

future minimum lease payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2010, were (in millions):

Year Ending December 31	Capital Leases	Operating Leases
2011	\$186	\$1,254
2012	136	1,068
2013	120	973
2014	98	831
2015	87	672
2016 and thereafter	<u>349</u>	<u>6,006</u>
	\$976	\$10,804
Less amount representing interest	<u>\$372</u>	
Present value of net minimum lease payments	<u>\$604</u>	

AMR further disclosed that “lease terms vary but are generally six to 25 years for aircraft and seven to 40 years for other leased property and equipment.” Assuming that all leases are for aircraft with an average lease term of 15 years, what interest rate does AMR use to capitalize its capital leases? Use this rate to capitalize AMR’s operating leases at December 31, 2010. Record the adjustment to AMR’s balance sheet to reflect the capitalization of operating leases. How would this reporting change affect AMR’s Income Statement in 2011?

5. In 2011, Tata became the first Indian brand to be named in the top 50 global brands in Brand Finance’s 2011 Global 500 report, which assigned the Tata brand a value of \$15.8 billion. What approaches would you use to estimate the value of brands? What assumptions underlie these approaches? As a financial analyst, what would you use to assess whether the brand value assigned by Brand Finance was a reasonable reflection of the future benefits from this brand? What questions would you raise with the firm’s CFO about the firm’s brand assets?
6. As the CFO of a company, what indicators would you look at to assess whether your firm’s long-term assets were impaired? What approaches could be used, either by management or an independent valuation firm, to assess the dollar value of any asset impairment? As a financial analyst, what indicators would you look at to assess whether a firm’s long-term assets were impaired? What questions would you raise with the firm’s CFO about any charges taken for asset impairment?
7. The cigarette industry is subject to litigation for health hazards posed by its products. The industry has been in an ongoing process of negotiating a settlement of these claims with state and federal governments. As the CFO for Altria Group, the parent company of Philip Morris, one of the larger firms in the industry, what information would you report to investors in the annual report on the firm’s litigation risks? How would you assess whether the firm should record a liability for this risk, and if so, what approach would you use to assess the value of this liability? As a financial analyst following Altria, what questions would you raise with the CEO over the firm’s litigation liability?
8. Refer to the Lufthansa example on asset depreciation estimates. What adjustments would be required if Lufthansa’s aircraft depreciation were computed using an average life of 25 years and salvage value of 5 percent (instead of the reported values of 12 years and 15 percent)? Show the adjustments to the 2008 and 2009 balance sheets, and to the 2009 income statement.