

**SAMPLE CORPORATION (Revised)**  
**An Illustration of Reporting of Discontinued Operations**

On August 15, 20X1, Sample Corporation decided to discontinue the operations of one of its business segments. The discontinued segment assets would be sold by April 1, 20X2. These assets cost \$500,000, have accumulated depreciation of \$300,000, and are expected to be sold for \$40,000.

The discontinued segment generated an operating loss of \$80,000 before taxes from January 1, 20X1 to August 15, 20X1, consisting of revenues of \$100,000 and operating expenses of \$180,000. It is anticipated that additional operating losses of \$45,000 before taxes will be incurred from August 15, 20X1 until the operations are discontinued on April 1, 20X2. From August 15 until December 31, 20X1, the discontinued segment incurred operating losses of \$20,000 before taxes, consisting of revenues of \$50,000 and expenses of \$70,000. Revenues of \$55,000 and expenses of \$80,000 are expected from the discontinued segment during 20X2.

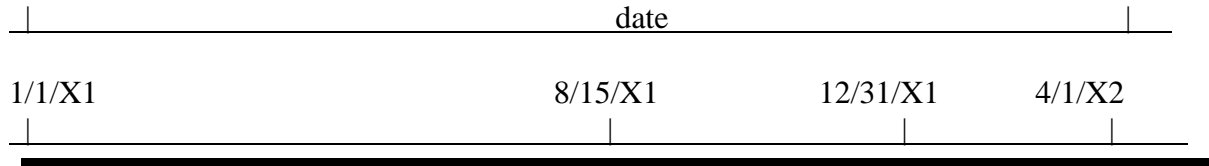
Assume a tax rate of 40% during all years.

Sample Corporation had Sales from continuing operations of \$1,250,000 and operating costs and expenses of \$1,000,000 for the year ended December 31, 20X1.

**Required:**

1. Prepare the journal entries for 20X1 and 20X2 to reflect the above facts.
2. Prepare the income statement to reflect the above facts for 20X1.

**SAMPLE CORPORATION**  
Time line of events



<b>Continuing Operations:</b>	
Revenues	<b>\$1,250,000</b>
Costs & expenses, excluding income tax	<b>1,000,000</b>

<b>Discontinued Operations: <u>20X1</u></b>		<b><u>20X2</u></b>
Revenues	<b>\$ 150,000</b>	<b>\$55,000</b>
Costs & expenses	<b>250,000</b>	<b>80,000</b>

**Journal entries necessary to account for the Disposed Segment:**

<b>Date</b>	<b>ACCOUNT</b>	<b>DR</b>	<b>CR</b>
08/15/x1			
	To Write down Assets of Disposed Segment to Net Realizable Value.		

<b>Date</b>	<b>ACCOUNT</b>	<b>DR</b>	<b>CR</b>
08/15/x1	Deferred Income Tax		
	Loss on Disposal of Assets of Disposed Segment		
	To Recognize the Tax Effect of the Loss on Disposal of Assets of Disposed Segment.		

<b>Date</b>	<b>ACCOUNT</b>	<b>DR</b>	<b>CR</b>
12/31/x1			
	To Close Revenue and Expense Accounts of Discontinued Segment for 20X1		

<b>Date</b>	<b>ACCOUNT</b>	<b>DR</b>	<b>CR</b>
12/31/x1			
	To recognize the tax effect of the loss from discontinued operations		

*Assume Assets Are Sold and Operating Results Are as Estimated on 4/1/X2:*

Date	ACCOUNT	DR	CR
4/1/x2			
	To Record Disposal of Assets of Discontinued Segment		

Date	ACCOUNT	DR	CR
4/1/x2			
	To Recognize the Income Tax Benefits of the Loss on Disposal of Assets of Discontinued Segment		

Date	ACCOUNT	DR	CR
4/1/x2			
	to close revenue and expenses of discontinued segment for operations during year X2		

Date	ACCOUNT	DR	CR
4/1/x2			
	to record the income tax benefit of the operating loss of discontinued segment during year X2.		

**Sample Corporation  
Income Statement  
for the Year Ended December 31,**

---

	<u>20X1</u>
<b>Continuing Operations:</b>	
Sales	\$
Costs & Expenses	_____
Income from Continuing Operations, Before Tax	_____
Income Tax Expense	_____
Income from Continuing Operations	_____
<b>Discontinued Operations:</b>	
Loss from operations of Discontinued Segment, including loss on disposal of \$_____	
Less Applicable Income Tax Benefits of	_____
Loss from Discontinued Operations	_____
Net Income (loss)	\$ _____

**Sample Corporation–Preparation of Comparative Income Statements–Year following**

Suppose that the Assets of the Disposed Segment are sold for more or less than the estimated net realizable value. How would that affect the income statement for year 20X2? To illustrate, assume that the assets are sold for \$10,000 in year 20X2. Also, assume that Sales from continuing operations for 20X2 were \$ 1,300,000 and costs & expenses were \$ 1,100,000. The tax rate remains the same at 40%.

Entry to record the sale (would replace the earlier entry to record the sale):

Date	ACCOUNT	DR	CR
4/1/x2			
	To Record Disposal of Assets of Discontinued Segment		

Complete the following income statement to illustrate the proper financial reporting for these changes. Think about the journal entries that would be made based on these revised facts.

**Sample Corporation  
Comparative Income Statement  
for the Years Ended December 31,**

	<u>20X2</u>	<u>20X1</u>
<b>Continuing Operations:</b>		
Sales	\$	\$
Costs & Expenses	_____	_____
Income from Continuing Operations, Before Tax	_____	_____
Income Tax Expense	_____	_____
Income from Continuing Operations	_____	_____
<b>Discontinued Operations:</b>		
Loss from operations of Discontinued Segment, including loss on disposal of \$_____ in 20X1 and \$_____ in 20X2	_____	_____
Less Applicable Income Tax Benefits of	_____	_____
Loss from Discontinued Operations	_____	_____
Net Income (loss)	<u>\$</u>	<u>\$</u>

### Illustration of Restatement of Prior Year Statements Due to Discontinued Operations:

Suppose that Comparative income statements are prepared for year 20X1 and 20X0 (the year prior to the measurement date). By analyzing the books of Sample, the discontinued segment revenues were determined to be \$ 400,000 and costs and expenses \$ 600,000 for year 20X0.

Assume that Sample issued the following original income statement for year 20X0.

**Sample Corporation**  
**Income Statement**  
**for the Year Ended December 31, 20X0**

	<u>20X0</u>
Sales	\$2,400,000
Costs & Expenses	<u>1,800,000</u>
Income from Continuing Operations, Before Tax	600,000
Income Tax Expense	<u>240,000</u>
Net income	<u><u>360,000</u></u>

What changes, if any, would be necessary to the 20X0 income statement to be included in the comparative income statement for 20X1? Use the income statement on the following page to reflect any changes that might be necessary to the year 20X0 column.

**Sample Corporation**  
**Comparative Income Statement**  
**for the Years Ended December 31,**

	<u>20X1</u>	<u>20X0</u>
<b>Continuing Operations:</b>		
Sales	\$ _____	\$ _____
Costs & Expenses	_____	_____
Income from Continuing Operations, Before Tax	_____	_____
Income Tax Expense	_____	_____
Income from Continuing Operations	_____	_____
<b>Discontinued Operations:</b>		
Loss from operations of Discontinued Segment, including loss on disposal of \$ _____ in 20X1	_____	_____
Less Applicable Income Tax Benefits of	_____	_____
Loss from Discontinued Operations	_____	_____
Net Income (loss)	\$ _____	\$ _____