

[Cash Flow, LIFO-FIFO, Taxes]

20923

(Dollars in millions except per share amounts)

Enclosed are the income statements, the balance sheets and selected notes to the statements for the years 1992-1994. Late in fiscal year 1994, P & G acquired Revlon, Inc's worldwide Max Factor lines for \$1.031 billion, cash. At the time of acquisition, Max Factor had the following amounts for certain items in the balance sheet:

Accounts receivable	44
Deferred Income taxes (asset)	8
Accounts payable	92
Post retirement healthcare and life insurance benefits (liab)	10
All other assets and liabilities	
	154

You can also make the following assumptions about fiscal year 1994 for P & G:

- † Max Factor was the only corporate acquisition by P & G in 1994.
- † Depreciation and depletion in 1994 1045
- † Amortization of goodwill in 1994 89
- † When the restructuring reserves are written down, only the property plant & equipment is adjusted.
- † All the currency translation adjustments are for inventories.
[When the value of inventories held abroad increases due to currency exchange rate gains, the company will increase the value of the inventories and increase the account in the balance sheet]

- A.** Prepare a statement of cash flows for fiscal year 1994 for Procter & Gamble company.
[The changes in all balance sheet items from 1993 to 1994 are given next to the balance sheet]
- B.** Compute the following ratios (for the year ending June 30, 1994)
[The averages of selected balance sheet items from 1993 to 1994 are given in the balance sheet]

B1 Return on equity	B5 Average interest rate
B2 P&G's tax rate	B6 Book value of equity per share on June 30 1994.
B3 Return on assets (after tax)	B7 Operating margin
B4 Average debt to equity	B8 Total asset turnover

- C.** Note 4 to the financial statements describes the accounting method used by Procter & Gamble for inventories.
- ☞ To answer the questions about inventories, assume that the FIFO inventory values approximate the current cost values. Note that Procter & Gamble used both the FIFO and the LIFO methods partially, for inventories.
- C1** Suppose Procter & Gamble used the FIFO method for accounting for all its inventories. What would be the effect on the net income for the year ending June 30, 1994?
- C2** Suppose Procter & Gamble used the LIFO method for accounting for all its inventories starting from June 30, 1993. . What would be the effect on the net income for the year ending June 30, 1993?
- C3** Did the inventories Procter & Gamble increase or decrease in real terms in the year from June 30, 1993 to June 30, 1994. What was the real growth (decrease) in inventories in that period?

- D** Note 4 to the financial statements describes the Income taxes paid by Procter & Gamble. refers to the year ending June 30, 1994.
- D1** How much cash did P & G pay for taxes in the year ending June 30, 1994?
 - D2** What was the taxable income (per tax returns) for P & G in the year ending June 30, 1994?
 - D3** What was the difference between the depreciation expense claimed in the tax return and the amount reported in the financial statements the year ending June 30, 1994 ?. Which one was higher and by how much?
 - D4** From the tax note, compute the restructuring losses that P & G had recognized in the financial statements, by June 30, 1993 that had not been recognized for tax purposes.
 - D5** What was the amount of assets that P & G wrote off in the year ending June 30, 1994, for tax purposes?
 - D6** P & G reports separately that it spent (in cash) \$23 million for postretirement benefits in the year ending June 30, 1994. How much did P & G report as expense for postretirement benefits in the year ending June 30, 1994?

The Procter & Gamble Company and Subsidiaries
Consolidated Balance Sheet

(Millions of Dollars) June 30,	1994	1993	Change
Assets			
Cash and cash equivalents	2,373	2,322	51
Marketable securities	283	306	(23)
Accounts receivable	3,115	3,111	4
Inventories	2,877	2,903	(26)
Deferred income taxes	716	740	(24)
Prepaid expenses and other current assets	624	593	31
Current assets	9,988	9,975	
Buildings	3,027	2,703	
Machinery and equipment	12,249	11,607	
Land	550	494	
Timberlands, less depletion	70	73	
	15,896	14,877	1,019
Less accumulated depreciation	(5,872)	(5,392)	(480)
Property Plant and Equipment, net	10,024	9,485	539
Goodwill	4,564	3,472	
Trademarks and other intangible assets	946	957	
	5,510	4,429	1,081
Less accumulated amortization	(756)	(667)	(89)
Intangible assets	4,754	3,762	992
Other Assets	1,769	1,713	56
Total	26,535	24,935	

Liabilities and Shareholders' Equity

(Millions of Dollars) June 30,	1994	Average	1993	Change
Accounts payable	3,264	3,088	2,911	353
Accrued liabilities	2,961	2,900	2,838	123
Taxes payable	440	583	726	(286)
Debt due within one year	1,375	1,594	1,812	(437)
Current liabilities	8,040		8,287	
Long Term Debt	5,980	5,577	5,174	806
Post retirement healthcare and life insurance be	1,473	1,442	1,410	63
Restructuring costs	1,863	2,152	2,440	(577)
Deferred Income Taxes	347	265	183	164
	9,663		9,207	456
Liabilities and Shareholders' Equity				
Shareholders' Equity				
Convertible Class A preferred stock	1,942	1,956	1,969	(27)
Common stock: shares outstanding (millions)				
1994 684.3 1993 681.8	684	683	682	2
Additional paid in capital	560	519	477	83
Currency translation adjustments	(63)	(81)	(99)	36
Reserve for employee stock ownership plan debt	(1,787)	(1,812)	(1,836)	49
Retained earnings	7,496	6,872	6,248	1,248
Shareholders' Equity	8,832	8,137	7,441	1,391
Total	26,535	25,735	24,935	

See accompanying Notes To Consolidated Financial Statements.

Consolidated Statement of Earnings

Years Ended June 30 (Millions of Dollars Except Per Share Amount)	1994	1993	1992
Revenue	30,296	30,433	29,362
Cost of products sold	17,355	17,683	17,324
Marketing administrative and other operating expenses	9,361	9,589	9,171
Provision for restructuring		2,705	
Operating Income	3,580	456	2,867
Interest expense	482	552	510
Other income / expense net	248	445	528
Earnings Before Income Taxes & Prior Years' Effect of Accounting Changes	3,346	349	2,885
Income taxes	1,135	80	1,013
Net Earnings Before Prior Years' Effect of Accounting Changes	2,211	269	1,872
Prior years' effect of accounting changes		(925)	
Net Earnings / (Loss)	2,211	(656)	1,872

Per Common Share:

Net Earnings Before Prior Years' Effect of Accounting Changes	\$3.09	\$0.25	\$2.62
Prior years' effect of accounting changes		(\$1.36)	
Net Earnings / (Loss)	\$3.09	(\$1.11)	\$2.62
Net Earnings / (Loss) Assuming Full Dilution	\$2.91	(\$0.96)	\$2.45
Dividends	\$1.24	\$1.10	\$1.03
Average Shares Outstanding (in millions)	683.1	680.4	677.4

See accompanying Notes To Consolidated Financial Statements.

Notes to Consolidated Financial Statements (Dollars in millions except per share amounts)**2. Provision for Restructuring**

A restructuring provision of \$2,705 which reduced after-tax earnings by \$1,746 or \$2.57 per share, was established in fiscal 1993. A charge of \$2,402 covers a worldwide restructuring effort to optimize product supply systems and reduce overhead costs, and a \$303 charge related to the divestiture of the 100% juice business. The provision includes costs associated with the closure or disposal of facilities, employee separation and exit from certain non-strategic businesses. The restructuring provision was determined based on estimates prepared at the time the restructuring actions were approved by management and the Board of Directors. The cost of completing the restructuring program is expected to approximate the original estimates.

4. BALANCE SHEET INFORMATION

June 30 (Millions of Dollars)	1994	1993	Change
Inventories			
Raw materials and supplies	1087	1154	-67
Work in process	213	196	17
Finished products	1577	1553	24
	2877	2903	-26
Replacement cost of LIFO inventories	1284	1097	187
Stated value of LIFO inventories	1059	1013	46
Excess of replacement cost over the stated value	225	84	141

9. Income Taxes

Effective July 1 1992 the Company adopted SFAS # 109 Accounting for Income Taxes. The cumulative effect of the accounting change in prior years was \$25 added tax expense. The components of earnings before income taxes and prior years' effects of accounting changes were:

Years Ended June 30	1994	1993	1992
United States	2216	318	2166
International	1130	31	719
Total	3346	349	2885

Income tax expenses including prior years' effect of accounting changes were:

Years Ended June 30	1994	1993	1992
Current tax expense			
United States Federal	574	635	556
International	298	432	242
Other	67	78	90
Total	939	1145	888
Deferred tax expense			
United States Federal	118	-489	76
International & other	78	-576	49
Total	196	-1065	12
Deferred Taxes on prior years' effect of accounting change:		-497	

Taxes credited to Shareholders' Equity for the years ended June 30 1994 and 1993 were 91 and 74. Taxes generally are provided currently on undistributed earnings of foreign subsidiaries except when those earnings are considered to be reinvested indefinitely (\$2,731 at June 30 1994).

Deferred tax assets and liabilities included:

June 30	1994			1993			
	Assets	Liabilities	Total	Assets	Liabilities	Total	
<i>Current deferred taxes</i>							
Restructuring reserve	274		274	234		234	40
Other	442		442	506		506	(64)
Total	716		716	740		740	
<i>Noncurrent deferred taxes</i>							
Depreciation		-1173	-1173		-1133	(1,133)	(40)
Restructuring reserve	364		364	623		623	(259)
Postretirement benefits	540		540	522		522	
Loss carryforwards	282		282	226		226	(219)
Valuation reserves	-262		-262	-226		(226)	
Other		-98	-98		-195	(195)	
Total	924	-1271	-347	1145	-1328	(183)	

The effective income tax rates excluding prior years' effect of accounting changes were 33.9% 22.9% and 35.1% in 1994 1993 and 1992 compared to the U.S. statutory rate of 35% for 1994 and 34% for 1993 and 1992. In 1993, the effective rate was increased 4.2% by state and local taxes and 5.1 % by goodwill and other acquisition effects; and decreased by 15.0% by the impact of international rates and credits. In 1992 state and local taxes increased the rate by 1.8%.