

Stearns Corporation was a diversified company with two separate lines of business - chemicals and financial services. At the beginning of 20X7, Stearns sold its financial services unit, resulting in a \$3,000,000 pretax gain. The following additional transactions and events pertain to 20X7:

The chemical unit sold a paint factory at pretax loss of \$500,000. This asset sale did not represent the sale of a business unit.

The company incurred a \$700,000 clean-up cost (pretax) associated with an accidental release of potentially hazardous chemicals. The company has very strong controls to prevent such events, and this occurred only because of a series of nonrecurring and unusual system failures. The loss is judged to be extraordinary.

General information for 20X7 is as follows: Sales, \$7,500,000; Cost of Goods Sold, \$3,200,000; Selling Expenses, \$1,000,000; and General & Administrative Expenses, \$1,500,000. The company's income tax rate is 30%.

Stearns changed its method of accounting for inventory at the beginning of 20X7. The cost of goods sold of \$3,200,000 is based on the new method. Cumulatively, prior years' income would have been \$2,400,000 higher (net of tax effects) had the new method been in use all along.

The company discovered an error in a prior year's report. The error resulted in a \$420,000 overstatement of 20X5 net income.

- (a) Prepare the 20X7 income statement for Stearns Corporation.
- (b) Retained earnings at January 1, 20X7, was \$5,500,000, before giving consideration to the correction of error or accounting change described above. What is the balance of the revised beginning retained earnings?
- (c) The company had \$400,000 of other comprehensive income (net of any tax effects) related to holding gains on available for sale securities. How much is total "comprehensive income?"