

Eco mod 2 ca



ECO MOD 2 CA Three manufacturing companies have been selected for evaluation of their net income, cash flow from operating activities and valuation of their fixed assets by examining their last three years annual reports. These companies include Sulzer (Switzerland), IBM (USA) and BAE (UK).

Net Income:

Companies

2007

2008

2009

Sulzer (millions CHF)

287. 4

327. 7

275. 8

IBM (millions \$)

10, 418

12, 334

13, 425

BAE (millions £)

922

1, 768

(45)

Source: Annual Reports of Sulzer, IBM and BAE (Sulzer 2008; Sulzer 2009; BAE 2008; BAE 2009; IBM 2008; IBM 2009)

Sulzer: The net income of the company increased in 2008 by 14% however it declined in 2009 by 15. 8%. This is due to the slowdown in the global

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economy and reduction in machinery orders received by the company.

IBM: The net income of the company increased 18.39% in 2008 and further increase by 8.8% in 2009 to \$13,425mn majorly because of reduction in costs of operations incurred by the company.

BAE: The net income of the company showed a phenomenal growth of 92% in 2008 however it fell sharply by 102.54% in 2009. This was mainly due to the impairment charges of £973mn related to ex-Armor Holdings business.

Cash Flow from Operating Activities:

Companies

2007

2008

2009

Sulzer (millions CHF)

261.3

449.9

488

IBM (millions \$)

16,094

18,812

20,773

BAE (millions £)

1,820

1,494

1.630

Source: Annual Reports of Sulzer, IBM and BAE (Sulzer 2008; Sulzer 2009; BAE 2008; BAE 2009; IBM 2008; IBM 2009)

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Sulzer: The net operating cash flow of the company has increased over the last three years. In 2009 it went up by 8.5% mainly because of the reduction in the company's accounts receivables.

IBM: The net operating cash flow has increased by 29.07% in 2009 as compared to 2007. This is mainly due to increase in net income, reduction in accounts receivables and high value of deferred taxes.

BAE: The net operating cash flow has a mixed trend declining by 17.9% in 2008 and then growing by 9.1% in 2009. This is due to the company facing difficulties in generating net income from its operations.

Valuation of Fixed Assets

Sulzer

Upon examination of note 12 to balance sheet for the year ended 2009 it could be suggested that the machinery and other equipment recorded at historical cost of CHF677.9mn and accumulated depreciation is CHF477.7mn may not be reflective of the current market values as the depreciation amount is quite high that suggests long history of these equipments in use. Similar, reasoning could be made for other non-current assets that have a net book value of CHF53.4mn as compared to their historical value of CHF223.2mn (Sulzer 2009).

IBM

Balance sheet of year ended 2009 reflects that the company has plant, rental machines and other property at historical cost of \$39,596 with accumulated depreciation of \$25,431. Under Note H to consolidated financial statement details of assets suggest that the company has land, building and other equipment however they are not distinguished on the basis of their remaining useful lives and no other details are provided (IBM

2009). Accumulated depreciation reflects 64% of the historical value that implies that these assets are quite old but the current values of replacement assets surely going to be higher than these values.

BAE

From the note 12 it is clear that the accumulated depreciation is more than 50% for plant and machinery and aircraft. This implies that the remaining useful life of these assets is low and their net book values may not reflect the true value of these assets in their book. The depreciation method used for plant and machinery is straight line method that spreads the economic value over 3 to 5 years which means that the accumulated depreciation value implies high number of years in use by the company and the replacement may not have the same cost values (BAE 2009).

Works Cited

BAE. Annual Report 2008. London: BAE, 2008.

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