

Problem 3.1. Assets of Du Pont. Below is the asset section of the balance sheet of Du Pont for fiscal year 2001. (Dell's Balance Sheet is on page 43).

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December 31 -----	2001 ----	2000 ----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,763	\$ 1,540
Marketable debt securities	85	77
Accounts and notes receivable (Note 13)	3,903	4,552
Inventories (Note 14)	4,215	4,658
Prepaid expenses	217	228
Deferred income taxes (Note 9)	618	601
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Total current assets	14,801	11,656
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PROPERTY, PLANT AND EQUIPMENT (Note 15)	33,778	34,650
Less: Accumulated depreciation	20,491	20,468
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Net property, plant and equipment	13,287	14,182
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GOODWILL AND OTHER INTANGIBLE		
ASSETS (Note 16)	6,897	8,365
INVESTMENT IN AFFILIATES (Note 17)	2,045	2,206
OTHER ASSETS (Notes 9 and 18)	3,289	3,017
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TOTAL	\$ 40,319	\$ 39,426
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This financial statement is much more complicated than that of Dell. Why? What additional items are here, but not on the Dell balance sheet? Various items refer to specific notes. What does this mean and why is it important? Is Du Pont a bigger company than Dell, based on assets?

This financial statement discloses more details than the Dell financial sheet. Included are Prepaid and Deferred Income Tax disclosures. In addition, PPE is presented at its historical value and reduced on the balance sheet by Accumulated Depreciation. The references to notes identify that more details are available on the particular asset. Based on assets, Du Pont is a larger company.

Problem 3.2. Preferred stock at Du Pont. The balance sheet of Du Pont includes the following:

STOCKHOLDERS' EQUITY

Preferred stock, without par value - cumulative; 23,000,000 shares authorized; issued at December 31:			
\$4.50 Series - 1,672,594 shares (callable at \$120)	\$	167	\$ 167
\$3.50 Series - 700,000 shares (callable at \$102)		70	70
Common stock, \$.30 par value; 1,800,000,000 shares authorized; Issued at December 31, 2001 - 1,088,994,789; 2000 - 1,129,973,354		327	339
Additional paid-in capital	\$	7,371	\$7,659

Du Pont has preferred stock. Is this different than common stock? Explain. Are the amounts of preferred stock material in terms of total paid-in capital. Explain.

Preferred Stock is stock which receives preference on dividend distribution. A liability is created if yearly dividends are not paid on Preferred Stock, whereas Common Stock does not ensure yearly dividends to the holders. The amount of preferred stock are material in terms of Paid in Capital in that there is as much Preferred Stock in the corporation as there is Common Stock.

Problem 3.3. Revenue and operating expenses for Hilton Hotels. Below is abbreviated information from Hilton's income statement:

	2001
Revenue	
Owned hotels	\$1,813
Leased hotels	26
Management & franchise fees	120
Other fees & income	<u>191</u>
	2,150
Expenses	
Owned hotels	1,196
Leased hotels	26
Depreciation & amortization	187
Other operating expenses	173
Corporate expenses, net	<u>73</u>
	1,655
Operating Income	<u>\$ 495</u>

Hilton is a service company, not manufacturing. The format for revenue and operating expenses is much different than Dell. Why? What are the primary differences?

Dell as a manufacturing company focuses on sales and cost of goods sold. Hilton as a service company focuses on major service categories such as revenues from owned hotels. Some expenses categories also are related to revenue categories.

Problem 3.4. Cash flows from operations for Du Pont. CFO from operations for 2001 is presented below. Unlike Dell, CFO is considerably less than net income. Why?

CASH PROVIDED BY CONTINUING OPERATIONS

Net income	\$ 4,339
Adjustments to reconcile net income to cash provided by continuing operations:	
Cumulative effect of a change in accounting principle (Note 11)	(11)
Depreciation	1,320
Amortization of goodwill and other intangible assets	434
Gain on sale of DuPont Pharmaceuticals (Note 7)	(6,136)
Other noncash charges and credits –	
Accounts and notes receivable	435
Inventories and other operating assets	(362)
Increase (decrease) in operating liabilities:	
Accounts payable and other operating liabilities	(634)
Accrued interest and income taxes (Notes 4 and 9)	2,069
Cash provided by continuing operations	\$ 2,419

Primarily, the sale of the Pharmaceuticals division created a large gain which leads to less Cash Flow represented by Net Income. This is a large reduction. Inventory and A/P maneuvers also affected the firm's Cash Flow, making it lesser than Net Income.