

Operating Leases at The Gap in 2004

- ◆ The Gap's 2004 10K lists total debt of \$1,886 million, operating income of \$2,085 million, operating lease expense of \$954 million, and future operating lease commitments of:

Year	Lease Commitments (\$ millions)	Present Value (\$ millions)
2005	945	891.51
2006	823	732.47
2007	689	578.50
2008	605	479.22
2009	507	378.86
>2009	1,767	1,160.49
Debt Value of Leases =		4,221.04

$$= \frac{945}{(1.06)^1}$$

$$= \frac{507 \left(\frac{1 - (1.06)^{-3.49}}{0.06} \right)}{(1.06)^5}$$

- ◆ Based on the commitment in year 2009, I am assuming that the payments after 2009 reflect an annuity of 507 per year for 3.49 years (1767/507). You could also round this to 3 or 4 years.

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- ◆ The Gap's 2004 operating lease expense was \$954 million.

- Assuming straight line depreciation of the operating lease asset for 8.49 years (5 + 3.49) the 2004 depreciation amount would be approximately \$497 million (\$4221/8.49 years). The Gap's adjusted operating income would then equal:

$$2085 + 954 - 497 = \$2,542 \text{ million}$$

- Applying the short-cut technique, The Gap's adjusted operating income would equal:

$$2085 + (4221 \times .06) = 2085 + 253 = \$2,338 \text{ million}$$

- The Gap's adjusted debt equals:

$$1886 + 4221 = \$6,107 \text{ million}$$

Advertising Expenses at Coca Cola in 2004

- ◆ Coca Cola's financial statements list operating income of \$5,698 million and net income of \$4,847 million for 2004, along with the following advertising expenses for the past 5 years.

Year	Advertising Expense	Current Year Amortization	Unamortized Amount Remaining in Current Year	
2000	1,655.0	413.8	0.0%	0.0
2001	1,970.0	492.5	25.0%	492.5
2002	1,775.0	443.8	50.0%	887.5
2003	1,905.0	476.3	75.0%	1428.8
2004	2,165.0	0.0	100.0%	2165.0
Total		1826.3		4973.8

Value of the Advertising Asset in 2004

- Adjusted Operating Income equals:

$$5698 + 2165 - 1826.3 = \$6,063.7 \text{ million}$$

- Adjusted Net Income equals:

$$4847 + 2165 - 1826.3 = \$5,185.7 \text{ million}$$