

Case 7-1

Expensing Interest Now and Later

Johnson & Johnson and Subsidiaries
Consolidated Statement of Earnings

	2001	2000	1999
Sales to customers	\$33,004	\$29,846	\$28,007
Cost of products sold	9,536	8,908	8,498
Gross profit	23,468	20,938	19,509
Selling, marketing and administrative expenses	11,992	11,218	10,756
Research expense	3,591	3,105	2,768
Purchased in-process research and development	105	66	-
(Note 17)			
Interest income	(456)	(429)	(266)
Interest expense, net of portion capitalized (Note 3)	153	204	255
Other (income) expense, net	185	(94)	119
Earnings before provision for taxes on income	15,570	14,070	13,632
Provision for taxes on income (Note 8)	7,898	6,868	5,877
Earnings before provision for taxes on income	2,330	1,915	1,604
Net earnings	\$ 5,668	\$ 4,953	\$ 4,273
Basic net earnings per share (Notes 1 and 19)	\$1.87	\$1.65	\$1.43
Diluted net earnings per share (Notes 1 and 19)	\$1.84	\$1.61	\$1.39

Selected Note

3 Property, Plant and Equipment

At the end of 2001 and 2000, property, plant and equipment at cost and accumulated depreciation were:

	2001	2000
Land and land improvements	\$ 459	\$ 427
Buildings and building equipment	3,911	3,659
Machinery and equipment	6,805	6,312
Construction in progress	1,283	1,468
Less accumulated depreciation	12,458	11,866
	4,739	4,457
	\$ 7,719	\$ 7,409

(Dollars in Millions)

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2001, 2000 and 1999 was \$95 million, \$97 million and \$84 million, respectively.

Upon retirement or other disposal of fixed assets, the cost and related amount of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is adjusted to earnings.

Required

- What is the amount of gross interest expense for 2001, 2000, and 1999?
- What is the interest reported on the income statement for 2001, 2000, and 1999?
- What was the interest added to the cost of property, plant, and equipment during 2001, 2000, and 1999?
- When is capitalized interest recognized as an expense? Describe.
- What was the effect on income from capitalizing interest? Describe.

Consideration of Leases

Case 7-2

Wal-Mart included the following statements in its 1998 annual report: