

Proposed Accounting Standards Update

Issued: April 2, 2013

Comments Due: August 30, 2013

Presentation of Financial Statements (Topic 205)

Reporting Discontinued Operations

This Exposure Draft of a proposed Accounting Standards Update of Topic 205 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director File Reference No. 2013-230

Financial Accounting Standards Board of the Financial Accounting Foundation

The FASB Accounting Standards Codification® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by August 30, 2013. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at <u>Exposure Documents Open for Comment</u>
- Emailing a written letter to <u>director@fasb.org</u>, File Reference No. 2013-230
- Sending written comments to "Technical Director, File Reference No. 2013-230, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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Presentation of Financial Statements (Topic 205)

Reporting Discontinued Operations

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Summary and Questions for Respondents

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

Some stakeholders have said that too many disposals of assets qualify for discontinued operations presentation under Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations. This results in financial statements that are not decision useful for users and in higher costs for preparers. The amendments in this proposed Update would address these issues by changing the criteria for reporting discontinued operations and enhancing convergence of the FASB's and the IASB's reporting requirements for discontinued operations.

Who Would Be Affected by the Amendments in This Proposed Update?

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

- A component of an entity that either is disposed of or meets all of the criteria in paragraph 360-10-45-9 of Topic 360, Property, Plant, and Equipment, to be classified as held for sale
- 2. A business that, on acquisition, meets all of the criteria in paragraph 360-10-45-9 to be classified as held for sale.

What Are the Main Provisions?

The amendments in this proposed Update would change the requirements for reporting discontinued operations in Subtopic 205-20, which would increase convergence of the requirements for reporting discontinued operations in Subtopic 205-20 and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. A discontinued operation would be either of the following:

- A component of an entity or a group of components of an entity that represents a separate major line of business or major geographical area of operations that either has been disposed of or is part of a single coordinated plan to be classified as held for sale in accordance with the criteria in paragraph 360-10-45-9
- A business that, on acquisition, meets the criteria in paragraph 360-10-45-9 to be classified as held for sale.

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.

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

- The major income and expense items constituting the pretax profit or loss from a discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- The major classes of cash flows (operating, investing, and financing) of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- If the discontinued operation includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- 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 the 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
- 5. A reconciliation of the major income and expense items from the discontinued operation that are disclosed in the notes to the financial statements to the after-tax profit or loss from the discontinued operation that is presented on the face of the statement where net income is reported for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported.

The proposed amendments would require a public entity to provide disclosures about a disposal of an individually material component of an entity that does not qualify for discontinued operations presentation in the financial statements, including:

- The pretax profit or loss attributable to the component of an entity for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported
- If the component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported

3. A reconciliation of the major classes of assets and liabilities of the component of an entity classified as held for sale that are disclosed in the notes to the 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.

The proposed amendments would require a nonpublic entity to provide disclosures about a disposal of an individually material component of an entity that does not qualify for discontinued operations presentation in the financial statements, including:

- 1. The pretax profit or loss attributable to the component of an entity for the period in which it is sold or is classified as held for sale
- If the component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale.

The proposed amendments would expand the disclosures about an entity's continuing involvement with a discontinued operation, including:

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

Those disclosures would be required until the results of operations of the discontinued operation in which an entity retains continuing involvement are no longer separately presented in the statement where net income is reported.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Under the amendments of this proposed Update, the definition of discontinued operation would be changed as follows:

- Only those components of an entity that represent a separate major line
 of business or major geographic area of operations would be eligible for
 discontinued operations presentation 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.
- The following conditions in the current definition of discontinued operation would not have to be 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.
- 3. A business that, on acquisition, meets the criteria to be classified as held for sale would be a discontinued operation.
- Disposals of equity method investments that meet the definition of a discontinued operation would be eligible for discontinued operations presentation.

Some stakeholders have stated that too many disposals of assets qualify for discontinued operations presentation under the current definition, resulting in financial statements that are not decision useful. Those stakeholders noted that only disposals representing a significant strategic shift in operations should be presented in discontinued operations. Additionally, the FASB has observed that the continuing involvement criterion is difficult to apply and does not result in consistent application. The Board believes that the proposed amendments to reporting discontinued operations would address these issues.

The amendments of this proposed Update would require expanded disclosures for discontinued operations and for disposals of individually material components of an entity that do not qualify for discontinued operations presentation. The Board believes that the new disclosures would provide users of financial statements with more information about the financial results of discontinued operations and disposals of individually material components of an entity. For example, disclosures about the operating, investing, and financing cash flows would be required for a discontinued operation.

When Would the Amendments Be Effective?

The effective date will be determined after the Board considers the feedback on the amendments in this proposed Update. The proposed amendments would be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after the period of adoption, with earlier application permitted.

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

The proposed amendments to the definition of discontinued operation are very similar to the definition of discontinued operation in IFRS 5. Both definitions would include the separate major line of business or major geographical area of operations criteria. However, the amendments in this proposed Update would require that a major line of business or major geographical area of operations

comprise a *component of an entity* (as defined in the Master Glossary) 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. Under U.S. GAAP, a component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group. Under IFRS, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Additionally, IFRS 5 includes in its definition of discontinued operation a subsidiary that is acquired exclusively with a view to resale, while the amendments in this proposed Update instead would include in the definition of discontinued operation a business that, on acquisition, is classified as held for sale.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree with the proposed definition of discontinued operations? Is it understandable and operable?

Question 2: Do you agree that the continuing involvement criterion in the existing definition should be eliminated? Why or why not?

Question 3: Do you agree with the scope of the amendments in this proposed Update? Do you agree that disposals of equity method investments and oil and gas properties that are accounted for using the full-cost method of accounting should be eligible for discontinued operations presentation if they meet the criteria to be reported in discontinued operations?

Question 4: U.S. GAAP and the amendments in this proposed Update do 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 reclassification. Should an entity be required to reclassify the assets and liabilities of a discontinued operation classified as held for sale in the statement of financial position for periods before reclassification? Why or why not?

Question 5: Do you agree with the disclosures required for disposals of individually material components of an entity? If not, which disclosure or disclosures would you eliminate or add and why?

Question 6: Do you agree that businesses held for sale on acquisition should be excluded from certain disclosure requirements? Why or why not?

Question 7: Do you agree with the prospective application transition method? Why or why not?

Question 8: How much time do you think will be needed to prepare for and implement the amendments in this proposed Update?

Question 9: Do the modified disclosures for nonpublic entities provide the right level of disclosure? If not, how should the proposed Update be modified for nonpublic entities?

Amendments to the FASB Accounting Standards Codification[®]

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Master Glossary	 Superseded Master Glossary terms that are no longer used Added the existing Master Glossary term Business to Subtopic 205-20 Amended the Master Glossary term Disposal Group
Overview and Background (205-10-05)	Added guidance indicating a business that, on acquisition, is classified as held for sale would be reported as a discontinued operation
Scope and Scope Exceptions (205-20-15)	Added guidance indicating that the Subtopic applies to businesses that, on acquisition, meet all of the criteria in paragraph 360-10-45-9 to be classified as held for sale
Other Presentation Matters (205-20-45)	Amended the definition of discontinued operation
Disclosure (205-20-50)	Added new disclosures about discontinued operations Added new disclosures about continuing involvement with a discontinued operation

Codification Section	Description of Changes
Implementation Guidance and Illustrations (205-20-55)	 Added Illustrations of major line of business and major geographical area of operations Added Examples of major line items Added Examples of continuing involvement Removed the implementation guidance on assessing continuing involvement and continuing cash flows, which would no longer be included in the definition of discontinued operation
Disclosure (360-10-50)	 Added new disclosures about disposals of individually material components of an entity Made improvements to the location and organization of disclosures in the Codification by moving disclosures about disposals of assets from Topic 205 to Topic 360
Conforming Amendments	 Included a reference to cash flow disclosures related to a discontinued operation in Topic 230 Updated terminology in Topics 280, 360, 740, and 958 Updated paragraph references in Topics 360, 505, 715, and 740

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–28. 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 <u>underlined</u>, and deleted text is <u>struck out</u>.

Amendments to the Master Glossary

3. 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.

4. Amend the Master Glossary term *Disposal Group*, 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.

5. Add the existing Master Glossary term *Business* to Subtopic 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.

Amendments to Subtopic 205-10

6. Amend paragraph 205-10-05-3, 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 a **component of an entity** that either has been disposed of or is classified as held for sale and a **business** that, on acquisition, 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.

Amendments to Subtopic 205-20

7. Amend paragraphs 205-20-15-1 through 15-2, with a link to transition paragraph 205-20-65-1, as follows:

Presentation of Financial Statements—Discontinued Operations

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, 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 <u>either of</u> the following transactions and activities:

- a. Components of an entity that <u>are disposed of or meet all of the criteria</u> in paragraph 360-10-45-9 to be classified as held for sale-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** that, on acquisition, meets all of the criteria in paragraph 360-10-45-9 to be classified as held for sale.
- 8. Supersede paragraph 205-20-45-1 and add paragraph 205-20-45-1A, 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 2013-XX. 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.

205-20-45-1A A discontinued operation is either of the following:

- A component of an entity or a group of components of an entity that meets both of the following criteria:
 - The component or group of components has been disposed of or meets all of the criteria in paragraph 360-10-45-9 to be classified as held for sale
 - 2. The component or group of components is part of a single coordinated plan to dispose of a separate major line of business (for an illustration, see paragraphs 205-20-55-85 through 55-88) or a separate major geographical area of operations (for an illustration, see paragraphs 205-20-55-89 through 55-92).
- b. A **business** that, on acquisition, meets all of the criteria in paragraph 360-10-45-9 to be classified as held for sale.
- 9. Supersede paragraph 205-20-45-2, with a link to transition paragraph 205-20-65-1, as follows:
- 205-20-45-2 Paragraph superseded by Accounting Standards Update 2013-XX. Examples 1 through 9 (see paragraph 205-20-55-28 through 55-79) illustrate disposal activities that do or do not qualify for reporting as discontinued operations.
- 10. Amend paragraph 205-20-45-3 and add the related heading, with a link to transition paragraph 205-20-65-1, as follows:

> Income Statement

205-20-45-3 In a period in which a <u>discontinued operation</u> component of an entity either has been disposed of or is classified as held for sale, the <u>statement where net income is reported</u> income <u>statement</u> of a business entity or statement of activities of a not-for-profit entity (NFP) for current and prior periods shall report the results of operations of the <u>discontinued operation</u> component, including any gain or loss recognized in accordance with <u>paragraph 205-20-45-3A.paragraphs</u>

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 <u>all</u> 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. For implementation guidance, see paragraph 205-20-55-84.

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

⁽a) This caption should be modified appropriately when an entity reports an extraordinaryitem. 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)).

11. Add paragraphs 205-20-45-3A through 45-3B, with a link to transition paragraph 205-20-65-1, as follows:

205-20-45-3A The gain (loss) recognized on the disposal (or 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 includes a disposal group within the scope of Topic 360, an entity shall follow the guidance in paragraphs 360-10-35-37 through 35-45 and paragraph 360-10-40-5 for calculating the gain (loss) recognized on the disposal (or classification as held for sale) of the discontinued operation.

205-20-45-3B An entity shall disclose any gain or loss recognized in accordance with the preceding paragraph in either of the following ways:

- a On the face of the statement where net income is reported as part of discontinued operations
- b. In the notes to financial statements (see paragraph 205-20-50-1(b)).

For implementation guidance, see paragraph 205-20-55-84.

- 12. Amend paragraphs 205-20-45-4 through 45-5 and 205-20-45-10 and its related heading, 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 <u>presented</u> elassified separately in the current period in <u>the</u> 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 <u>operation before</u> 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 360-10-45-11).

> Disposal Group Classified as Held for SaleStatement of Financial Position

- **205-20-45-10** 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. For any discontinued operation that is part of a disposal group classified as held for sale, an entity shall disclose separately Thethe major classes of assets and liabilities classified as held for sale of the discontinued operation 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)205-20-50-1A(g)).
- 13. Amend paragraph 205-20-50-1 and its related heading and add paragraphs 205-20-50-1A through 50-1C, with a link to transition paragraph 205-20-65-1, as follows:

Disclosure

> A Discontinued Operation Disposed Of Assets Sold or Held for Sale

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

- a. A description of both of the following:
 - theThe facts and circumstances leading to the <u>disposal or expected disposal disposal</u>.
 - 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. The gain or loss recognized in accordance with paragraphs 205-20-45-3A through 45-3B -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
- Subparagraph superseded by Accounting Standards Update 2013-XX.H
 applicable, amounts of revenue and pretax profit or loss reported in
 discontinued operations
- d. If applicable, the segment in which the <u>discontinued operation long-lived</u> asset (disposal group) is reported under Topic 280.

205-20-50-1A For a discontinued operation that meets the criteria in paragraph 205-20-45-1A(a), an entity shall, to the extent not presented on the face of the financial statements as part of discontinued operations, disclose all of the following in the notes to financial statements:

- a. The pretax profit (loss) of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- b. The major line items constituting the pretax profit (loss) of the discontinued operation (for examples, see paragraph 205-20-55-82) for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- c. Operating cash flows of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- d. Investing cash flows of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported

- e. Financing cash flows of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- f. If the discontinued operation includes a noncontrolling interest, the pretax profit (loss) attributable to the parent for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- g. The carrying amount(s) of the major classes of assets and liabilities included as part of a discontinued operation classified as held for sale.

205-20-50-1B If an entity provides the disclosures required by (b) and (g) of the preceding paragraph in the notes to the financial statements, the entity shall disclose the following:

- a. For the initial period in which the disposal group is classified as held for sale, a reconciliation of both of the following:
 - 1. The amounts disclosed in (g)
 - 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 on line items in the reconciliation that are separate from the assets and liabilities of the discontinued operation (for an example, see paragraph 205-20-55-93).
- For the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported, a reconciliation of both of the following:
 - 1. Amounts disclosed in (a) and (b) of the preceding paragraph
 - The after-tax profit or loss from discontinued operations presented on the face of the statement where net income is reported (for an illustration, see paragraph 205-20-55-94).

205-20-50-1C For purposes of the reconciliation in (a) or (b) of the preceding paragraph, an entity may aggregate the amounts that are not considered major and present them as one line item in the reconciliation.

14. Supersede paragraph 205-20-50-2 and its related heading, with a link to transition paragraph 205-20-65-1, as follows:

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

205-20-50-2 Paragraph superseded by Accounting Standards Update 2013-XX. 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)).

15. Amend paragraphs 205-20-50-3 through 50-5 and the related heading, with a link to transition paragraph 205-20-65-1, as follows:

> Change to a Plan of Sale

205-20-50-3 If either paragraphs 360-10-35-44 or 360-10-35-45 applies, a description of the facts and circumstances leading to the decision to change the plan to sell the <u>disposal grouplong-lived asset (disposal group)</u> and its 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.

> Continuing Involvement Cash Flows

205-20-50-4 This paragraph requires disclosures about an entity's continuing involvement with a discontinued operation after the disposal date. The disclosures are required until the results of operations of the discontinued operation in which an entity retains continuing involvement are no longer presented separately in the statement where net income is reported. An entity shall disclose the following The following information shall be disclosed in the notes to financial statements for each discontinued operation that generates continuing cash flows: in which an entity retains significant continuing involvement after the disposal date:

- a. <u>A description of the The</u> nature of the activities that give rise to the continuing involvement. each flows
- b. The period of time <u>during which the involvement is expected to</u> continue. continuing cash flows are expected to be generated
- c. For all periods presented, both of the following:
 - 1. The amount of any cash inflows (outflows) from (to) the discontinued operation after the disposal transactionThe principal factors used to conclude that the expected continuing cash flows are not direct cash flows of the disposed component.
 - 2. The amount presented in continuing operations after the disposal transaction that before the disposal transaction was eliminated in consolidated financial statements as intraentity transactions.
- d. For a discontinued operation in which an entity retains an equity method investment after the disposal, 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. The disclosure shall include all of the following until the discontinued operation is no longer reported in the statement where net income is reported:
 - For each period presented in the statement where net income is reported after the period in which the discontinued operation was disposed, the pretax income of the discontinued operation 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 discontinued operation after the disposal transaction
- 4. The income or loss in the period(s) after the disposal transaction from the entity's ongoing equity method investment in the discontinued operation and the line item in the statement where net income is reported that includes the income or loss.

For examples of continuing involvement, see paragraph 205-20-55-83.

> Adjustments to Previously Reported Amounts

205-20-50-5 The nature and amount of adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a <u>discontinued operation</u> component of an entity in a prior period shall be disclosed.

16. Supersede paragraph 205-20-50-6 and its related heading, with a link to transition paragraph 205-20-65-1, as follows:

> Continuing Involvement by Ongoing Entity

205-20-50-6 Paragraph superseded by Accounting Standards Update 2013-XX. 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 intraentity 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.

17. Supersede paragraphs 205-20-55-1 through 55-81 and their related headings and add paragraphs 205-20-55-82 through 55-94 and their related headings, with a link to transition paragraph 205-20-65-1, as follows [For ease of readability, the superseded paragraphs are not shown here]:

Implementation Guidance and Illustrations

- > Implementation Guidance
- > > Examples of Major Line Items

205-20-55-82 The following are examples of major line items as discussed in paragraph 205-20-50-1A(b):

a. Revenue

- b. Cost of sales
- c. Depreciation and amortization
- d. Interest expense.

> > Examples of Continuing Involvement

205-20-55-83 The following are possible examples of continuing involvement as discussed in paragraph 205-20-50-4:

- a. A supply and distribution agreement
- b. A financial guarantee
- c. An option to repurchase a discontinued operation
- d. An equity method investment.

> Illustrations

> > Presenting Discontinued Operations

205-20-55-84 This illustration provides one Example of how to present discontinued operations in accordance with paragraphs 205-20-45-3 through 45-3B.

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

Income from continuing operations before income taxes	\$X,XXX	
Income taxes	XXX	
Income from continuing operations (a)		\$X,XXX
Discontinued operations (Note X)		
Loss from operations of discontinued Component X		
(including loss on disposal of \$XXX)		X,XXX
Income tax benefit		X,XXX
Loss on discontinued operations		X,XXX
Net income		\$X,XXX

(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.

> > Major Line of Business

205-20-55-85 The following Example illustrates the guidance on the meaning of a major line of business that is a discontinued operation in paragraph 205-20-45-1A(a)(2).

>>> Example 1: Consumer Products Manufacturer

205-20-55-86 An entity that manufactures and sells consumer products has five major product lines. Each product line 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 product line is a component of the entity.

205-20-55-87 The entity has experienced losses associated with certain brands in its beauty care product line. Therefore, the entity decides to sell the beauty care product line.

205-20-55-88 Because the beauty care product line is a component of the entity that is one of five major product lines, it represents a major line of business that is reported in discontinued operations.

> > Major Geographical Area of Operations

205-20-55-89 The following Example illustrates the guidance on the meaning of a major geographical area of operations that is a discontinued operation in paragraph 205-20-45-1A(a)(2).

>>> Example 2: General Merchandise Retailer

205-20-55-90 An entity that is a general merchandise retailer operates 1,000 retail stores throughout the United States. The entity divides its stores into five major geographic 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 sales in its Northwest region and decides to sell the 200 retail stores in that region.

205-20-55-92 Because the Northwest region is a group of components of the entity that is one of five major geographic regions, it represents a major geographical area of operations that is reported in discontinued operations.

>> Reconciliation of the Carrying Amounts of Major Classes of Assets and Liabilities Included as Part of Discontinued Operations

205-20-55-93 The table in this Example illustrates how to disclose the reconciliation required by paragraph 205-20-50-1B(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)

	20	X 1
Carrying amounts of major classes of assets included as part of discontinued operations		
Cash	\$	XX
Trade receivables		XX
Inventories		XX
Property, plant, and equipment		XX
Other assets		XX
Total assets of the discontinued operation		XX
Other assets included in the disposal group classified as held for sale		XX
Total assets of the disposal group classified as held for sale in the statement of financial position	\$	XX
Carrying amounts of major classes of liabilities included as part of discontinued operations		
Trade payables	\$	XX
Short-term borrowings		XX
Long-term borrowings		XX
Other liabilities		XX
Total liabilities of the discontinued operation		XX
Other liabilities included in the disposal group classified as held for sale		XX
Total liabilities of the disposal group classified as held for sale in the statement of financial position	\$	XX

>> Reconciliation of the Major Line Items Constituting Pretax Profit (Loss) of Discontinued Operations

205-20-55-94 This Example illustrates how to disclose the reconciliation required by paragraph 205-20-50-1B(b).

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

Reconciliation of the Major 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)

	20X1	20X0
Major 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	XX	XX
Pretax gain or loss on the disposal of the discontinued operation	XX	
Total pretax gain or loss on discontinued operations	XX	XX
Income tax expense or benefit	XX	XX
Profit or loss on discontinued operations	\$ XX	\$ XX

Amendments to Subtopic 230-10

18. 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 205-20-50-1A(c) through (e).

Amendments to Subtopic 280-10

19. 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 paragraph 205-20-45-1A to be within the scope of Subtopic 205-20, 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

20. Amend paragraph 360-10-05-5, 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

360-10-05-5 The guidance in Subtopic 205-20 requires entities to report discontinued operations separately from continuing operations <u>if an entity's</u> **disposal group** meets the criteria in paragraph 205-20-45-1A, 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.

21. Amend paragraphs 360-10-45-3 and 360-10-45-15, 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 <u>205-20-45-1-205-20-45-1A</u> through 45-5 and 205-20-50-5 for guidance on the presentation of operations of a <u>disposal groupcomponent of an entity</u> that has been disposed of or is classified as held for sale as includes a discontinued <u>operation operations</u>.

> 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:

- 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.)
- 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.

>> 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 shall be presented separately in the statement of financial position. 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 is a component of an entity, paragraphs 205-20-45-1A(a)205-20-45-1 through 45-5 and 205-20-50-5 shall apply to the disposal group at the date it is disposed of.

22. Amend paragraph 360-10-50-3 and add paragraphs 360-10-50-4 through 50-5, with a link to transition paragraph 205-20-65-1, as follows:

Disclosure

Impairment or Disposal of Long-Lived Assets

> Impairment of Long-Lived Assets Classified as Held for Sale

360-10-50-3 The disclosure requirements presented in paragraph 205-20-50-1 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 sold 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 description of the facts and circumstances leading to the disposal or expected disposal
- b. The expected manner and timing of that disposal
- c. 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 the disposal group

- d. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and paragraph 360-10-40-5
- e. If not separately presented on the face of the statement where net income is reported, the caption in the statement where net income is reported or statement of activities that includes that gain or loss
- f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280.

360-10-50-4 In addition to the disclosures in the previous paragraph, if a long-lived asset (disposal group) includes an individually material **component of an entity** that either has been sold or is classified as held for sale (see paragraph 360-10-45-9), a **{add glossary link to 1st definition}public entity{add glossary link to 1st definition}** shall disclose all of the following in the notes to the financial statements:

- a. Pretax profit (loss) of the individually material component of an entity for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported calculated in accordance with paragraphs 205-20-45-6 through 45-9.
- b. 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 of the individually material component of an entity included as part of the disposal group.
- c. For the initial period in which the disposal group is classified as held for sale, a reconciliation of both of the following:
 - 1. The amounts disclosed in (b)
 - 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 individually material component of an entity, an entity shall present those assets and liabilities on line items in the reconciliation that are separate from the assets and liabilities of the individually material component of an entity (for an example, see paragraph 205-20-55-93). An entity may aggregate amounts in the reconciliation as discussed in paragraph 205-20-50-1C.
- d. If the individually material component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported.

360-10-50-5 In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually material component of an entity that either has been sold or is classified as held for sale (see paragraph 360-10-45-9), a {add glossary link to 1st definition}nonpublic entity{add}

glossary link to 1st definition) shall disclose both of the following in the notes to the financial statements:

- a. Pretax profit (loss) of the individually material component of an entity for the period in which it is sold or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9
- b. If the individually material component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale.

Amendments to Subtopic 505-60

23. 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 spinnor 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 spinnor if the spinnee is a **component of an entity** and meets the conditions for such reporting contained in paragraph 205-20-45-1A(a)205-20-45-1.

Amendments to Subtopic 715-30

24. Amend paragraphs 715-30-55-195 through 55-196 and 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. 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 205-20-45-1A(a)205-20-45-1 necessary to classify the operations of the component as discontinued operations, a curtailment loss (determined in

accordance with paragraphs 715-30-35-92 and 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, 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 205-20-45-1A(a)205-20-45-1 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 <u>205-20-45-1A(a)</u><u>205-20-45-1</u>, 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 205-20-45-1A(a)205-20-45-1 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 205-20-45-1A(a)205-20-45-1 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. The following table presents the determination of the effects of the curtailment.

Table 1 - The Curtailment (in thousands)

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

⁽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.

(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

25. 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 <u>205-20-45-1A205-20-45-1</u> 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

⁽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.

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

26. 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 <u>discontinued operation discontinued component</u> before the date on which the criteria in paragraph 360-10-45-9 are met. The term <u>discontinued component</u> refers to the disposal of a **component of an entity.**

740-270-45-8 Income (or loss) from operations of the discontinued <u>operation</u> component, prior to the interim period in which the date on which the criteria in paragraph 360-10-45-9 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 <u>operation</u> 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 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 operationcomponent 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

27. Amend paragraph 958-225-55-7 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) or <u>a discontinued operationthe discontinuance of a component of an entity</u> (see paragraph 205-20-45-1A205-20-45-1). 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.

	Unr	Unrestricted		Restricted		Restricted		Total
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	9	XX,XXX	\$	(X,XXX)		\$ X,XXX	\$	S XX,XXX

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

> Transition Related to Accounting Standards Update No. 2013-XX, Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations

205-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-XX, *Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations:*

- a. The pending content that links to this paragraph shall be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within interim and annual periods beginning on or after [date to be inserted after exposure], with earlier application permitted.
- b. If a component of an entity that is classified as held for sale before the effective date is disposed of after the effective date, an entity shall not

apply the pending content that links to this paragraph to that component of an entity.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed 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 preparers believe that under current guidance too many disposals of assets qualify for discontinued operations presentation, resulting in financial statements that are not decision useful for users and in higher costs for preparers. Additionally, some users of financial statements believe 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 as a discontinued operation only when an entity has made a major 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 proposed amendments in this Accounting Standards Update would require enhanced disclosures about discontinued operations and individually material components of an entity that have been (or will be) disposed of.

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 exposure document and agreed to issue a revised Exposure Draft in February 2010. However, the Board decided to delay issuance of the revised Exposure Draft in order 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 the amendments in this proposed Update.

Definition of Discontinued Operation

Operating Segment Criterion

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 Statement 131) and 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 *operating segment* in that definition was that certain preparers of financial statements had stated that the definition of discontinued operation in Statement 144 results in too many activities being classified as discontinued operations in the statement where net income is reported. Although this 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 has 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 that too many disposals would still qualify as discontinued operations because some entities have many operating segments. 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 (FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information).

BC10. After conducting user outreach and considering various other alternatives for the definition of discontinued operation to address respondents' concerns, the Board decided to propose a definition of discontinued operation that is very similar to 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 major geographical area of operations. The Board concluded that the separate major line business or major geographical area criteria would capture only those disposals representing major strategic shifts in operations that should be reported as discontinued operations.

Convergence with IFRS 5

BC11. The primary difference between the definition of discontinued operation in U.S. GAAP and the definition in IFRS would be the requirement that a major line of business or major geographical area of operations comprise a *component* of an entity (as defined in the Master Glossary) 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.

BC12. This distinction was made because the Board does not think it would be operable to include the cash-generating unit concept in the definition of discontinued operations because of 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 component of an entity in U.S. GAAP.

BC13. The Board does not expect that using the definition of component of an entity from U.S. GAAP would result in a significant difference from IFRS in the unit of account that qualifies for discontinued operations reporting. Instead, the Board believes that the "major line of business" or "major geographical area of operations" criteria are the primary drivers of when a disposal (or classification to held for sale) of a component of an entity or a group of components of an entity qualifies for discontinued operations reporting under both IFRS and the proposed guidance.

Businesses That Are Held for Sale on Acquisition

BC14. The 2008 proposed FSP also stated that businesses that meet the criteria to be classified as held for sale on acquisition should be included in the definition of discontinued operation. Most respondents to that proposed FSP who commented on this part of the definition supported the Board's proposal. Accordingly, the Board decided to retain this part of the definition.

Scope

Removal of Scope Exceptions

BC15. 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 being accounted for using the successful-efforts method of accounting.

BC16. The Board reconsidered the scope exceptions in Subtopic 205-20 and decided that the definition of discontinued operation should be used, and not the scope Section of Subtopic 205-20, to determine which disposals qualify for discontinued operations presentation. The Board believes that this would simplify application of the amendments in this proposed Update and improve convergence of U.S. GAAP and IFRS, which does not include scope exceptions for certain types of assets. Additionally, the Board believes that this change would have a limited effect other than for disposals of equity method investments because disposals of any of the other types of assets currently listed as scope exceptions in Subtopic 205-20 would, in most cases, not meet the definition of discontinued operation.

Equity Method Investments

BC17. 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 if they are significant to an entity. Other equity investments might not represent a major business line and should not qualify as discontinued operations if they are sold. Therefore, the Board concluded that the scope exception for equity method investments in Subtopic 205-20 should be eliminated. The Board also noted that this would improve convergence of IFRS and U.S. GAAP.

Disclosure

Disclosures for Discontinued Operations

BC18. The 2008 proposed FSP included several new disclosures that would provide users with information about the financial effects of a discontinued operation. Respondents were generally supportive of the disclosure requirements for transactions qualifying as discontinued operations. Therefore, the Board decided to retain those disclosures in this proposed Update.

Disclosures for a Disposal of a Component of an Entity

BC19. The 2008 proposed FSP included many of the same disclosures for disposals of components of an entity that do not qualify as discontinued operations as those that were included for discontinued operations. 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 be a 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 insignificant disposals.

BC20. 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 believes that the proposed definition of discontinued operation would result in fewer disposals of components of an entity being reported as discontinued operations than what is now being reported under the current definition in U.S. GAAP. Therefore, users would have less information about disposals of significant components of an entity without further disclosures.

BC21. For a public entity, the Board decided to propose the following disclosures for disposals of individually material components of an entity that do not meet the definition of discontinued operation:

- a. The pretax profit or loss of the individually material component of an entity for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported
- b. A reconciliation of the major classes of assets and liabilities of an individually material component of an entity classified as held for sale that are disclosed in the notes to the 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
- c. If the individually material component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported.

BC22. For a nonpublic entity, the Board decided to propose the following disclosures for disposals of individually material components of an entity that do not meet the definition of discontinued operation:

- a. The pretax profit or loss of the individually material component of an entity for the period in which it is sold or is classified as held for sale
- b. If the individually material component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale.

BC23. The Board believes that those disclosures would provide users with additional information about those individually material components of an entity that may have been previously classified as discontinued operations.

Continuing Involvement

BC24. The amendments in this proposed Update would eliminate 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.

BC25. The Board has 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 is helpful, the Board believes some preparers continue to have difficulty in applying the guidance in Issue 03-13 to individual fact patterns.

BC26. Although the Board decided to eliminate these conditions, the Board decided to require disclosures about an entity's continuing involvement with a discontinued operation. 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 believes that those disclosures would 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

BC27. The Board believes that it would be difficult for preparers to retrospectively apply the amendments in this proposed Update. In particular, recalculating the income tax expense or benefit attributable to a discontinued operation in prior periods based on a new definition could be complex. Additionally, prospective application would reduce the amount of time that entities would need to implement the amendments in this proposed Update. Therefore, the Board decided to propose a prospective transition method.

Benefits and Costs

BC28. 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.

BC29. The Board believes that the proposed definition would provide more benefits to users because an entity would present discontinued operations only when there is a significant strategic shift in operations, resulting in improved financial reporting that more faithfully represents an entity's results from continuing operations. Additionally, the Board believes that the proposed definition of discontinued operation would result in fewer disposals of components of an entity that qualify for discontinued operations reporting. This would reduce the costs and complexity of preparing and reporting financial information about a discontinued operation.

BC30. The proposed definition of discontinued operation also would improve convergence of that definition and the definition of discontinued operation in IFRS. While there are some differences in terminology, both definitions would be based on the notion of a major line of business or major geographical area of operations.

BC31. While the amendments in this proposed Update would not use IFRS's cash-generating unit concept in the definition of discontinued operation, the Board does not expect that this change would result in a significant difference from IFRS in the unit of account that qualifies for discontinued operations reporting. Additionally, the proposed amendments would include in the definition of discontinued operation a business that, on acquisition, is classified as held for sale instead of a subsidiary that, on acquisition, is classified as held for sale.

BC32. The amendments of this proposed Update would require expanded disclosures for discontinued operations and for disposals of individually material components of an entity that do not qualify for discontinued operations presentation. The Board believes that the new disclosures would provide users of financial statements with more information about the financial results of discontinued operations and disposals of individually material components of an entity. For example, disclosures about the operating, investing, and financing cash flows would be required for a discontinued operation.

BC33. Preparers would incur more costs to provide the expanded disclosures about discontinued operations and disposals of individually material components of an entity. However, the Board believes that entities would be reporting discontinued operations less frequently than under the current definition, which would 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.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). We welcome comments on these proposed changes to the UGT at ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the UGT will be made available for public comment at www.fasb.org and finalized as part of the annual release process.