

**SIMON FRASER UNIVERSITY**  
**Financial Accounting: Assets (BUS320)**  
**Lecture 3 – An additional problem for your personal study**

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**QUESTION**

Mount Royal Limited (MRL) has been reporting the net assets of its Aircraft Division as asset held for sale on the company's balance sheet since 20X1. The Aircraft Division was appropriately accounted for in 20X1 as a discontinued operations, and at that time the carrying amount of the net assets of the Aircraft Division was \$1,320,000. Management of MRL originally expected the sale of the Aircraft Division's net assets to be completed by the end of 20X2. However, the sale was repeatedly delayed over the next four years due to the occurrence of several major events that were beyond management's control. At the end of each year, there was reliable evidence supporting management's conclusion that the sale was probable within twelve months. The net assets of the Aircraft Division continued to remain on MRL's balance sheets and were properly accounted for as assets held for sale at the end of 20X2, 20X3, 20X4, and 20X5.

Several suitable buyers were finally found in early 20X6 and management of MRL was able to complete the sale of the net assets of the Aircraft Division in April 20X6. MRL received, after deducting selling costs, total net proceeds of \$2,000,000 from the sale.

The Aircraft Division reported the following operating losses over the years from 20X1 to 20X6 before the final disposal of the division:

<b>For the fiscal year ended</b>	<b>Before tax operating loss of the Aircraft Division</b>
December 31, 20X1	\$300,000
December 31, 20X2	\$320,000
December 31, 20X3	\$340,000
December 31, 20X4	\$360,000
December 31, 20X5	\$220,000
December 31, 20X6	\$40,000

Company records show the following information compiled by management for financial reporting purposes over the years on the estimated fair value and cost of disposal of the Aircraft Division's net assets:

<b>Date</b>	<b>Estimated fair value of the net assets of the Aircraft Division</b>	<b>Estimated cost of disposal of the net assets of the Aircraft Division</b>
December 31, 20X1	\$1,900,000	\$50,000
December 31, 20X2	\$1,400,000	\$100,000
December 31, 20X3	\$1,200,000	\$150,000
December 31, 20X4	\$1,600,000	\$200,000
December 31, 20X5	\$1,700,000	\$250,000

MRL is listed on the TSX and is subject to an average income tax rate of 30% on all items.

**Required:**

- (i) Prepare, in good form (showing essential information), a partial income statement for MRL for the year ended December 31, 20X4 showing the discontinued operation section of the statement. Show all supporting calculations.
- (ii) Prepare, in good form (showing essential information), a partial income statement for MRL for the year ended December 31, 20X5 showing the discontinued operation section of the statement. Show all supporting calculations.
- (iii) Prepare, in good form (showing essential information), a partial income statement for MRL for the year ended December 31, 20X6 showing the discontinued operation section of the statement. Show all supporting calculations.