

Handout 6

Ski High, Inc. is a multi-divisional company with annual revenue of \$120 million. Amelia Emerson, the Controller and a CPA, comes to you, an outside accountant, for advice about a problem she is facing in her company. Ski High owns and operates three ski resorts (in Colorado, Utah, and New Hampshire). In addition, Ski High manufactures and distributes skis, snowboards, helmets, and ski clothes and accessories designed for women.

The company's ski resort revenues are seasonal. The ski resort industry is highly competitive and capital intensive. During peak business periods, 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. Unfavorable 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 skier visits.

Each of Ski High's resorts has experienced unseasonably warm weather and other adverse conditions during the last two years (from November through April), which has resulted in a decrease in revenues and increase in operating expenses (but the resorts still made a profit). As a result of declining profits, Ski High sold the three ski resorts during the current year at a substantial profit.

Emerson's problem arises over how to report the profit from the sale of the ski resorts. In a meeting she had with the CEO and CFO, the CEO wanted to include the gain as part of 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 disagreed and believed that it should be reported separately as an extraordinary gain. "It was the blasted warm weather that led us to make the decision to sell the resorts, and warm weather at that time of year is extremely unusual," he concluded.

Emerson disagrees with both individuals. She thinks she knows how to report the gain on the sale of the resorts, but wants you to provide her with your opinion. Emerson is also concerned with the CEO's insistence on using his strategy of not raising any red flags with the stockholders about future earnings. Emerson is new to Ski High and her position there is still somewhat tenuous. She doesn't want to rock the boat unnecessarily because of her financial responsibility to her children as their only source of income. But on the other hand, she doesn't want to become involved with misleading the public.

Required:

Send Amelia Emerson a letter advising her about how to report the sale of the ski resorts, being sure to address the CFO's opinion about extraordinary treatment. Limit your letter to only one page single spaced and cite any applicable APB opinions and FASB statements. [Textbooks are not recognized as authoritative sources in accounting research. Therefore, don't use your textbook as support for your recommendation.]

In your letter, also include a discussion regarding how you would advise Emerson to handle the ethical and internal aspects of this issue. You might want to look at Rule 102 (AICPA Code of Professional Conduct).