

Handout 7

Ski High, Inc. is a publicly-traded company with annual revenue of \$640 million and a fiscal year ending May 31. Amelia Emerson, a CPA and the Controller of Ski High, requests advice from your accounting firm about a problem she is facing in her company. Ski High owns and operates three ski resorts (located in Colorado and Utah). In addition, Ski High is the leading manufacturer and distributor of snowmobiles, snow bikes, skis, snowboards, ski helmets, ski clothes, and ski accessories.

The company's ski resort revenues are seasonal. The ski resort industry is highly competitive and capital intensive. During the peak ski season, revenues can be substantially reduced by adverse weather conditions, equipment failure, access route closures, and the cost of transportation, even if for a moderate and limited duration. For example, unfavorable warm weather conditions result in both an increase in the costs of snowmaking operations and maintaining quality skiing conditions, and a decrease in revenues due to a decline in number of skiers using the slopes and staying at the resorts.

The Ski High resorts have experienced unseasonably warm weather and other adverse conditions during the last three years (from November through April), leading to a decrease in revenues and an increase in expenses. Due to the weather during the current year, Ski High experienced a substantial operating loss for the ski resorts. As a result, a buyer was found and the ski resorts were sold at the end of the current fiscal year. Ski High recognized a gain on the sale.

Amelia's problem arises over how Ski High should report the operating loss and the gain from the sale of the ski resorts on the financial statements. In a meeting she had with Ski High's CEO and CFO, the CEO wanted to include the gain as part of continuing operations. "No need to separate the profit on the financials and confuse the stockholders," he said. "Just bury it with our other revenue – no different than merely selling off some assets."

The CFO partly disagreed and believed that it would be more advantageous for the company to report the operating loss as an extraordinary item. However, the CFO totally agreed with the CEO that the gain from the sale of the resorts should be buried in revenue from continuing operations because the shareholders and financial analysts will believe that the increase in earnings resulting from the gain would be ongoing, and that the operating loss will be perceived as only a one-time occurrence not to be repeated in the future. "It was the blasted warm weather that led us to make the decision to sell the resorts and get out of that business. We don't want to bury the loss in operations, only the gain. Otherwise, we risk a decline in the value of our stock," the CFO said.

Amelia disagrees with both individuals, but said nothing at the meeting. She thinks she knows how to report the operating loss and the gain on the sale of the ski resorts, but wants you to provide her with your recommendation. Amelia was only recently hired as the Controller of Ski High, and her position there is still somewhat precarious. She doesn't want to rock the boat unnecessarily in case she is wrong. Even though the accounting for the sale and operating loss is her responsibility, Amelia is tempted to let the CEO and CFO decide what to do. But on the other hand, she doesn't want to become involved with misleading the public.

Required:

Prepare a letter (not a memo) addressed to Amelia Emerson at 350 Alpine Avenue, Provo, Utah 84602, advising her about how to report the operating loss and the sale of the resorts. You must support your advice by citing any applicable accounting standards. You are not required to include a reference page until your final draft is submitted in ACCT 351COM. Limit your letter to only one page (single spaced with double space between paragraphs) and one-inch margins. Create your own letterhead for the accounting firm you represent. The date should be placed no less than one-half inch below the letterhead (or 1.5 inches from the top of the page).

In your letter, also include a brief comment regarding how you would advise Amelia about the ethical aspects of this situation. You might want to look at the AICPA Code of Professional Conduct for "Integrity and Objectivity". Don't just quote or refer to this rule. Explain to Amelia what specific part of this rule applies to Amelia's situation.

See page 32 of

<http://www.aicpa.org/research/standards/codeofconduct/downloadabledocuments/2014december15contentasof2014may15codeofconduct.pdf>

To cite and reference the rule, use the following:

Reference

AICPA, ET Section 1.100.001.01 (2014).

The ethics code is only updated intermittently. You do not need to indicate the date of the retrieval, only the date it was updated (2014).

In-text Citation

(AICPA, 2014, ET Section 1.100.001.01)

Remember, textbooks are not recognized as authoritative sources in accounting research. Therefore, don't use your textbook as support for your recommendation.