IST010028-U-ENG-WOD

STEEL & COAL CORP.

Original written by professors Joaquín Rial Castañeda and Carlos Sáez Gómez de la Torre at IE Business School.
Original version, October 1, 1996. Last review by Professor Guillermo de Haro, November 10, 2015. Last revised, November 23rd 2016.
Published by IE Publishing Department. María de Molina 13, 28006 – Madrid, Spain.

It was a difficult morning at the Steel & Coal Corp (also known by its former ticker symbol "StealCoal"). After 70 years of full-time dedication to the company the CFO, Dr. Methu Sela, had passed away in a terrible and unexpected accident whilst wingsuit flying at Mount Everest. This situation would not have caused such turmoil if it weren't for the fact that he had estimated the forecasts for the company's performance for the next few years on his own, as usual.

The company consequently was facing chaos; sales of crankshafts (the company's main product line) had fallen year after year for the last decade. Nevertheless, after a thorough business re-engineering process, a total recovery had been predicted based on the expected new design with a large-scale use of internal combustion engines in new Dapple computers.

It would now be up to company-newcomer Frank R. Odo (Frodo to his friends), a brilliant MBA from IE Business School, to redo the forecast. Frodo gathered together the manuscripts on which the deceased manager's notes were written and began to decipher the complicated handwriting.

The company had sold 50,000 basic-model crankshafts over the last nine months and sales for the current year were expected solidly to be 60,000 units, at a price of one monetary unit each. An invoice from the consultancy firm "Bern & Mad & Off & Partners" revealed that the expected growth for the following years will be 10 percent per year. Operating expenses were 30,000 monetary units per year, the cost of the goods sold would account for 60 percent of sales figures and accounts receivable for a quarter of the same yearly sales. The policy of the company required a minimum cash of 5,000 monetary units. Owing to the need for a constant supply of spare parts, inventories cannot fall below one-half of sales. An additional element to take into account was that the interest rate was forecasted to remain stable at 12 percent per year and the tax rate also to remain at 35 percent.

The following data were obtained from the accounts of previous financial years:

Shareholders Equity	25,000 m.u.
Retained earnings	20,000 m.u.
Net fixed assets	20,000 m.u.

Proud of his job and with this information in mind, he went to see the CEO, who, impressed by his effectiveness and efficiency, told him to develop the **profit and loss statement** and the **balance sheet** with the financial situation of the company for five years.

Flattered by having been entrusted with this task and without so much as getting his hair ruffled (mainly on account of the large amount of hair gel he used) he set off to work with enthusiasm. However, something bothered Frodo; whenever he mentioned his task to the ancients of the company they rushed off, screaming: "You cannot pass! Run from the circular reference you fool."

What could it mean? He would soon find out the evil of this “ring” in his search for the future wealth of the world he knows ■ ■ ■