

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 separately. 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:

You must complete this assignment independently on your own and not work with or collaborate in any way with any other person, including but not limited to your ACCT 350 classmates. Failure to work alone will constitute academic dishonesty.

Prepare a letter (not a memo) addressed to Amelia Emerson, Controller, Widget, Inc., 350 Accounting Avenue, Northridge, California 91330, advising her about the proposed plan. You must support your advice by citing any applicable accounting standards. Do not include a reference page. You must limit your letter to one page (single spaced with double space between paragraphs) and one-inch margins. Only submit the one page and nothing else. 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 addition to analyzing the accounting issue(s) in your letter, include a brief comment about any ethical issue that Amelia faces. You should look at the AICPA Code of Professional Conduct rule on "Integrity and Objectivity". Briefly explain to Amelia the one part of this rule she should most consider in her current situation (subordination of judgment). But remember (and be careful) that the CEO and CFO may be "secondary readers" of your letter, and that you are creating a part of a written record on this issue. Please note that it is Certified Public Accountants (CPAs) like Amelia who are "members" of the AICPA and must uphold the AICPA Code of Professional Conduct.

You may ignore any "Pending Content" sections in this case only.

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

Turnitin

Do not submit your letter to Professor Weiss. But you must submit your letter to Turnitin.

To use Turnitin, access Canvas and follow these instructions.

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Failure to use Turnitin will result in you losing 10 points in ACCT 350.

Additional Information

To access the applicable section of the AICPA Code of Professional Conduct, go to pages 31 and 32 of <http://www.aicpa.org/research/standards/codeofconduct/downloadabledocuments/2014december15contentasof2014may15codeofconduct.pdf>

To cite and reference this rule, use the following:

Reference

American Institute of Certified Public Accountants, ET Section 1.100.001.01 (2018). Retrieved April 18, 2018, from <http://www.aicpa.org/research/standards/codeofconduct/downloadabledocuments/2014december15contentasof2014may15codeofconduct.pdf>.

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