

### Problem 8-11A Amortization of Intangibles and Effects on Statement of Cash Flows

LO9 • 10 • 11

Quickster Inc. acquired a patent a number of years ago. The patent is being amortized on a straight-line basis over its estimated useful life. The company's comparative balance sheets as of December 31, 2017 and 2016, included the following line item:

	12/31/17	12/31/16
Patent, less accumulated amortization of \$1,661,000 (2017) and \$1,510,000 (2016)	\$1,357,000	\$1,508,000

#### Required

1. How much amortization expense was recorded during 2017?
2. What was the patent's acquisition cost? When was it acquired? What is its estimated useful life? How was the acquisition of the patent reported on that year's statement of cash flows?
3. Assume that Quickster uses the indirect method to prepare its statement of cash flows. How is the amortization of the patent reported annually on the statement of cash flows?
4. How would the sale of the patent on January 1, 2018, for \$1,700,000 be reported on the 2018 statement of cash flows?

## DECISION CASES

### Reading and Interpreting Financial Statements

#### Decision Case 8-1 Panera Bread Company

Refer to the financial statements and notes for **Panera Bread Company** included at the back of the book.

#### Required

1. What items does the company list in the Property and Equipment category?
2. What method is used to depreciate the operating assets?
3. What is the estimated useful life of the operating assets?
4. What are the accumulated depreciation and book values of property and equipment for the most recent fiscal year?
5. Were any assets purchased or sold during the most recent fiscal year? Explain.

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REAL WORLD

#### Decision Case 8-2 Making Business Decisions: Comparing Two Companies in the Same Industry: Chipotle and Panera Bread

Investors and lenders who read financial statements must determine the age, composition, and productivity of operating assets.

Refer to the financial information at the back of the book for **Chipotle and Panera Bread**.

#### Required

##### Part A. The Ratio Analysis Model

For each company, determine:

Replicate the five steps in the Ratio Analysis Model on page 378 to perform the analysis.

1. Formulate the Question
2. Gather the Information from the Financial Statements
3. Calculate the Ratio
4. Compare the Ratio with Other Ratios
5. Interpret the Ratios

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RATIO ANALYSIS

BUSINESS DECISION MODEL



REAL WORLD

(Continued)

**Required**

1. What should Susana consider the value of the car to be?
2. If she had wanted to make quarterly payments, what would her payments have been based on the value of the car as determined in part (1)? How much less interest would she have paid if she had been making quarterly payments instead of annual payments? What would have happened to the payment amount and the interest if she had asked for monthly payments?

**MULTI-CONCEPT EXERCISES****Exercise 9-20 Comparison of Alternatives**

Jane Bauer has won the lottery and has the following four options for receiving her winnings:

1. Receive \$100,000 at the beginning of the current year
2. Receive \$108,000 at the end of the year
3. Receive \$20,000 at the end of each year for eight years
4. Receive \$10,000 at the end of each year for 30 years

Jane can invest her winnings at an interest rate of 8% compounded annually at a major bank. Which of the payment options should Jane choose?

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EXAMPLE 9-10, 9-12

**Exercise 9-21 Two Situations**

The following situations involve the application of the time value of money concepts:

1. Sampson Company just purchased a piece of equipment with a value of \$53,300. Sampson financed this purchase with a loan from the bank and must make annual loan payments of \$13,000 at the end of each year for the next five years. Interest is compounded annually on the loan. What is the interest rate on the bank loan?
2. Simon Company needs to accumulate \$200,000 to repay bonds due in six years. Simon estimates it can save \$13,300 at the end of each semiannual period at a local bank offering an annual interest rate of 8% compounded semiannually. Will Simon have enough money saved at the end of six years to repay the bonds?

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EXAMPLE 9-13

**PROBLEMS****Problem 9-1 Notes and Interest**

Glencoe Inc. operates with a June 30 year-end. During 2017, the following transactions occurred:

- a. January 1: Signed a one-year, 10% loan for \$25,000. Interest and principal are to be paid at maturity.
- b. January 10: Signed a line of credit with Little Local Bank to establish a \$400,000 line of credit. Interest of 9% will be charged on all borrowed funds.
- c. February 1: Issued a \$20,000 non-interest-bearing, six-month note to pay for a new machine. Interest on the note, at 12%, was deducted in advance.
- d. March 1: Borrowed \$150,000 on the line of credit.
- e. June 1: Repaid \$100,000 on the line of credit plus accrued interest.
- f. June 30: Made all necessary adjusting entries.
- g. August 1: Repaid the non-interest-bearing note.
- h. September 1: Borrowed \$200,000 on the line of credit.
- i. November 1: Issued a three-month, 8%, \$12,000 note in payment of an overdue open account.
- j. December 31: Repaid the one-year loan [from transaction (a)] plus accrued interest.

**LO2****Required**

1. Identify and analyze the effect of these transactions.
2. As of December 31, which notes are outstanding? How much interest is due on each?