

Situation	Classifications	Multistep income statement	Retained earnings Statement	Communications	Research
-----------	-----------------	----------------------------	-----------------------------	----------------	----------

Presented below is information related to **American Horse Company** for 2008.

Retained earnings balance, January 1, 2008	\$ 980,000
Sales for the year	25,000,000
Cost of goods sold	17,000,000
Interest revenue	70,000
Selling and administrative expense	4,700,000
Write-off of goodwill (not deductible)	820,000
Income taxes for 2008	905,000
Gain on the sale of investments (normal recurring)	110,000
Loss due to flood damage—extraordinary item (net of tax)	390,000
Loss the disposition of the wholesale division	615,000
Loss on operations of wholesale division	200,000
Income tax benefit from discontinued wholesale division	285,000
Dividends declared on common stock	250,000
Dividends declared on preferred stock	70,000

American Horse Company decided to discontinue its entire wholesale operations and to retain its manufacturing operations. On September 15, American Horse sold the wholesale operations to Rogers Company. During 2008, there were 300,000 shares of common stock outstanding all year.

	Classifications				
Situation		Multistep income statement	Retained earnings Statement	Communications	Research

The illustrations below represent accounting transactions that affect the recognition of income for an accounting period. Their classification is the subject of this objective format matching question.

For each of the ten illustrations below, select the best classification for those listed A-I below. A classification may be used more than once, or not at all.

- | | | <u>Classification</u> |
|----|--------------------------------|--|
| A. | Change in reporting entity | F. Discontinued Operations–Gain or loss from discontinued operations |
| B. | Correction of an error | G. Not an accounting change |
| C. | Change in accounting principle | H. Part of income before extraordinary items |
| D. | Change in estimate | I. Discontinued operations–Gain or loss on disposal |
| E. | Extraordinary item | |

<u>Item</u>	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1. Newly acquired assets are depreciated using the sum-of-the-years' digits method; previously recorded assets are depreciated using straight-line method.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Accounting for acquisition of a 100% owned subsidiary.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Reported as a restatement of all periods presented	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Write-down of inventory due to obsolescence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Gain or losses on the disposal of the net assets of a component are included in this calculation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Changing from the gross profit method for determining year-end inventory to dollar value LIFO.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. Accounting for existing construction contracts is changed from completed contract to percentage-of-completion.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8. The effects of a change in estimate and a change in principle are inseparable for the same event.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9. The excess of cash paid over the carrying value to extinguish bonds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10. Income or loss of the component for the period of disposal included in this calculation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

(Continued)

Multistep income statement

Situation	Classifications	Multistep income statement	Retained earnings Statement	Communications	Research
-----------	-----------------	----------------------------	-----------------------------	----------------	----------

<p style="text-align: center;"><i>American Horse Company</i> INCOME STATEMENT <i>For the Year Ended December 31, 2008</i></p>					
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					

				Communications	
Situation	Classifications	Multistep income statement	Retained earnings Statement		Research

Write a brief memo to the manager of American Horse explaining the major distinction (1) between revenues and gains, and (2) between expenses and losses.

To: Manager, American Horse Company
 From: CPA Candidate
 Re: Distinction of income statement items

					Research
Situation	Classifications	Multistep income statement	Retained earnings Statement	Communications	

What is the definition of an extraordinary item?