


90310

[Cash flow, Depreciation, LIFO-FIFO]

Sections of the 1993 annual report of Nucor Corporation is attached. An extract from the 10 - K form of Nucor, relating to property, plant and equipment is also included.

Questions:

- A.** Using the available financial statements and the notes to the consolidated financial statements, prepare a consolidated statement of cash flows. You can choose either the direct method or the indirect method.
- B** Compute the following ratios:
- B1** Return on equity.
 - B2** Return on assets (after tax).
 - B3** Average debt to average equity
 - B4** Average interest rate.
 - B5** Average Book value of equity per share in 1993.
- B6** Guess the stock price of Nucor on December 31,1992 and 1993.
- C** Compute the following figures:
- C1** Relative age of property, plant and equipment as a percentage of the depreciable life.
 - C2** Average depreciable life of all the property, plant and equipment.
 - C3** Average age of the firm's fixed assets (property, plant equipment).
- D** Note 3 to the financial statements describes the accounting method used by Nucor for inventories.
- D1** Suppose Nucor used the FIFO method for accounting for all its inventories. What would be the effect on the net income of Nucor for 1993?
 - D2** Suppose Nucor used the LIFO method for accounting for all its inventories. What would be the effect on the net income of Nucor for 1993?
 - D3** Did the inventories of Nucor increase or decrease from 1992 to 1993 in real terms. What was the real growth (or decrease) in inventories?
-  To answer the questions about inventories, assume that the FIFO inventory values approximate the current cost values. Note that Nucor used both the FIFO and the LIFO methods partially for inventories.

Consolidated Balance Sheets

	December 31,	1993	1992	Increase
Assets				
Current assets:				
Cash and short - term investments		27,255	25,547	1,708
Accounts receivable (Note 2).		202,176	132,143	70,033
Inventories (Note 3).		215,015	206,405	8,610
Other current assets.		23,786	17,521	6,265
Total current assets.		468,232	381,616	86,616
Property, plant and equipment (Note 4).		1,361,036	1,125,766	235,270
		1,829,268	1,507,382	321,886
Liabilities and Stockholders' Equity				
Current liabilities:				
Long - term debt due within one year.		200	200	
Accounts payable.		165,735	119,295	46,440
Federal income taxes.		14,267	10,459	3,808
Salaries, wages and related accruals.		60,893	48,673	12,220
Accrued expenses and other current liabilities.		109,396	93,344	16,052
Total current liabilities		350,491	271,971	78,520
Long - term debt due after one year (Note 5).		352,250	246,750	105,500
Deferred credits and other liabilities (Note 8)		81,273	63,934	17,339
Minority interest		143,088	140,496	2,592
Stockholders' equity (Note 6):				
Common stock.		35,701	17,784	17,917
Additional paid - in capital.		29,914	39,414	(9,500)
Retained earnings		854,856	745,260	109,596
		920,471	802,458	118,013
Treasury stock.		(18,305)	(18,227)	(78)
		902,166	784,231	117,935
		1,829,268	1,507,382	321,886
				843,199

See Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings in thousands except per share data

	Year Ended December 1993	1992	1991
Net sales.	2,253,738	1,619,235	1,465,457
Costs and expenses:			
Cost of products sold.	1,965,847	1,417,376	1,302,744
Marketing, administrative and other expenses	87,583	76,796	66,987
Interest expense (income) (Note 7)	13,198	7,737	(91)
	<u>2,066,628</u>	<u>1,501,909</u>	<u>1,369,640</u>
Earnings before federal income taxes	187,110	117,326	95,817
Federal income taxes (Note 8).	63,600	38,100	31,100
Net earnings	<u>123,510</u>	<u>79,226</u>	<u>64,717</u>
Net earnings per share (Note 6).	\$1.42	\$0.92	\$0.75

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 1993, 1992, and 1991

1. Summary of Significant Accounting Policies:

Nucor is a manufacturer of steel products. The consolidated financial statements include Nucor and all of its subsidiaries. The minority interest in operations of the 51% - owned subsidiary is included in cost of products sold. All significant intercompany transactions are eliminated.

Short - term investments are recorded at cost plus accrued interest, which approximates market, and generally will be converted into cash within three months.

Inventories are stated at the lower of cost or market. Cost is determined principally using the last - in, first - out (LIFO) method of accounting.

Property, plant and equipment are stated at cost. Depreciation is provided on a straight - line basis over the estimated useful lives of the assets.

Federal income taxes are provided using the liability method. The 1992 financial statements have been reclassified to conform with the 1993 presentation.

2. Accounts Receivable:

Accounts receivable are stated net of the allowance for doubtful accounts of 10,384,904 in 1993 (6,769,608 in 1992).

3. Inventories:

Inventories consist of approximately 50% raw materials and supplies, and 50% finished and semi-finished products in 1993 (40% and 60% in 1992). Inventories valued on the last-in, first-out (LIFO) method of accounting represent approximately 85% of total inventories in 1993 (75% in 1992). If the first-in, first-out (FIFO) method of accounting had been used instead of the last-in, first-out (LIFO) method, inventories would have been 67,127,821 higher in 1993 (29,631,284 higher in 1992).

4. Property, Plant and Equipment:

In \$ thousands except per share data

December 31,	1993	1992
Land and improvements.	41,284	32,819
Buildings and improvements	180,981	154,901
Plant machinery and equipment.	1,470,395	1,254,991
Office and transportation equipment.	15,770	18,738
Construction in process and equipment deposits.	112,558	112,651
	<u>1,820,987</u>	<u>1,574,100</u>
Less accumulated depreciation.	<u>(110,648)</u>	<u>(63,693)</u>
	<u>1,361,036</u>	<u>1,125,766</u>

The average annual depreciation rate was 8.2% in 1993 (8.1% in 1992 and 8.7% in 1991).

Nucor is constructing major expansions to its two sheet steel mills, and is constructing a new facility to produce iron carbide. These projects are expected to cost approximately an additional 75,000,000 to complete and to be operational in 1994.

7. Interest Expense (Income):

Interest expense is stated net of interest income of 1,118,252 in 1993 (1,297,373 in 1992 and 2,690,192 in 1991). Interest paid was 10,739,394 in 1993 (9,142,647 in 1992 and 3,422,549 in 1991).

8. Federal Income Taxes: In \$ thousands except per share data

	1993	1992	1991
Currently payable	62,600	41,100	35,100
Deferred.	1,000	(3,000)	(4,000)
	<u>63,600</u>	<u>38,100</u>	<u>31,100</u>

Deferred federal income tax assets of approximately 77,000,000 in 1993 (61,000,000 in 1992) relate primarily to differences between financial and tax reporting of inventories and accrued expenses. Deferred federal income tax liabilities of approximately 107,000,000 in 1993 (90,000,000 in 1992) relate primarily to differences between financial and tax reporting of depreciation. Federal income taxes paid were 57,519,048 in 1993 (40,823,089 in 1992 and 34,681,406 in 1991).

Schedule V - Property, Plant and Equipment

	Land and improvements	Buildings and improvements	Plant machinery and equipment	Office and ransportation equipment	Construction in process and deposits	Total
Balance at Dec. 31, 1990	30,643	125,917	905,687	14,962	9,155	1,086,364
1991 additions at cost.....	6,513	5,979	53,219	3,452	148,558	217,721
1991 sales or retirements..	(5,684)	(388)	(33,681)	(2,799)		(42,552)
Balance at Dec. 31, 1991	31,472	131,509	925,225	15,614	157,713	1,261,533
1992 additions at cost.....	1,583	25,760	392,600	4,243	(45,062)	379,124
1992 sales or retirements..	(236)	(2,367)	(62,834)	(1,120)		(66,557)
Balance at Dec. 31, 1992	32,819	154,901	1,254,991	18,738	112,651	1,574,100
1993 additions at cost.....	9,012	28,818	325,959	465	(94)	364,160
1993 sales or retirements..	(547)	(2,738)	(110,555)		(3,433)	(117,273)
Balance at Dec. 31, 1993	41,284	180,981	1,470,395	15,770	112,558	1,820,987

Schedule VI - Accumulated Depreciation of Property, Plant and Equipment

Balance at Dec. 31, 1990	9,111	42,142	305,715	6,148		363,116
1991 additions charged to earni	1,529	6,794	82,039	3,216		93,578
1991 sales or retirements..	(5,680)	(378)	(33,681)	(2,706)		(42,445)
Balance Dec. 31, 1991	4,960	48,558	354,073	6,658		414,249
1992 additions charged to earni	1,344	7,555	85,189	3,691		97,779
1992 sales or retirements..	(7)	(2,367)	(60,199)	(1,120)		(63,693)
Balance at Dec. 31, 1992	6,297	53,745	379,063	9,230		448,335
1993 additions charged earning:	1,537	8,474	108,686	3,569		122,265
1993 sales or retirements..	(215)	(2,738)	(104,908)	(2,787)		(110,648)
Balance at Dec. 31, 1993	7,619	59,481	382,840	10,012		459,952