

# FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2014-08  
April 2014

Presentation of Financial Statements (Topic 205)  
and Property, Plant, and Equipment (Topic 360)

Reporting Discontinued Operations and Disclosures of  
Disposals of Components of an Entity

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Financial Accounting Standards Board



# Accounting Standards Update 2014-08

## Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)

## Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

April 2014

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# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

Some stakeholders told the Board that too many disposals of small groups of assets that are recurring in nature qualify for discontinued operations presentation under Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations. That results in financial statements that are less decision useful for users. Other stakeholders noted that some of the guidance on reporting discontinued operations results in higher costs for preparers because it can be complex and difficult to apply. The amendments in this Update address those issues by changing the criteria for reporting discontinued operations and enhancing convergence of the FASB's and the International Accounting Standard Board's (IASB) reporting requirements for discontinued operations.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update affect an entity that has either of the following:

1. A component of an entity that either is disposed of or meets the criteria in paragraph 205-20-45-1E to be classified as held for sale
2. A business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held for sale.

## What Are the Main Provisions?

The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity.

A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs:

1. The component of an entity or group of components of an entity meets the criteria in paragraph 205-20-45-1E to be classified as held for sale.
2. The component of an entity or group of components of an entity is disposed of by sale.

3. The component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

Examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity (see paragraphs 205-20-55-83 through 55-101 for examples).

A business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held for sale also is a discontinued operation.

A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

A *business* is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

A *nonprofit activity* is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit entity.

The amendments in this Update require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position.

The amendments in this Update require additional disclosures about discontinued operations, including:

1. The major classes of line items constituting the pretax profit or loss (or change in net assets for a not-for-profit entity) of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
2. Either of the following:
  - a. The total operating and investing cash flows of the discontinued operation for the periods in which the results of operations of the discontinued operation are reported in the statement where net income is reported (or statement of activities for a not-for-profit entity)

- b. The depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
3. If the discontinued operation includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
4. A reconciliation of the major classes of assets and liabilities of the discontinued operation classified as held for sale that are disclosed in the notes to financial statements to total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position for the initial period in which the disposal group is classified as held for sale and for all prior periods presented in the statement of financial position.
5. A reconciliation of the major classes of line items constituting the pretax profit or loss (or change in net assets for a not-for-profit entity) of the discontinued operation that are disclosed in the notes to financial statements to the after-tax profit or loss of the discontinued operation that is presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

The amendments in this Update require a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, including:

1. The pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity)
2. If the component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in

the statement where net income is reported (or statement of activities for a not-for-profit entity).

The amendments in this Update require all other entities to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, including:

1. The pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the component of an entity for the period in which it is disposed of or is classified as held for sale
2. If the component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

The amendments in this Update expand the disclosures about an entity's significant continuing involvement with a discontinued operation, including:

1. The amount of any cash inflows (outflows) from (to) the discontinued operation following its disposal
2. Information about a discontinued operation in which an entity retains an equity method investment after the disposal transaction.

Those disclosures are required until the results of operations of the discontinued operation in which an entity retains significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported (or statement of activities for a not-for-profit entity).

## **How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?**

Under the amendments in this Update, the definition of discontinued operation differs from current U.S. GAAP as follows:

1. Only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. Currently, a component of an entity that is a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group is eligible for discontinued operations presentation.
2. The following conditions in the current definition of discontinued operation have been removed:

- a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
  - b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.
3. A business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale is reported in discontinued operations. Currently, U.S. GAAP does not include a business or nonprofit activity in the definition of discontinued operation.
4. A disposal of an equity method investment that meets the definition of discontinued operation is reported in discontinued operations. Currently, disposals of equity method investments are not in the scope of Subtopic 205-20.

The amendments in this Update improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Under current U.S. GAAP, many disposals, some of which may be routine in nature and not a change in an entity's strategy, are reported in discontinued operations.

The amendments in this Update require expanded disclosures for discontinued operations. The Board concluded that those disclosures should provide users of financial statements with more information about the assets, liabilities, revenues, and expenses of discontinued operations.

The amendments in this Update also require an entity to disclose the pretax profit or loss (or change in net assets for a not-for-profit entity) of an individually significant component of an entity that does not qualify for discontinued operations reporting. The Board concluded that this disclosure should provide users with information about the financial effects of significant disposals that do not qualify for discontinued operations reporting.

The amendments in this Update include several changes to the Accounting Standards Codification to improve the organization and readability of Subtopic 205-20 and Subtopic 360-10, Property, Plant, and Equipment—Overall. For example, the disclosures required by Subtopic 205-20 are organized by the nature of the discontinued operation. Additionally, flowcharts were added to Subtopics 205-20 and 360-10 to help stakeholders implement the disclosure requirements.

## When Will the Amendments Be Effective?

A public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments in this Update prospectively to both of the following:

1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years
2. All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years.

All other entities should apply the amendments in this Update prospectively to both of the following:

1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015
2. All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015.

An entity should not apply the amendments in this Update to a component of an entity, or a business or nonprofit activity, that is classified as held for sale before the effective date even if the component of an entity, or business or nonprofit activity, is disposed of after the effective date.

Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.

## How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this Update to the definition of discontinued operation make that definition similar to the definition of discontinued operation in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Part of the definition of discontinued operation in this Update is based on the guidance in IFRS 5 indicating that a discontinued operation should represent a separate major line of business or geographical area of operations.

While perhaps implicit in IFRS 5, the amendments in this Update specifically indicate that a discontinued operation arises from a disposal of a component of an entity or a group of components of an entity that results in a strategic shift that has a major effect on an entity's operations and financial results. Thus, under the amendments, the significance of the disposal of the line of business or geographical area of operations will determine whether the disposal qualifies for discontinued operations presentation.

Under the amendments in this Update, a business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held for sale is a discontinued operation. This guidance is similar to IFRS 5's requirement that a subsidiary that, on acquisition, is classified as held for sale should be reported in discontinued operations.

The amendments in this Update also include several examples that provide further guidance on how to interpret the definition of discontinued operation; IFRS does not contain similar examples.

The amendments in this Update require certain disclosures in the notes to financial statements for individually significant components of an entity that do not qualify for discontinued operations reporting. Those disclosures are not required under IFRS 5.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–37. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Supersede the following Master Glossary terms, with a link to transition paragraph 205-20-65-1, as follows:

### **Commodity**

~~Commodity means products whose units are interchangeable, are traded on an active market where customers are not readily identifiable, and are immediately marketable at quoted prices.~~

### **Continuation of Activities**

~~Continuation of activities means the continuation of any revenue producing or cost-generating activity through active involvement with the disposed component.~~

### **Continuing Cash Flows**

~~Continuing cash flows are cash inflows or outflows that are generated by the ongoing entity and are associated with activities involving a disposed component.~~

### **Migration**

~~Migration means the ongoing entity expects to continue to generate revenues and (or) incur expenses from the sale of similar products or services to specific customers of the disposed component.~~

3. Amend the following Master Glossary term, with a link to transition paragraph 205-20-65-1, as follows:

### **Disposal Group**

A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be

transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.

4. Add the following Master Glossary terms to Subtopics 205-10 and 205-20 as follows:

### **Business**

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Additional guidance on what a business consists of is presented in paragraphs 805-10-55-4 through 55-9.

### **Nonprofit Activity**

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a **business** or a for-profit business entity.

5. Add the following Master Glossary terms to Subtopic 205-20 as follows:

### **Firm Purchase Commitment**

A firm purchase commitment is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that meets both of the following conditions:

- a. It specifies all significant terms, including the price and timing of the transaction.
- b. It includes a disincentive for nonperformance that is sufficiently large to make performance probable.

### **Not-for-Profit Entity**

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities

- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

**Probable** (second definition)

The future event or events are likely to occur.

**Public Business Entity**

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

## Amendments to Subtopic 205-10

- 6. Amend paragraph 205-10-05-3 and add paragraph 205-10-05-3A, with a link to transition paragraph 205-20-65-1, as follows:

## Presentation of Financial Statements—Overall

### Overview and Background

**205-10-05-3** The Discontinued Operations Subtopic discusses the conditions under which either of the following would be reported in an entity's financial statements as a discontinued operation:

- a. ~~a~~ **A component of an entity** that either has been disposed of or is classified as held for sale ~~would be reported in an entity's financial statements as a discontinued operation. It also addresses the allocation of interest and overhead to discontinued operations.~~
- b. A **business or nonprofit activity** that, on acquisition, is classified as held for sale.

**205-10-05-3A** If a component of an entity that either has been disposed of or is classified as held for sale does not meet the conditions to be reported in discontinued operations, Section 360-10-45 on other presentation matters of property, plant, and equipment provides guidance on presenting disposal gains and losses and impairment losses on assets classified as held for sale.

### Amendments to Subtopic 205-20

7. Amend paragraph 205-20-05-1 and add paragraph 205-20-05-2, with a link to transition paragraph 205-20-65-1, as follows:

## Presentation of Financial Statements—Discontinued Operations

### Overview and Background

**205-20-05-1** This Subtopic provides guidance on the presentation and disclosure requirements for discontinued operations. A discontinued operation may include a **component of an entity** or a group of components of an entity, or a **business or nonprofit activity** when the results of operations of a **component of an entity** that either has been disposed of or is classified as held for sale would be reported as a discontinued operation in the financial statements of the entity. It also addresses the allocation of interest and overhead to discontinued operations. Subtopic 360-10 establishes held for sale criteria in paragraphs 360-10-45-9 through 45-14.

**205-20-05-2** The required disclosures about discontinued operations vary depending on the nature of the discontinued operation. For example, if a discontinued operation includes a component or group of components of an entity that is not an equity method investment, a more comprehensive set of

disclosures about the discontinued operation is required. If the discontinued operation includes an equity method investment, or a business or nonprofit activity that is classified as held for sale on acquisition, a more limited set of disclosures is required (see the flowchart in paragraph 205-20-55-82 for an illustration).

8. Amend paragraphs 205-20-15-1 through 15-2 and add paragraph 205-20-15-3 and its related heading, with a link to transition paragraph 205-20-65-1, as follows:

## **Scope and Scope Exceptions**

### **> Overall Guidance**

**205-20-15-1** This Subtopic follows the same Scope and Scope Exceptions as outlined in ~~both~~ the Overall Subtopic; see Section 205-10-15, ~~and paragraph 360-10-15-5~~, with specific transaction qualifications noted below.

### **> Transactions**

**205-20-15-2** The guidance in this Subtopic applies to either of the following transactions and activities:

- a. A ~~component~~**Components of an entity** or a group of components of an entity that is disposed of or is classified as held for sale that have been disposed of, or alternatively, have been classified as held for sale under the requirements of paragraph 360-10-45-9.
- b. A **business or nonprofit activity** that, on acquisition, is classified as held for sale.

### **> Entities**

**205-20-15-3** The guidance in this Subtopic does not apply to oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the U.S. Securities and Exchange Commission (SEC) (see Regulation S-X, Rule 4-10, Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975).

9. Supersede paragraphs 205-20-45-1 through 45-2 and their related heading, amend paragraph 205-20-45-3 and add its related heading, and add paragraphs 205-20-45-1A through 45-1G and their related headings and 205-20-45-3A through 45-3C, with a link to transition paragraph 205-20-65-1, as follows:

## **Other Presentation Matters**

### **> ~~Reporting Discontinued Operations~~**

**205-20-45-1** Paragraph superseded by Accounting Standards Update 2014-08. The results of operations of a **component of an entity** that either has been disposed of or is classified as held for sale under the requirements of paragraph 360-10-45-9, shall be reported in discontinued operations in accordance with paragraph 205-20-45-3 if both of the following conditions are met:

- a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

### **> What Is a Discontinued Operation?**

**205-20-45-1A** A discontinued operation may include a **component of an entity** or a group of components of an entity, or a **business** or **nonprofit activity**.

### **>> A Discontinued Operation Comprising a Component or a Group of Components of an Entity**

**205-20-45-1B** A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs:

- a. The component of an entity or group of components of an entity meets the criteria in paragraph 205-20-45-1E to be classified as held for sale.
- b. The component of an entity or group of components of an entity is disposed of by sale.
- c. The component of an entity or group of components of an entity is disposed of other than by sale in accordance with paragraph 360-10-45-15 (for example, by abandonment or in a distribution to owners in a spinoff).

**205-20-45-1C** Examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity (see paragraphs 205-20-55-83 through 55-101 for Examples).

### **>> A Discontinued Operation Comprising a Business or Nonprofit Activity**

**205-20-45-1D** A business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held for sale is a discontinued operation.

## **> > Initial Criteria for Classification of Held for Sale**

**205-20-45-1E** A component of an entity or a group of components of an entity, or a business or nonprofit activity (the entity to be sold), shall be classified as held for sale in the period in which all of the following criteria are met:

- a. Management, having the authority to approve the action, commits to a plan to sell the entity to be sold.
- b. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such entities to be sold. (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-42], which illustrate when that criterion would be met.)
- c. An active program to locate a buyer or buyers and other actions required to complete the plan to sell the entity to be sold have been initiated.
- d. The sale of the entity to be sold is {add link to 2<sup>nd</sup> definition}probable{add link to 2<sup>nd</sup> definition}, and transfer of the entity to be sold is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 205-20-45-1G. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.)
- e. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which an entity to be sold is being marketed is indicative of whether the entity currently has the intent and ability to sell the entity to be sold. A market price that is reasonable in relation to fair value indicates that the entity to be sold is available for immediate sale, whereas a market price in excess of fair value indicates that the entity to be sold is not available for immediate sale.
- f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

**205-20-45-1F** If at any time the criteria in paragraph 205-20-45-1E are no longer met (except as permitted by paragraph 205-20-45-1G), an entity to be sold that is classified as held for sale shall be reclassified as held and used and measured in accordance with paragraph 360-10-35-44.

**205-20-45-1G** Events or circumstances beyond an entity's control may extend the period required to complete the sale of an entity to be sold beyond one year. An exception to the one-year requirement in paragraph 205-20-45-1E(d) shall apply in the following situations in which those events or circumstances arise:

- a. If at the date that an entity commits to a plan to sell an entity to be sold, the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the entity to be sold that will extend the period required to complete the sale and both of the following conditions are met:
  1. Actions necessary to respond to those conditions cannot be initiated until after a **firm purchase commitment** is obtained.
  2. A firm purchase commitment is probable within one year. (See Example 9 [paragraph 360-10-55-44], which illustrates that situation.)
- b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of an entity to be sold previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:
  1. Actions necessary to respond to the conditions have been or will be timely initiated.
  2. A favorable resolution of the delaying factors is expected. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)
- c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, an entity to be sold previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:
  1. During the initial one-year period, the entity initiated actions necessary to respond to the change in circumstances.
  2. The entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances.
  3. The criteria in paragraph 205-20-45-1E are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

**205-20-45-2** Paragraph superseded by Accounting Standards Update 2014-08. Examples 1 through 9 (see paragraphs 205-20-55-28 through 55-79) illustrate disposal activities that do or do not qualify for reporting as discontinued operations.

### **> Statement in Which Net Income Is Reported**

**205-20-45-3** ~~In a period in which a component of an entity either has been disposed of or is classified as held for sale, the~~ The statement in which net income statement of a business entity is reported or the statement of activities of a not-for-profit entity (NFP) for current and prior periods shall report the results of operations of the discontinued operation component, including any gain or loss recognized in accordance with paragraph 205-20-45-3C, in the period in which a discontinued operation either has been disposed of or is classified as held for sale. ~~paragraphs 360-10-35-40 and 360-10-40-5, in discontinued operations. The results of operations of a component classified as held for sale shall be reported~~

~~in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items (if applicable). For example, the results of discontinued operations may be reported in the income statement of a business entity as follows.~~

Income from continuing operations before income taxes	\$XXXX	
Income taxes	<u>XXX</u>	
Income from continuing operations <sup>(a)</sup>		\$XXXX
Discontinued operations (Note X)		
Loss from operations of discontinued Component X (including loss on disposal of \$XXX)		XXXX
Income tax benefit		<u>XXXX</u>
Loss on discontinued operations		<u>XXXX</u>
Net income		<u><u>\$XXXX</u></u>

(a) This caption should be modified appropriately when an entity reports an extraordinary item. If applicable, the presentation of per share data will need similar modification.

~~A gain or loss recognized on the disposal shall be disclosed either on the face of the income statement or in the notes to financial statements (see paragraph 205-20-50-1(b)).~~ **[Content amended and moved to paragraphs 205-20-45-3A and 205-20-45-3B]**

**205-20-45-3A** The results of all discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items (if applicable). For example, the results of all discontinued operations may be reported in the income statement where net income of a business entity is reported as follows.

**[Note: For ease of readability, the new table is not underlined.]**

Income from continuing operations before income taxes	\$XXXX	
Income taxes	<u>XXX</u>	
Income from continuing operations <sup>(a)</sup>		\$XXXX
Discontinued operations (Note X)		
Loss from operations of discontinued Component X (including loss on disposal of \$XXX)		XXXX
Income tax benefit		<u>XXXX</u>
Loss on discontinued operations		<u>XXXX</u>
Net income		<u>\$XXXX</u>

(a) This caption should be modified appropriately when an entity reports an extraordinary item. If applicable, the presentation of per-share data will need similar modification.

**[Content amended as shown and moved from paragraph 205-20-45-3]**

**205-20-45-3B** A gain or loss recognized on the disposal (or loss recognized on classification as held for sale) shall be disclosed either presented separately on the face of the income statement where net income is reported or disclosed in the notes to financial statements (see paragraph 205-20-50-1(b)). **[Content amended as shown and moved from paragraph 205-20-45-3]**

**205-20-45-3C** A gain or loss recognized on the disposal (or loss recognized on classification as held for sale) of a discontinued operation shall be calculated in accordance with the guidance in other Subtopics. For example, if a discontinued operation is within the scope of Topic 360 on property, plant, and equipment, an entity shall follow the guidance in paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 for calculating the gain or loss recognized on the disposal (or loss on classification as held for sale) of the discontinued operation.

10. Amend paragraphs 205-20-45-4 through 45-5 and 205-20-45-10 and its related heading and add paragraph 205-20-45-11, with a link to transition paragraph 205-20-65-1, as follows:

**205-20-45-4** Adjustments to amounts previously reported in discontinued operations ~~that are directly related to the disposal of a component of an entity in a prior period~~ shall be presented ~~classified~~ separately in the current period in the discontinued operations section of the statement where net income is reported.

**205-20-45-5** Examples of circumstances in which those types of adjustments may arise include the following:

- a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser
- b. The resolution of contingencies that arise from and that are directly related to the operations of the ~~component prior to~~ discontinued

operation before its disposal, such as environmental and product warranty obligations retained by the seller

- c. The **settlement** of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction. A settlement is directly related to the disposal transaction if there is a demonstrated direct cause-and-effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity's control (see paragraph 205-20-45-1G~~360-10-45-14~~).

### **> Disposal Group Classified as Held for Sale**Statement of Financial Position

**205-20-45-10** ~~The assets and liabilities of a disposal group~~In the period(s) that a discontinued operation is classified as held for sale and for all prior periods presented, the assets and liabilities of the discontinued operation shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. If a discontinued operation is part of a disposal group that includes other assets and liabilities that are not part of the discontinued operation, an entity may present the assets and liabilities of the disposal group separately in the asset and liability sections, respectively, of the statement of financial position. If a discontinued operation is disposed of before meeting the criteria in paragraph 205-20-45-1E to be classified as held for sale, an entity shall present the assets and liabilities of the discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position for the periods presented in the statement of financial position before the period that includes the disposal. When an entity separately presents in prior periods the assets and liabilities of a discontinued operation, the entity shall not apply the guidance in paragraph 360-10-35-43 as if those assets and liabilities were held for sale in those prior periods. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either on the face of the statement of financial position or in the notes to financial statements (see paragraph 205-20-50-1(a)).

**205-20-45-11** For any discontinued operation initially classified as held for sale in the current period, an entity shall either present on the face of the statement of financial position or disclose in the notes to financial statements (see paragraph 205-20-50-5B(e)) the major classes of assets and liabilities of the discontinued operation classified as held for sale for all periods presented in the statement of financial position. Any loss recognized on a discontinued operation classified as held for sale in accordance with paragraphs 205-20-45-3B through 45-3C shall not be allocated to the major classes of assets and liabilities of the discontinued operation.

11. Amend paragraphs 205-20-50-1 and its related heading and 205-20-50-3; supersede paragraphs 205-20-50-2 and its related heading, 205-20-50-4 and

amend its related heading, and 250-20-50-5 and its related heading; and add paragraphs 205-20-50-3A and its related heading and 205-20-50-4A through 50-4B, with a link to transition paragraph 205-20-65-1, as follows:

## Disclosure

### **> Assets Sold or Held for Sale Disclosures Required for All Types of Discontinued Operations**

**205-20-50-1** The following shall be disclosed in the notes to financial statements that cover the period in which a discontinued operation—long-lived asset (disposal group) either has been disposed of or is classified as held for sale under the requirements of paragraph 205-20-45-1E~~360-10-45-9~~:

- a. A description of both of the following:
  1. ~~the~~The facts and circumstances leading to the disposal or expected disposal.
  2. ~~the~~The expected manner and timing of that disposal. ~~disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group~~
- b. If not separately presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) as part of discontinued operations (see paragraph 205-20-45-3B), Thethe gain or loss recognized in accordance with paragraph 205-20-45-3C, paragraphs 360-10-35-40 and 360-10-40-5 and if not separately presented on the face of the income statement, the caption in the income statement or the statement of activities that includes that gain or loss
- c. Subparagraph superseded by Accounting Standards Update 2014-08.~~If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations~~
- d. If applicable, the segment(s)segment in which the discontinued operation long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

### **> Long-Lived Asset or Disposal Group Classified as Held for Sale**

**205-20-50-2** Paragraph superseded by Accounting Standards Update 2014-08. ~~As indicated in paragraph 205-20-45-10, the major classes of assets and liabilities classified as held for sale shall be separately disclosed either on the face of the statement of financial position or in the notes to financial statements (see item a in paragraph 205-20-50-1(a)).~~

### **> Change to a Plan of Sale**

**205-20-50-3** ~~If either~~An entity may change its plan of sale as addressed in paragraphs 360-10-35-44 or 360-10-35-45 applies, paragraph 360-10-

35-45. In the period in which the decision is made to change the plan for selling the discontinued operation, an entity shall disclose in the notes to financial statements a description of the facts and circumstances leading to the decision to change the ~~that plan to sell the long-lived asset (disposal group)~~ and the change's effect on the results of operations for the period and any prior periods presented ~~shall be disclosed in the notes to financial statements that include the period of that decision.~~

### **> > Adjustments to Previously Reported Amounts**

**205-20-50-3A** The nature and amount of adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a ~~component of an entity~~ discontinued operation in a prior period shall be disclosed (see paragraph 205-20-45-5 for examples of circumstances in which those types of adjustments may arise). **[Content amended as shown and moved from paragraph 205-20-50-5]**

### **> Continuing InvolvementCash Flows**

**205-20-50-4** Paragraph superseded by Accounting Standards Update 2014-08. ~~The following information shall be disclosed in the notes to financial statements for each discontinued operation that generates **continuing cash flows**:~~

- ~~a. The nature of the activities that give rise to cash flows~~
- ~~b. The period of time continuing cash flows are expected to be generated~~
- ~~c. The principal factors used to conclude that the expected continuing cash flows are not direct cash flows of the disposed component.~~

**205-20-50-4A** An entity shall disclose information about its significant continuing involvement with a discontinued operation after the disposal date. Examples of continuing involvement with a discontinued operation after the disposal date include a supply and distribution agreement, a financial guarantee, an option to repurchase a discontinued operation, and an equity method investment in the discontinued operation. The disclosures are required until the results of operations of the discontinued operation in which an entity retains significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported (or statement of activities for a not-for-profit entity).

**205-20-50-4B** An entity shall disclose the following in the notes to financial statements for each discontinued operation in which the entity retains significant continuing involvement after the disposal date:

- a. A description of the nature of the activities that give rise to the continuing involvement.
- b. The period of time during which the involvement is expected to continue.
- c. For all periods presented, both of the following:

1. The amount of any cash inflows or outflows from or to the discontinued operation after the disposal transaction
  2. Revenues or expenses presented, if any, in continuing operations after the disposal transaction that before the disposal transaction were eliminated in consolidated financial statements as intra-entity transactions.
- d. For a discontinued operation in which an entity retains an equity method investment after the disposal (the investee), information that enables users of financial statements to compare the financial performance of the entity from period to period assuming that the entity held the same equity method investment in all periods presented in the statement where net income is reported (or statement of activities for a not-for-profit entity). The disclosure shall include all of the following until the discontinued operation is no longer reported separately in discontinued operations:
1. For each period presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) after the period in which the discontinued operation was disposed of, the pretax income of the investee in which the entity retains an equity method investment
  2. The entity's ownership interest in the discontinued operation before the disposal transaction
  3. The entity's ownership interest in the investee after the disposal transaction
  4. The entity's share of the income or loss of the investee in the period(s) after the disposal transaction and the line item in the statement where net income is reported (or statement of activities for a not-for-profit entity) that includes the income or loss.

**> Adjustments to Previously Reported Amounts**

**205-20-50-5** Paragraph superseded by Accounting Standards Update 2014-08. ~~The nature and amount of adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period shall be disclosed. [Content amended and moved to paragraph 205-20-50-3A]~~

12. Add paragraphs 205-20-50-5A through 50-5D and their related heading and 205-20-50-7 and its related heading and supersede paragraph 205-20-50-6 and its related heading, with a link to transition paragraph 205-20-65-1, as follows:

**> Disclosures Required for a Discontinued Operation Comprising a Component or Group of Components of an Entity**

**205-20-50-5A** Paragraphs 205-20-50-5B through 50-5D provide disclosures required for discontinued operations that meet the criteria in paragraphs 205-20-45-1B through 45-1C except for a discontinued operation that was an equity method investment before the disposal. For disclosures required for discontinued

operations that were equity method investments before the disposal, see paragraph 205-20-50-7.

**205-20-50-5B** An entity shall disclose, to the extent not presented on the face of the financial statements as part of discontinued operations, all of the following in the notes to financial statements:

- a. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
- b. The major classes of line items constituting the pretax profit or loss (or change in net assets for a not-for-profit entity) of the discontinued operation (for example, revenue, cost of sales, depreciation and amortization, and interest expense) for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
- c. Either of the following:
  1. The total operating and investing cash flows of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity)
  2. The depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
- d. If the discontinued operation includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
- e. The carrying amount(s) of the major classes of assets and liabilities included as part of a discontinued operation classified as held for sale for the period in which the discontinued operation is classified as held for sale and all prior periods presented in the statement of financial position. Any loss recognized on the discontinued operation classified as held for sale in accordance with paragraphs 205-20-45-3B through 45-3C shall not be allocated to the major classes of assets and liabilities of the discontinued operation.

**205-20-50-5C** If an entity provides the disclosures required by paragraph 205-20-50-5B(a), (b), and (e) in the notes to financial statements, the entity shall disclose the following:

- a. For the initial period in which the **disposal group** is classified as held for sale and for all prior periods presented in the statement of financial position, a reconciliation of both of the following:
  1. The amounts disclosed in paragraph 205-20-50-5B(e)
  2. Total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position. If the disposal group includes assets and liabilities that are not part of the discontinued operation, an entity shall present those assets and liabilities in line items in the reconciliations that are separate from the assets and liabilities of the discontinued operation (see paragraph 205-20-55-102 for an Example).
- b. For the periods in which the results of operations of the discontinued operation are reported in the statement where net income is reported (or statement of activities for a not-for-profit entity), a reconciliation of both of the following:
  1. The amounts disclosed in paragraph 205-20-50-5B(a) and (b)
  2. The after-tax profit or loss from discontinued operations presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) (see paragraph 205-20-55-103 for an Example).

**205-20-50-5D** For purposes of the reconciliation in paragraph 205-20-50-5C(a) or (b), an entity may aggregate the amounts that are not considered major and present them as one line item in the reconciliation.

#### **> Continuing Involvement by Ongoing Entity**

**205-20-50-6** Paragraph superseded by Accounting Standards Update 2014-08. For each discontinued operation in which the ongoing entity will engage in a **continuation of activities** with the disposed component after its disposal and for which the amounts presented in continuing operations after the disposal transaction include a continuation of revenues and expenses that were intra-entity transactions (eliminated in consolidated financial statements) before the disposal transaction, intra-entity amounts before the disposal transaction shall be disclosed for all periods presented. The types of continuing involvement, if any, that the entity will have after the disposal transaction shall be disclosed. That information shall be disclosed in the period in which operations are initially classified as discontinued.

#### **> Disclosures Required for a Discontinued Operation Comprising an Equity Method Investment**

**205-20-50-7** For an equity method investment that meets the criteria in paragraphs 205-20-45-1B through 45-1C, an entity shall disclose summarized information about the assets, liabilities, and results of operations of the investee if that information was disclosed in financial reporting periods before the disposal in accordance with paragraph 323-10-50-3(c).

13. Supersede paragraphs 205-20-55-1 through 55-81 and their related headings and add paragraphs 205-20-55-82 through 55-103 and their related headings, with a link to transition paragraph 205-20-65-1, as follows:

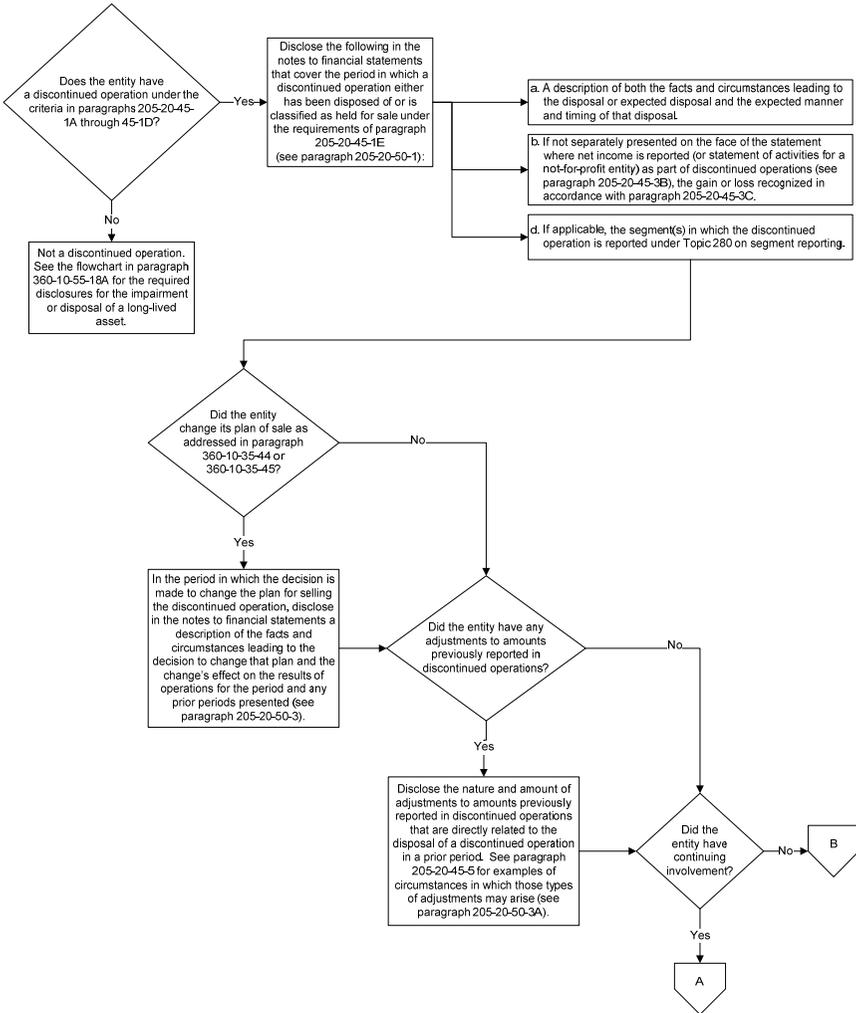
**[Note: For ease of readability, the superseded paragraphs are not shown here.]**

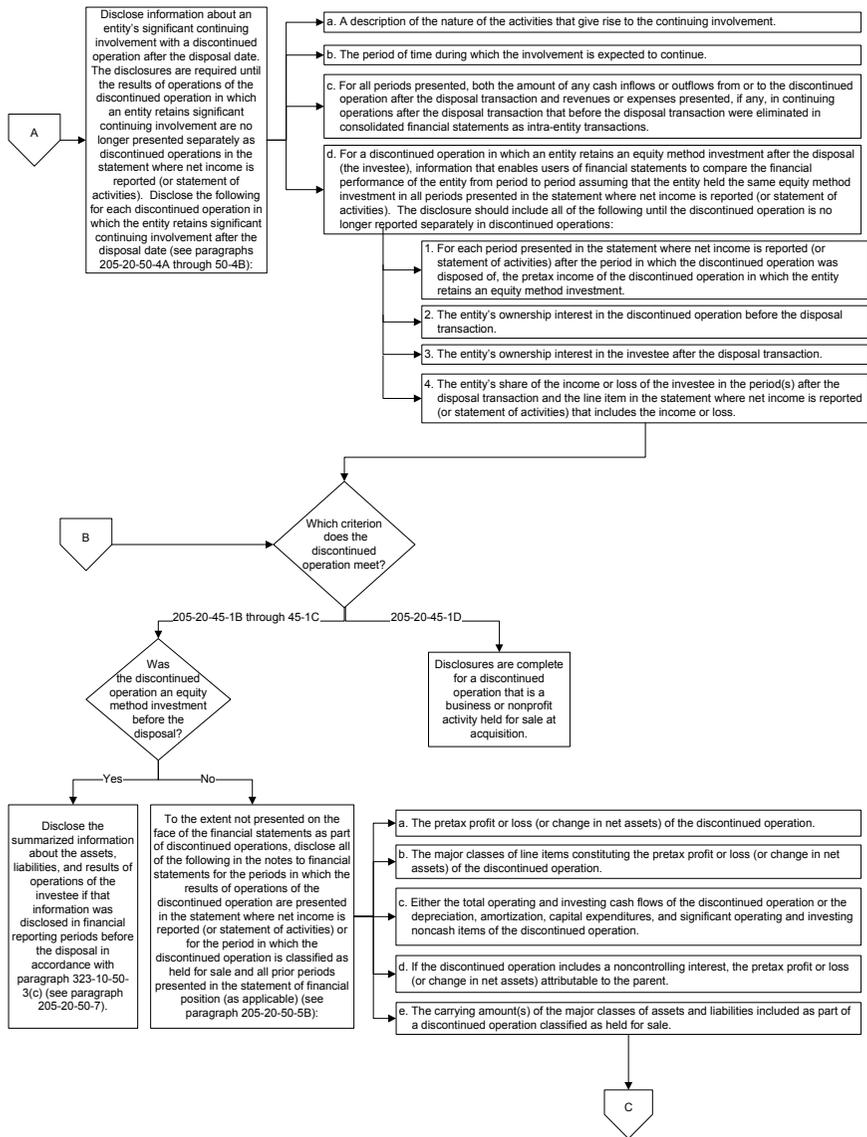
## **Implementation Guidance and Illustrations**

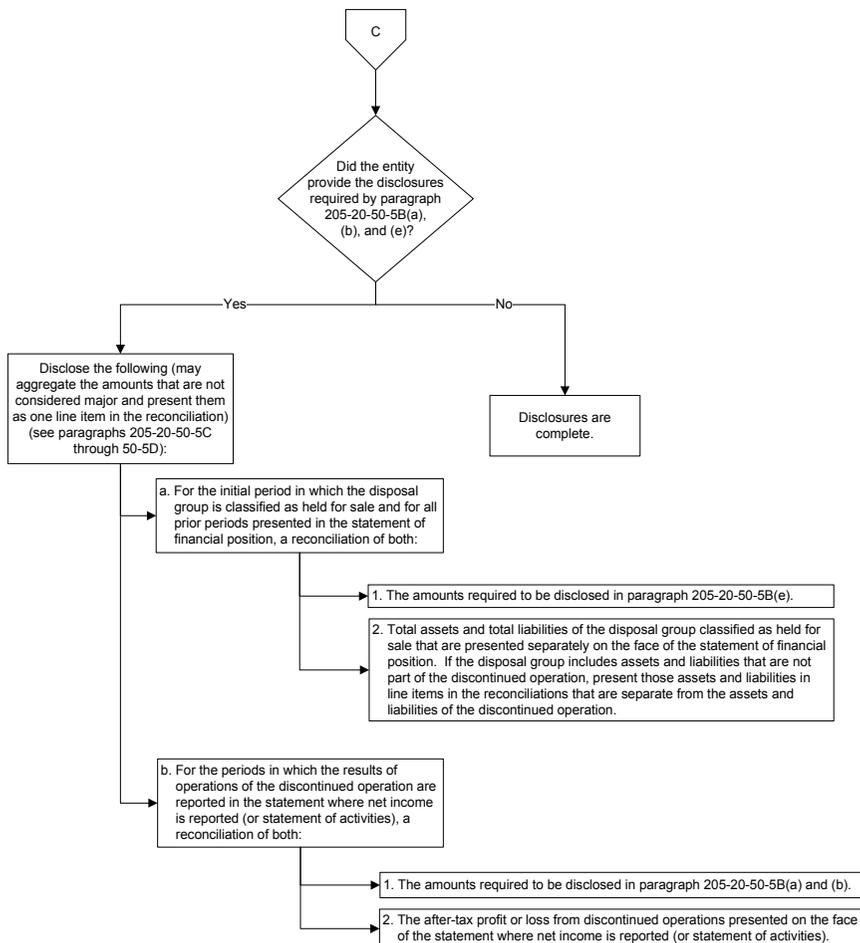
### **> Implementation Guidance**

**205-20-55-82** The following flowchart provides an overview of the disclosures required for discontinued operations.

## Required Disclosures for a Discontinued Operation







## > Illustrations

**205-20-55-83** Examples 1 through 3 provide illustrations of the guidance in paragraphs 205-20-45-1B through 45-1C on disposals of groups of components of an entity representing strategic shifts that have a major effect on the entity's operations and financial results and are reported in discontinued operations.

### >> Example 1: Consumer Products Manufacturer

**205-20-55-84** An entity manufactures and sells consumer products that are grouped into five major product lines. Each product line includes several brands

that comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, for that entity, each major product line includes a group of components of the entity.

**205-20-55-85** The entity has experienced high growth in its discount cleaning product line that has lower price points than its premium cleaning product line. Total revenues from the discount cleaning product line are 15 percent of the entity's total revenues; however, the discount cleaning product line will require significant future investments to increase its profits. Therefore, the entity decides to shift its strategy of selling cleaning products at multiple price points and focus solely on selling cleaning products at a premium price point. As a result, the entity decides to sell the discount cleaning product line.

**205-20-55-86** Because the entity shifts its strategy of offering discount cleaning products to consumers and because the discount cleaning product line is one of five major product lines that is a major part of the entity's operations and financial results, the disposal represents a strategic shift that is reported in discontinued operations.

### **> > Example 2: Processed and Packaged Goods Manufacturer**

**205-20-55-87** An entity manufactures and sells food products that are grouped into five major geographical areas (Europe, Asia, Africa, the Americas, and Oceania). Each major geographical area includes several brands that comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, for that entity, each major geographical area includes a group of components of the entity.

**205-20-55-88** The entity has experienced slower growth in its operations located in the Americas, which accounts for 20 percent of the entity's total assets. Therefore, the entity decides to shift its strategy of selling food products in that geographical area and focus its resources on manufacturing and marketing food products in its other four higher growth geographical areas. As a result, the entity decides to sell its operations in the Americas.

**205-20-55-89** Because the entity's operations in the Americas is one of five major geographical areas that is a major part of the entity's operations and financial results, the disposal represents a strategic shift that is reported in discontinued operations.

### **> > Example 3: General Merchandise Retailer**

**205-20-55-90** An entity that is a general merchandise retailer operates 1,000 retail stores in 2 different store formats—malls and supercenter stores—throughout the United States. The entity divides its stores into five major geographical regions: the Northwest, Southwest, Midwest, Northeast, and Southeast. For that entity, each retail store comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting

purposes, from the rest of the entity. Therefore, for that entity, each retail store is a component of the entity.

**205-20-55-91** The entity has experienced declining net income at its 200 stores located in malls across all 5 major geographical regions. Historically, net income from the 200 stores in malls has been in a range of 30 to 40 percent of the entity's total net income. Total net income from the 200 stores in malls is down to 15 percent of the entity's total net income because of declining customer traffic in malls. Therefore, the entity decides to shift its strategy of selling products in malls and sell the 200 stores located in malls.

**205-20-55-92** Because the entity decides to shift its strategy of selling products in malls and focus solely on its supercenter stores and because the 200 stores located in malls are a major part of the entity's operations and financial results, the disposal represents a strategic shift that is reported in discontinued operations.

#### **> > Example 4: Oil and Gas Entity**

**205-20-55-93** This Example provides an illustration of the guidance in paragraphs 205-20-45-1B through 45-1C. In this Example, the entity disposes of a component of an entity that is an equity method investment representing a strategic shift that has a major effect on the entity's operations and financial results and is reported in discontinued operations.

**205-20-55-94** An entity that follows the successful-efforts method of accounting produces oil and gas in two major geographical areas (Europe and Africa) that are each divided into several regions. Each region comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, for that entity, each major geographical area includes a group of components of the entity.

**205-20-55-95** In its operations located in Africa, the entity operates through a joint venture with another entity that is accounted for by the reporting entity as an equity method investment. The entity's carrying amount of its investment in the joint venture is 20 percent of the entity's total assets. Because of significant investments needed in its operations in Europe, the entity decides to shift its strategy of operating in Africa to focus on its operations in Europe and sell its stake in the joint venture.

**205-20-55-96** Because the entity shifts its strategy of operating a joint venture to focus on its operations in Europe where it maintains full control and because its operations in Africa are a major part of the entity's operations and financial results, its disposal represents a strategic shift that is reported in discontinued operations.

### **> > Example 5: Sports Equipment Manufacturer**

**205-20-55-97** This Example provides an illustration of the guidance in paragraphs 205-20-45-1B through 45-1C. In this Example, the entity sells 80 percent of a group of components of an entity representing a strategic shift that has a major effect on the entity's operations and financial results and is reported in discontinued operations.

**205-20-55-98** An entity that manufactures and sells sports equipment has two product lines that serve the football and baseball markets. Each product line includes several different brands that each comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, for that entity, each product line includes a group of components of the entity.

**205-20-55-99** The entity decides to shift its strategy of trying to sell products to the baseball equipment market, which accounts for 40 percent of its revenues, and focus more on serving its customers in the football equipment market. However, the entity decides to retain some exposure to the baseball equipment market by selling only 80 percent of the group of components in its product line that serves the baseball market to another entity.

**205-20-55-100** Because the entity decides to shift its strategy of trying to sell products to the baseball equipment market by selling 80 percent of the group of components of the entity in that product line and because the portion sold comprises a major part of the entity's operations and financial results, its disposal represents a strategic shift that is reported in discontinued operations.

**205-20-55-101** Because of the entity's significant continuing involvement after the disposal date, the entity provides the disclosures required by paragraphs 205-20-50-4A through 50-4B.

### **> > Reconciliation of the Carrying Amounts of Major Classes of Assets and Liabilities of Discontinued Operations to Total Assets and Liabilities Classified as Held for Sale**

**205-20-55-102** The table in this illustration provides one example of how to disclose the reconciliation required by paragraph 205-20-50-5C(a).

**[For ease of readability, the new table is not underlined.]**

**Reconciliation of the Carrying Amounts of Major Classes of Assets and Liabilities  
of the Discontinued Operation That Are Disclosed in the Notes to Financial Statements  
to Total Assets and Liabilities of the Disposal Group Classified as Held for Sale  
That Are Presented Separately in the Statement of Financial Position  
(in thousands of currency units)**

	<b>20X4</b>	<b>20X3</b>
Carrying amounts of major classes of assets included as part of discontinued operations		
Cash	\$ XX	\$ XX
Trade receivables	XX	XX
Inventories	XX	XX
Property, plant, and equipment	XX	XX
Other classes of assets that are not major	XX	XX
Total major classes of assets of the discontinued operation	XX	XX
Other assets included in the disposal group classified as held for sale	XX	XX
Total assets of the disposal group classified as held for sale in the statement of financial position	\$ XX	\$ XX
Carrying amounts of major classes of liabilities included as part of discontinued operations		
Trade payables	\$ XX	\$ XX
Short-term borrowings	XX	XX
Other classes of liabilities that are not major	XX	XX
Total major classes of liabilities of the discontinued operation	XX	XX
Other liabilities included in the disposal group classified as held for sale	XX	XX
Total liabilities of the disposal group classified as held for sale in the statement of financial position	\$ XX	\$ XX

**> > Reconciliation of the Major Classes of Line Items Constituting Pretax Profit or Loss of Discontinued Operations to After-Tax Profit or Loss Reported in Discontinued Operations**

**205-20-55-103** The table in this illustration provides one example of how to disclose the reconciliation required by paragraph 205-20-50-5C(b).

**[For ease of readability, the new table is not underlined.]**

**Reconciliation of the Major Classes of Line Items Constituting Pretax Profit (Loss) of Discontinued Operations That Are Disclosed in the Notes to Financial Statements to the After-Tax Profit or Loss of Discontinued Operations That Are Presented in the Statement Where Net Income Is Presented**  
(in thousands of currency units)

	<b>20X4</b>	<b>20X3</b>
Major classes of line items constituting pretax profit (loss) of discontinued operations		
Revenue	\$ XX	\$ XX
Cost of sales	(XX)	(XX)
Selling, general, and administrative expenses	(XX)	(XX)
Interest expense	(XX)	(XX)
Other income and expense items that are not major	(XX)	(XX)
Pretax profit or loss of discontinued operations related to major classes of pretax profit (loss)	XX	XX
Pretax gain or loss on the disposal of the discontinued operation	XX	XX
Total pretax gain or loss on discontinued operations	XX	XX
Income tax expense or benefit	XX	XX
Total profit or loss on discontinued operations that is presented in the statement where net income is presented	\$ XX	\$ XX

## Amendments to Subtopic 230-10

14. Amend paragraph 230-10-45-24 and add paragraph 230-10-45-24A, with a link to transition paragraph 205-20-65-1, as follows:

### Statement of Cash Flows—Overall

#### Other Presentation Matters

##### > > Reporting Operating, Investing, and Financing Activities

**230-10-45-24** A statement of cash flows for a period shall report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents. Separate disclosure of cash flows pertaining to extraordinary items ~~or discontinued operations~~—reflected in those categories is not required. ~~An entity that nevertheless chooses to report separately operating cash flows of discontinued operations shall do so consistently for all periods affected, which may include periods long after sale or liquidation of the operation.~~

**230-10-45-24A** For cash flow disclosures related to a discontinued operation, see paragraph 205-20-50-5B(c).

## Amendments to Subtopic 270-10

15. Amend paragraph 270-10-50-7, with a link to transition paragraph 205-20-65-1, as follows:

### Interim Reporting—Overall

#### Disclosure

##### > Guidance Related to Disclosure of Other Topics at Interim Dates

**270-10-50-7** The following may not represent all references to interim disclosure:

- a. For business combinations and combinations accounted for by **not-for-profit entities**, see Sections 805-10-50, 805-20-50, 805-30-50, 805-740-50, and 958-805-50.
- b. For compensation-related costs, see paragraphs 715-60-50-3 and 715-60-50-6.
- c. For disclosures required for entities with oil- and gas-producing activities, see paragraph 932-270-50-1.
- d. For disclosures related to prior interim periods of the current fiscal year, see paragraph 250-10-50-11.
- e. For fair value requirements, see Section 820-10-50.
- f. For guarantors, see Section 460-10-50.
- g. For pensions and other postretirement benefits, see paragraphs 715-20-50-6 through 50-7.
- h. For reportable segments, see paragraphs 280-10-50-39 and 280-10-55-16.
- i. For suspended well costs and interim reporting, see Section 932-235-50.
- j. For applicability of disclosure requirements related to risks and uncertainties, see paragraph 275-10-15-3.
- k. For discontinued operations, see paragraphs 205-20-50-1 through 50-7.
- l. For disposals of individually significant components of an entity, see paragraph 360-10-50-3A.

## Amendments to Subtopic 280-10

16. Amend paragraph 280-10-55-7, with a link to transition paragraph 205-20-65-1, as follows:

## Segment Reporting—Overall

### Implementation Guidance and Illustrations

#### > > Operating Segments—Discontinued Operations

~~280-10-55-7 The Impairment or Disposal of Long-Lived Assets Subsections of Section 360-10 provides the reporting and financial statement disclosure requirements for a component of a public entity that is reported as a discontinued operation. If that component is a reportable segment, If a reportable segment meets the conditions in paragraphs 205-20-45-1A through 45-1G to be reported in discontinued operations, an entity is not required to also disclose the information required by this Subtopic. Paragraph 280-10-55-19 addresses whether there is a need to restate previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.~~

### Amendments to Subtopic 360-10

17. Amend paragraphs 360-10-05-4 through 05-5, with a link to transition paragraph 205-20-65-1, as follows:

## Property, Plant, and Equipment—Overall

### Overview and Background

#### Impairment or Disposal of Long-Lived Assets

**360-10-05-4** The Impairment or Disposal of Long-Lived Assets Subsections provide guidance for:

- a. Recognition and measurement of the **impairment** of long-lived assets to be held and used
- b. Measurement of long-lived assets to be disposed of by sale
- c. Disclosures about the impairment or disposal of long-lived assets and disposals of individually significant **components of an entity**.

**360-10-05-5** For long-lived assets disposed of or classified as held for sale, different presentation and disclosures are required depending on the nature of the disposal. If the long-lived assets are a significant component of an entity, more extensive disclosures are required. Additionally, if the component of an entity meets the definition of discontinued operation in paragraph 205-20-45-1B, an entity shall refer to Subtopic 205-20 for the presentation and disclosure requirements for discontinued operations (see the flowchart in paragraph 360-10-55-18A for an illustration). ~~The guidance in Subtopic 205-20 requires entities to~~

~~report discontinued operations separately from continuing operations, and extends that reporting to a **component of an entity** that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale.~~

18. Amend paragraphs 360-10-45-3, 360-10-45-5, and 360-10-45-14 through 45-15, with a link to transition paragraph 205-20-65-1, as follows:

## **Other Presentation Matters**

### **Impairment or Disposal of Long-Lived Assets**

**360-10-45-3** See paragraphs ~~205-20-45-1A through 45-11~~~~205-20-45-1 through 45-5 and 205-20-50-5~~ for guidance on the presentation of operations of a ~~discontinued operation~~**component of an entity** that has been disposed of or is classified as held for sale as discontinued operations.

#### **> > Presentation of Disposal Gains or Losses in Continuing Operations**

**360-10-45-5** A gain or loss recognized on the sale of a long-lived asset (**disposal group**) that is not a ~~discontinued operation~~**component of an entity** shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

#### **> Long-Lived Assets Classified as Held for Sale**

##### **> > Initial Criteria for Classification as Held for Sale**

**360-10-45-9** A long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met:

- a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
- b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups). (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-41], which illustrate when that criterion would be met.)
- c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
- d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a

completed sale, within one year, except as permitted by paragraph 360-10-45-11. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.) The term **probable** refers to a future sale that is likely to occur.

- e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which a long-lived asset (disposal group) is being marketed is indicative of whether the entity currently has the intent and ability to sell the asset (disposal group). A market price that is reasonable in relation to fair value indicates that the asset (disposal group) is available for immediate sale, whereas a market price in excess of fair value indicates that the asset (disposal group) is not available for immediate sale.
- f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

**360-10-45-11** Events or circumstances beyond an entity's control may extend the period required to complete the sale of a long-lived asset (disposal group) beyond one year. An exception to the one-year requirement in paragraph 360-10-45-9(d) shall apply in the following situations in which such events or circumstances arise:

- a. If at the date an entity commits to a plan to sell a long-lived asset (disposal group) the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (group) that will extend the period required to complete the sale and both of the following conditions are met:
  - 1. Actions necessary to respond to those conditions cannot be initiated until after a **firm purchase commitment** is obtained.
  - 2. A firm purchase commitment is probable within one year. (See Example 9 [paragraph 360-10-55-44], which illustrates that situation.)
- b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a long-lived asset (disposal group) previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:
  - 1. Actions necessary to respond to the conditions have been or will be timely initiated.
  - 2. A favorable resolution of the delaying factors is expected. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)
- c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, a long-lived asset (disposal group) previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:

1. During the initial one-year period the entity initiated actions necessary to respond to the change in circumstances.
2. The asset (group) is being actively marketed at a price that is reasonable given the change in circumstances.
3. The criteria in paragraph 360-10-45-9 are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

**> > Presentation of Long-Lived Assets or Disposal Group Classified as Held for Sale**

**360-10-45-14** A long-lived asset classified as held for sale (but not qualifying for presentation as a discontinued operation in the statement of financial position in accordance with paragraph 205-20-45-10) shall be presented separately in the statement of financial position of the current period. The assets and liabilities of a disposal group classified as held for sale shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately presented on the face of the statement of financial position or disclosed in the notes to financial statements (see paragraph 360-10-50-3(e)).~~The presentation requirements in paragraph 205-20-45-10 are also applicable to long-lived assets (disposal groups) within the scope of this Subtopic.~~

**> Long-Lived Assets to Be Disposed of Other Than by Sale**

**> > Presentation of Long-Lived Assets to Be Disposed of Other Than by Sale**

**360-10-45-15** A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35, 360-10-45, and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group meets the conditions in a component of an entity, paragraphs 205-20-45-1A through 45-1C to be reported in discontinued operations, paragraphs 205-20-45-3205-20-45-4 through 45-5 and 205-20-50-5 shall apply to the disposal group at the date it is disposed of.

19. Amend paragraph 360-10-50-3 and add its related heading and add paragraph 360-10-50-3A, with a link to transition paragraph 205-20-65-1, as follows:

## Disclosure

### Impairment or Disposal of Long-Lived Assets

#### > Long-Lived Assets Classified as Held for Sale or Disposed Of

**360-10-50-3** ~~The disclosure requirements presented in paragraph 205-20-50-4 are also applicable to long-lived assets (disposal groups) within the scope of this Subtopic. For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:~~

- a. A description of the facts and circumstances leading to the disposal or the expected disposal.
- b. The expected manner and timing of that disposal.
- c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.
- d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.
- e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.
- f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

**360-10-50-3A** In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant **component of an entity** that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations), a **public business entity** and a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market shall disclose the information in (a). All other entities shall disclose the information in (b).

- a. For a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, both of the following:

1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) calculated in accordance with paragraphs 205-20-45-6 through 45-9
  2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).
- b. For all other entities, both of the following:
1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9
  2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

20. Add paragraph 360-10-55-18A and its related heading, with a link to transition paragraph 205-20-65-1, as follows:

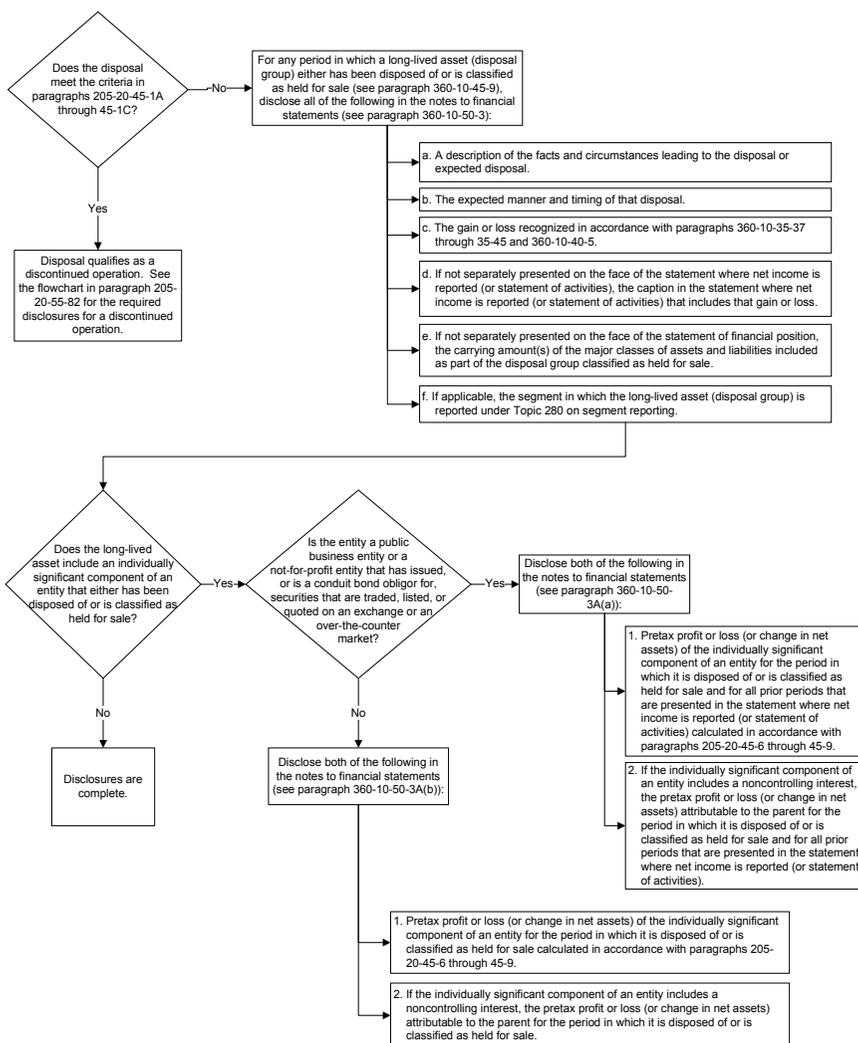
## **Implementation Guidance and Illustrations**

### **Impairment or Disposal of Long-Lived Assets**

#### **>> Disposal Disclosure Requirements**

**360-10-55-18A** The following flowchart provides an overview of the disclosures required for disposals of long-lived assets and individually significant components of an entity that do not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations).

## Required Disclosures for the Disposal of an Asset and Component of an Entity



## Amendments to Subtopic 505-60

21. Amend paragraph 505-60-45-1, with a link to transition paragraph 205-20-65-1, as follows:

### **Equity—Spinoffs and Reverse Spinoffs**

#### **Other Presentation Matters**

**505-60-45-1** The determination of the accounting spinor and spinnee under the requirements of paragraph 505-60-25-8 may have significant implications with regard to the reporting of discontinued operations in accordance with Subtopic 205-20. That is, the accounting spinnee shall be reported as a discontinued operation by the accounting spinor if the spinnee is a discontinued operation component of an entity and meets the conditions for such reporting contained in ~~paragraph 205-20-45-1~~ paragraphs 205-20-45-1A through 45-1C.

## Amendments to Subtopic 715-30

22. Amend paragraphs 715-30-55-195 through 55-196, 715-30-55-242, and 715-30-55-248, with a link to transition paragraph 205-20-65-1, as follows:

### **Compensation—Retirement Benefits—Defined Benefit Plans—Pension**

#### **Implementation Guidance and Illustrations**

##### **Settlements, Curtailments, and Certain Termination Benefits**

**715-30-55-195** A settlement or a curtailment may occur as a direct result of a disposal of a component of an entity or a business or nonprofit activity. Paragraph 715-30-35-94 requires that a curtailment loss be recognized in earnings when it is probable that the curtailment will occur and related amounts are reasonably estimable. Therefore, although a reporting entity may not have satisfied all the criteria in ~~paragraph 205-20-45-1~~ paragraphs 205-20-45-1A through 45-1D necessary to classify the operations of the component or business or nonprofit activity as discontinued operations, a curtailment loss (determined in accordance with paragraphs 715-30-35-92 ~~and through~~ 35-93) shall be recognized if it is probable that the disposal will occur and the amount of the curtailment loss is reasonably estimable. ~~Further~~ Furthermore, paragraph 715-30-35-94 requires that a curtailment gain be recognized in earnings when the related employees terminate or the plan suspension or amendment is adopted. The curtailment gain or loss shall be classified in income from continuing operations until the reporting entity satisfies those criteria in ~~paragraph 205-20-45-1~~ paragraphs 205-20-45-1A through 45-1D for reporting discontinued operations.

**715-30-55-196** A settlement gain or loss is recognized in earnings at the time that the settlement occurs. If a pension obligation associated with the disposal group is settled upon or after meeting the criteria for reporting discontinued operations in ~~paragraph 205-20-45-1~~paragraphs 205-20-45-1A through 45-1D, the related gain or loss (determined in accordance with paragraph 715-30-35-79) shall be recognized in earnings in the period in which the settlement occurs and classified in discontinued operations provided that the settlement is directly related to the disposal transaction.

**715-30-55-242** During the second quarter of 20X2, the employer determines that it is probable that it will sell a component of the entity. The employer estimates that the sale will occur by year-end. However, all the criteria ~~under paragraph 205-20-45-1~~in paragraphs 205-20-45-1A through 45-1D necessary to report discontinued operations are not satisfied during the second quarter. The employer estimates that the prior service cost included in accumulated other comprehensive income related to the pension plan amendment of January 1, 20X1, and associated with the previously expected years of service of the terminated employees that will not be rendered is a loss of \$160,000. That estimate needs no revision on December 31, 20X2.

**715-30-55-248** Because the employer determined in the second quarter of 20X2 that it was probable that the component would be sold, the curtailment loss should be recognized in earnings in that quarter. However, because the employer had not satisfied all the criteria ~~under paragraph 205-20-45-1~~in paragraphs 205-20-45-1A through 45-1D for reporting discontinued operations in that quarter, the curtailment loss would be reclassified to discontinued operations as part of restating the second quarter. Appropriate disclosures should be made regarding the plan curtailment in accordance with Section 715-20-50 on defined benefit plans. The following table presents the determination of the effects of the curtailment.

Table 1 - The Curtailment (in thousands)

	<u>Before Sale</u>	<u>Curtailment-Related Effects Resulting from Sale</u>	<u>After Curtailment</u>
Assets and obligations:			
Accumulated benefit obligation	\$ (1,500)		\$ (1,500)
Effect of future compensation levels	<u>(500)</u>	\$ 75 <sup>(a)</sup>	<u>(425)</u>
Projected benefit obligation	(2,000)	75	(1,925)
Plan assets at fair value	2,400		2,400
Funded status and recognized asset	<u>\$ 400</u>	<u>\$ 75</u>	<u>\$ 475</u>
Amounts recognized in accumulated other comprehensive income:			
Transition asset	\$ (790)		\$ (790)
Prior service cost	651	\$ (160) <sup>(b)</sup>	491
Net gain	<u>(261)</u>		<u>(261)</u>
	<u>\$ (400)</u>	<u>\$ (160)</u> <sup>(c)</sup>	<u>\$ (560)</u>

(a) Paragraph 715-30-35-94 requires that any curtailment gain be first offset against any existing loss included in other comprehensive income. Because that existing amount is a gain of \$1,051 (\$261 net gain included in accumulated other comprehensive income plus the \$790 transition asset remaining in accumulated other comprehensive income), the \$75 gain from the curtailment is recognized in earnings.

(b) The reduction of prior service cost included in accumulated other comprehensive income (which relates to the pension plan amendment of January 1, 20X1) associated with the previously expected years of service of the terminated employees that will not be rendered is \$160.

(c) The journal entry to account for the curtailment follows.

Loss from curtailment	\$	85	
Pension asset		75	
Other comprehensive income—prior service cost			\$ 160

## Amendments to Subtopic 740-30

23. Amend paragraph 740-30-25-10, with a link to transition paragraph 205-20-65-1, as follows:

### Income Taxes—Other Considerations or Special Areas

#### Recognition

**740-30-25-10** For example, if an entity decides to sell a subsidiary that meets the requirements of ~~paragraph 205-20-45-1~~ paragraphs 205-20-45-1A through 45-1D for measurement and display as a discontinued operation and the parent entity's tax basis in the stock of the subsidiary (outside tax basis) exceeds the financial reporting amount of the investment in the subsidiary, the decision to sell the subsidiary makes it apparent that the **deductible temporary difference** will reverse in the foreseeable future. Assuming in this example that it is more likely than not that the deferred tax asset will be realized, the tax **benefit** for the excess

of outside tax basis over financial reporting basis shall be recognized when it is apparent that the temporary difference will reverse in the foreseeable future. The same criterion shall apply for the recognition of a deferred tax liability related to an excess of financial reporting basis over outside tax basis of an investment in a subsidiary that was previously not recognized under the provisions of paragraph 740-30-25-18.

## Amendments to Subtopic 740-270

24. Amend paragraphs 740-270-45-7 through 45-8, with a link to transition paragraph 205-20-65-1, as follows:

### Income Taxes—Interim Reporting

#### Other Presentation Matters

**740-270-45-7** When an entity reports discontinued operations, the computations described in paragraphs 740-270-25-12 through 25-14, 740-270-30-11 through 30-13, and 740-270-45-2 through 45-3 shall be the basis for the tax (or benefit) related to the income (or loss) from operations of the discontinued operation component before the date on which the criteria in paragraph 205-20-45-1E360-10-45-9 are met. ~~The term *discontinued component* refers to the disposal of a **component of an entity**.~~

**740-270-45-8** Income (or loss) from operations of the discontinued operation component, prior to the interim period in which the date on which the criteria in paragraph 205-20-45-1E360-10-45-9 are met occurs, will have been included in **ordinary income (or loss)** of prior periods and thus will have been included in the estimated annual effective tax rate and tax (or benefit) calculations described in Sections 740-270-30 and 740-270-35 applicable to ordinary income. The total tax (or benefit) provided in the prior interim periods shall not be recomputed but shall be divided into two components, applicable to the remaining ordinary income (or loss) and to the income (or loss) from operations of the discontinued operation component as follows. A revised estimated annual effective tax rate and resulting tax (or benefit) shall be computed, in accordance with Sections 740-270-30 and 740-270-35 applicable to ordinary income, for the remaining ordinary income (or loss), ~~based on the basis of the estimates~~ applicable to such operations used in the original calculations for each prior interim period. The tax (or benefit) related to the operations of the discontinued operation component shall be the total of:

- a. The difference between the tax (or benefit) originally computed for ordinary income (or loss) and the recomputed amount for the remaining ordinary income (or loss)
- b. The tax computed in accordance with paragraphs 740-270-25-12 through 25-14; 740-270-30-11 through 30-13; and 740-270-45-2

through 45-3 for any unusual or infrequently occurring items of the discontinued operation~~component~~.

See Example 4 (paragraph 740-270-55-29) for an illustration of accounting for income taxes applicable to income (or loss) from discontinued operations at an interim date.

## Amendments to Subtopic 958-225

25. Amend paragraph 958-225-55-7, with a link to transition paragraph 205-20-65-1, as follows:

### Not-for-Profit Entities—Income Statement

#### Implementation Guidance and Illustrations

##### > > Example 2: Extraordinary Items and Discontinued Operations

**958-225-55-7** This Example illustrates the application of paragraph 958-205-45-5, as generally accepted accounting principles (GAAP) requires the display of an appropriately labeled subtotal for change in a class of net assets before the effects of an extraordinary item (see Subtopic 225-20 on extraordinary and unusual items) or a discontinued operation~~the discontinuance of a component of an entity~~ (see ~~paragraph 205-20-45-4~~ paragraphs 205-20-45-1A through 45-1D). For instance, using the columnar Format B of paragraph 958-205-55-14, a statement of activities would report the effects of an extraordinary item as follows.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Change in net assets before extraordinary items	\$ 11,558	\$ (1,128)	\$ 5,020	\$ 15,450
Extraordinary items (Note X)	XXX	XXX	XXX	XXX
Change in net assets	<u>\$ XX,XXX</u>	<u>\$ (X,XXX)</u>	<u>\$ X,XXX</u>	<u>\$ XX,XXX</u>

26. Add paragraph 205-20-65-1 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity**

**205-20-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*:

- a. A public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market shall apply the pending content that links to this paragraph prospectively to both of the following:
1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years.
  2. All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years.
- b. All other entities shall apply the pending content that links to this paragraph prospectively to both of the following:
1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015.
  2. All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015.
- c. An entity shall not apply the pending content that links to this paragraph to a component of an entity, or a business or nonprofit activity, that is classified as held for sale before the effective date even if the component of an entity, or business or nonprofit activity, is disposed of after the effective date.
- d. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.

## Amendments to Status Sections

27. Amend paragraph 205-10-00-1, by adding the following items to the table, as follows:

**205-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Business</b>	Added	2014-08	04/10/2014
<b>Nonprofit Activity</b>	Added	2014-08	04/10/2014
205-10-05-3	Amended	2014-08	04/10/2014

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
205-10-05-3A	Added	2014-08	04/10/2014

28. Amend paragraph 205-20-00-1 as follows:

**205-20-00-1** ~~No updates have been made to this subtopic.~~The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Business</b>	Added	2014-08	04/10/2014
<b>Commodity</b>	Superseded	2014-08	04/10/2014
<b>Continuation of Activities</b>	Superseded	2014-08	04/10/2014
<b>Continuing Cash Flows</b>	Superseded	2014-08	04/10/2014
<b>Disposal Group</b>	Amended	2014-08	04/10/2014
<b>Firm Purchase Commitment</b>	Added	2014-08	04/10/2014
<b>Migration</b>	Superseded	2014-08	04/10/2014
<b>Nonprofit Activity</b>	Added	2014-08	04/10/2014
<b>Not-for-Profit Entity</b>	Added	2014-08	04/10/2014
<b>Probable (2<sup>nd</sup> def.)</b>	Added	2014-08	04/10/2014
<b>Public Business Entity</b>	Added	2014-08	04/10/2014
205-20-05-1	Amended	2014-08	04/10/2014
205-20-05-2	Added	2014-08	04/10/2014
205-20-15-1	Amended	2014-08	04/10/2014
205-20-15-2	Amended	2014-08	04/10/2014
205-20-15-3	Added	2014-08	04/10/2014
205-20-45-1	Superseded	2014-08	04/10/2014
205-20-45-1A through 45-1G	Added	2014-08	04/10/2014
205-20-45-2	Superseded	2014-08	04/10/2014
205-20-45-3	Amended	2014-08	04/10/2014
205-20-45-3A through 45-3C	Added	2014-08	04/10/2014
205-20-45-4	Amended	2014-08	04/10/2014

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
205-20-45-5	Amended	2014-08	04/10/2014
205-20-45-10	Amended	2014-08	04/10/2014
205-20-45-11	Added	2014-08	04/10/2014
205-20-50-1	Amended	2014-08	04/10/2014
205-20-50-2	Superseded	2014-08	04/10/2014
205-20-50-3	Amended	2014-08	04/10/2014
205-20-50-3A	Added	2014-08	04/10/2014
205-20-50-4	Superseded	2014-08	04/10/2014
205-20-50-4A	Added	2014-08	04/10/2014
205-20-50-4B	Added	2014-08	04/10/2014
205-20-50-5	Superseded	2014-08	04/10/2014
205-20-50-5A through 50-5D	Added	2014-08	04/10/2014
205-20-50-6	Superseded	2014-08	04/10/2014
205-20-50-7	Added	2014-08	04/10/2014
205-20-55-1 through 55-81	Superseded	2014-08	04/10/2014
205-20-55-82 through 55-103	Added	2014-08	04/10/2014
205-20-65-1	Added	2014-08	04/10/2014

29. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

**230-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
230-10-45-24	Amended	2014-08	04/10/2014
230-10-45-24A	Added	2014-08	04/10/2014

30. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

**270-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
270-10-50-7	Amended	2014-08	04/10/2014

31. Amend paragraph 280-10-00-1, by adding the following item to the table, as follows:

**280-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
280-10-55-7	Amended	2014-08	04/10/2014

32. Amend paragraph 360-10-00-1, by adding the following items to the table, as follows:

**360-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Disposal Group</b>	Amended	2014-08	04/10/2014
<b>Not-for-Profit Entity</b>	Added	2014-08	04/10/2014
<b>Public Business Entity</b>	Added	2014-08	04/10/2014
360-10-05-4	Amended	2014-08	04/10/2014
360-10-05-5	Amended	2014-08	04/10/2014
360-10-45-3	Amended	2014-08	04/10/2014
360-10-45-5	Amended	2014-08	04/10/2014
360-10-45-14	Amended	2014-08	04/10/2014
360-10-45-15	Amended	2014-08	04/10/2014
360-10-50-3	Amended	2014-08	04/10/2014
360-10-50-3A	Added	2014-08	04/10/2014
360-10-55-18A	Added	2014-08	04/10/2014

33. Add paragraph 505-60-00-1 as follows:

**505-60-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
505-60-45-1	Amended	2014-08	04/10/2014

34. Amend paragraph 715-30-00-1, by adding the following items to the table, as follows:

**715-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
715-30-55-195	Amended	2014-08	04/10/2014
715-30-55-196	Amended	2014-08	04/10/2014
715-30-55-242	Amended	2014-08	04/10/2014
715-30-55-248	Amended	2014-08	04/10/2014

35. Amend paragraph 740-30-00-1, by adding the following item to the table, as follows:

**740-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
740-30-25-10	Amended	2014-08	04/10/2014

36. Add paragraph 740-270-00-1 as follows:

**740-270-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Component of an Entity</b>	Superseded	2014-08	04/10/2014
740-270-45-7	Amended	2014-08	04/10/2014

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
740-270-45-8	Amended	2014-08	04/10/2014

37. Amend paragraph 958-225-00-1, by adding the following items to the table, as follows:

**958-225-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Disposal Group</b>	Amended	2014-08	04/10/2014
958-225-55-7	Amended	2014-08	04/10/2014

*The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Daryl E. Buck  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. Some stakeholders told the Board that under current guidance too many disposals of assets qualify for discontinued operations presentation, resulting in financial statements that are less decision useful for users and higher costs for preparers. Additionally, some users of financial statements stated that too many disposals of small groups of assets that are recurring in nature are classified as discontinued operations. Those users agree that a disposal activity should be presented in discontinued operations only when an entity has made a strategic shift in its operations.

BC3. The objective of the discontinued operations project is to develop an improved definition of discontinued operation that also enhances convergence of U.S. GAAP and IFRS. Additionally, the amendments in this Update require enhanced disclosures about discontinued operations and individually significant components of an entity that have been (or will be) disposed.

BC4. On September 25, 2008, the FASB issued proposed FASB Staff Position (FSP) FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*, which proposed amendments to FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, for a 120-day comment period. The comment period ended on January 23, 2009.

BC5. The Board redeliberated that proposed FSP and agreed to issue a revised Exposure Draft in April 2010. However, the Board decided to delay issuance of the revised Exposure Draft to focus its efforts on other projects. In November 2012, the Board decided to resume work on the project, which led to the issuance of proposed Accounting Standards Update, *Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations*, on April 2, 2013, with a 150-day comment period. The Board received 45 comment letters.

## Definition of Discontinued Operation

### Definition in the 2008 Proposed FSP

BC6. The 2008 proposed FSP defined *discontinued operation* as a component of an entity that is either of the following:

- a. An *operating segment* (as that term is defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*) that either has been disposed of or is classified as held for sale
- b. A *business* (as that term is defined in FASB Statement No. 141 [revised 2007], *Business Combinations*) that meets the criteria to be classified as held for sale on acquisition.

BC7. One of the reasons that the Board decided to use the term *operating segment* in that definition was that certain preparers of financial statements had stated that the definition of *discontinued operation* in Statement 144 resulted in too many activities being classified as discontinued operations in the statement where net income is reported. Although that conclusion is different from the conclusion reached in Statement 144, in which the Board decided to broaden the reporting of discontinued operations, the Board concluded that the definition in Statement 144 had resulted in too many disposals of assets qualifying for discontinued operations presentation, including those not representing a strategic shift in operations.

BC8. However, several respondents to the proposed FSP noted that using the term *operating segment* in the definition would be too subjective. Because an operating segment is based on how management reviews financial information and designates operating segments, those respondents concluded that this subjectivity would reduce comparability between entities.

BC9. Some respondents also were concerned about the number and types of disposals that would still be reported in discontinued operations because some entities have many operating segments. Other respondents were concerned that entities with only one operating segment would never have a discontinued operation regardless of the effect on those entities' financial statements. Those respondents recommended including a specific quantitative threshold for an operating segment or using the existing definition of *reportable segment* in Topic 280, Segment Reporting (originally issued as Statement 131).

### Definition in the 2013 Proposed Update

BC10. After conducting user outreach and considering various other alternatives for the definition of discontinued operation to address respondents' concerns, the Board decided to include in the 2013 proposed Update a definition of discontinued operation that is generally consistent with the existing definition in

IFRS 5. Specifically, the Board concluded that the results of operations of a component of an entity or a group of components of an entity may qualify for discontinued operations reporting only if they represent a separate major line of business or a major geographical area of operations. The Board concluded that the separate major line of business or major geographical area criteria would capture only those disposals representing strategic shifts in operations that should be reported in discontinued operations.

BC11. Most respondents supported the overall direction of the definition of discontinued operation included in the proposed Update. However, many respondents recommended focusing the authoritative guidance of the amendments in this Update on the strategic shift principle discussed in the basis for conclusions of the proposed Update. Other respondents recommended providing more implementation guidance to improve consistency of application.

BC12. The Board agreed with those respondents and incorporated the strategic shift principle in the definition of discontinued operation and added several examples of a discontinued operation to the implementation guidance. The Board concluded that those examples provide guidance on several different types of disposals that represent strategic shifts that should be reported in discontinued operations.

BC13. Some respondents questioned whether disposals that include several different parts of an entity other than an entire major line of business or major geographical area of operations would qualify for discontinued operations reporting if they represent a strategic shift. Some of those respondents noted that in their experience it is rare that an entity ever disposes of an entire major line of business or a major geographical area of operations. Additionally, those respondents noted that a disposal transaction that includes several different parts of an entity often could have a greater effect on an entity's operations and financial results than a disposal of an entire major line of business or major geographical area of operations.

BC14. The Board concluded that the nature of the disposal and its effect on an entity's operations and financial results matter more than the composition of the transaction. Therefore, the Board decided that a discontinued operation could include different parts of an entity other than an entire major line of business or a major geographical area of operations as long as those parts are a disposal group that together represents a strategic shift that has a major effect on an entity's operations and financial results.

BC15. Other respondents questioned how to evaluate whether a geographical area of operations is major. Those respondents questioned whether that judgment should be made in relation to the entity's operations and financial results or in relation to the actual size of the geographical area, regardless of the significance of the entity's presence in the area.

BC16. The Board decided to address that issue by clarifying that strategic shifts reported in discontinued operations should include only those disposals of components of an entity that have (or will have) a major effect on an entity's operations and financial results.

## Convergence with IFRS 5

BC17. The amendments in this Update to the definition of discontinued operation make that definition similar to the definition of discontinued operation in IFRS 5. Part of the definition of discontinued operation in this Update is based on elements of the definition of discontinued operation in IFRS 5, including the separate major line of business and major geographical area of operations criteria.

BC18. However, the definition of discontinued operation in the amendments in this Update is different from the definition of discontinued operation in IFRS 5 in several ways. For example, the amendments include guidance indicating that a discontinued operation arises from a disposal representing a strategic shift that has a major effect on an entity's operations and financial results. The amendments in this Update also include several examples that provide further guidance on how to interpret the definition of discontinued operation; IFRS 5 does not contain similar examples.

BC19. The Board incorporated those differences to address the concerns of some respondents about understandability and consistency of application of the definition of discontinued operation. However, the Board concluded that the amendments in this Update will not result in a significant difference in those disposals that IFRS 5 intends to capture as discontinued operations.

BC20. Another difference between U.S. GAAP and IFRS is the requirement that a discontinued operation comprise a *component of an entity* (as defined in the Master Glossary of the Accounting Standards Codification) or a group of components of an entity, rather than a *cash-generating unit* (as defined in IFRS 5) or a group of cash-generating units as required under IFRS.

BC21. The Board made that distinction because it determined that including the cash-generating unit concept in the definition of discontinued operation will not be operable in U.S. GAAP. This is due to the differing methodologies in U.S. GAAP and IFRS for allocating goodwill acquired in a business combination, conducting tests of and measuring impairments of long-lived assets, and calculating the gain or loss that results from the sale of a disposal group. Under IFRS, individual assets are grouped into cash-generating units for the purposes of allocating goodwill and conducting tests of and measuring impairments. Under U.S. GAAP, the cash-generating unit concept does not exist. Instead, goodwill is allocated to *reporting units* under Topic 350, Intangibles—Goodwill and Other, while impairments are conducted and measured at the *asset group* level under Topic 360. Both reporting units and asset groups are included in the definition of a component of an entity in U.S. GAAP.

BC22. The Board does not expect that using the definition of a component of an entity in U.S. GAAP instead of the definition of a cash-generating unit in IFRS will result in a significant difference in whether a disposal (or classification as held for sale) qualifies for discontinued operations reporting. Instead, the Board concluded that the strategic shift principle, along with the examples of that principle, are the primary drivers of when a disposal (or classification as held for sale) of a component of an entity or a group of components of an entity qualifies for discontinued operations reporting under the amendments in this Update.

BC23. The amendments in this Update also require disclosures in the notes to financial statements about disposals of individually significant components of an entity that do not meet the definition of discontinued operation. Those disclosures are not required under IFRS 5.

## Businesses That Are Held for Sale on Acquisition

BC24. The 2008 proposed FSP and the 2013 proposed Update also proposed that businesses that meet the criteria to be classified as held for sale on acquisition should be reported in discontinued operations. Most respondents to the proposed FSP and the 2013 proposed Update who commented on that part of the definition supported the Board's proposal. Those respondents noted that if an entity classifies a business as held for sale on acquisition, the business should be reported in discontinued operations because it is never considered part of an entity's continuing operations. The Board agreed with those respondents and decided to retain this part of the definition.

## Scope

### Removal of Scope Exceptions

BC25. Subtopic 205-20 excludes certain types of assets from the scope of discontinued operations including goodwill, servicing assets, and unproved oil and gas properties that are accounted for using the full cost method of accounting.

BC26. The Board reconsidered the scope exceptions in Subtopic 205-20 and decided that all of those scope exceptions should be removed except for the scope exception for oil and gas properties that are accounted for using the full cost method of accounting. The Board concluded that the definition of discontinued operation should be used, and not Section 205-20-15, to determine which of these disposals qualify for discontinued operations presentation. That simplifies application of the amendments in this Update and brings U.S. GAAP closer in convergence with IFRS, which does not include scope exceptions for certain types of assets. Additionally, the Board concluded that this change should have a limited effect because disposals of most of the types of assets currently

listed as scope exceptions in Subtopic 205-20 will, in most cases, not meet the definition of discontinued operation.

## Oil and Gas Properties Accounted for Using the Full Cost Method of Accounting

BC27. The Board decided to retain the scope exception in Subtopic 205-20 for oil and gas properties that fall under the full cost method of accounting. Under the full cost method of accounting, all costs associated with property acquisition, exploration, and development activities are capitalized to cost centers, which are established on a country-by-country basis. The definition of discontinued operation, however, applies to disposals of components of an entity, which is defined as the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

BC28. The Board concluded that the definition of discontinued operation will not be operable under the full cost method of accounting because of differences in the tracking and allocation of costs, which is at a much higher level than the method in Topic 360 and in the definition of discontinued operation.

## Equity Method Investments

BC29. The Board also discussed whether equity method investments should be excluded from the scope of discontinued operations. The Board noted that some equity investments are held for strategic operating purposes and, therefore, might qualify for discontinued operations reporting if they are significant to an entity's operations and financial results. Other equity method investments might not represent a strategic shift in an entity's operations and should not qualify for discontinued operations reporting if they are sold. Therefore, the Board decided to eliminate the scope exception for equity method investments in Subtopic 205-20. The Board also noted that this would improve convergence of U.S. GAAP and IFRS.

BC30. Some respondents questioned the usefulness of certain of the new disclosures for equity method investments that meet the definition of discontinued operation. Those respondents noted that equity method investments are presented in one line item in an entity's financial statements. As a result, disclosing the major classes of line items constituting the pretax profit or loss (or change in net assets for a not-for-profit entity) of a discontinued operation is not necessary for evaluating an entity's ongoing trends in revenues and expense because the investee's results are included in one line item in the investor's financial statements.

BC31. Other respondents also noted that Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, does not require disclosure of summarized financial information of an investee's assets, liabilities, and results of operations. Rather, it states that it may be necessary to disclose that information if the

investment is material in relation to the financial position or results of operations of an investor.

BC32. The Board agreed with those respondents and decided to require disclosure of the summarized financial information of an equity method investment that meets the definition of discontinued operation if that information was disclosed in accordance with Subtopic 323-10 before the disposal.

## Presentation of the Assets and Liabilities of Discontinued Operations

BC33. U.S. GAAP does not specify whether an entity should reclassify the assets and liabilities of a discontinued operation classified as held for sale in the statement of financial position for periods before the reclassification. Therefore, the Board included a question in the proposed Update asking whether U.S. GAAP should provide further guidance on reclassification.

BC34. Some respondents recommended that the Board require an entity to reclassify the assets and liabilities of a discontinued operation only in the period or periods in which the discontinued operation is held for sale. Those respondents noted that the statement of financial position is dated at a point in time and reflects an entity's assets, liabilities, and equity as of that date.

BC35. Other respondents, including users, recommended requiring reclassification of a discontinued operation's assets and liabilities in the statement of financial position for periods before the reclassification. Those respondents noted that this presentation is necessary to evaluate an entity's statement of financial position in prior periods without the discontinued operation, which would promote comparability across reporting periods.

BC36. The Board agreed with those respondents (in paragraph BC35) and noted that reclassifying prior periods in the statement of financial position provides information about historical trends related to the entity's continuing operations and discontinued operations, including the ability to better analyze trends in return on assets and leverage.

## Disclosure

### Disclosures for Discontinued Operations

BC37. The 2008 proposed FSP and the 2013 proposed Update included several new disclosures that would provide users with information about the financial effects of a discontinued operation, including disclosures that would provide users with information about the statement of financial position and the cash flows of a discontinued operation. Respondents generally were supportive of the disclosure requirements for discontinued operations. However, preparers were

generally concerned about the significant costs of disclosing the operating, investing, and financing cash flows of a discontinued operation because the information necessary to provide that disclosure may not be readily available when it is not utilized for internal reporting purposes by management. Additionally, those preparers noted that it can take several months to gather the information necessary to disclose the operating and investing cash flows of a discontinued operation.

BC38. Because financing transactions are often conducted at the parent level rather than within each subsidiary, the Board decided to not require disclosure of the financing cash flows of a discontinued operation.

BC39. Recognizing that disclosing the operating and investing cash flows of a discontinued operation may be more burdensome for entities that manage cash centrally, some Board members preferred a requirement to disclose the depreciation, amortization, capital expenditures, and significant operating and investing noncash items as an acceptable alternative. Other Board members questioned why an entity would not have the information to disclose the operating and investing cash flows of a discontinued operation as part of the entity's assessment of whether to dispose of a component of an entity or group of components of an entity. The Board decided to include an option to disclose either the operating and investing cash flows or the depreciation, amortization, capital expenditures, and significant operating and investing noncash items of a discontinued operation.

## Disclosures for a Disposal of a Component of an Entity

BC40. The 2008 proposed FSP included many of the same disclosures for disposals of components of an entity that do not qualify for discontinued operations reporting and disposals of components of an entity that do qualify for discontinued operations reporting. Many respondents did not agree with the disclosure requirements for disposals that do not meet the definition of discontinued operation. Those respondents noted that the costs of providing the disclosures for a disposal of a component of an entity that is not significant enough to meet the definition of discontinued operation would outweigh the benefits to users. Those respondents stated that there should be a distinction between the disclosure requirements for discontinued operations and other less significant disposals.

BC41. The Board agreed with those respondents and eliminated many of the disclosures that would have been required for a disposal of a component of an entity. However, the Board concluded that the proposed definition of discontinued operation will result in far fewer disposals of components of an entity being reported as discontinued operations than what is now being reported under the current U.S. GAAP definition. Therefore, users will have less information about disposals of individually significant components of an entity without further disclosures.

BC42. The Board decided to retain the disclosures about the pretax profit (or change in net assets for a not-for-profit entity) of an individually significant component of an entity that does not qualify for discontinued operations reporting. The Board concluded that this is one of the most important disclosures to users because it provides information about the ongoing trends in an entity's results from continuing operations.

BC43. For a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market the Board decided to require the following disclosures for disposals of individually significant components of an entity that do not meet the definition of discontinued operation:

- a. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity)
- b. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

BC44. For all other entities, the Board decided to require the following disclosures for disposals of individually significant components of an entity that do not meet the definition of discontinued operation:

- a. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale
- b. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

## Continuing Involvement

BC45. The amendments in this Update remove the following conditions in the definition of discontinued operation:

- a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

BC46. The Board observed that those conditions are difficult to apply and do not result in consistent application of Subtopic 205-20. The FASB Emerging Issues Task Force (EITF) issued EITF Issue No. 03-13, “Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations,” to address this difficulty. While that guidance (now included in Subtopic 205-20) is helpful, some preparers continue to have difficulty in applying the guidance from Issue 03-13 to individual fact patterns.

BC47. Although the Board decided to remove those conditions, the Board decided to require disclosures about an entity’s continuing involvement with a discontinued operation following its disposal. Some of those disclosures are similar to the disclosures about continuing involvement and continuing cash flows that are required by Subtopic 205-20 and were based on those disclosures. The Board concluded that those disclosures will enable users to determine the nature, timing, and extent of an entity’s continuing involvement with the discontinued operation and its effect on the financial performance of the entity.

## Transition and Effective Date

BC48. The Board concluded that it would be difficult for preparers to apply the amendments in this Update retrospectively. In particular, recalculating the income tax expense or benefit attributable to a discontinued operation in prior periods on the basis of a new definition could be complex. Additionally, it would be confusing to users to present disposals in continuing operations that were previously reported in discontinued operations. Therefore, the Board decided to require prospective application of the amendments in this Update with early application permitted.

BC49. Some preparers stated that they would not need more than a year to implement the amendments in this Update, while others noted that they would need some time to implement systems to provide some of the new disclosures. Accordingly, the Board decided that a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments prospectively to all disposals (or classifications as held for sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Additionally, the Board decided that all other entities should apply the amendments prospectively to all disposals (or classifications as held for sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. The Board concluded that those effective dates will give entities more than a year to implement any changes to comply with the amendments.

BC50. The Board decided to permit early application of the amendments in this Update because discontinued operations reporting is primarily used to assess

trends in an entity's continuing operations rather than to make comparisons between entities.

## Benefits and Costs

BC51. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC52. The Board concluded that the definition of discontinued operation in this Update will provide more benefits to users because an entity will present discontinued operations only when there is a major strategic shift in operations, resulting in improved financial reporting that more faithfully represents an entity's results from continuing operations. Additionally, the definition of discontinued operation will result in fewer disposals of components of an entity that qualify for discontinued operations reporting. That will reduce the costs and complexity of preparing and reporting financial information about a discontinued operation.

BC53. The definition of discontinued operation in this Update and the definition of discontinued operation in IFRS are now more similar, which results in further convergence of U.S. GAAP and IFRS. While there are some differences in terminology, the Board expects that most disposals will be evaluated similarly for discontinued operations presentation under both definitions.

BC54. The amendments in this Update require expanded disclosures for discontinued operations and continuing (but fewer) disclosures for disposals of individually significant components of an entity that do not qualify for discontinued operations presentation. The Board concluded that the new disclosures will provide users of financial statements with useful information about the financial results of discontinued operations and disposals of individually significant components of an entity.

BC55. Preparers will incur additional costs to provide the expanded disclosures about discontinued operations and disposals of individually significant components of an entity. However, the Board concluded that entities will be reporting discontinued operations less frequently than under the current definition, which will reduce the significant costs of reporting the results of

operations, including income taxes, of a discontinued operation for all periods presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Those changes, which will be incorporated into the proposed 2015 UGT, are available for public comment through ASU Taxonomy Changes provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process starting in September 2014.