

The Two Bakeries

Student brief

Two bakeries in Accra. Both have been trading for about eight years. Both had revenue of GH¢24 million last year. Both reported net income of GH¢1.8 million.

Adjoa's Bakery supplies bread and pastries to supermarket chains and hotels across Greater Accra. It has grown quickly — revenue was GH¢15 million two years ago. Its customers are large, reliable organisations that pay on agreed terms.

Kaneshie Bread Company operates six retail outlets and a wholesale counter at Kaneshie market. Customers pay in cash or by mobile money at the point of sale. Revenue has grown slowly and steadily.

An investor has been offered a fifty percent stake in one of them, at the same price. She has asked Mountain River which one she should take.

Exhibit 1 • Both firms, last financial year

GH¢ MILLIONS	ADJOA'S	KANESHIE
Revenue	24.0	24.0
Net income	1.8	1.8
Depreciation charged	0.9	1.4
Increase in receivables	2.4	0.1
Increase in inventory	0.8	0.2
Increase in payables	0.5	0.3
Receivables at year end	5.9	0.4

Question 1 • 15 minutes

Build the operating section of the cash-flow statement for each bakery, starting from net income. You need only the operating section — ignore investing and financing.

Report one number for each firm: **cash flow from operating activities**.

Question 2 • 13 minutes

Both firms earned GH¢1.8 million. Explain, in terms a non-finance person would follow, why the two cash figures differ so much.

Then: which of the two is the healthier business? Be careful — this is not as obvious as your first answer will suggest.

Question 3 • 9 minutes

Your client can buy half of one of them at the same price. Which do you recommend, and why?

Then name **three specific questions you would put to each owner** before committing. Be concrete — "tell me about the business" is not a question.