# Noteworthy Solution

Attached are Espresso’s 2018 financial statements, including the supplementary notes. Based on the note disclosures, answer the following questions.

1. How is the allowance for doubtful accounts determined?

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| *Note 1; p. 9: The allowance for doubtful accounts reflects Espresso’s best estimate of probable losses inherent in the accounts receivable balance.* |

2. What is unearned revenue made up of?

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| *Note 14; p.26: Unearned revenue comprises mainly unearned revenue from volume licensing programs, as well as payments for undelivered elements and for other offerings for which we earn the revenue when we provide the service or software or otherwise meet the revenue recognition criteria.* |

3. How are inventories valued?

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| *Note 1; p.9: Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories.* |

4. What components are included in inventory?

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| *Note 1; p. 20. Inventory includes raw materials, work in process and finished goods.* |

5. What items are included in short-term and long-term debt?

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| *Note 12; p. 22: Short term includes commercial paper and credit facilities.*  *Long term includes zero coupon convertible notes (also known as bonds), and non-convertible notes with fixed interest payments.* |

6. What is property, plant and equipment made up of?

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| *Note 8; p.20: Buildings and improvements, leasehold improvements, computer equipment and software, furniture and equipment.* |

7. How is the carrying value of goodwill determined?

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| *Notes 1 & 10; pp. 9 & 21: Goodwill is tested for impairment using a fair-value-based approach on an annual basis (May 1 for us) and between annual tests if indicators of potential impairment exist.* |

8. What are the components of deferred income tax assets?

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| *Note 13; p. 24: Stock based compensation, other expense items, unearned revenue, impaired investments, and other revenue items.* |

9. In general, what items make up contingencies?

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| *Note 17; pp. 28-30: Government competition law matters, antitrust, unfair competition, and overcharge actions, patent and intellectual property claims and a variety of other claims.* |

10. Regarding the common stock, what was the opening balance of issued shares, what transactions occurred and what was the closing balance for the year?

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| *Opening balance - 8,908,000,000*  *Issued – 140,000,000*  *Repurchased – 380,000,000*  *Closing balance – 8,668,000,000* |

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