NORTHERN ILLINOIS UNIVERSITY

The Statement of Cash Flows - Unresolved Issues

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by

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ABSTRACT:

Financial Accounting Standards no. 95, the Statement of Cash Flows, was released to enhance the comparability and usefulness of the Statement of Cash Flows. Overall, the new guidelines (under Financial Accounting Standards no. 95) on preparing the Statement of Cash Flows have solved many problems that have been disputed in the past, however comparability and usefulness still remain to be a significant concern among financial statement users. Specifically, classification of several items, the direct and indirect methods of reporting cash flow from operations, and noncash transaction disclosures are three of the most significant unresolved issues that must be addressed. Proposed recommendations of improvement include:

1) A new statement called a Statement of Income and Cash Flows,
2) a standardized noncash disclosure note, and
3) mandated use of the direct method of reporting cash flows from operations.

THE STATEMENT OF CASH FLOWS - UNRESOLVED ISSUES

Financial Accounting Standards (FAS) no. 95, the Statement of Cash Flows, was enacted to correct many of the problems associated with the Statement of Financial Position. "The Statement of Cash Flows resolves disputes over the definitions of funds, purposes, and presentations of the funds flow statements and it improves the reliability and usefulness of financial information" [Zega, 1988]. The difficulties related to the Statement of Financial Position limited financial analysis. Therefore, FAS no. 95 was released to "achieve better comparability among the corporate reporting of information relating to funds and cash flow" [Kintzele and Kwiatkowski, 1991, p. 15].

Is FAS 95 effective in enhancing cash flow statement usefulness? This essay investigates its usefulness by introducing the FAS 95 requirements and by examining several unresolved issues: the classification of selected items, the direct and indirect methods of reporting cash flow from operations, and noncash transaction disclosures.

UNRESOLVED CASH FLOW ISSUES

Is standardization a benefit?

FAS no. 95 replaces the Statement of Financial Position with the Statement of Cash Flows (SCF). According to FAS 95, the SCF must focus on cash receipts and cash payments and explain changes in cash and cash equivalents. Also, the cash flows must be classified as operating, investing, or financing. Cash flows from operations may be determined by using either the direct or indirect method and noncash transactions must be presented in separate disclosures (not on the SCF).

The FASB believes that a statement of cash flows prepared in accordance with FAS no. 95 will help users:

1) assess the enterprise's ability to generate positive future net cash flows;
2) assess the enterprise's ability to meet obligations, its ability to pay dividends, and its need for external financing;
3) assess the reasons for difference between net income and associated cash receipts and payments, and
4) assess the effects on an enterprise's financial position of both its cash and noncash investing and financing transactions during the period [Kintzele and Kwiatkowski, 1991, p. 16].

It should be questioned, however, whether standardization of the statement leads to such benefits.

The SCF provides for ease of preparation, understanding, and consistency by classifying cash receipts and payments in three distinct categories; operating, investing, and financing.

Discussions of each of these classifications follows.

Cash flows from investing activities focus on balance sheet transactions. These activities include disbursements and collections of loans, purchases and sales of investments, and acquisitions and disposal of fixed assets [Thompson and Bitter, 1993, p. 19]. Financing activities, analogous to investing activities, focus on balance statement activities. These activities include borrowing money and repaying borrowed amounts, dividend payments, proceeds from issuing equity instruments, and outlays to purchase the firm's equity [Thompson and Bitter, p. 19]. Operating activities are the least standardized; they include all cash flow transactions that are neither investing or financing. These activities focus on income statement transactions, thus they are determinants of net income. "Operations seem to consist of normal, ordinary, and typical activities related to the production and sale of goods and services, while abnormal and atypical activities are classified as different from operations" [APB no. 30]. However, the APB does not define "ordinary" and "typical" with the result that ambiguity in the interpretation remains [Ketz and Largay, 1987, p. 11 and 12]. In conclusion, operations is not a well-defined term.

Classification Problems - Some Examples

"While we presume that buying or making products and then selling these products would constitute operations for manufacturing concerns, other activities are not classified so easily" (Ketz and Largay, 1987, p.11]. These "gray transactions" may have a significant effect on the SCF. A discussion of two items that are difficult to classify follows.

The sale of plant and equipment; operating or investing? The acquisition or production of a productive asset is usually an investing activity. However, if the "productive asset is acquired or produced to be a main source of a firm's revenue, the acquisition or production and sale of such an asset is classified as an operating activity" [Zega, 1988]. Under these circumstances, the "asset is similar to inventory" [Zega, 1988]. For example, a hospital's EKG machine that is manufactured by the hospital, rented for a short period of time to another hospital, and subsequently resold is considered an operating activity since the EKG machine is a main source of revenue. On the other hand, a university's xerox machine that was purchased from an external supplier, used by the university, and subsequently resold is considered an investing activity since the xerox machine is not a main source of revenue. Also, capital interest costs related to an asset acquisition are added to the cost of the asset to properly value the total investment cost. For instance, the original cost of the university's xerox machine may include capitalized interest. In this example the classification of interest is not in doubt, however in many cases the classification is ambiguous.

"Interest cost paid on borrowed funds is a determinant of net income and is classified as an operation activity," and "interest received follows the same theory and is classified as an operating activity" [Zega, 1988]. On the other hand, dividend payments are classified as financing activities because dividends are a distribution of net income, not a determinant of net income. Several experts question this logic. They believe that dividends and interest should be classified in the same category since both disbursements are costs of financing. "The similarity of the two payments is that they are both costs of the entity's capital, and this suggests that they should be treated in the same way - whatever it is" [Holgate, 1991, p. 28].

Interest transactions are classified "depending on the nature of the activity that is the primary source of cash flow" [Zega, 1988]. For example, interest on a note payable to a supplier is classified as an operating activity. On the other hand, "if the issuance of debt is a financing transaction and interest is the cost of that debt, incurrence of interest could also be considered a financing transaction" [Ketz and Largay, 1987, p. 12]. For instance, interest incurred from cash borrowed to acquire treasury stock would be classified as a financing activity. Interest can be viewed as an investing cost when capitalized interest costs related to an asset acquisition are added to the cost of the asset, as stated previously.

Direct versus Indirect Methods

The acceptance of both the indirect and direct methods of reporting cash flow from operations impairs comparability among cash flow statements even though both methods report the same ending amount. Comparability is impaired since the direct method shows major classes of operating cash receipts and payments, such as cash collected from customers and cash paid to suppliers for goods and services, while the indirect method determines net cash provided by adjusting final net income (see tables 1 and 2 and appendix exhibits).

The indirect method starts with income before extraordinary items. Adjustments, such as income taxes payable, reconcile net income to net cash by operating activities. For example, income is adjusted by an increase (decrease) in accounts receivable (see table 1 and appendix exhibits 1 and 2).

Business entities use the indirect method most often since it is easier and more economical than the direct method. Also, this method "provides a useful link between the SCF and the income statement and balance sheet" [Mahoney et al, 1988, pp. 178 and 179]. For example, the indirect method "pulls" accounts receivable and depreciation from the balance sheet and income statement, respectively (see table 1 and appendix exhibits 1 and 2).

However, some members (of the FASB) believe that allowing the use of the indirect method is "internally inconsistent" with FAS 95 because it results in operating activities being reported at net amounts [Kintzele and Kwiatkowski, 1991. p. 17]. Since less detailed information results when activities are reported at net amounts rather than gross amounts, some believe the cash flow analysis is hindered and SCF usefulness is diminished.

Under the direct method, the statement begins with cash received from customers and deducts cash paid from that gross amount. For example, cash paid for selling expenses is subtracted from cash received from customers (see table 2 and appendix exhibits 3 and 4).

Investors believe that the "additional data provided may facilitate their assessment of the firm" [Zega, 1988]. The extra data is "particularly useful in estimating future cash flows, assessing earning quality, and predicting bankruptcy" [Cornell and Apostolou, 1992, p. 10]. Also, the direct method "effectively converts" the items making up the income statement to a cash statement [Zega, 1988]. For example, cost of goods sold on the income statement is converted to cash paid for goods to be sold on the cash statement (see table 2 and appendix exhibits 3 and 4). The FASB encourages usage of the direct method since "generally, information about gross amounts of cash receipts and cash payments during a period is more relevant than information about net amounts of cash receipts and cash payments" [Kintzele and Kwiatkowski, 1991, p. 17].

However, the direct method is more expensive than the indirect approach. Additionally, since the direct method presents income statement information on a cash basis rather that on a accrual basis, the direct method may "erroneously suggest that net cash flow from operating activities is as good as, or better than, net income as a measure as a measure of performance" [Mahoney et al, 1988, pp. 178 and 179].

Treatment of Noncash Transactions

Noncash transactions must receive significant recognition because they can have an immense impact on a business entity's financial position. Since noncash transactions would dramatically increase the complexity of the SCF if they were disclosed directly in the SCF, such transactions must be disclosed in narrative form or in a supplemental schedule outside the body of the statement to provide more complete information about a firm's activities. For example, dividends declared - not yet paid and the retirement of bonds by the issuance of stock must be disclosed. However, many experts find that financial statement users often do not use or understand these narratives and supplemental schedules (see appendix exhibits 1 and 2).

RECOMMENDATIONS

Overall, the guidelines to be used in preparing a SCF have solved many of the problems that have been disputed in the past. Comparability and usefulness, on the other hand, remain a significant concern among financial statement users.

To enhance comparability, I recommend, in support of Ketz and Largay's proposal, that income flows and cash flows be directly linked in a new statement called a Statement of Income and Cash Flows [1987, p. 14]. This statement would present (1) conventional accrual-based income reporting, and (2) related cash flows under the direct method. I also recommend, in support of Ketz and Largay's proposal, that non-operating funds flow in a Statement of Investing and Financing Activities which presents the corresponding cash flows under the direct method [1987, p. 14]. These statements would help financial statement users and preparers to decipher between operating, investing, and financing activities (see tables 3 and 4).

I recommend, in support of Kintzele and Kwiatkowski, that a standardized note be mandated for disclosures relating to the cash flow statement [199, p.21]. Even if this information may be redundant, it would help financial statement users understand the entity's cash flow. Noncash transaction details would be included in the note regardless of material significance. This way, financial statement users will know that cash flow disclosures can be found in one place and would avoid forcing users to review the statement, supplementary information, and the notes to gather noncash transaction information [1991, p. 21].

Finally, I recommend that the direct method of reporting cash flow for operations be mandated. The additional information provided outweighs the cost of preparation because the information assists users in analyzing an entity's cash flow. As stated before, "the information provided by the direct method is particularly useful in estimating future cash flows, assessing earnings quality, and predicting bankruptcy" [Cornell and Apostolou, 1992, p. 10].

Table 1
Indirect Method

RLE CO.
Statement of Cash Flows
For the Year Ended December 31, 19X2

Cash Flows from Operating Activities		
Income before extraordinary item		$572,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	$ 80,000	
Patent amortization expense	10,000	
Amortization of bond discount	8,000	
Loss on sale of plant assets	30,000	
Decrease in deferred income taxes	(14,000)	
Net decrease in accounts receivable	60,000	
Net decrease in accounts payable	(147,000)	
Net increase in inventory	(326,000)	
Increase in income taxes payable	122,000	
Total adjustments		(177,000)
Net cash provided by operating activities		395,000
Cash Flow from Investing Activities		
Sale of property, plant, and equipment	120,000	
Purchase of property, plant, and equipment	(100,000)	
Net cash provided by investing activities		20,000
Cash Flows from Financing Activities		
Payment of dividends	(100,000)	
Repayment of notes payable	(200,000)	
Repayment of convertible bonds payable	(155,000)	
Net cash used by financing activities		(455,000)
Net decrease in cash and cash equivalents		(40,000)
Cash and cash equivalents at beginning of year		600,000
Cash and cash equivalents at end of year		$560,000

Source:
Zega, C.A., (1988, September). The New Statement of Cash Flows. Management Accounting.

Table 2
Direct Method

RLE CO.
Statement of Cash Flows
For the Year Ended December 31, 19X2

Cash Flows from Operating Activities		
Cash received from customers		$12,060,000
Less: Cash paid for goods to be sold	$5,473,000	
Cash paid for selling expenses	2,950,000	
Cash paid for general administrative expenses	2,430,000	
Cash paid for interest	392,000	
Cash paid to governments for taxes	420,000	
Cash disbursed for operating activities		11,665,000
Net cash provided from operating activities		395,000
Cash Flows from Investing Activities		
Sale of property, plant, and equipment	120,000	
Purchase of property, plant, and equipment	(100,000)	
Net cash provided by investing activities		20,000
Cash Flows from Financing Activities		
Payment of dividends	(100,000)	
Repayment of notes payable	(200,000)	
Repayment of convertible bonds payable	(155,000)	
Net cash used by financing activities		(455,000)
Net decrease in cash and cash equivalents		(40,000)
Cash and cash equivalents at beginning of year		600,000
Cash and cash equivalents at end of year		$ 560,000

Source:
Zega, C.A., (1988, September). The New Statement of Cash Flows. Management Accounting.

TABLE 3

Ohio Perfect Nutrient Sales, Inc.
Statement of Income and Cash Flows from Operations for the Year Ended December 31, 19X6

	Income Flows	Cash Flows
Sales	$10,000,000	$ 9,000,000
Cost of Goods Sold	(6,200,000)	(5,900,000)
Operating Expenses	(2,412,000)	(2,100,000)
Other Revenue	400,000	400,000
Other Expenses	(280,000)	(280,000)
Income Tax Expenses (40%)	(603,000)	(415,000)
Income from Continuing Operations	$ 905,000	-
Cash Flow from Continuing Operations	-	$ 705,000
Discontinued Operations:		
Net Income of Discontinued Segment (net of income taxes of $40,000)	60,000	60,000
Estimated Loss on Disposal (net of income tax savings of $100,000)	(150,000)	-
Income before Extraordinary Items	$ 815,000	-
Cash Flow before Extraordinary Items	-	$ 765,000
Extraordinary Loss (net of income tax savings of $76,000)	(114,000)	76,000
Effect of a Change in Accounting Principles (net of income taxes of $60,000)	90,000	-
Net Income	$ 791,000	-
Net Cash Flow from Income-Related Activities		$ 841,000

Source:
Ketz, E.J., Largay, J.A., (1987, June). Reporting Income and Cash Flows from Operations. Accounting Horizons, pp. 16-17.

TABLE 4

Ohio Perfect Nutrient Sales, Inc.
Statement of Investing and Financing Activities
for the Year Ended December 31, 19X6

Investing Activities	
Acquisition of Plant Assets	$(1,330,000)
Proceeds from Sale of Plant Assets	440,000
Net Cash Used by Investing Activities	$(890,000)
Financing Activities	
Increase in Bank Loans	$ 120,000
Retirement of Bonds Payable	(150,000)
Issue of Capital Stock	300,000
Dividend Payments	(191,000)
Net Cash Provided by Financing Activities	$ 79,000
Net Cash Flow from Income-Related Activities (from Statement of Income and Cash Flows from Operations)	$ 841,000
Increase in Cash + S-T Investments	$ 30,000

Source:
Ketz, E.J., Largay, J.A., (1987, June). Reporting Income and Cash Flows from Operations. Accounting Horizons, pp. 16-17

APPENDIX

EXHIBIT 1
COMSAT
STATEMENT OF CASH FLOWS (INDIRECT) AND NOTES
1992 ANNUAL REPORT

CONSOLIDATED CASH FLOW STATEMENTS

COMSAT Corporation

For the Years Ended December 31, 1992, 1991 and 1990 (in thousands)	1992	1991	1990
Cash Flows from Operating Activities:			
Net income (Loss)	$ 42,924	$ 44,817	$ (16,349)
Adjustments for Noncash Expenses:			
Depreciation and Amortization	127,337	110,260	108,718
Cumulative Effect of Accounting Change	—	40,314	—
Provision for Restructuring	38,961	—	97,576
Changes in Operating Assets and Liabilities:			
Receivables and Other Current Assets	(31,266)	9,887	(20,432)
Current Liabilities	(7,835)	13,805	(2,431)
Noncurrent Liabilities	44,508	20,838	(12,150)
Other	2,851	18,664	5,240
Net Cash Provided by Continuing Operations	217,480	258,585	160,172
Net Cash Used for Discontinued Operations	(366)	(2,802)	(4,841)
Net Cash Provided by Operating Activities	217,114	255,783	155,331
Cash Flows from Investing Activities:			
Purchase of Property and Equipment	(219,468)	(257,976)	(203,229)
Decrease in INTELSAT Ownership	19,760	17,582	44,678
Investments in Unconsolidated Businesses	(10,268)	(21,335)	(5,915)
Purchase of Subsidiaries, net of $11,655 cash acquired	(5,321)	—	—
Repayment of Investee Note Receivable	—	—	26,500
Other	(6,566)	(4,531)	2,914
Net Cash Used in Investing Activities	(221,863)	(266,260)	(135,052)
Cash Flows from Financing Activities:			
Common Stock Issued	16,420	3,764	2,574
Cash Dividends Paid	(27,127)	(25,313)	(24,677)
Proceeds from Issuance of Long-Term Debt	201,454	75,000	—
Repayment of Long-Term Debt	(232,439)	(1,366)	(10,647)
Net Short-Term Borrowings (Repayments)	43,642	(36,247)	8,676
Other	(212)	(850)	—
Net Cash Provided by (Used for) Financing Activities	1,738	14,988	(24,074)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,011)	4,511	(3,795)
Cash and Cash Equivalents, Beginning of Year	6,868	2,357	6,152
Cash and Cash Equivalents, End of Year	$ 3,857	$ 6,868	$ 2,357
Supplemental Cash Flow Information:			
Interest Paid (Net of Amount Capitalized)	$ 29,678	$ 19,145	$ 6,696
Income Taxes Paid	$ 21,180	$ 14,206	$ 9,637
Noncash Financing of Inmarsat Satellite Acquisition Costs	$ 12,480	$ 24,268	$ 7,921

The accompanying notes are an integral part of these financial statements.

Operating Activities

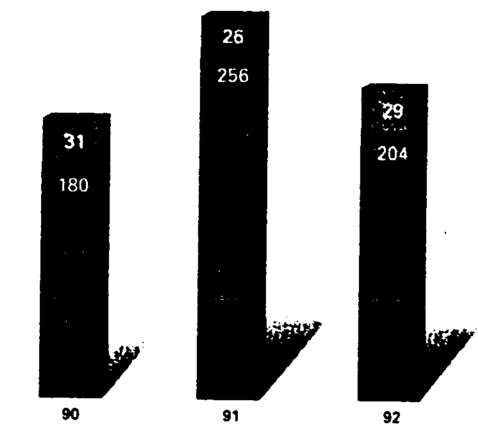
The International Communications businesses generated the majority of the corporation's cash from operations.

The corporation made interest payments of $30 million and tax payments of $21 million.

13 Additions declined in 1992 as current satellite construction programs were completed.

Investing Activities

The corporation made cash investments of $219 million for property and equipment in 1992. Of this, $190 million was invested by the International Communications businesses. 13



PROPERTY AND EQUIPMENT ADDITIONS
(in millions of dollars)
■ International Communications
■ All Other

The corporation received approximately $20 million when its share of INTELSAT declined from 22.8% to 21.8% in 1992. The corporation expects its share of INTELSAT to decrease slightly during 1993. The corporation's share of Inmarsat declined from 24.6% to 23.1% in February 1993. This will provide $5 million of cash. The corporation's share of Inmarsat may decline slightly in 1994.

A total of $15 million was used to purchase the remaining shares of the Denver Nuggets, and $2 million was used to purchase shares of OCV.

The corporation's investment in property and equipment in 1993 will be somewhat lower than in 1992. However, investments in international ventures, aeronautical service equipment and On Command Video will increase over 1992 levels.

Financing Activities

Quarterly dividends were $.35 per share in 1992 and will be raised to $.37 per share in 1993.

The corporation issued $160 million in long-term debt, all of which was used to redeem or repay other debt obligations.

Liquidity and Capital Resources

The corporation enjoys access to short- and long-term financing at favorable rates.

A $125 million commercial paper program has $48 million of borrowings outstanding at an average interest rate of 3.6%. A $190 million revolving credit agreement with a group of banks is currently not being utilized and will expire in 1993. It is expected that this will be replaced by another arrangement as a back-up to the corporation's commercial paper program.

14 S&P and Moody's credit rating agencies continue to view COMSAT as having a strong capacity to meet its financial obligations.

The corporation enjoys access to capital markets at favorable costs with an A rating from Standard and Poor's and an A-2 from Moody's. 14

The corporation's funding activities, as regulated by the Federal Communications Commission, allow long-term financing up to 45% of total capital, as well as $100 million of short-term borrowings. The corporation has requested a temporary increase in the limit on short-term borrowings to $125 million and is awaiting the approval of the FCC.

The corporation expects operations to fund almost all 1993 cash requirements. Any additional working capital requirements will be funded using commercial paper.

The corporation is seeking approval from shareholders to increase the number of authorized shares and effect a 2-for-1 split of its common stock outstanding during 1993.

Taxes

Taxes were paid on an Alternative Minimum Tax basis due to a net operating loss carryforward from the 1987 discontinued operations.

EXHIBIT 2
CONAGRA, INC.
STATEMENT OF CASH FLOWS (INDIRECT) AND NOTES
1990 ANNUAL REPORT

Consolidated Statements of Cash Flows

Dollars in thousands

For the fiscal years ended May	CONSOLIDATED		
Increase (Decrease) in Cash and Cash Equivalents	1990	1989	1988
Cash flows from operating activities			
Net income	$ 231,710	$ 197,878	$ 154,698
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	129,727	101,658	93,131
Provision for losses on accounts receivable	18,057	19,658	9,391
Writedown of property, plant and equipment in connection with realignment of processed meats operations	13,634	–	–
Undistributed (earnings) loss of unconsolidated subsidiaries	(18,103)	37	(5,443)
Issuance of common stock in connection with the management incentive plans	8,090	5,384	4,785
Change in assets and liabilities before effects from business acquisitions			
Accounts receivable	(94,956)	112,121	(419,060)
Inventory	(187,224)	(133,694)	(219,342)
Prepaid expenses	10,924	(11,862)	(12,481)
Accounts payable and accrued expenses	180,507	101,652	518,762
Interest and income taxes payable	29,440	(1,507)	(238)
Noncurrent deferred income taxes	(5,179)	14,513	11,457
Net cash flows from operating activities	**316,627**	**405,838**	**135,660**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	8,662	21,805	19,547
Additions to property, plant and equipment	(196,290)	(163,536)	(137,585)
Increase in investment in unconsolidated subsidiaries	(24,655)	(35,396)	(61,113)
Change in equity of Finance Companies	–	–	–
Increase in trademarks	(1,722)	(9,305)	(4,134)
Payment for business acquisitions	(17,596)	(149,596)	(76,476)
Other items	(4,933)	(11,398)	670
Net cash flows from investing activities	**(236,534)**	**(347,426)**	**(259,091)**
Cash flows from financing activities			
Net short-term borrowings	(111,701)	68,650	179,500
Proceeds from issuance of long-term debt	73,904	116,782	81,590
Proceeds from exercise of employee stock options	6,593	4,560	2,164
Redemption of SIPCO preferred stock	(28,201)	–	–
Cash dividends paid	(69,796)	(58,365)	(48,563)
Repayment of long-term debt	(174,526)	(32,384)	(90,556)
Treasury stock purchases	(39,750)	(20,945)	(32,235)
Other items	3,468	894	7,731
Net cash flows from financing activities	**(340,009)**	**79,192**	**99,631**
Net increase (decrease) in cash and cash equivalents	**(259,916)**	**137,604**	**(23,800)**
Cash and cash equivalents at beginning of year	380,438	242,834	266,634
Cash and cash equivalents at end of year	**$120,522**	**$380,438**	**$242,834**

Beginning in fiscal 1985, the estimated costs of medical benefits to retiring employees are accrued prior to retirement and are not funded. The estimated costs of medical benefits to be provided to retired employees which have not been accrued at May 27, 1990 are approximately $90,344,000. The costs of medical benefits provided for all retired employees for 1990, 1989 and 1988 amounted to $5,236,000, $2,686,000 and $2,256,000, respectively.

Earnings Per Share

Earnings per common and common equivalent share are calculated on the basis of the weighted average outstanding common shares and, when applicable, those outstanding options that are dilutive and after giving effect to the preferred stock dividend requirements. Fully diluted earnings per share did not differ significantly from primary earnings per share in any period presented.

Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

2. Business Combinations

Subsequent Event

On June 7, 1990, ConAgra, Inc. (ConAgra) and Beatrice Company (Beatrice) executed agreements relating to the merger of Beatrice with a wholly owned subsidiary of ConAgra. Beatrice is privately held, with more than a majority of its common stock owned by partnerships affiliated with Kohlberg Kravis Roberts & Co. Beatrice files reports under the Securities Exchange Act of 1934 in connection with certain outstanding debt instruments.

Beatrice is a producer and marketer of a wide range of food products for the retail, foodservice and industrial markets. The Chicago-based company has 63 major manufacturing or distribution facilities in 20 states and Canada and employs 15,900 people. Sales for the fiscal year ended February 28, 1990 were $4.3 billion.

The Agreement and Plan of Merger (the Agreement) between ConAgra and Beatrice with respect to the merger provides for ConAgra to pay approximately $626 million in cash (net of certain warrant proceeds), $355 million in ConAgra common stock and $355 million in ConAgra preferred stock, for an aggregate total of approximately $1.34 billion. The mix of cash and stock is subject to certain potential adjustments to preserve a tax-free transaction. In addition, approximately $1.07 billion of long-term debt and approximately $.98 billion of other noncurrent liabilities of Beatrice will be assumed by ConAgra.

Substantially all of the preferred stock will consist of an issue of convertible preferred stock with a dividend rate of 6.75%, convertible into ConAgra common stock at 115% of the value of ConAgra common stock determined pursuant to the Agreement. ConAgra common stock will be valued at the average of $30.6563 and the midpoint of trading prices for the ten trading days commencing fifteen trading days prior to the closing, subject to certain minimum and maximum value provisions. Closing is expected to occur promptly following expiration of waiting periods under the Hart-Scott-Rodino Act.

ConAgra presently intends that the cash portion of the purchase price and transaction costs, aggregating approximately $651 million, will be financed from borrowed funds. ConAgra has not made final decisions with regard to the form of borrowings that will be used in the transaction. However, ConAgra presently intends that borrowings will be long-term in nature and will be at fixed interest rates.

ConAgra presently intends to supplement its financing facilities with a $1 billion multiyear revolving credit agreement. A portion of this facility may be available for "bridging" of merger financing needs.

1990

At May 28, 1989, the Company had a 50-percent equity interest in the parent of SIPCO, Inc. and Val-Agri, Inc. (SIPCO/Val-Agri). In July 1989, the Company purchased the remaining 50-percent interest from Elkhorn Enterprises, Inc., effective May 29, 1989. The consideration for the purchase was the assumption by the Company of $51,500,000 of long-term debt owed by Elkhorn Enterprises, Inc. In addition, long-term debt and preferred stock of SIPCO totaling $160,036,000 were assumed.

On May 31, 1989, the Company purchased the Sergeant's Pet Care Division of A. H. Robins Company for approximately $18,000,000 in cash.

1989

In June 1988, L. W. Acquisition, Inc. (LWA), a joint venture company owned equally by the Company and Golden Valley Microwave Foods, Inc. (Golden Valley) acquired all of the outstanding capital stock of Lamb-Weston, Inc. (Lamb-Weston) from Amfac Foods, Inc. Lamb-Weston is a major processor of frozen potato products in the United States. Its major product line is french fries which are marketed primarily to fast-food restaurants and other foodservice markets. The purchase price was approximately $280,000,000. The Company and Golden Valley each made $25,000,000 cash investments in LWA. LWA obtained $262,000,000 of senior debt bank financing, which is collateralized by the assets and capital stock of Lamb-Weston. The Company and Golden Valley have agreed to provide LWA supplemental funding support up to $12,500,000 each, upon the occurrence of specified events.

Operating profit			
Basic Food Companies			
Agri-Products	$ 87,177	$ 82,129	$ 55,894
Trading & Processing	97,502	83,397	72,653
Prepared Foods	349,239	293,102	205,004
	533,918	458,628	333,551
Finance Companies	15,897	9,637	9,791
Total	549,815	468,265	343,342
General corporate expenses	46,742	42,913	31,598
Interest expense – Basic Food Companies	146,160	113,189	67,396
Total	$ 356,913	$ 312,163	$ 244,348
Identifiable assets			
Basic Food Companies			
Agri-Products	$ 561,047	$ 562,346	$ 497,217
Trading & Processing	1,324,801	1,059,753	1,010,996
Prepared Foods	2,059,254	1,490,637	1,267,782
Corporate	75,486	348,210	204,703
	4,020,588	3,460,946	2,980,698
Finance Companies	783,573	817,277	764,642
Total	$ 4,804,161	$ 4,278,223	$ 3,745,340
Additions to property, plant, and equipment			
Basic Food Companies			
Agri-Products	$ 9,655	$ 8,019	$ 10,720
Trading & Processing	54,955	96,322	87,386
Prepared Foods	282,796	134,501	92,392
Corporate	1,077	779	5,850
	348,483	239,621	196,348
Finance Companies	777	1,482	1,237
Total	$ 349,260	$ 241,103	$ 197,585
Depreciation and amortization			
Basic Food Companies			
Agri-Products	$ 14,458	$ 12,789	$ 12,499
Trading & Processing	25,167	21,422	18,496
Prepared Foods	83,198	60,108	55,363
Corporate	1,916	3,346	3,162
	124,739	97,665	89,520
Finance Companies	4,988	3,993	3,611
Total	$ 129,727	$ 101,658	$ 93,131

16. Supplemental Cash Flow Information

	1990	1989	1988
Cash paid during the year for			
Interest (net of amount capitalized)			
Basic Food Companies	$ 144,272	$ 107,463	$ 66,978
Finance Companies	24,315	18,985	13,358
Total	$ 168,587	$ 126,448	$ 80,336
Income taxes			
Basic Food Companies	$ 96,255	$ 103,339	$ 74,798
Finance Companies	6,653	3,757	4,240
Total	$ 102,908	$ 107,096	$ 79,038
Noncash investing and financing activities – Basic Food Companies			
Issuance of common stock for conversion of preferred stock	$ 6,484	$ 970	$ 3,718
Long-term debt and preferred stock assumed in business acquisitions	211,536	8,627	14,560
Common stock issued in business acquisitions acounted for as a purchase	17	6	7,783
Common stock issued in business acquisitions accounted for as a pooling of interests	3,818	16,643	-
Payment for business acquisitions – Basic Food Companies			
Receivables, inventories and prepaid expenses	$ 193,382	$ 196,248	$ 31,302
Accounts payable and accrued expenses	(95,627)	(101,487)	-
Short-term notes payable and current maturities	(115,140)	(4,550)	-
Property, plant and equipment	152,970	77,567	60,000
Goodwill	138,630	10,105	-
Long-term debt	(183,335)	(8,627)	(14,560)
Preferred stock	(28,201)	-	-
Other, net	9,251	(19,660)	(266)
Reduction in investment in unconsolidated subsidiary upon acquisition of previously 50-percent-owned company	(54,334)	-	-
	$ 17,596	$ 149,596	$ 76,476

EXHIBIT 3
COMPAQ
STATEMENT OF CASH FLOWS (DIRECT)
1989 ANNUAL REPORT

Compaq Computer Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,		
	1989	1988	1987
	(in thousands)		
Cash flows from operating activities:			
Cash received from customers	$2,771,724	$1,883,647	$1,094,414
Cash paid to suppliers and employees	(2,433,833)	(1,636,486)	(961,684)
Interest received	22,269	14,164	11,067
Interest paid	(38,898)	(19,596)	(12,070)
Income taxes paid	(134,619)	(98,094)	(84,795)
Net cash provided by operating activities	186,643	143,635	46,932
Cash flows from investing activities:			
Purchases of property, plant and equipment	(367,645)	(273,477)	(104,393)
Proceeds from sale of equipment	494	816	1,287
Purchases of other assets	(3,886)	(1,762)	(1,033)
Proceeds from sale of stock of affiliated company	10,815		
Net cash used in investing activities	(360,222)	(274,423)	(104,139)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		270,210	145,461
Proceeds from issuance of notes payable	30,000		
Proceeds from sale of equity securities	14,820	5,485	4,889
Repayment of borrowings	(444)	(143)	(73)
Net cash provided by financing activities	44,376	275,552	150,277
Effect of exchange rate changes on cash	9,337	4,139	(17,927)
Net increase (decrease) in cash	(119,866)	148,903	75,143
Cash and short-term investments at beginning of year	281,179	132,276	57,133
Cash and short-term investments at end of year	$ 161,313	$ 281,179	$ 132,276
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 333,300	$ 255,242	$ 136,267
Depreciation and amortization	84,575	49,006	22,438
Provision for bad debts	1,014	3,607	4,285
Equity in net income of affiliated company	(13,771)	(7,691)	(911)
Unrealized gain on investment in affiliated company	(13,691)	(9,683)	(4,468)
Realized gain on investment in affiliated company	(7,621)		
Deferred income taxes	29,315	13,017	(4,256)
Loss on disposal of assets	1,235	487	97
Exchange rate effect	5,727	(7,289)	7,625
Net change in net current assets excluding notes payable	(233,440)	(153,061)	(114,145)
Net cash provided by operating activities	$ 186,643	$ 143,635	$ 46,932

The accompanying notes are an integral part of these financial statements.

EXHIBIT 4
NORTHROP
STATEMENT OF CASH FLOWS (DIRECT)
1989 ANNUAL REPORT

Year ended December 31	1989	1988	1987	1986	1985
					$ in millions
Operating Activities					
Sources of Cash:					
Cash received from customers	$5,153.7	$5,558.8	$5,641.6	$5,373.0	$4,709.1
Interest received	2.8	2.4	1.7	2.0	2.0
Income tax refunds received	.2	2.2	.2		46.8
Claim settlement					50.0
F-20 insurance recovery					30.0
Other cash receipts	19.3	2.3	3.5	9.4	7.0
Cash provided by operating activities	5,176.0	5,565.7	5,647.0	5,384.4	4,844.9
Uses of Cash:					
Cash paid to suppliers and employees	4,967.0	5,302.7	5,635.2	5,250.1	4,463.5
Interest paid	122.1	150.2	40.7	28.1	15.1
Settlement of accrued product support			27.7		
Income taxes paid	8.0	13.1	9.7	23.7	42.1
Other cash payments	.3	2.7	.9	1.7	4.8
Cash used in operating activities	5,097.4	5,468.7	5,714.2	5,303.6	4,525.5
Net cash provided by (used in) operating activities	78.6	97.0	(67.2)	80.8	319.4
Investing Activities					
Additions to property, plant and equipment	(186.8)	(254.2)	(294.4)	(364.2)	(384.0)
Proceeds from sale of subsidiaries and affiliates	1.1	67.3			
Proceeds from sales of property, plant and equipment	14.3	12.0	29.9	3.4	9.5
Proceeds from sale of direct financing leases	21.9				
Dividends from affiliate, net of investments		20.7		(4.0)	(4.1)
Other investing activities	4.8	6.2	2.3	1.8	(.1)
Net cash used for investing activities	(144.7)	(148.0)	(262.2)	(363.0)	(378.7)
Financing Activities					
Borrowings under lines of credit	783.0	971.0	954.6	335.9	120.6
Repayment of borrowings under lines of credit	(659.0)	(1,413.6)	(565.9)		
Proceeds from issuance of long-term debt		550.0	1.0		
Principal payments of long-term debt/capital leases	(.4)	(1.4)	(2.8)	(.4)	(2.3)
Proceeds from issuance(repurchase) of stock			(1.1)	.2	
Dividends paid	(56.4)	(56.4)	(56.2)	(55.8)	(55.6)
Net cash provided by financing activities	67.2	49.6	329.6	279.9	62.7
Increase(decrease) in cash	1.1	(1.4)	.2	(2.3)	3.4
Cash balance at beginning of year	3.6	5.0	4.8	7.1	3.7
Cash balance at end of year	$ 4.7	$ 3.6	$ 5.0	$ 4.8	$ 7.1

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