

Chapter 4 Review Problem

E4-5

In 2000, Long Construction Corporation began construction work under a three-year contract. The contract price is \$1,600,000. Long uses the percentage-of-completion method for financial reporting purposes.

Accounts receivable	\$30,000
(from construction progress billings)	

Construction in progress	\$100,000
Less: Billings	(94,000)
Cost of uncompleted contracts	
In excess of billings	\$6,000

Income (before tax) on the contract: \$20,000

- What was the cost of construction incurred in 2000?
- How much cash was collected in 2000 on the contract?
- What was the estimated cost to complete as of the end of 2000?
- What was the estimated percentage of completion used to calculate income in 2000?

P4-2

In 2000, the Westgate Construction Company entered into a contract to construct a road to Santa Clara County for \$10,000,000. The road was completed in 2002.

	2000	2001	2002
Cost incurred during the year	2,400,000	3,600,000	2,200,000
Estimated costs to complete as of year-end	5,000,000	2,000,000	0
Billings during the year	2,000,000	4,000,000	4,000,000
Cash collections	1,800,000	3,600,000	4,600,000

Prepare all the necessary journal entries for all three years.

Segment Disclosures

- What is a reportable operating segment?
 - Engages in business activities from which it may earn revenues and incur expenses
 - Operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance
 - Discrete financial information is available
- Which segments must be disclosed?
 - Segments that comprise 10% or more of the total company revenues, assets or net income (company must account for at least 75% of its consolidated revenue through segment disclosures)
- What information must be disclosed?
 - General information
 - Information about segment profit or loss
 - Reconciliation to total revenue and profit or loss
 - Interim period information
- Geographic information is also required.

Examples:

Nike

The Company's major operating segments are defined by geographic regions for subsidiaries participating in NIKE brand sales activity. ... Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment.

Nike

Contribution Profit	<u>1999</u>	<u>1998</u>	<u>1997</u>
United States	\$882.3	\$978.8	\$1,411.7
Europe.	338.4	281.2	254.5
Asia/Pacific.	78.8	-26.8	227.4
Americas.	57.6	110.6	74.3
Other brands	22.4	-13.1	34.7
Corporate	<u>-589.3</u>	<u>-617.7</u>	<u>-655.1</u>
	<u>790.2</u>	<u>\$713.0</u>	<u>\$1,347.5</u>

Weyerhaeuser

The company is principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products. The business segments are timberlands (including logs, chips and timber); wood products (including softwood lumber, plywood and veneer; oriented strand board; hardwood lumber; treated products; doors; raw materials; and building materials distribution); pulp, paper and packaging (including pulp, paper, container board, packaging, paperboard and recycling); and real estate and related assets.

Approximate contribution (charge) to earnings:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Timberlands	\$535	\$487	\$535
Wood products	470	183	172
Pulp, paper and packaging	310	150	164
Real estate and related	190	124	111
Corporate and other	<u>-272</u>	<u>-225</u>	<u>-186</u>
	<u>1233</u>	<u>719</u>	<u>796</u>

Microsoft

The Company's organizational structure and fundamental approach to business reflect the needs of its customers. As such, Microsoft has three major segments: Windows Platforms; Productivity Applications and Developer; and Consumer, Commerce, and Other. Windows Platforms includes the Business and Enterprise Division, which is primarily responsible for Windows NT and developing Windows 2000. Windows Platforms also includes the Consumer Windows Division, which oversees Windows 98 and Windows 95. Productivity Applications and Developer includes the Business Productivity Division, which is responsible for developing and marketing desktop applications, server applications, and developer tools. Consumer, Commerce, and Other products and services include primarily learning, entertainment, and PC input device products; WebTV and PC online access; and portal and other Internet services. Assets of the segment groups are not relevant for management of the businesses nor for disclosure. In addition, it is not practicable to discern operating income for 1997 for the above segments due to previous internal reorganizations.

Year Ended June 30	Windows Platforms	Productivity Applications	Other
1997			
Revenue	\$5,213	\$5,992	\$1,129
1998			
Revenue	\$6,236	\$7,458	\$1,765
Operating income	3,661	4,824	-1,050
1999			
Revenue	\$8,590	\$8,686	\$1,784
Operating income	6,007	5,568	-1,072

Johnson & Johnson OPERATING PROFIT

	1999	1998	1997
Consumer	\$683	414	551
Pharmaceutical	3,595	2,933	2,572
Professional	1,632	941	1,543