

HOMEWORK PROBLEM 4-1

The 20x2 annual report for B. F. Badpoor contains the following footnote (in millions):

Note Q:
LONG-TERM LEASE COMMITMENTS

The future minimum lease payments from continuing operations, by year and in the aggregate, under capital leases and under noncancellable operating leases with initial or remaining noncancellable lease terms in excess of one year, consisted of the following at December 31, 20x2:

	Capital Leases	Noncancellable Operating Leases
20x3.....	\$ 8.8	\$ 20.2
20x4.....	8.5	16.7
20x5.....	6.1	12.1
20x6.....	6.1	9.6
20x7.....	6.1	6.6
Thereafter.....	47.6	23.6
 Total minimum payment due.....	 83.2	 \$ 88.8
 Executory costs.....	 (.2)	
Amounts representing interest.....	(35.0)	
 Present value of net minimum lease payments.....	 48.0	
Less current portion of capital lease obligations.....	4.4	
 Total.....	 \$ 43.6	

- Leasing has been called a form of “off-balance-sheet financing.” Using the data shown in the footnote above, indicate how leasing may be a form of off-balance-sheet financing.
- Without quoting any specific rules, just general guidelines, how would you distinguish between an operating lease and a capital lease?
- What are executory costs? Why are they deducted from the total minimum lease payments?
- Based on the information contained in the footnote, what is the total amount, related to leases, that you would expect to find shown in the liability section of the December 31, 20x2 balance sheet?
- How much will the total lease payment be in 20x3? By what amount will the lease liability be reduced in 20x3 as a result of such payment?