

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended April 30, 1980

Sources of working capital	
From operations	\$217,018
Extraordinary credit	
Charges (credit) to earnings before extraordinary credit not using (providing) working capital	187,749
Depreciation of property, plant and equipment	10,413
Amortization of patent and organization expense	(5,000)
Deferred income taxes	
Working capital provided by operations, exclusive of extraordinary credit	410,180
Working capital provided by extraordinary credit	160,000
Working capital provided by operations	570,180
Proceeds of long-term debt	110,000
	680,180
Applications of working capital	
Purchase of property, plant and equipment - net	165,882
Reduction of long-term debt	329,516
Reduction of long-term obligations under capital leases	32,763
	498,161
INCREASE IN WORKING CAPITAL	\$182,019
Changes in components of working capital	
Increases (decreases) in current assets	
Cash	\$ (24,143)
Accounts receivable - net	(42,436)
Inventories	617,127
Prepaid expenses and deposits	(56,088)
	494,490
(Decreases) Decreases in current liabilities	
Bank overdrafts	163,266
Notes payable - banks	(420,038)
Current obligations under capital leases	(6,967)
Accounts payable	(19,389)
Amount due former stockholder	(6,990)
Accrued liabilities	(84,770)
Income taxes	62,417
	(312,477)
INCREASE IN WORKING CAPITAL	\$182,019

The accompanying notes are an integral part of this statement.

## Megadiamond Industries, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1980

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

Consolidation

The consolidated financial statements include the accounts of its wholly-owned subsidiaries, after elimination of significant intercompany accounts and transactions.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, using both straight-line and accelerated methods.

Maintenance, repairs and minor renewals are charged to operations as incurred, except that expenditures which increase the useful lives of the assets are capitalized. When property, plant and equipment are sold or retired, the cost of the assets and the related accumulated depreciation are deducted from the accounts and the resulting gain or loss is reflected in the consolidated statement of earnings.

Income Taxes

As discussed in note E, the company has capitalized certain leases for financial statement purposes. Payments under these leases are being expensed for income tax purposes. The resulting deferred tax benefits have been reflected in the accompanying financial statements for the differences between earnings for tax and financial statement purposes.

Investment Credit

Investment tax credits are accounted for by the flow-through method. Under this method, credits are recognized as a reduction of income tax expense in the year the assets giving rise to the credit are placed in service.

Patents

Costs incurred in connection with obtaining patents are being amortized over a five-year period.