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QUAKER OATS LIMITED

1984

REPORT AND ACCOUNTS



QUAKER OATS LIMITED AND SUBSIDIARIES

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PENPLN/August/1984



QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30TH JUNE, 1984

The directors have pleasure in presenting their report together with the audited accounts for the year ended 30th June, 1984.

**PRINCIPAL ACTIVITIES:**

The principal activities of the Group are the manufacture and sale of grocery products and toys. The chemicals division was sold with effect from 31 March 1984.

**RESULTS AND BUSINESS REVIEW:**

Turnover increased by £7,242,000 (7%) during the year, whilst profit on ordinary activities after taxation improved by £990,000 (41%).

Much of the improvement in performance has come from grocery products where profit before interest and taxation more than doubled. This strong performance reflects both the effect of the Company's investment in modern manufacturing facilities which resulted in improved productivity, and the major marketing investments made to support key brands. The improvement in profitability during the last year was attained against the background of continued fierce competition within the food manufacturing industry. The directors expect the level of activity in grocery products to continue to improve in the current year.

In line with the ultimate Parent Company's stated policy, the chemicals business was sold with effect from 31 March 1984 and accordingly the accounts include only 9 months results for this division. The effect of the division's performance on the consolidated results for 1984 and the prior year is given in Note 2.

The rationalisation programme for Fisher Price has now been completed and negotiations are currently under way to dispose of the Northampton site. The directors do not consider that any material gain or loss will arise from the disposal of this property. The benefits resulting from the rationalisation should start to come through in the current financial year.

Fisher Price improved its sales turnover by 4% while profit before interest and taxation declined 18% as a result of lower selective assistance grants. Excluding the effect of selective assistance grants, profits improved by 7%.

No dividend is proposed and consolidated retained earnings of £34,308,000 will be carried forward.

## FIXED ASSETS:

Changes in fixed assets are dealt with in note 6 to the accounts.

## DIRECTORS:

The directors who served during the year were:-

R.G. Lagden	-	Chairman
G.J. Yapp (U.S.A.)	-	Managing Director
C.J. Arnold-Baker		
F.G. Earwaker		
J.R. Hampton	-	resigned on 31st December, 1983
R.D. Jaquith (U.S.A.)		
N.C. Lister (Australia)	-	resigned on 1st July, 1984
J.A. Nelson (U.S.A.)		
J.B. Pickersgill		
P.E. Price	-	appointed on 16th November, 1983
R.F. Savage		
R.D. Stuart Jr. (U.S.A.)		
R.N. Thurston (U.S.A.)	-	resigned on 16th November, 1983

Directors retiring by rotation are Mr. R.G. Lagden, Mr. F.G. Earwaker and Mr. R.F. Savage who, being eligible, offer themselves for re-election.

Mr. J.A. Nelson is also due to retire by rotation but does not offer himself for re-election.

Mr. P.E. Price was appointed under article 92 of the Articles of Association and, being eligible, offers himself for re-election.

Mr. R.S. Thomason was appointed under article 92 of the Articles of Association on 13th September, 1984, and being eligible, offers himself for re-election.

None of the directors had any beneficial shareholdings in the U.K. Group of companies at any time during the year.

#### CHARITABLE DONATIONS:

The Group made donations to charitable organisations during the year amounting to £1,767 (1983 - £3,073)

#### DISABLED EMPLOYEES:

Applications for employment from registered disabled persons are dealt with on the basis of aptitudes and abilities for the job concerned.

In the event of employees becoming disabled, continuity of employment and training is arranged whenever possible.

It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be no different from that of any other employee.

#### EMPLOYEE CONSULTATION:

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through in-house magazines, and briefing meetings involving all employees.

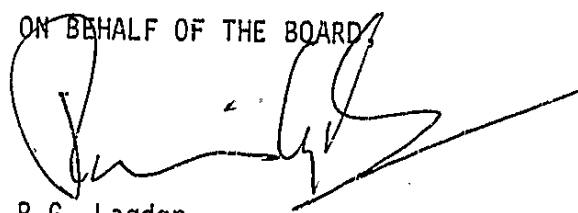
#### AUDITORS:

Messrs. Arthur Andersen & Co. have indicated that they are willing to continue as auditors and, accordingly, a resolution will be proposed to reappoint them at the Annual General Meeting.

8th November 1984

Registered Office:  
Bridge Road,  
Southall,  
Middlesex.

ON BEHALF OF THE BOARD



R.G. Lagden  
Chairman

QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE AUDITORS

To the Members of Quaker Oats Limited:

We have audited the accounts on pages 5 to 15 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the Company and of the Group at 30th June, 1984 and of the Group profit and source and application of funds for the year then ended, and comply with the Companies Acts 1948 to 1981.

We have also examined the supplementary current cost accounts on pages 16 to 20.

In our opinion, the supplementary current cost accounts, which have been prepared in accordance with the policies and methods described in the Notes thereto, give the information required by Statement of Standard Accounting Practice No. 16.

8th November 1984

*Arthur Andersen & Co.*

ARTHUR ANDERSEN & CO.  
1 Surrey Street,  
London, WC2R 2PS.

QUAKER OATS LIMITED AND SUBSIDIARIES  
CONSOLIDATED PROFIT AND LOSS ACCOUNTS  
FOR THE YEARS ENDED 30TH JUNE, 1984 AND 1983

	<u>Notes</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
TURNOVER	2	111,083	103,841
COST OF SALES		<u>(62,796)</u>	<u>(59,366)</u>
GROSS PROFIT		48,287	44,475
DISTRIBUTION COSTS		(3,939)	(3,606)
ADMINISTRATIVE EXPENSES		(36,067)	(35,045)
INTEREST RECEIVABLE AND SIMILAR INCOME		336	323
INTEREST PAYABLE AND SIMILAR CHARGES		(836)	(993)
EXCEPTIONAL ITEMS, NET	3	(548)	193
Profit on ordinary activities before taxation		7,233	5,347
TAX ON PROFIT ON ORDINARY ACTIVITIES	5	(3,814)	(2,918)
Profit on ordinary activities after taxation		<u>3,419</u>	<u>2,429</u>
EXTRAORDINARY ITEMS	13	4,290	-
Profit for the financial year	4	<u>7,709</u>	<u>2,429</u>
RETAINED PROFIT at beginning of year		26,599	24,170
RETAINED PROFIT at end of year		<u>34,308</u> =====	<u>26,599</u> =====

The notes on pages 8 to 15 are an integral part of these accounts.

**QUAKER OATS LIMITED AND SUBSIDIARIES**  
**BALANCE SHEETS -- 30th JUNE, 1984 AND 1983**

	Notes	COMPANY		CONSOLIDATED	
		1984	1983	1984	1983
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS:</b>					
Intangible assets	8	1,590	1,680	1,590	1,680
Tangible assets	6	35,520	34,975	35,626	35,087
Investments in subsidiaries	7	1,176	902	-	-
		<u>38,286</u>	<u>37,557</u>	<u>37,216</u>	<u>36,767</u>
<b>CURRENT ASSETS:</b>					
Stocks	9	14,092	15,204	14,092	15,204
Debtors	10	11,330	11,493	12,088	12,083
Cash at bank and in hand		4,962	2,397	4,962	2,397
		<u>30,384</u>	<u>29,094</u>	<u>31,142</u>	<u>29,684</u>
<b>CREDITORS: amounts falling due within one year</b>	11	(17,147)	(22,752)	(16,827)	(22,541)
Net current assets		<u>13,237</u>	<u>6,342</u>	<u>14,315</u>	<u>7,143</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		51,523	43,899	51,531	43,910
<b>CREDITORS: amounts falling due after more than one year</b>	11	(5,735)	(5,086)	(5,735)	(5,086)
<b>PROVISIONS FOR LIABILITIES AND CHARGES : Deferred Taxation</b>	12	(10,980)	(11,714)	(10,988)	(11,725)
<b>NET ASSETS</b>		<u>34,808</u>	<u>27,099</u>	<u>34,808</u>	<u>27,099</u>
		=====	=====	=====	=====
<b>CAPITAL AND RESERVES:</b>					
Called up share capital					
Authorised, issued and fully paid					
500,000 shares of £1 each		500	500	500	500
Profit and Loss account		34,308	26,599	34,308	26,599
		<u>34,808</u>	<u>27,099</u>	<u>34,808</u>	<u>27,099</u>
		=====	=====	=====	=====

Approved by the Board on 8th November 1984

G.J. YAPP

F.G. EARWAKER

} Directors

The notes on pages 8 to 15 are an integral part of these balance sheets.



**QUAKER OATS LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS**  
**FOR THE YEARS ENDED 30th JUNE, 1984 AND 1983**

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
<b>SOURCES OF FUNDS:</b>		
Operations -		
Profit for the financial year	7,709	2,429
Add or (deduct) items not involving cash flow during the year -		
Depreciation	2,775	2,275
Amortisation of interest relief grant	-	(185)
Amortisation of selective assistance grant	(554)	(1,346)
Amortisation of goodwill	90	134
Foreign currency exchange loss on long term holding company loan	649	611
Net (decrease)/increase in deferred taxation	(737)	2,916
Net loss on disposal of property, plant and equipment	524	19
Total funds from operations	<u>10,456</u>	<u>6,853</u>
Proceeds from sale of property, plant and equipment	287	105
Selective assistance grant received	554	680
Total funds provided	<u>11,297</u>	<u>7,638</u>
<b>USES OF FUNDS:</b>		
Purchase of property, plant and equipment	(4,125)	(9,291)
Purchase of goodwill	-	(1,172)
Increase/(Decrease) in net current assets	<u>7,172</u> =====	<u>(2,825)</u> =====
Reflecting -		
<b>INCREASES (DECREASES) IN NET CURRENT ASSETS:</b>		
Net liquid funds -		
Cash at bank and in hand	2,565	2,300
Bank overdrafts and loans	252	925
	<u>2,817</u>	<u>3,225</u>
Debtors	5	(33)
Stocks	(1,112)	(1,575)
Creditors: due within one year	(618)	1,099
Short-term loan from holding company	<u>6,080</u>	<u>(5,541)</u>
	<u>7,172</u> =====	<u>(2,825)</u> =====

The notes on pages 8 to 15 are an integral part of these statements.

QUAKER OATS LIMITED AND SUBSIDIARIES  
NOTES TO ACCOUNTS -- 30TH JUNE, 1984 AND 1983

1. SUMMARY OF ACCOUNTING POLICIES:

- a) Basis of presentation and consolidation -  
The accompanying consolidated accounts have been prepared under the historical cost convention and include the accounts of the Company and its six wholly-owned subsidiaries, Sutherlands Foods Limited, Felix Catfood Limited, Felix Pet Foods Limited, Fisher-Price Toys Limited, A & R Scott Limited, and Merchandising and Sales Services Limited. Only the last subsidiary is an operating company.

The effect of all significant intercompany transactions and balances have been eliminated.

No profit and loss account is presented for Quaker Oats Limited, as provided by S149 of the Companies Act 1948.

- b) Translation of foreign currencies -  
Purchases transacted in foreign currencies are recorded in sterling at the exchange rates prevailing at the dates of the transactions.

Foreign currency balances at year-end are translated into sterling at the rates ruling at that date. Any resultant gains or losses are reported in the profit and loss account.

- c) Stocks (Note 9) -  
Stocks of grocery products (£7,426,000 : 1983 - £8,471,000 including chemical products £1,122,000) are stated at the lower of quarterly average cost and net realisable value. Stocks of toys (£6,666,000 : 1983 - £6,733,000) are stated at the lower of first-in, first-out cost and net realisable value.

- d) Intangible fixed assets -  
Goodwill represents the excess of the cost of investment in subsidiaries over the net tangible assets at the date of acquisition and is stated at cost less accumulated amortisation.

The Goodwill is being amortised on a straight line basis over twenty years.

- e) Investments in subsidiaries  
Investments in subsidiaries are stated as the Company's equity in the net assets of the subsidiaries, less advances from non-trading subsidiaries.

- f) **Tangible fixed assets -**  
Property, plant and equipment are stated at cost (net of regional development grants) less accumulated depreciation. The Group has provided depreciation to write off the cost of the assets over their estimated useful lives on a straight-line basis at the following annual rates -

Land (freehold) and construction-in-progress	- Nil
Land (leasehold)	- 1.0%
Buildings	- 2.5%
Plant and machinery	- 5% to 12.5%
Office furniture and equipment	- 10%
Computer equipment	- 20% to 25%
Motor vehicles	- 25%
Moulds and tooling equipment	- 25% to 33.3%

- g) **Government grants -**  
Regional development grants are credited to the cost of the assets concerned. Accordingly they are amortised to the statement of profit and loss over the lives of the related assets.

Selective assistance grants are reflected in the profit and loss account when the Company meets the conditions under which the grant was given and when the grant is received.

- h) **Turnover -**  
Turnover represents the invoiced value of shipments to customers, less returns, allowances and VAT.

- i) **Taxation (Note 5) -**

The charge for corporation tax is based on the profit before taxation adjusted for expenses not allowable for tax.

Provision is made for deferred taxation under the liability method except in respect of any tax reduction which, on reasonable evidence, can be expected to continue for the foreseeable future. Deferred taxes that have been provided are set out in note 12.

## 2. SEGMENTAL INFORMATION:

	<u>Group Sales</u>		<u>Profit before interest and taxation</u>	
	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
<u>Class of business</u>				
Grocery products	82,666	76,188	4,611	2,294
Chemicals	4,730	4,806	211	243
Toys	23,687	22,847	2,911	3,543
	<u>111,083</u>	<u>103,841</u>	<u>7,733</u>	<u>6,080</u>
Group Interest			(500)	(733)
			<u>7,233</u>	<u>5,347</u>

The figures shown for Toys includes £554,000 (1983 : £1,346,000) in respect of Selective Assistance Grants received. If these grants were excluded, profit before interest and taxation for Toys would be £2,357,000 (1983 : £2,197,000)

### Disposal of Chemicals:

The Chemicals Division was sold during the financial year at net book value. Consolidated figures include results of this division up to the date of sale, 31st March 1984. The effect of the division's performance on the consolidated results for 1984 and the prior year is shown above.

b) <u>Turnover by geographical market</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
United Kingdom	101,631	94,890
Europe	8,562	8,353
Canada	435	511
Other	455	87
	<u>111,083</u>	<u>103,841</u>

### 3. EXCEPTIONAL ITEMS:

Exceptional items comprise -	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Selective assistance grants (see below)	554	1,346
Exchange losses on foreign currency loans from ultimate parent company	(1,102)	(1,153)
	<u>(548)</u>	<u>193</u>

The Company has received a Selective Assistance Grant towards the cost of a major capital project. Having fulfilled the conditions relating to employment and capital expenditure over the three year period to June 1984 the Company has now received the maximum grant of £1,900,000. The grants have been credited to income on receipt.

### 4. SUPPLEMENTARY INFORMATION:

- a) The profit for the financial year and retained earnings at the end of the year dealt with in the accounts of the Company before reflecting the Company's equity in the profits of its subsidiaries amounted to £7,435,000 (1983 - £2,168,000) and £33,132,000 (1983 - £25,697,000) respectively.
- b) Profit on ordinary activities before taxation has been determined after accounting for the following items -

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Expense -		
Wages and salaries	16,698	14,027
Social Security costs	1,304	1,212
Other pension costs	864	718
Amortisation of goodwill	90	134
Depreciation	2,775	2,275
Auditors' remuneration	66	62
Hire of equipment	215	211
Management charges from holding company	301	244
Interest on loans and bank overdrafts repayable within 5 years	836	993
Loss on translation of foreign currency balances	76	-
	<u>=====</u>	<u>=====</u>

- c) The average weekly number of employees was 2079 (1983 - 2,008). Analysis of employees were split by activity as follows -

	<u>1984</u>	<u>1983</u>
Manufacturing	1274	1213
Selling and Distribution	590	576
Administration	215	219
	<u>2079</u>	<u>2008</u>

- d) The aggregate emoluments of all directors for management services, including pension contributions, was £365,000 (1983 - £334,000).

The emoluments excluding pension contributions, of the Chairman amounted to £6121 (1983 £6,121). The emoluments, excluding pension contributions, of the highest-paid director amounted to £72,119 (1983 - £58,030).

The emoluments of the remaining directors fell into the following brackets -

		<u>Number of directors</u>	
		<u>1984</u>	<u>1983</u>
£NIL	~ £ 5,000	5	5
£30,001	~ £35,000	2	1
£35,001	- £40,000	1	-
£40,001	- £45,000	2	2
£45,001	- £50,000	-	1
£50,001	- £55,000	1	1
		=====	=====

Two of the above directors waived total emoluments of £7,408 during the year.

The remuneration of employees receiving over £30,000, excluding pension contributions, fell into the following brackets -

		<u>1984</u>	<u>1983</u>
£30,001	- £35,000	2	3
£35,001	- £40,000	2	2
£40,001	- £45,000	2	-
		=====	=====

## 5. TAX ON PROFIT ON ORDINARY ACTIVITIES:

The tax charge is based on the profit for the year and comprises -

	<u>1984</u>	<u>1983</u>
Corporation tax at 48.75% (1983 : 52%)	261	(566)
- prior year adjustments	(1)	(35)
Deferred tax arising on		
- capital allowances	3244	3461
- other timing differences	310	58
	<u>3814</u>	<u>2918</u>

The tax charge for the year has been reduced by £661,000 (1983 : £497,000) as a result of the benefit of stock relief.

## 6. TANGIBLE FIXED ASSETS:

Tangible fixed assets comprise -

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
Land & buildings				
- Freehold	12,805	13,201	12,805	13,201
- Leasehold	130	133	130	133
Plant, machinery and vehicles	20,188	18,693	20,294	18,805
Assets in course of construction	2,397	2,948	2,397	2,948
Net tangible fixed assets	35,520	34,975	35,626	35,087

Movement on these accounts for the Company and the Group during the year ended 30th June, 1984 was as follows -

### a) COMPANY -

	Total £'000	Leasehold Land £'000	Freehold Land £'000	Bldgs. £'000	Plant and Mach. £'000	Assets in course of construction £'000
<b>Cost -</b>						
Balance, 1st July, 1983	42,918	147	1,211	13,140	25,472	2,948
Additions	3,975	-	-	87	1,232	2,656
Retirements	(1,803)	-	(263)	(125)	(1,415)	-
Transfers	142	-	-	242	3,107	(3,207)
Balance, 30th June, 1984	45,232	147	948	13,344	28,396	2,397
<b>Accumulated depreciation -</b>						
Balance, 1st July, 1983	7,943	14	-	1,150	6,779	-
Provision	2,727	3	-	358	2,366	-
Retirements	(1,014)	-	-	(21)	(993)	-
Transfers	56	-	-	-	56	-
Balance, 30th June, 1984	9,712	17	-	1,487	8,208	-
<b>Net -</b>						
1984	35,520	130	948	11,857	20,188	2,397

### b) GROUP -

<b>Cost -</b>						
Balance, 1st July, 1983	43,105	147	1,211	13,140	25,659	2,948
Additions	4,041	-	-	87	1,298	2,656
Retirements	(1,883)	-	(263)	(125)	(1,495)	-
Transfers	143	-	-	242	3,108	(3,207)
Balance, 30th June, 1984	45,406	147	948	13,344	28,570	2,397
<b>Accumulated depreciation -</b>						
Balance, 1st July, 1983	8,018	14	-	1,150	6,854	-
Provision	2,775	3	-	358	2,414	-
Retirements	(1,072)	-	-	(21)	(1,051)	-
Transfers	59	-	-	-	59	-
Balance, 30th June, 1984	9,780	17	-	1,487	8,276	-
<b>Net -</b>						
1984	35,626	130	948	11,857	20,294	2,397

## 7. INVESTMENT IN SUBSIDIARIES:

	1984 £'000	1983 £'000
a) Investment in subsidiary companies at 30th June, 1984 and 1983 comprises -		
Cost of shares	3,190	3,190
Increase in the underlying net assets since acquisition	5,286	5,012
Advances, interest free and with no fixed repayment date	(5,653)	(5,653)
Accumulated amortisation of goodwill	(1,149)	(1,089)
	<u>1,674</u>	<u>1,460</u>
b) The investment is analysed in the balance sheet of the Company as-		
Investment in subsidiaries	1,176	902
Goodwill	498	558
	<u>1,674</u>	<u>1,460</u>

## 8. GOODWILL:

The movement on these accounts for the company and group during the year were:

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
Balance 1st July	1,680	642	1,680	642
Additions	-	1,172	-	1,172
Amortisation	(90)	(134)	(90)	(134)
Balance 30th June	<u>1,590</u>	<u>1,680</u>	<u>1,590</u>	<u>1,680</u>

## 9. STOCKS:

Stocks comprise -

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
Finished product	7,231	7,771	7,231	7,771
Work in progress	189	249	189	249
Raw materials	6,672	7,184	6,672	7,184
	<u>14,092</u>	<u>15,204</u>	<u>14,092</u>	<u>15,204</u>

In the opinion of the Directors the replacement cost of stocks is not materially different from their book value.

## 10. DEBTORS:

Debtors comprise -

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
Trade debtors	9,738	8,998	10,399	9,506
Amounts owed by fellow subsidiaries	562	983	562	983
Other debtors	917	1,352	1,013	1,433
Prepayments	113	160	114	161
	<u>11,330</u>	<u>11,493</u>	<u>12,088</u>	<u>12,083</u>

# 11. CREDITORS :

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
a) Amounts falling due within one year comprise -				
Bank loans and overdrafts	17	340	88	340
Trade creditors	11,479	9,207	11,495	9,261
Due to holding company	825	6,870	825	6,905
Due to fellow subsidiaries	1,884	3,158	1,884	3,158
Due to subsidiaries	962	395	-	-
Other creditors:				
- VAT	169	376	215	411
- Social Security and PAYE	403	628	419	634
Accruals and deferred income	1,408	1,778	1,640	1,832
UK Corporation Tax Payable	-	-	261	-
	<u>17,147</u>	<u>22,752</u>	<u>16,827</u>	<u>22,541</u>

At 30th June, 1984 the Company and the Group had unsecured overdraft facilities of £13,750,000 (1983 - £8,250,000).

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
b) Amounts falling due after more than one year comprise-				
Due to holding company	5,735	5,086	5,735	5,086
	<u>5,735</u>	<u>5,086</u>	<u>5,735</u>	<u>5,086</u>

The Company has been granted this unsecured loan by its ultimate holding company of \$7,800,000 (1984 - £5,735,000; 1983 - £5,086,000) which is repayable in 1985. The loan bears interest at 6% per annum.

# 12. DEFERRED TAXATION:

- a) The deferred tax provision, which represents the full potential liability calculated at 35% (1983 - 52%), comprises amounts relating to -

	Company		Consolidated	
	1984 £'000	1983 £'000	1984 £'000	1983 £'000
Differences between book and tax depreciation	11,188	15,480	11,192	15,491
Tax effect of losses carried forward	(514)	(3,373)	(514)	(3,373)
Short-term timing differences	306	(393)	310	(393)
	<u>10,980</u>	<u>11,714</u>	<u>10,988</u>	<u>11,725</u>

- b) There are tax losses carried forward under Section 177(1) of the Income and Corporation Taxes Act 1970 of £1,054,000 (1983 - £6,450,000). These losses which all relate to Stock Appreciation Relief are expected to be utilised in 1985.



13. EXTRAORDINARY ITEM:

This represents an adjustment to provisions for deferred tax of £4,290,000 (1983 : nil) resulting from the future reduction of capital allowances and corporation tax rates set out in the Finance Act 1984.

14. PENSION PLANS:

The Group has established pension plans which cover substantially all the full-time employees of the Group.

The plans have been funded in accordance with the recommendations of the plans' actuaries and accepted by the trustees. In the opinion of the directors, no material unfunded past service liabilities exist as at the 30th June, 1984.

The Company has undertaken to continue to meet such obligations as the plans' actuaries may determine are necessary to fund the plans.

15. CAPITAL COMMITMENTS:

Capital commitments at 30th June, 1984 and 1983 for the Company and the Group were as follows-

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Contracts for capital expenditure	334	1,023
Capital expenditure authorised by the Board of Directors but not contracted for	<u>355</u> <u>689</u>	<u>2,902</u> <u>3,925</u>

16. ULTIMATE HOLDING COMPANY:

The ultimate holding company is The Quaker Oats Company, which is incorporated in the State of New Jersey, U.S.A.

QUAKER OATS LIMITED AND SUBSIDIARIES  
CONSOLIDATED CURRENT COST PROFIT AND LOSS ACCOUNTS  
FOR THE YEARS ENDED 30th JUNE, 1984 AND 1983

	<u>Notes</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
TURNOVER		111,083 =====	103,841 =====
PROFIT BEFORE INTEREST, TAXATION AND EXTRAORDINARY ITEM, on the historical cost basis		7,733	6,079
LESS: CURRENT COST OPERATING ADJUSTMENTS	1 & 2	(1,995)	(2,270)
Current cost operating profit		5,738	3,809
INTEREST EXPENSE, net		(497)	(732)
		5,241	3,077
TAXATION CHARGE		(3,817)	(2,918)
Current cost profit on ordinary activities		1,424	159
EXTRAORDINARY ITEM		4,290	-
Current cost profit		5,714	159
GEARING ADJUSTMENT	1	567	639
Current cost profit attributable to shareholders		6,281 =====	798 =====

The notes on pages 18 to 20 are an integral part of this current cost profit and loss account.

QUAKER OATS LIMITED AND SUBSIDIARIES  
SUMMARISED CONSOLIDATED CURRENT COST BALANCE SHEETS  
AS AT 30TH JUNE, 1984 AND 1983

	<u>Notes</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
CURRENT ASSETS:			
Stocks		14,333	15,538
Other current assets		17,050	14,480
		<u>31,383</u>	<u>30,018</u>
CURRENT LIABILITIES		(16,827)	(22,541)
Net current assets		<u>14,556</u>	<u>7,477</u>
TANGIBLE FIXED ASSETS, net	1 & 3	54,012	53,043
INTANGIBLE FIXED ASSETS		1,590	1,680
CREDITORS : amounts falling due after more than one year		(5,735)	(5,086)
PROVISION FOR LIABILITIES AND CHARGES			
Deferred Taxation		(10,988)	(11,725)
Net assets		<u>53,435</u> <u>=====</u>	<u>45,389</u> <u>=====</u>
Representing -			
SHAREHOLDERS' INVESTMENT:			
Called up share capital		500	500
Current cost reserve	4	24,164	22,399
Profit and Loss account		28,771	22,490
		<u>53,435</u> <u>=====</u>	<u>45,389</u> <u>=====</u>

The notes on pages 18 to 20 are an integral part of this current cost balance sheet.

QUAKER OATS LIMITED AND SUBSIDIARIES

NOTES TO CURRENT COST ACCOUNTS--30th JUNE, 1984

1. SUMMARY OF ACCOUNTING POLICIES:

- a) Basis of presentation -  
The accompanying consolidated accounts have been prepared in compliance with S.S.A.P.16. The current cost system, whilst not a system of accounting for general inflation allows for price changes specific to the business when reporting assets employed and profits arising therefrom.
- b) Current cost operating profit -  
Current cost operating profit is the surplus (before interest, taxation and extraordinary item) arising from the ordinary activities of the business in the year. It is determined after allowing for the impact of price changes on the funds needed to maintain the productive assets of the business but does not take into account the way in which these assets are financed.
- c) Current cost profit attributable to shareholders -  
Current cost profit attributable to shareholders is the surplus after allowing for the impact of price changes on the funds needed to maintain only their proportion of the productive assets of the business. It is shown after interest, taxation, extraordinary item and the gearing adjustment described in section e.
- d) Fixed assets and depreciation -  
Most of the Group's property, plant and equipment was revalued by independent firms of valuers at 30th September, 1980. The revalued amounts and the cost of the Group's other fixed assets have been restated to 30th June, 1984 using appropriate Government indices.

The estimated asset lives used for the purposes of calculating current cost depreciation have been reviewed upon the introduction of current cost accounting, and the existing estimates were found to be adequate.

- e) Stocks -  
Stocks have been revalued to reflect the impact of price changes arising between the date of acquisition and the balance sheet date, using estimated replacement cost.
- f) Gearing adjustment -  
A proportion, of the net operating assets of the business is financed by borrowing. As the obligation to repay borrowing is fixed in a monetary amount, irrespective of price changes on the proportion of assets so financed, it is unnecessary to provide for the impact of price changes on these assets when determining the current cost profit attributable to shareholders. Thus, the gearing adjustment has been applied to abate the current cost operating adjustments by the average gearing proportion in the year.
- g) Other accounting policies -  
Except as set out above the policies used in the preparation of the current cost accounts are the same as those used in the preparation of the historical cost accounts.

## 2. CURRENT COST OPERATING ADJUSTMENTS:

### a) Depreciation

The depreciation charged in the current cost operating profit represents the average current cost of that proportion of property, plant and equipment consumed in the period. The depreciation adjustment of £1,368,000 is the difference between the depreciation charge in the historic accounts and current cost accounts.

### b) Working Capital -

Working Capital comprises stocks, debtors and prepaid expenses less creditors and accruals.

In order to allow for the impact of price changes on working capital, two adjustments are made to the operating costs calculated on the historical cost basis, one relating to stocks and the other to monetary working capital. The adjustments are based on movements in price indices issued by the Government. These indices reflect closely the changes in input prices experienced by the Group.

The current cost operating adjustments are:

	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Cost of Sales	669	772
Monetary working capital	(204)	(178)
Working capital	<u>465</u>	<u>594</u>
Depreciation	1,368	1,634
Disposals of property, plant and equipment	162	42
Current cost operating adjustments	<u>1,995</u> =====	<u>2,270</u> =====

## 3. TANGIBLE FIXED ASSETS:

At 30th June, 1984 and 1983 the balances on property, plant and equipment comprised:

	<u>1984</u>			<u>1983</u>
	<u>Gross</u> <u>£'000</u>	<u>Depreciation</u> <u>£'000</u>	<u>Net</u> <u>£'000</u>	<u>Net</u> <u>£'000</u>
Land and buildings	36,825	10,286	26,539	25,826
Plant and machinery	44,101	16,628	27,473	27,217
	<u>80,926</u> =====	<u>26,914</u> =====	<u>54,012</u> =====	<u>53,043</u> =====

#### 4. CURRENT COST RESERVE:

The movement in the year on the current cost reserve is:

	<u>£'000</u>	<u>1984</u> <u>£'000</u>	<u>1983</u> <u>£'000</u>
Balance 1st July		22,399	21,176
Revaluation surpluses reflecting price changes in the year -			
Fixed Assets	1,960		
Stocks	<u>576</u>	2,936	2,040
Monetary working capital adjustment		(204)	(178)
Gearing adjustment		<u>(567)</u>	<u>(639)</u>
Balance, 30th June		<u>24,164</u> =====	<u>22,399</u> =====

The year-end balance comprises -

Realised	5,537	4,109
Unrealised	<u>18,627</u>	<u>18,290</u>
	<u>24,164</u> =====	<u>22,399</u> =====