 412	**(8)**	(979)
SAB Hop Farms (Pty) Ltd	16	**100**	100	**8 969**	4 572	**7 749**	1 762
Southern Associated Maltsters (Pty) Ltd	15 476	**55**	55	**10 166**	8 547	**(893)**	11
United Breweries (Pty) Ltd	1 000	**70**	70	**46 443**	38 855	**(18 664)**	(7 833)
Western Province Preserving Company (Pty) Ltd	1 200	**100**		**2 232**		**9 390**	
Retail							
Amalgamated Retail Ltd	2 303	**69**	69	**54 775**	75 082	**3 230**	3 293
Edgars Stores Ltd (indirect)	4 305	**64**	61	**208 006**	165 033	**42 156**	36 329
OK Bazaars (1929) Ltd	6 134	**70**	70	**132 851**	102 852	**6 342**	5 571
Manufacturing							
Associated Furniture Companies Ltd	12 219	**66**	66	**139 044**	127 195	**6 411**	6 408
The Lion Match Company Ltd	9 030	**71**	73	**56 067**	50 865	**1 762**	—
Hotels							
Southern Sun Hotel Holdings Ltd	7 029	**68**	68	**206 741**	206 741	**12 020**	4 808
Other investments							
Sabfin (Pty) Ltd (inter-group financing vehicle)	—	**100**	100	**153**	123	**793 551**	463 927
Sabre Finance Ltd	1 625	**100**	100	**19 818**	18 955	**5**	(250)
Shoecorp Properties Ltd	40	**100**	100	**4 454**	5 591	**2 847**	(190)
Miscellaneous				**11 071**	11 083	**42 739**	18 641
Interests in consolidated subsidiaries (note 22.1)				**1 155 930**	1 037 339	**928 836**	540 863

The following chart and explanation summarises the information in the above two chapters. It briefly describes the setting up and running of the finances of the company.

How a Company Operates Financially



Setting up the business

Once capital has been raised, the business can start operating. **Depending on the nature** of the business, certain fixed assets would have to be bought. For example, if the business planned to operate in the transport industry, trucks and other vehicles as well as premises would have to be bought. If the business intended to be a retail outlet, fixtures and shelving would have to be bought.

Buy raw materials

Once the factory, machinery and other fixed assets have **been bought,** the business would need to buy raw materials which would be used to manufacture finished goods. If the business intends manufacturing clothing, the purchase of textiles, cottons, etc would be necessary.

After the required number of workers have been employed, production of goods can take place. Thereafter, a marketing network would have to be established to market (sell) the goods that the business has produced.

Turnover received from customers

The money received from customers for the sale of **goods manufactured** in the business is called turnover. Turnover is thus the total money value of all sales made by the business.

Pay production costs

A portion of turnover will be used to pay costs incurred in the production of goods i.e. **production costs**. This would involve costs like wages, water, electricity, rent and so on.

After production (and other administration) costs have been paid from the total **sales, the amount** that remains is called the operating profits.

Finance costs

A portion of operating profits is used to pay finance costs. These include the cost of raising capital (from sources other than shareholders). Thus, **interest on long term loans** are finance costs. Depending on the amount of loans taken, and the prevailing interest rate, finance charges could take up a sizable portion of profits.

The portion of profits that is left once all production and administration costs **as well as finance charges**, have been paid, is called profit before tax. Once taxation on **profits has been** paid to government, we have profit after tax. In theory, companies are meant to pay 50% of profits as taxes. In practice however, due to various tax allowances, companies hardly ever pay half their profits as taxes.

Shareholders' dividends

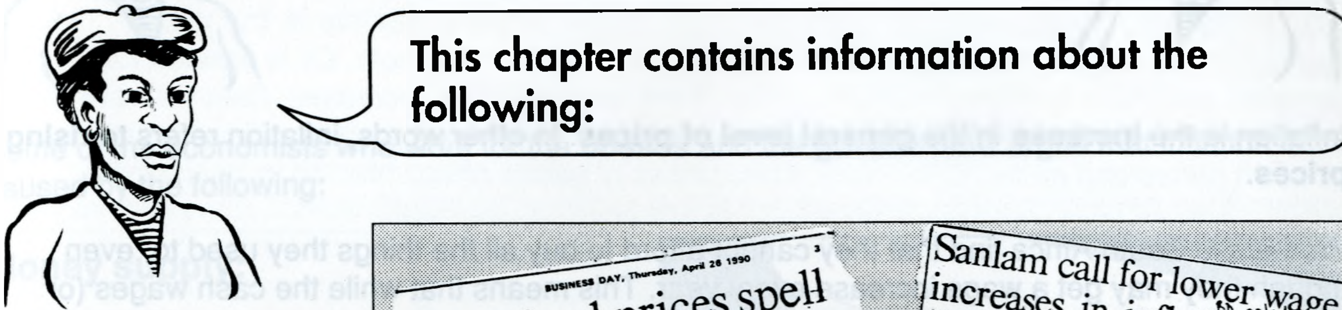
Profit after tax is the portion of profits that "belongs" to the owners of the business. **A portion** of this paid out to the owners (shareholders) of the business. The portion that remains is called Retained Income.

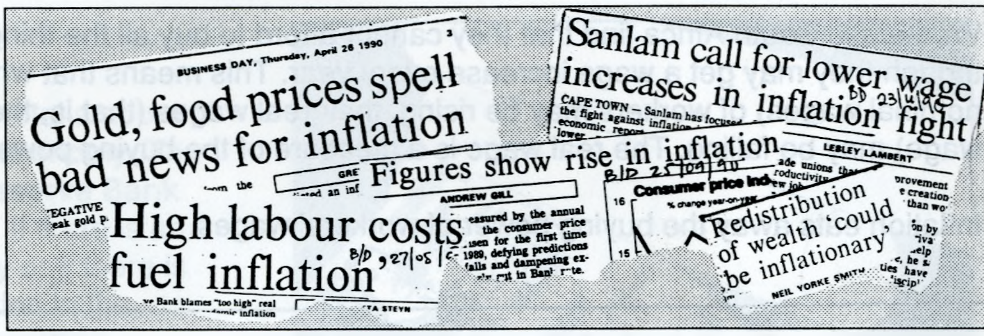
Retained income is thus the portion of profit after tax that is not distributed to shareholders in the form of dividends. Companies have a policy of distributing one third of profits in the form of dividends, and the rest in retained income. By retaining a portion of profits, the company is able to build up capital for future expansion. Retained income is thus another source of capital and it allows the company to expand without having to raise capital through loans or through the issues of shares.

SECTION TWO

WAGE-RELATED INFORMATION

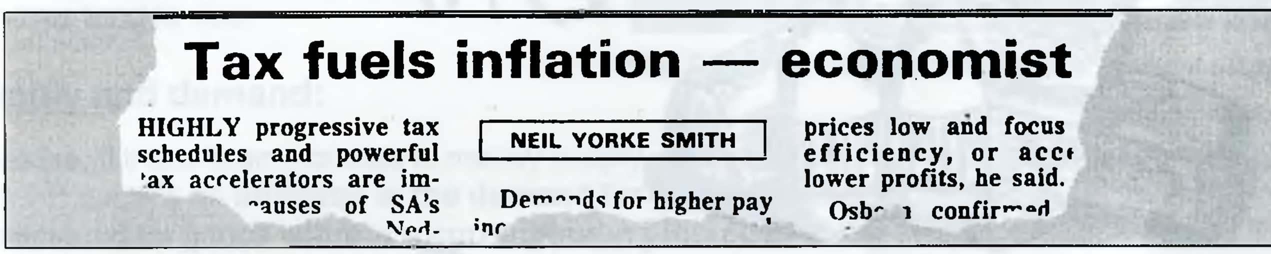
Chapter Three: Inflation & wages





1. What is inflation

2. What causes inflation



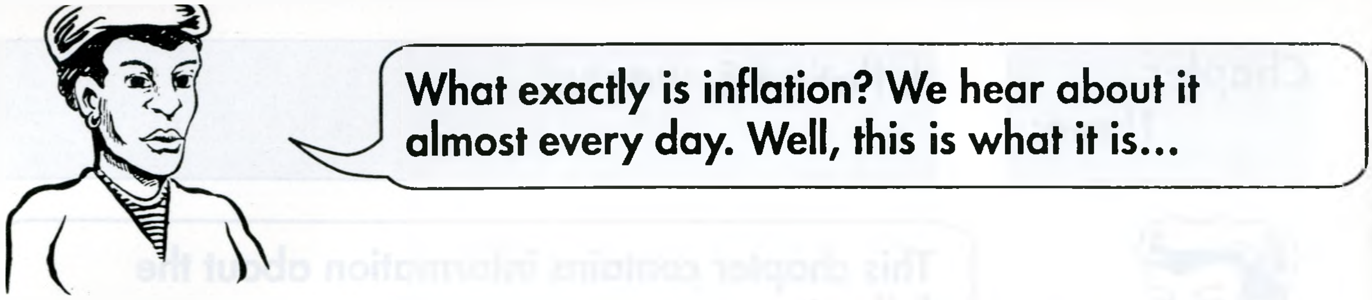
3. How inflation is worked out

5. Criticisms of CSS' inflation figures

6. Inflation and wages

In this chapter you will find explanations for these words

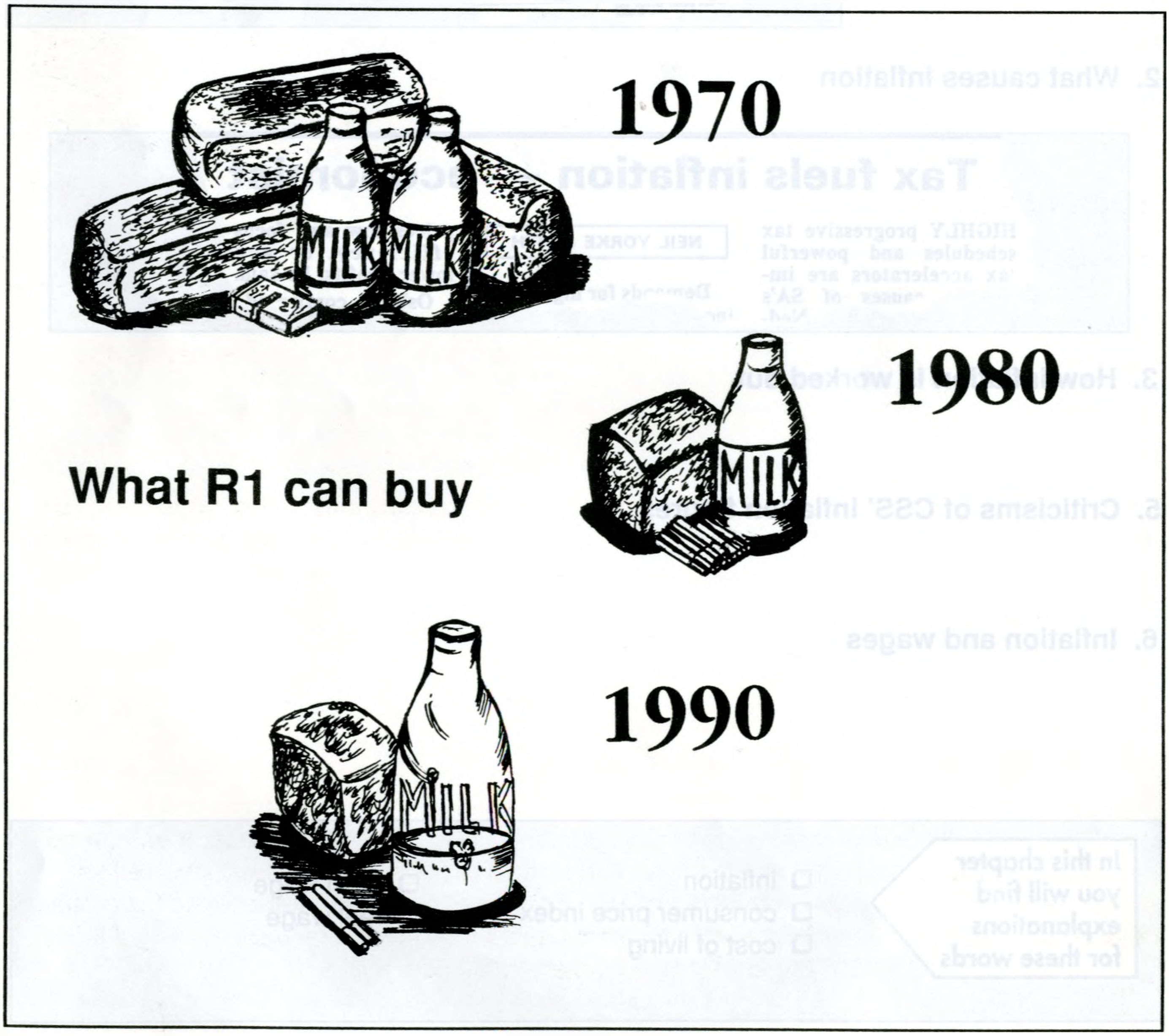
- ❑ inflation
- ❑ consumer price index
- ❑ cost of living
- ❑ cash wage
- ❑ real wage

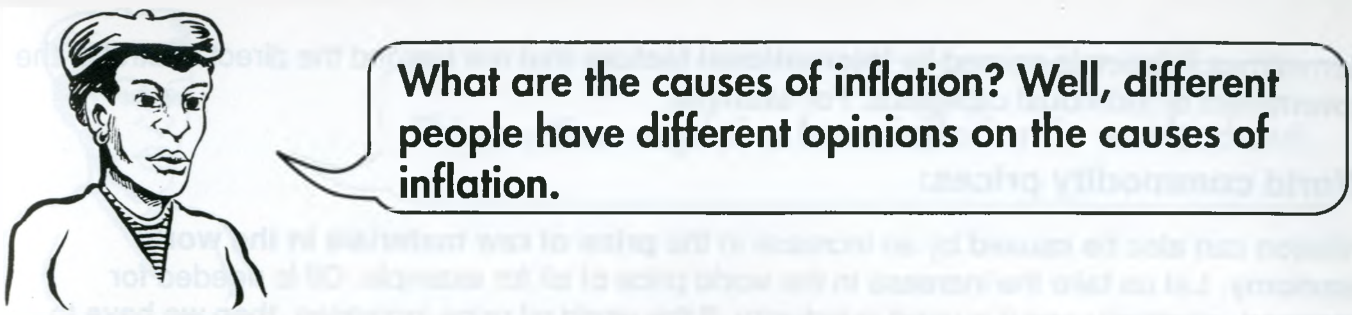


Inflation is the **increase** in the **general level of prices**. In other words, inflation refers to **rising prices.**

Workers in South Africa find that they cannot afford to buy all the things they used to, even though they may get a wage increase every year. This means that while the cash wages (or nominal wages) of workers may be rising, their real wages (that is, the real value of the cash wage) may be falling. The real wage is a measure of the buying power of workers' wages.

Inflation eats away the buying power of workers' wages.

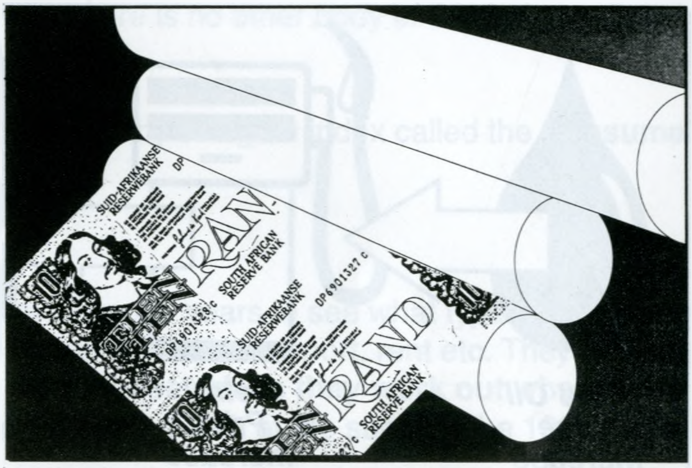




Some of the economists who work for the **bosses** and the **government** argue that inflation is caused by the following:

Money supply:

Money supply refers to the total amount of money in circulation in the economy. The government through the **Reserve Bank** controls the money supply. If there is an **increase in money supply** or if there is too much money in circulation in the country **without a corresponding increase in the production of goods and services**, then the prices of goods and services tend to rise.



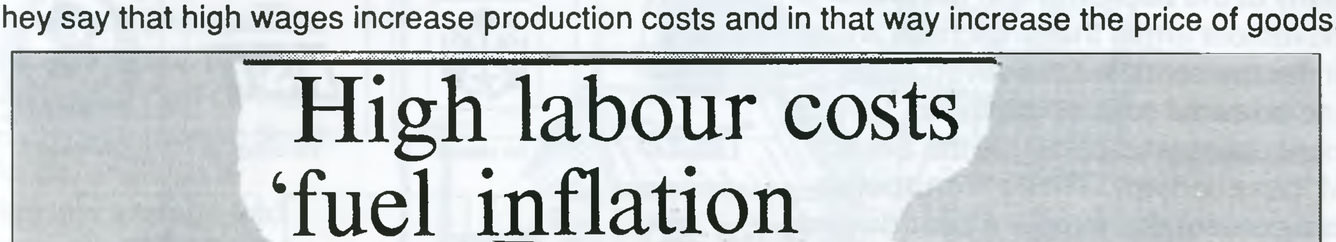
The Reserve Bank controls the money supply

Supply and demand:

Likewise, if there is an increase in money supply, it means that consumers have more money and this causes an **increase in the demand for goods**. Inflation is caused by an increase in the demand for goods **without a corresponding increase in the supply of these goods**. For example, if many people wanted to buy TV's and there are only few TV's on the market, then the price of TV's will rise.

Workers:

Management often argue that the workers cause inflation by **demanding high wage increases.** They say that high wages increase production costs and in that way increase the price of goods.



High labour costs 'fuel inflation

...erve Bank blames "too high" real

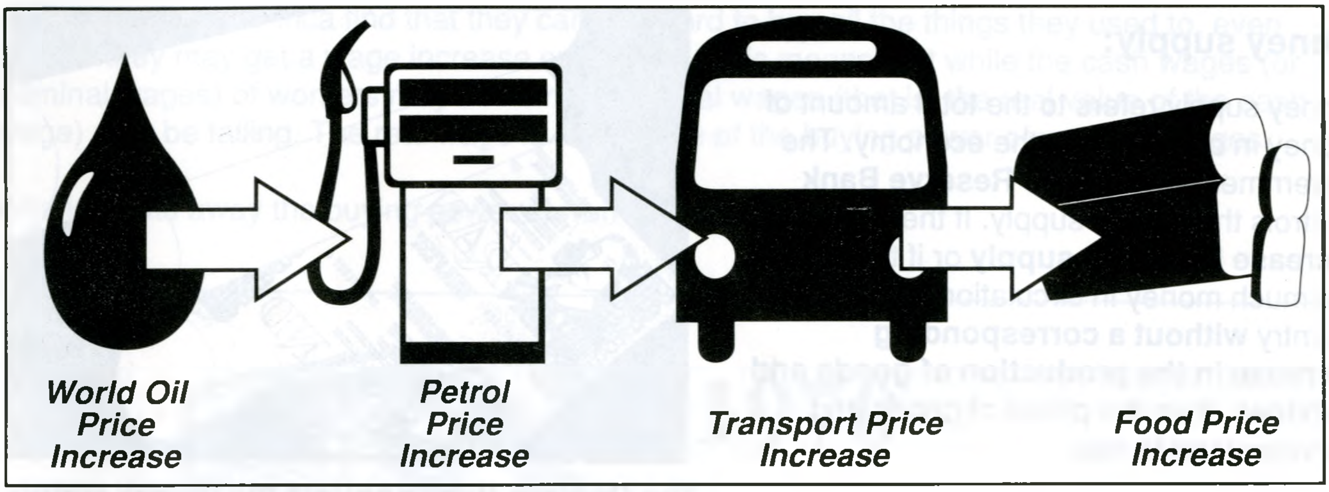
GRETA STEYN

This is an attempt by management to blame workers for the price increases and to make the unions demand lower wage increases. If management claims this to be the case, then how do they explain that land prices for example keep on rising? There is no wage cost involved yet land is one of the fastest rising commodities. Likewise, food prices have been rising faster than the price of many other goods. But this is not because agricultural workers are earning a living wage, in fact they are among the lowest paid workers in the country.

Sometimes inflation is caused by **international factors** that are beyond the direct control of the government or individual capitalists: For example:

World commodity prices:

Inflation can also be caused by an increase in the **price of raw materials in the world economy**. Let us take the increase in the world price of oil for example. Oil is needed for transport, electricity and it is used in industry. If the world oil price increases, then we have to pay more for the oil imports. As a result, the petrol price will increase which will in turn increase transport prices and so on. In this way, world prices of goods affect inflation in the country.



Dependence on imports:

Our dependence on imports is therefore another cause of inflation. During the 1970's for example, inflation was high because SA "imported" inflation from the Western countries with which we trade. SA imports most of its capital goods from these Western countries. If inflation rises there, then we import their inflation to South Africa.

Monopolies:

Many of the economists in the union movement argue that price rises are under the control of the seven huge and powerful companies called monopolies who dominate the South African economy. **These monopolies can control the supply of goods and services** in the country and **they can determine the prices** of goods and services depending on the profitability of their companies. So if they do not make enough profits, they can decide to increase the prices of the goods that they produce. In this way, they have control over inflation.

Liberty Life

SA Mutual

("FSI") to be renamed FSI

FS Group

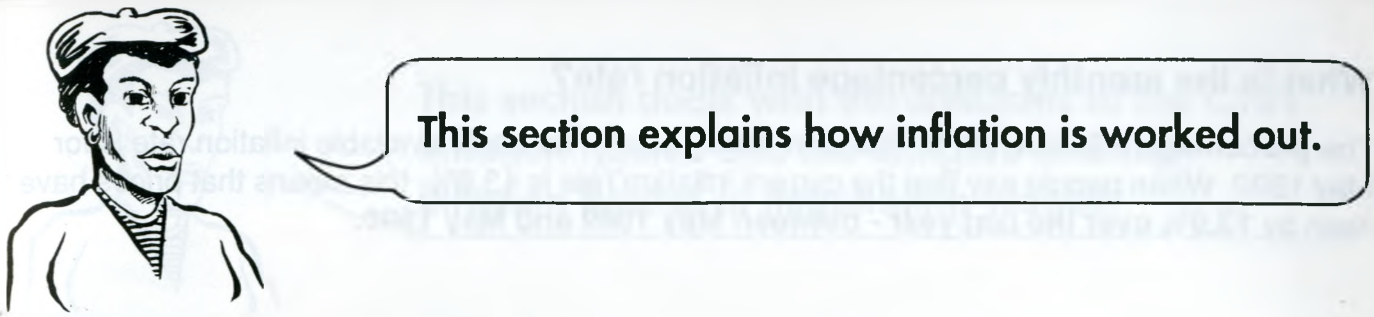
Rembrandt

Sanlam Assuring your tomorrow

Sanlam

Anglo American

Anglovaal Limited



The Central Statistical Services:

The government's Central Statistical Services works out the official inflation figures each month. Although there have been criticisms of this Service, there is no other body in SA that supplies these figures each month.

The inflation rate is a percentage figure. It is worked out by using an index called the **Consumer Price Index (CPI).**

What is the CPI?

The Central Statistical Services carries out surveys every 5 years to see what types of things people buy and how much of their income they spend on food, transport, rent etc. They take the prices of these things at the time of the survey. **From these prices they work out what is** called an "index" and they put this at 100 for the year and month of the survey. The 100 is called the **"base"** of the CPI.

At the moment the base for the CPI is 1985. So 1985 = 100.

The CSS will soon be changing the base for the CPI to 1990. This means that soon, 1990 = 100.

Every month Central Statistics price the goods and services in their survey and see how much these prices have gone up. They work out a new CPI for each main town in South Africa, and also a national average and separate CPI's for the lower, middle and upper income groups as well as for food on its own.

CSS basket of goods & services

When this book was written, the latest national CPI available was for May 1990. It was 200.4. **This means that goods and services which could be bought for R100 in 1985 now cost on average R200.40.**

What is the monthly percentage inflation rate?

The **percentage** inflation rate is most commonly used. The latest available inflation rate is for May 1990. When people say that the current inflation rate is 13.9%, this means that prices have risen by **13.9% over the last year - between May 1989 and May 1990.**

> The way that this is worked out is to subtract the May 1989 CPI from the May 1990 CPI and express this as a percentage.
>
> May 1989 CPI was 175.9
> May 1990 CPI was 200.4
>
> 200.4 - 175.9 = 24.5
>
> To express this as a percentage increase since May 1989
> 24.5 ÷ 175.9 X 100 = 13.9%

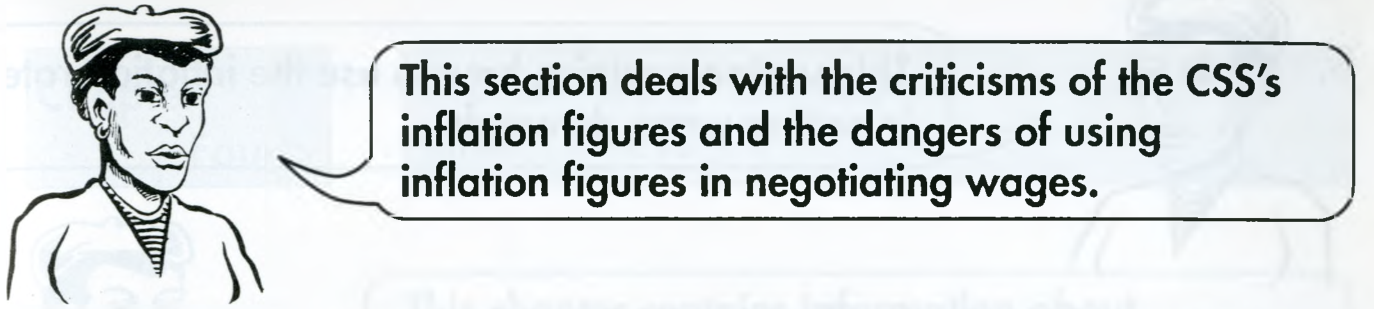
This is how the new inflation rate is worked out each month.

Food Prices

Increases in the cost of food are part of the inflation rate. But CSS also gives food inflation figures which give us an indication of the **rate at which food prices are rising.** Separate figures are also given for the lower middle and higher income groups.

In many cases, food inflation rate for the lower income group is higher compared to that of the higher income group. For example, in May 1990 the food inflation rate for the lower income group was 16,4% compared to 15% for the higher income group.

Workers spend a large portion of their wages on food than other income groups. For this reason it would be useful for unions to consider the food inflation rate when setting a wage demand.



There have been many criticisms of the way in which the Central Statistical Services works out the inflation rate. Some people say that the real inflation rate is far higher than the one put out by the Central Statistical Services.

Reasons given for this argument are :

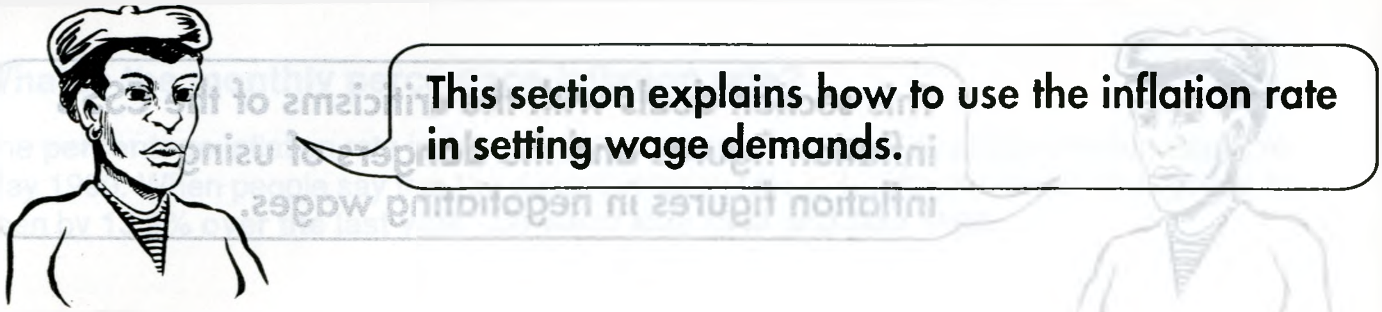
1. that the surveys of the CSS do not reflect the buying patterns of workers.
2. that workers spend a larger portion of their wage packet on food than that which is allocated by the CSS.
3. that the CSS uses supermarket prices, and most workers are forced to buy at township stores and spaza shops, where prices are much higher.

The Dangers of Using Inflation Figures

There is a danger in negotiating at the inflation rate. If the inflation rate comes down then management can say that wages should be increased at a lower rate than in previous years.

Where to find the latest inflation rates

It is possible to obtain the latest inflation rate by telephoning the **Central Statistical Services at 012-3108911** or your nearest service organisation.



Union negotiators should know what the **latest inflation rate** is and also what the **predicted rate of inflation** will be for the year ahead. In this way they can check that as a bottom line, wage increases at least match the rising cost of living.

If wages do not rise at the same rate as inflation, the real wages of workers will be falling and workers will be able to buy less and less with their wages. For example, if the average inflation rate for a whole year is 15% and a worker only gets an annual wage increase of 13%, then the **real wages** of the worker will be falling even though their **cash wages** will be increasing. This would mean that the buying power of workers' wages will be falling.

Workers should test whether the wage demand they are making is at least as much as the inflation rate to maintain the buying power of their wages.

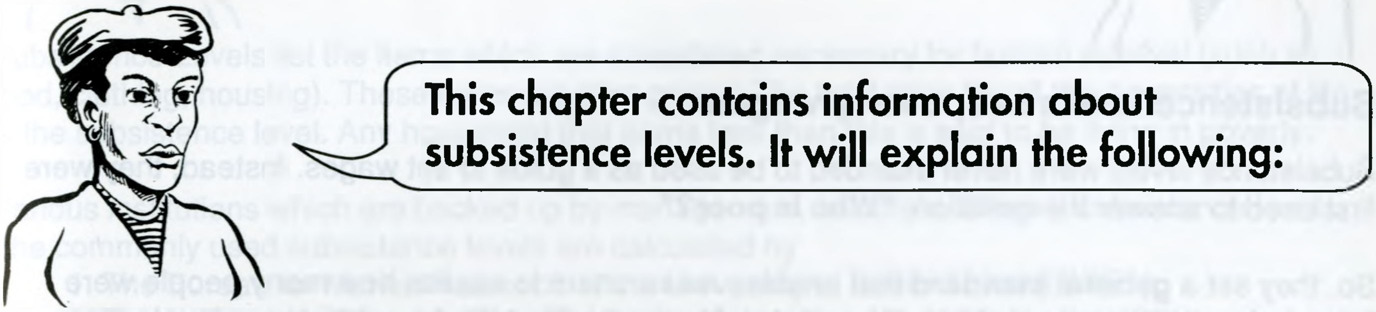
Demanding more than the inflation rate:

To **improve** their standard of living, workers will have to demand an increase which is more than the inflation rate. We should bear in mind that the latest inflation figure shows **price increases over the past year**. Achieving an increase which is the same as the latest inflation rate will only leave workers with exactly the same standard of living. It is important that workers' wages are **protected against future price rises** as well. That is why it is important to know what the inflation rate will be in the following months.

A good way of protecting wage increases against future price increases and at least maintaining the standard of living is to set a wage demand that considers the **latest inflation rate plus half of the future inflation rate.**

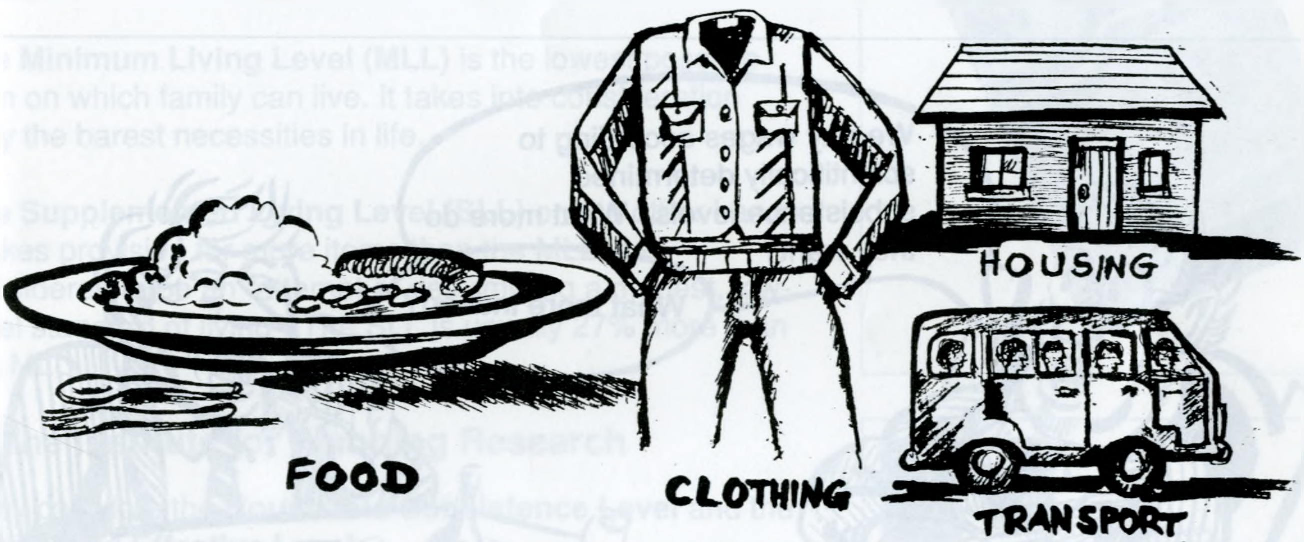
For example, if the latest inflation rate is 14% and the economists predict that the inflation rate will be 15% by the end of the year, then the union could consider a wage increase of at least **14% + 7.5% [1/2 of 15%] = 21.5%** to protect workers' wages against future price rises.

Chapter Four: Subsistence levels and other surveys



1. **Using subsistence levels in wage bargaining**

2. **How subsistence levels are worked out**

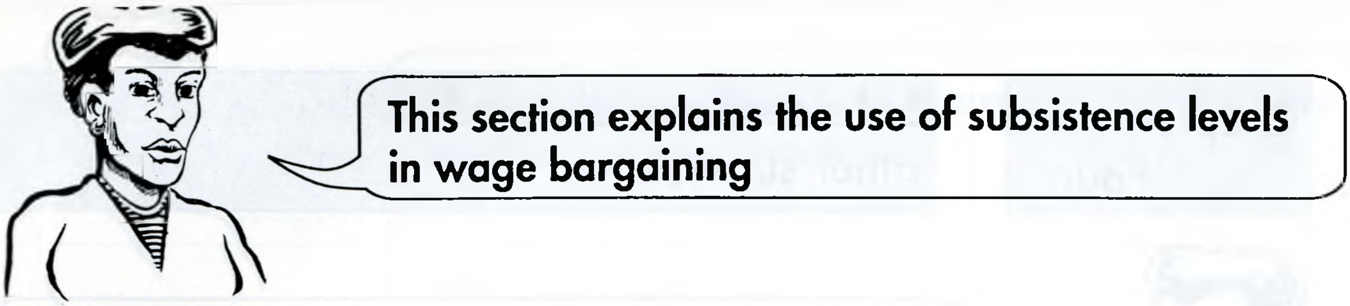


3. **Criticisms of subsistence levels**

4. **Other living levels**

The following words are used in this chapter:

- ❑ Subsistence levels
- ❑ Household Effective Level
- ❑ Household Subsistence Level
- ❑ Minimum Living Level
- ❑ Supplemented Living Level
- ❑ University of South Africa
- ❑ University of Port Elizabeth
- ❑ Bureau for Market Research
- ❑ Institute for Planning Research
- ❑ Labour Research Service



Subsistence levels set poverty wages

Subsistence levels were never intended to be used as a guide to set wages. Instead, they were first used to answer the question, **"Who is poor?"**

So, they set a **general standard** that enables researchers to assess how many people were living below that standard, that is, **in a state of poverty**. That is why subsistence levels are sometimes also referred to as **poverty datum lines**. To pay a wage that is the same as the subsistence level is really to pay a poverty wage.

However, management makes regular use of subsistence levels, to back up the starvation wages which they pay.

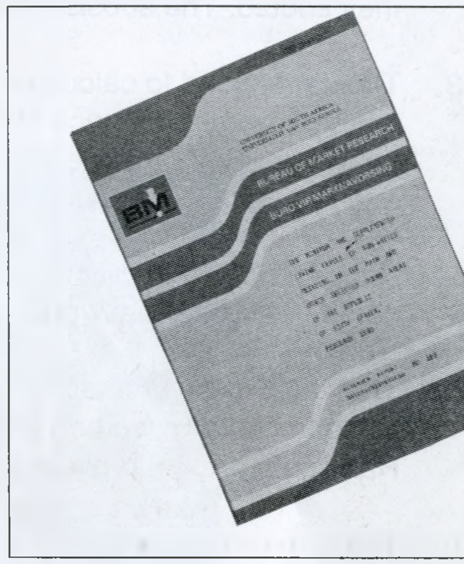
Subsistence levels should be used in different ways in wage negotiations. Many workers earn wages that are way below the subsistence levels. In these cases they should be used as **absolute bottom line figures**. Otherwise they may be used as an argument for **pushing wages up higher**.

Subsistence Levels list the items which are considered necessary for human survival (such as food, clothing, housing). These items are then priced. The total price for all the necessities of life is the subsistence level. Any household that earns less than this is said to be living in poverty.

Various institutions which are backed up by management, calculate different subsistence levels. The commonly used subsistence levels are calculated by:

1. The Bureau for Market Research at the University of South Africa (UNISA)
2. The Institute for Planning Research at the University of Port Elizabeth (UPE)

1. Bureau for Market Research

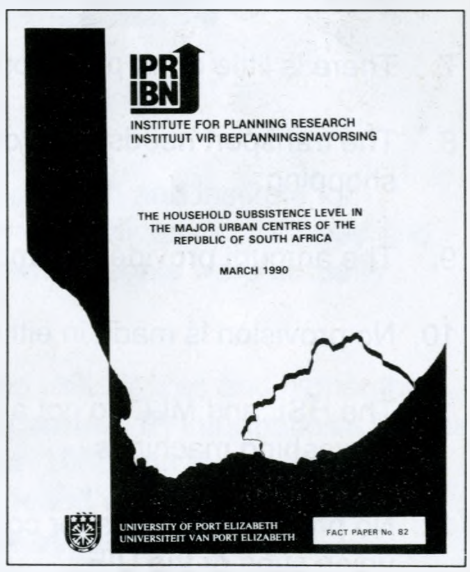


The Bureau for Market Research calculate the Minimum Living Level (MLL) and the Supplemented Living Level (SLL).

The **Minimum Living Level (MLL)** is the lowest possible sum on which family can live. It takes into consideration only the barest necessities in life.

The **Supplemented Living Level (SLL)** on the other hand makes provision for more items than the MLL. It is considered to be an "attempt at determining a modest, low-level standard of living". The SLL is usually 27% more than the MLL.

2. The Institute for Planning Research



They calculate the **Household Subsistence Level** and the **Household Effective Level.**

The Household Subsistence Level (HSL) considers the short term basic needs of a family. For example, food, clothing, fuel and lights, washing and cleansing materials, transport and rent.

The Household Effective Level (HEL) is 50% more than the HSL and it makes provisions for needs such as medical expenses, education, entertainment, alcohol and tobacco.

Both UNISA and UPE put out these figures twice a year for all the major cities in SA.

Workers should avoid using subsistence levels in wage bargaining. At best, the SLL should be used because it is the highest of these figures.

This section deals with the criticisms of subsistence levels.

Some of the criticisms are:

1. The subsistence levels take workers' present standard of living as a given factor which means that they do not set an improved living standard for workers. For example, they find out what workers actually spend on rent and use this figure in their calculations. But this assumes that workers' housing is satisfactory. The majority of workers live under very poor housing conditions.

2. It is assumed that workers will spend their wages exactly as the research institutes say they should. The subsistence levels are not flexible.

3. The items used to calculate the subsistence levels are changed as prices change. For example, when the price of red meat rose significantly in the early 1980s, the Bureau for Market Research decided to reduce the allocation of red meat, and increased the egg ration instead of increasing the total cost of the MLL.

4. Subsistence levels allow too little protein and too few calories in the diet of labourers doing heavy manual work.

5. They also allow unrealistic clothing needs. For example, the Bureau for Market Research allows women just two pairs of panties and three pairs of stockings per year. Raincoats are not provided at all for children.

6. The provision for washing and cleaning materials is also totally unrealistic. The MLL does not provide for toothbrushes or toothpaste.

7. There is little or no provision for children's educational needs.

8. The transport needs according to the MLL includes only transport to work, school and shopping.

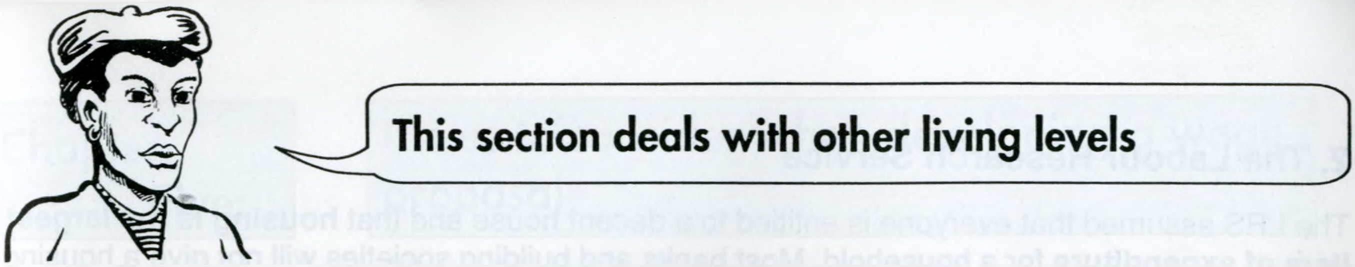
9. The amount provided for medical expenses will not cover a single visit to the clinic.

10. No provision is made in either the MLL or the HSL for recreational expenses.

11. The HSL and MLL do not allow workers to buy such things as furniture, fridges, stoves or washing machines.

12. No provision is made for contributions to a pension scheme, sick fund, burial fund, union subs or the UIF.

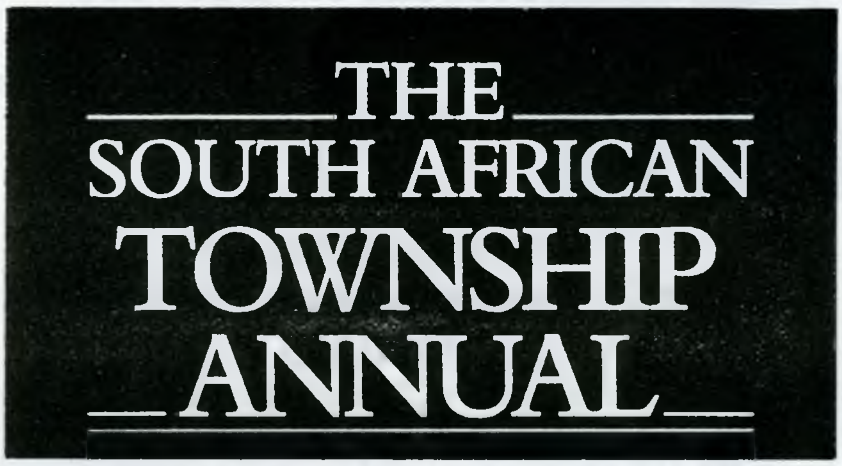
These are just a few criticisms of subsistence levels. It is clear that these calculations are geared to justify the payment of poverty wages and to ensure that workers get paid just enough to keep them alive so that they can come back to work each day. They can only be used to show how bad wages are.



A number of other surveys have established how much workers need to earn in order to live decently. The following surveys are scientifically based and may assist negotiators in their demand for a living wage for workers.

1. IR Information Survey

The IR Information Survey puts out something called the ***South African Township Annual***. In 1989 it surveyed 1400 households in 28 South African townships. All the households surveyed had at least one breadwinner.The survey wanted to establish how financial resources are used in families who have a modest low level standard of living.



This survey differs fundamentally from the Bureau for Market Research and Institute for Planning Research subsistence levels in that it does not decide what things people need and how much they need and then price them. Instead, it surveyed what people were **actually spending their money on.**

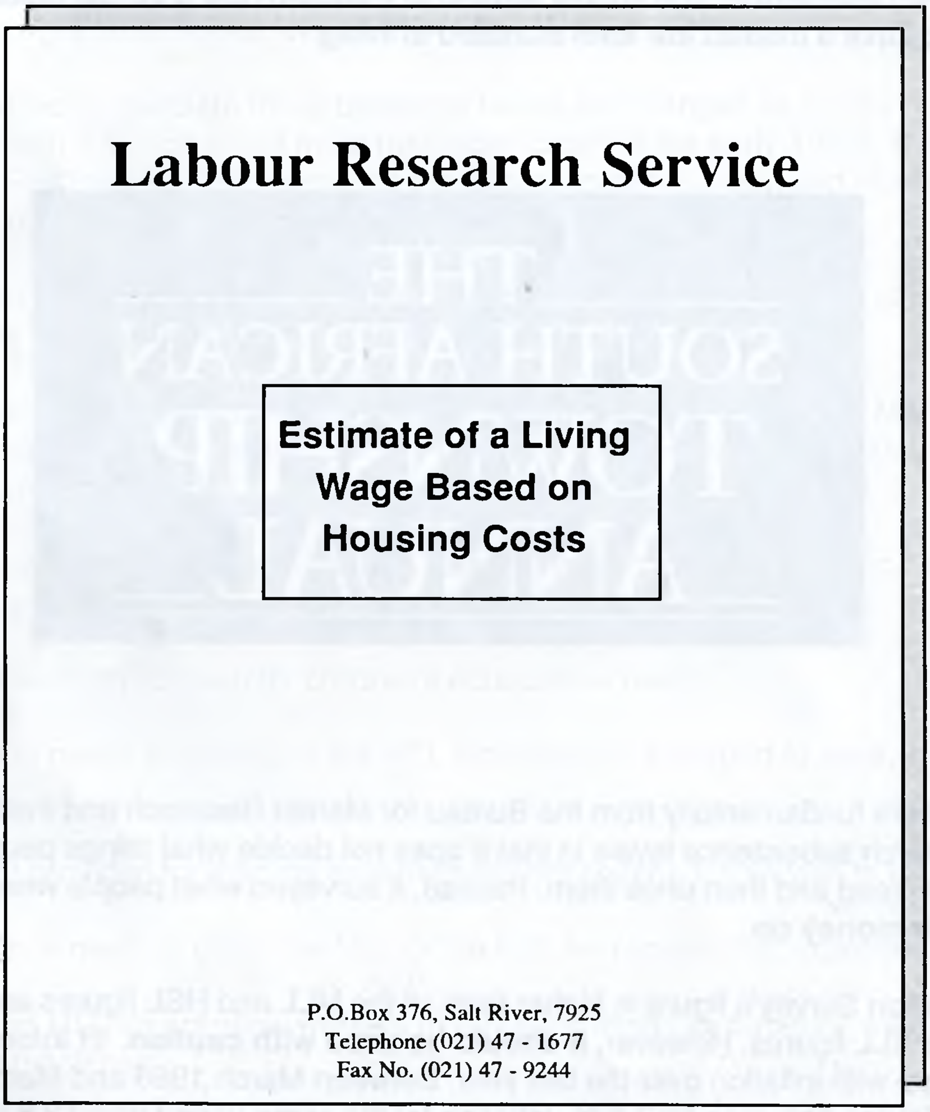
The IR Information Survey's figure is higher than all the MLL and HSL figures and higher than some HEL and SLL figures. However, **it should be used with caution**. IR Information's figures have not kept up with inflation over the last year. Between March 1988 and March 1989 IR Information's figures only rose by 7,5 %. Inflation for the same period was 13,8 %.
Unlike the subsistence level surveys, this survey is for the whole of the country.

2. The Labour Research Service

The LRS assumed that everyone is entitled to a decent house and that **housing is the largest item of expenditure** for a household. Most banks and building societies will not give a housing loan to anyone if their monthly repayments are more than 25 % of the income of the household.

The LRS says that it is possible to estimate a living wage by looking at the monthly cost of housing and taking it as 25 % of a monthly wage.

The LRS also sets one figure for the whole country.


Labour Research Service

Estimate of a Living Wage Based on Housing Costs

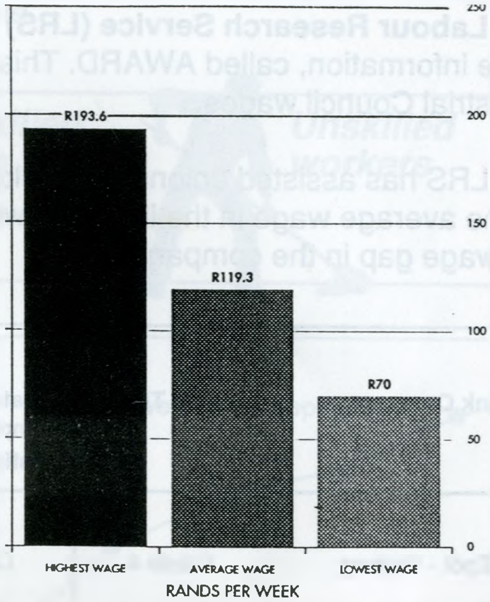
P.O.Box 376, Salt River, 7925
Telephone (021) 47 - 1677
Fax No. (021) 47 - 9244

Where to find this information

All these figures should be available from your nearest economic service organisation.

Chapter Five: Issues to consider when developing a wage proposal

This chapter contains information about the following



1. Wage comparisons

2. The wage gap and the wage curve

3. Problems with the percentage wage increases and the wage gap

4. Productivity

In this chapter you will find explanations for these words:

- ❑ industrials councils
- ❑ wage gap
- ❑ wage curve
- ❑ productivity
- ❑ production
- ❑ real wage

This section deals with the importance of comparing wages across the industry and with Industrial Council wage rates.

The Labour Research Service (LRS) in Cape Town specialises in wages. It has a database of wage information, called AWARD. This includes wages that have been negotiated as well as Industrial Council wages.

The LRS has assisted unions in developing a wage policy, based on a number of factors, such as the average wage in the industry, whether the real wage in the company has increased and the wage gap in the company.

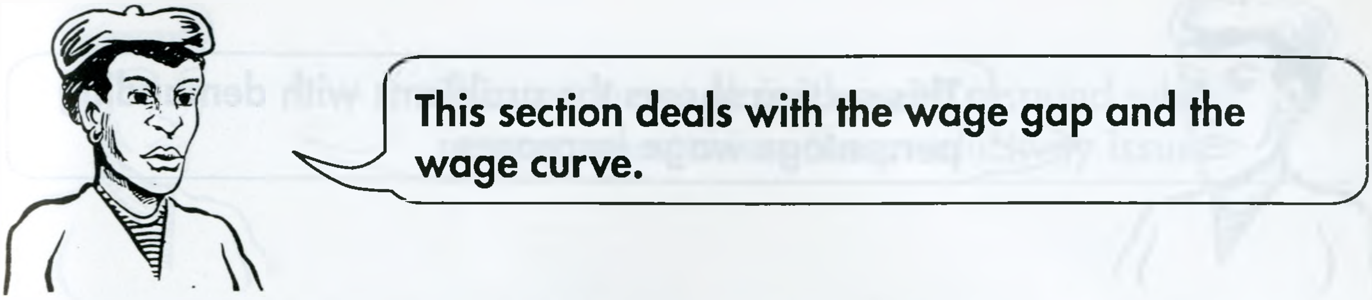
Rank Company	Job Title	Date of Impleme-tation	Current Weekly Wage	Actual Rand Increase	Rand Increase Over one Year	% change Over one Year
1. Epol - Vryburg	Grade 4	Oct-87	R130,00	R40,00	R158,70	176,3%
2. Oranje Kooperasie (Kakamas)	Grade 1	Sep-87	R70,00	R28,00	R28,00	66,7%
3. Oranje Kooperasie (Upington)	Grade 1	Sep-87	R70,00	R20,00	R20,00	40,0%
4. Bokomo Bakery - Moorreesburg	Minimum	Oct-87	R100,50	R25,50	R25,50	34%
5. Marcy's Bakery	Labourer	Jul-87	R105,00	R25,00	R25,00	31,3%
6. Farm Fare - Bronkhorstspruit (pp)	Minimum	Jan-88	R90,00	R11,50	R22,81	29,1%
7. Langeberg Co-Op (Durban)	Grade 4	Oct-87	R100,00	R22,51	R22,15	29,0%

Example of information on AWARD

If you want to compare the wages in your company with wages across the industry, for instance, you can request the LRS to help you with this information.

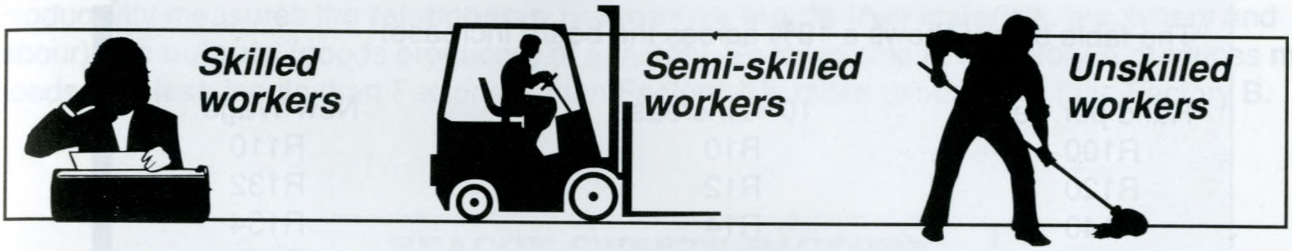
Their address is LRS, P.O. Box 376, Salt River, 7925, Cape Town

The South African Labour Development and Research Unit (SALDRU) also has a wage rates database. Their address is: SALDRU University of Cape Town Private Bag Rondebosch 7700



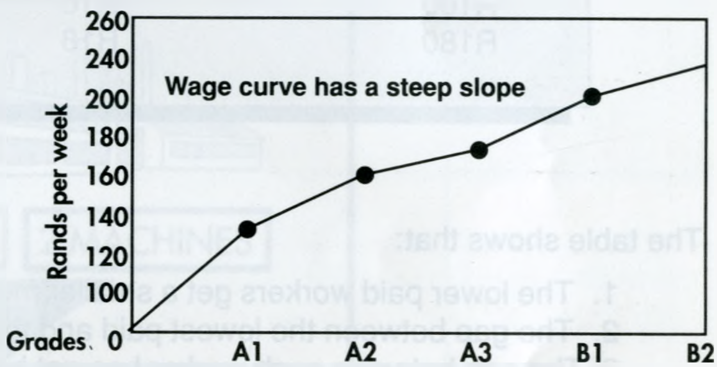
What is the wage gap?

The wage gap is an expression used to describe the difference between the highest paid workers in the bargaining unit and the lowest paid workers.



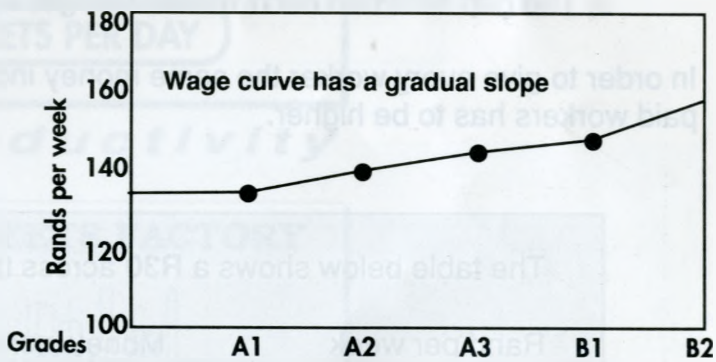
What is the wage curve?

If you draw a line that show all the wages from lowest to highest you would probably get something that looked like this:

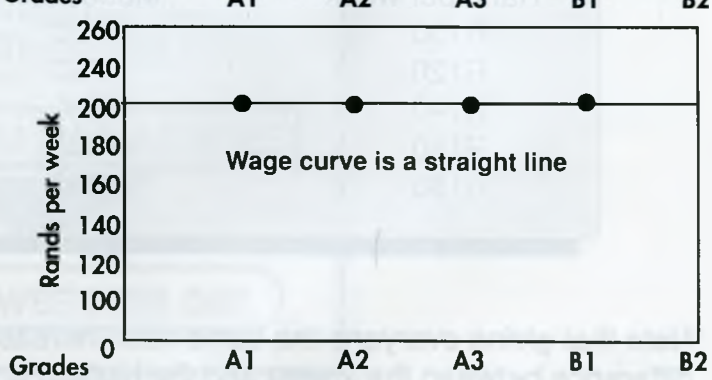


This is called the wage curve. It will vary depending on how much difference there is between the highest and the lowest wage.

If there was not much difference it would look like this:



If all the wages in the bargaining unit were exactly the same the line would look like this:



Wage negotiators should decide whether they want to try to straighten the wage curve in their factories. In order to do this the lowest paid workers will need to get higher cash increases than the higher paid workers.

This section shows the problems with demanding percentage wage increases.

If you negotiate a percentage increase in wages, even if it is across the board, this will lead to a widening of the wage gap. This is why management prefers to use percentages.

The table below shows a **10%** across the board increase:

Rand per week	10 % increase	New Wage
R100	R10	R110
R120	R12	R132
R140	R14	R154
R160	R16	R176
R180	R18	R198

The table shows that:

1. The lower paid workers get a smaller money increases than the higher paid workers.
2. The gap between the lowest paid and the highest paid is - from R80 to R88.
3. The gap between each worker has got bigger - from R20 to R22.

In order to give every worker the same money increase the percentage increase for the lower paid workers has to be higher.

The table below shows a **R30** across the board increase:

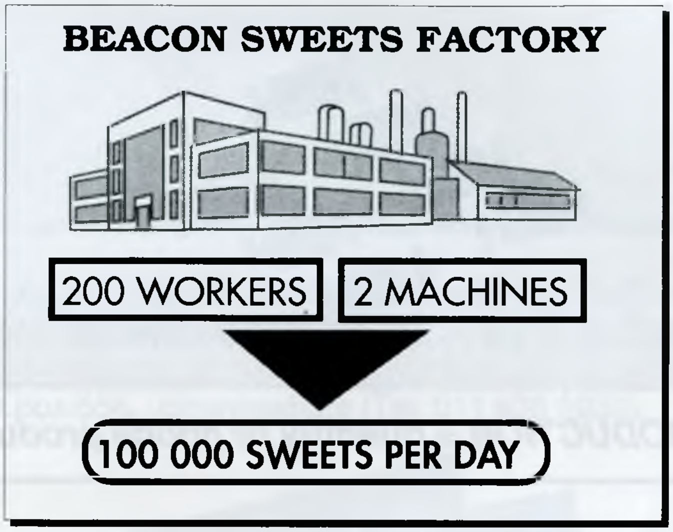
Rand per week	Money increase	% increase
R100	R30	30 %
R120	R30	25 %
R140	R30	21 %
R160	R30	19 %
R180	R30	17 %

Note that giving everyone the same cash increase does not alter the wage gap at all - the difference between the lowest and the highest is still R80. As we said in the section above, if you want to close the wage gap the lower paid workers will have to have higher cash increases than the higher paid workers.

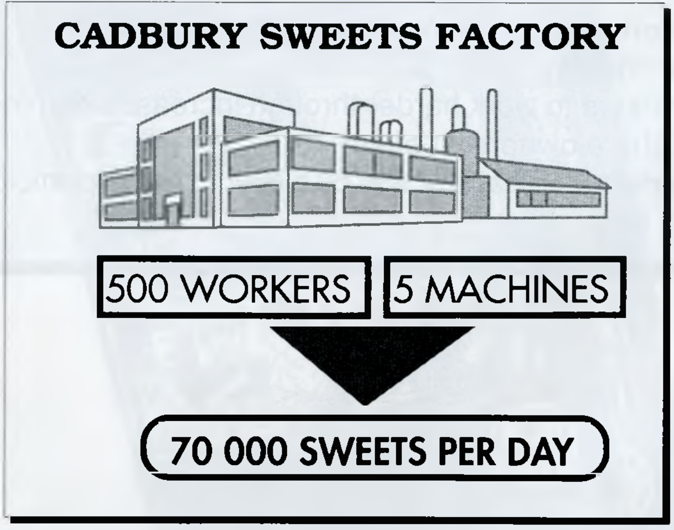
This section explains how to respond when management raises the productivity issue.

Management is increasingly bringing productivity issues into negotiations. They want to bargain higher wages for increased productivity.

Productivity measures the **relationship** between the **inputs** (raw materials, machinery and labour) and **outputs** (goods produced) of a factory. So for example, if Factory A produces **more** goods with **less** inputs than Factory B, then Factory A is **more productive** than Factory B.

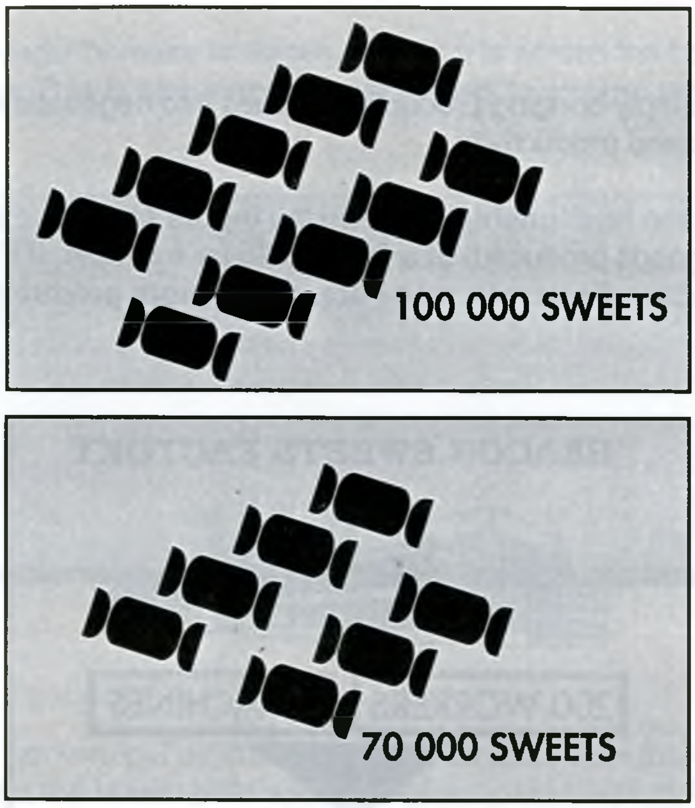


High Productivity



Lower Productivity

We must not confuse productivity with production! **Production** refers to the amount or **quantity of goods produced**. A company can have a high productivity even though it produces less goods than it usually does.



PRODUCTION = quantity of goods produced

Some of the ways that management tries to increase productivity are:-

- to try to make the work process more efficient
- to introduce new technology
- to try to motivate workers to work harder through increased earnings, bonus schemes, quality circles, and share ownership offers
- to try to improve workers' job satisfaction by allowing some participation in decision making on the shop floor.

Some of the effects that this can have on workers is:-

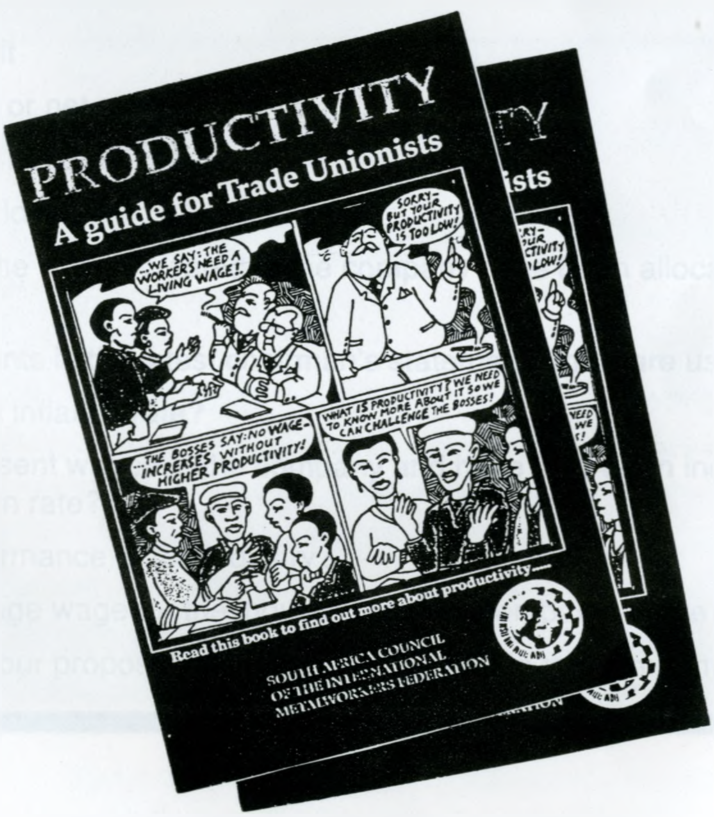
- workers can lose their jobs
- full-time workers can be replaced with casual workers
- the workload on workers may become greater
- some workers may be re-skilled to work on new machinery and may have their wages increased but others may find their grade and their wage dropping.
- it could also have no effect (that is, simply increase production)
- the company could not create new jobs as a result of increased productivity

Productivity is also a measure of the efficiency and level of advancement of an economy. If the productivity of an economy is very high, then the economy is considered to be efficient and advanced. All countries in the world drive to increase productivity. We must ensure that productivity is not increased at the expense of the workers.

Some of the ways that workers can be protected in productivity bargaining is:-

- no productivity increase without a guarantee of no job losses.
- increased productivity must lead to more production and not fewer workers.
- there must be no job losses as a result of the introduction of new machinery.

The Labour Research Service (LRS) and the Labour and Economic Research Centre (LERC) have produced a very useful book called ***Productivity. A Guide for Trade Unionists***. Most of the above information on productivity is taken from this book. It can be ordered from Learn and Teach Publications, P.O.Box 556, Johannesburg (Tel: 011 838 3030).



Unions that use a company's financial performance as part of their arguments in wage negotiations should consider setting the date for the negotiations **at a time** when they know that **the latest financial information will be available**.

Annual reports are usually published about three months after the financial year end of the company.

It seems that quite a lot of companies try to arrange wage negotiations for those three months – when management has the financial results for the year but they are not available to the public. In such cases the only information that the union has to go on is an annual report that is one year out of date and an interim report for six months.

CONCLUSION

Wage increases and concessions to the unions are never given lightly by the capitalists. They will always find reason to justify their offers at the negotiation table. They have professional consultants who provide them with well-researched information to counter any argument put forward by the unions.

It is important that the negotiating teams of the unions also have well-prepared and accurate information at their disposal to back up their arguments. Below is a checklist of information that would assist unionists with preparation for negotiations with management:

CHECKLIST

1. Who owns the company?
2. What other companies do the parent company own?
3. Is your company owned by a multinational?
4. Who are the directors of the company? On which dates are the results available?
5. What do the directors of earn?
6. What are the company's latest financial results?
7. How do the latest results compare with the results of five years ago?
8. Financial results would include:

   turnover

   operating profit

   profit after tax or net profit

   operating and net profit margins

   sales per employee
9. What portion of the wealth created in the company have been allocated to the employees?.
10. Are there any points in the latest chairman's statement which are useful?
11. What is the latest inflation rate?
12. What are the present wages in the company and have they been increasing annually above the fnflation rate?
13. What is the performance of the industry?
14. What is the average wage for the industry? Is your company above or below this?
15. What effect will your proposal have on the wage gap in the company?

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GLOSSARY

Associated Company	A company in which another company owns between 20% and 50% of the shares. *Page 14*
Capital	Money supplied by the original shareholders which are used to buy factories, machinery tools etc. *Page 7*
Capitalist	A person who owns and controls the use of the buildings, equipment, machinery, raw materials etc. in a profit making company. *Page 61*
Cash wage	The actual amount of money that workers receive in their pay packet. It is also referred to as the nominal wage. *Page 37*
Central Statistical Services	A government body which calculates important economic statistics like the inflation rates etc. *Page 40*
Close Corporation	A company covered by the Close Corporations Act of 1985, which enjoys certain tax advantages over a private company and which has limited liability. *Page 11*
Consumer Price Index	This is often used as an inflation index which is worked out by establishing a basket of goods which are bought by an average family. The price of this basket is monitored regularly and a certain weighting is given to important items like petrol and bread. In this way the general level of price increases can be determined. *Page 40*
Co-operative	This is a type of business which provides a group of people with a common service. *Page 11*
Creditors	Individuals or companies to which a company owes money in return for goods supplied or services rendered. *Page 32*
Current assets	Assets which can soon be turned into cash. For example, debtors, stock etc. *Page 32*
Current liabilities	Money owed by a company to individuals or other companies and which will have to be paid in 12 months time. For example, short-term debt for goods and services rendered.
Debtor	One which owes money to another. A company's debtors are companies which owe money to the company. *Page 32*
Director	Someone elected by the shareholders of a company to run the company on their behalf and to make profits for them. *Page 12*
Directors Emoluments	The fees paid to the directors by the company. *Page 31*
Dividends	The part of the profits that are paid out to the shareholders. *Page 8*
Economy	The industrial, commercial, retail, agricultural and mining activities of a country. *Page 38*
Extraordinary items	Items which are not usually traded in a company. For example, if a soap company sells a piece of land then this sale is regarded as an extraordinary item. *Page 24*

Fixed assets	Assets that are in use in a business over a number of years, such as machinery, buildings, vehicles. *Page 30*
Group	A holding company together with all its subsidiaries and associate companies. *Page 14*
Holding company	A company which owns more than 50% of a subsidiary is a holding company because then it has control over that company. *Page 14*
Household Effective Level	A subsistence level which provides for more expenses than the basic necessities. For example medical expenses, education etc. *Page 50*
Household Subsistence Level	A subsistence level which provides for the short-term basic needs of a family. *Page 50*
Income	All money generated by sales, from whatever source, received by a company is called income.
Income Statement	This is a financial statement which all public listed companies are required to produce. The statement shows all the money made in sales minus all the different expenses of the company. The income statement is sometimes called the profit and loss statement. *Page 20*
Industrial Relations Information Survey	A survey tries to establish how financial resources are used in families who have a low standard of living. *Page 48*
Inflation rate	This refers to the rate at which prices are rising. The inflation rate is usually written in percentage terms. *Page 40*
interest paid	A payment made in return for the borrowing of money. *Page 24*
Interim report	A financial statement which shows the financial performance of a company over the first half of the year. *Page 26*
Investments	The holding of shares or other tradeable pieces of paper. *Page 24*
Minimum Living Level	The lowest possible sum on which a family can live. *Page 50*
Multinational	A huge company that owns and controls companies in other countries and exploits the labour in these countries. *Page 14*
Net current assets	Current assets minus current liabilities. *Page 32*
Net profit	The profit that is left over after the interest as well as the taxes have been deducted from the operating profit. *Page 24*
Nominal wage	The actual amount of money which the workers receive in their pay packet. It is sometimes called the cash wage. *Page 37*
Operating profit	The profit that is left over after all the operating costs like wages, rent etc. have been subtracted from the sales. *Page 24*
Ordinary shares	The most common and riskiest form of shares. The owners of ordinary shares are entitled to receive a dividend but if the company makes a loss then he or she will not receive a dividend.
Partnership	A business owned by at least 2 but not more than 20 people. *Page 10*

Preference shares	Shares which have a fixed dividend which must be paid out regardless of whether the company made a profit.
Private company	A company with no more than 50 shareholders whose liability is limited. *Page 10*
Production costs	The costs incurred in the production of goods. For example, wages, rent, electricity etc. *Page 34*
Productivity	A measure of the rate at which output flows from the use of land, labour and capital. *Page 54*
Profit after tax	The amount of money left over after tax had been paid to the government. Profit after tax is also referred to as net profit. *Page 24*
Profit margins	A measure of expressing profits as a percentage of the sales. It is often used as an indication of the profitability of the company. *Page 25*
Public company	A company which can issue shares to the public and which must have at least 7 shareholders. These companies may list their shares on the stock exchange. *Page 11*
Real wage	A measure of the actual buying power of workers' wages. In other words, it is the measure of wages after inflation has been taken into account. The real wage is calculated as follows: [cash wage ÷ cpi x 100]. *Page 37*
Retained income	That portion of the net profits that are not distributed to the shareholders but which is kept in the company for future expansion or when the company is facing a bad financial period. *Page 27*
Share	A share represents ownership of a company. People who own shares in a company are the owners of that company. *Page 7*
Share certificate	A certificate which are given to shareholders and which indicates how many shares the shareholder owns. *Page 7*
Shareholder	Someone who owns shares is called a shareholder. A shareholder buys shares in a company and in return have a right to the company's profits. *Page 6*
Share register	A register which lists the names of all the shareholders of a company. *Page 7*
Sole trader	A business owned by a single person, for example a shopkeeper or a shoe repairer. *Page 9*
Stock exchange	The place where people buy and sell shares of public companies. *Page 8*
Subsidiary	This is a company which is directly (more than 50% of the shares) owned by another company. *Page 14*
Subsistence Levels	A general standard used to assess how many people are living in a state of poverty. *Page 48*
Supplemented Living Level	Makes provisions for more than the MLL. Usually 27% more than MLL. *Page 50*

Tax	This refers to the amount which companies have to pay to the government. In other words, it is the government's share of the profits. *Page 24*
Turnover	This is the total amount which the company has made from selling its goods. *Page 24*
Value added statement	This is a statement which shows how the wealth that has been created in the company, has been distributed. *Page 31*
Wage curve	Line showing all the wages in a bargaining unit from the lowest to the highest. *Page 55*
Wage gap	An expression used to describe the difference between the highest and the lowest paid workers in the bargaining unit. *Page 55*