

Session 5A: Post Class tests

Google's R&D expenses

	R&D (in US \$ millions)
Last 12 months	\$ 26,018
Last year	\$ 21,419
Two years ago	\$ 16,625
Three years ago	\$ 13,948

1. Assuming that Google's R&D takes 3 years to pay off in commercial use, estimate how much Google's pre-tax operating income in the last 12 months will change if R&D is capitalized?
2. Assuming that Google's R&D takes 3 years to pay off in commercial use, estimate how much Google's book value of equity will change if R&D is capitalized?

Nordstrom operating leases

	Lease commitments (in US \$ millions)
Last 12 months	\$ 374.00
Year +1	\$ 333.00
Year +2	\$ 353.00
Year +3	\$ 327.00
Year +4	\$ 300.00
Year +5	\$ 252.00
After year 5	\$ 1,136.00

3. Assume that you are capitalizing Nordstrom's leases, and that the company has a tax rate of 25%, a cost of debt of 3%, a cost of equity of 8% and a cost of capital of 7%. Estimate the debt value of the lease commitment.
4. What effect will capitalizing Nordstrom's leases have on the company's operating income for the year? (You can assume that Nordstrom's lease commitments were similar in the prior year.)
5. What effect will capitalizing Nordstrom's leases have on the company's interest expense for the year? (You can assume that Nordstrom's lease commitments were similar in the prior year.)