

---

**Question 4: Financial Accounting****(32 points)**

a)

Plan A

Balance Sheet immediately after acquiring an airplane (in '000 CU)

---

Current Assets	1,000	Current Liabilities	0
Flight Equipment	1,000	Non-current Liabilities	1,000
Other Fixed Assets	500	Shareholders' Equity	1,500
<hr/>			
Total Assets	2,500	Total Liabilities and Shareholders' Equity	2,500

Plan B

Balance Sheet immediately after acquiring an airplane (in '000 CU)

---

Current Assets	1,000	Current Liabilities	181
Flight Equipment	1,000	Non-current Liabilities	819
Other Fixed Assets	500	Shareholders' Equity	1,500
<hr/>			
Total Assets	2,500	Total Liabilities and Shareholders' Equity	2,500

First lease payment	231
- Interests included: $5\% \cdot (1,000) =$	- 50
= Current Liabilities:	181
Non-current Liabilities = $1,000 - 181 =$	819

Plan C

Balance Sheet immediately after acquiring an airplane (in '000 CU)

---

Current Assets	1,000	Current Liabilities	0
Flight Equipment	0	Non-current Liabilities	0
Other Fixed Assets	500	Shareholders' Equity	1,500
<hr/>			
Total Assets	1,500	Total Liabilities and Shareholders' Equity	1,500

b)

Net Income under Plan A:	500
+ Interests on bank loan: $5\% (1,000) =$	+ 50
- Interests included in lease payment:	<u>- 50</u>
= Net Income under Plan B	500

Net income under Plan A:	500
+ Interests on bank loan: $5\% (1,000) =$	+ 50

+ Depreciation of flight equipment: 20% (1,000 – 0) =	+ 200
- Operating lease payment	<u>- 200</u>
= Net Income under Plan C	550

c)

PV of five payments of 0.231 = 1 million using the 5% discount rate (from Plan A.). Whereas PV of five payments of 0.2 = 0.8659 million. The difference, 0.1341 million, is the PV of the value of the airplane at the end of the fifth year. Therefore, the expected value of the airplane at the end of the fifth year is  $0.1341 \cdot (1.05)^5 = 0.1713$  million.