

FASB In Focus

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*

On April 10, 2014, the Financial Accounting Standards Board (FASB) issued guidance that improves U.S. generally accepted accounting principles (GAAP) by more faithfully representing when a company or other organization discontinues its operations. 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*, changes the criteria for reporting a discontinued operation. Under the new guidance, a disposal of part of an organization that has a major effect on its operations and financial results is a discontinued operation.

Why Is the FASB Issuing This Accounting Standards Update?

The FASB's objective in undertaking the project was to develop an improved definition of discontinued operations that also would enhance convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). It also sought to increase transparency about discontinued

operations and individually significant components of a company or other organization that have been—or will be—disposed.

In existing U.S. GAAP, an organization must report in discontinued operations the results of operations of a component of an organization that either has been disposed of or is classified as held for sale 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 organization as a result of the disposal transaction, and
- b. The organization will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Some stakeholders have criticized the criteria, saying that too many disposals of assets qualify for discontinued operations presentation—including routine disposals and small groups of assets. This has resulted in financial statements that are less decision useful. Other stakeholders noted that the guidance on reporting

The objectives of this Update are to:

- Change the current definition of “discontinued operations” so that only disposals of components that represent major strategic shifts qualify for discontinued operations reporting,
- Reduce the complexity of the extensive implementation guidance and illustrations necessary to apply the current definition of discontinued operations, and
- Improve disclosures about the assets, liabilities, revenues, and expenses of a discontinued operation.

discontinued operations, including the extensive implementation guidance and illustrations, can be complex and difficult to apply. Additionally, users have noted that information about discontinued operations is primarily focused on the income statement.

How Does the New Guidance in This Update Address These Concerns?

According to the new guidance, a disposal that represents a **strategic shift** that has a major effect on an organization's operations and financial results is a discontinued operation. This represents a significant change to discontinued operations under current requirements, which could include a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group.

According to the new guidance, a disposal that represents a strategic shift that has a major effect on an organization's operations and financial results is a discontinued operation.

Furthermore, the new guidance reduces complexity by removing the complex and extensive implementation guidance and illustrations that are necessary to apply the current definition of a discontinued operation.

Finally, the new guidance requires expanded disclosures about discontinued operations that will provide users with more information about the assets, liabilities, revenues, and expenses of a discontinued operation. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part

of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations.

How Do These Changes to U.S. GAAP Compare with IFRS?

The amendments to the definition of a discontinued operation are similar to the definition contained in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Part of the definition of a discontinued operation in the new guidance was based on guidance in IFRS 5 indicating that a discontinued operation should represent a separate major line of business or geographical area of operations, which are examples of a major strategic shift in the new guidance.

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

When Will the Amendments in This Update Be Effective?

A public company and a not-for-profit organization 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 new guidance prospectively to all disposals (or classifications as held for sale) of components of an organization and 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 organizations should apply the amendments in this Update prospectively to all disposals (or classifications as held for sale) of components of an organization and 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.

Earlier application is permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements.

For more information about the project, please visit the FASB's website at www.fasb.org.