KPMG

Discontinued operations

and held-for-sale disposal groups

Handbook

US GAAP

March 2024

frv.kpmg.us

Contents

A significant shift in operations

The reporting of discontinued operations signals that, through a disposal transaction, an entity is undertaking a strategic shift of significance to its operations and financial results. It shows the financial effect of such a shift to the users of the entity's financial statements – allowing them to better understand continuing operations.

The underlying principles in Subtopic 205-20 evolved with the issuance of ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

The FASB narrowed the types of disposals that are reported in discontinued operations to exclude from the presentation requirement routine transactions that do not change the entity's strategy. The current definition of discontinued operations reduces the burden on preparers, but disclosures remain extensive – in particular for significant disposals that do not qualify as discontinued operations.

This Handbook provides an in-depth look at the classification of operations that have been or will be disposed of. We have organized our discussion so that each step in the classification process is analyzed to make it easier to identify how a disposal should ultimately be presented and disclosed; for areas where the guidance is unclear, we have provided our position. We hope that this publication will be useful in properly reporting discontinued operations.

Valerie Boissou and Tim Phelps
Department of Professional Practice, KPMG LLP

About this publication

The purpose of this Handbook is to assist in assessing, classifying and reporting discontinued operations and held-for-sale disposal groups.

Organization of the text

Each chapter of this Handbook represents a different step in determining whether, when and how a disposal group is reported in discontinued operations. The chapters include excerpts from the FASB's Accounting Standards Codification® Subtopics 205-20 and 360-10. Practical in-depth explanations and examples are provided to assist with the real-world application of key concepts.

Our commentary is referenced to the Codification and other literature, where applicable. The following are examples.

— 205-20-45-1 is paragraph 45-1 of ASC Subtopic 205-20

— ASU 2014-08.BC28 is paragraph 28 of the basis for conclusions to Accounting Standards Update 2014-08

— SAB Topic 5.Z.5 is SEC Staff Accounting Bulletin Topic 5.Z.5

— 2015 AICPA Conf is the 2015 AICPA National Conference on Current SEC and PCAOB Developments

— S-K Item 302 is Item 302 of SEC Regulation S-K

— §249.308a Act 1934 is paragraph 308a in Part 249 of the Securities Exchange Act of 1934

Terminology

Throughout this Handbook, we use the term **income statement** to describe the statement of net income as defined in Topic 220 (income statement – reporting comprehensive income) (i.e. excluding items of other comprehensive income) and the term **balance sheet** to describe the statement of financial position as defined in Topic 210 (balance sheet).

We use the term **disposal group** to describe a group of assets (with or without liabilities) that an entity has or intends to dispose of. When a disposal group comprises cash flows that can be clearly distinguished in accordance with Subtopic 205-20, we use the term **component of an entity** (or simply **component**).

March 2024 edition

This edition of our Handbook includes updated interpretations based on our continued practical experience with entities applying Subtopic 205-20. Guidance in this edition that has been significantly updated or revised is identified with **#**. The Index of changes identifies all significant changes.

Pending content#

The Codification excerpts in this edition of our Handbook do not reflect amendments made by Accounting Standards Update 2023-05, Business Combinations – Joint Venture Formations, which is effective for joint venture formations with a formation date on or after January 1, 2025. Likewise, this edition does not discuss these amendments.

Amongst other changes, the ASU amends Subtopics 205-10 and 205-20 to state that a business or nonprofit activity that, upon formation of a joint venture, is classified as held for sale needs to be assessed under the discontinued operations guidance. See KPMG Defining Issues, FASB issues ASU for joint venture formations.

Abbreviations

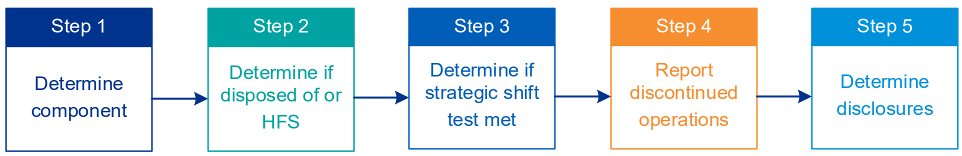
We use the following abbreviations in this Handbook:

AFS	Available-for-sale
CODM	Chief operating decision maker
EPS	Earnings per share
HFI	Held-for-investment
HFS	Held-for-sale (in tables and graphics)
HTM	Held-to-maturity
NCI	Noncontrolling interest
NFP	Not-for-profit (e.g. NFP activity means not-for-profit activity)
ROU	Right-of-use (asset)

1. Executive summary

The reporting and disclosure requirements for discontinued operations are contained in Subtopic 205-20. When an entity is discontinuing a part of its business, this Subtopic may require the entity to separately report and disclose that part's assets, liabilities and results of operations. However, the Subtopic's applicability is very limited, so many disposal transactions are not reported in discontinued operations.

Determining whether, when and how to report and disclose discontinued operations is a five-step process.



This five-step process is triggered when an entity has or plans to dispose of a part of its operations. The part it has or plans to dispose of is referred to in this Handbook as a 'disposal group'.

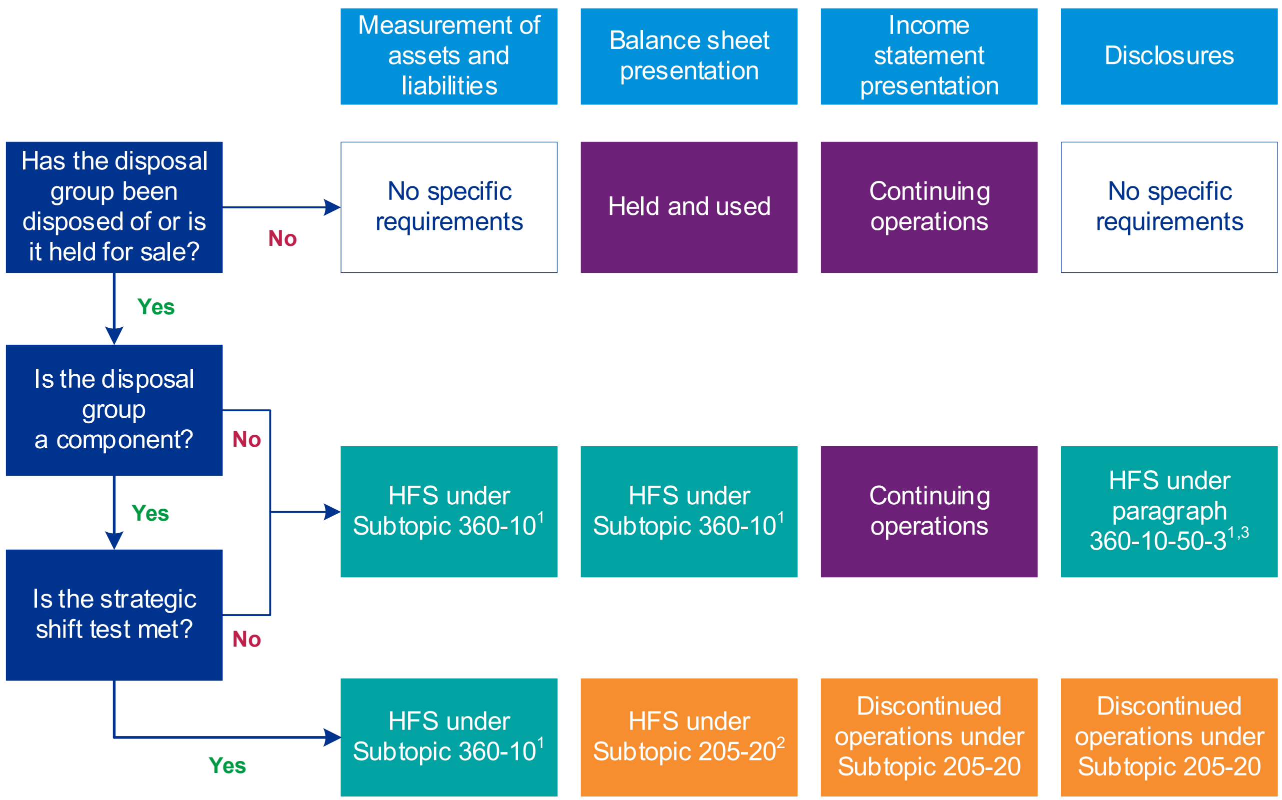
Under this five-step process, a disposal group is reported in discontinued operations when several conditions are met regarding:

— **Unit of account.** The disposal group is a component or group of components (Step 1) or is a business or NFP activity that on acquisition is classified as held-for-sale (Steps 1 and 2).

— **Timing.** Disposal has occurred or the held-for-sale criteria are met (Step 2).

— **Magnitude of disposal.** The disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results (Step 3).

The following diagram depicts how a disposal group is evaluated through this five-step process.



Notes:

1. If in scope of Subtopic 360-10 and not yet disposed of.
2. If not yet disposed of.
3. If the disposal group is an individually significant component, disclosures specified in paragraph 360-10-50-3A are also required.

Scope of discontinued operations

Only certain disposal groups are in the scope of Subtopic 205-20.

The scope of Subtopic 205-20 comprises two types of disposal groups:

— components (or groups of components) that are disposed of during the period or classified as held-for-sale at the end of the period; and

— businesses and NFP activities that, on acquisition, are classified as held-for-sale.

When a business or NFP activity is classified as held-for-sale on acquisition, it is automatically reported in discontinued operations. In contrast, components need to meet the strategic shift test (see chapter 5) if they are to be reported in discontinued operations.

The only explicit exclusion from the scope of Subtopic 205-20 is for oil and gas properties accounted for using the full-cost method.

Read more: Chapter 2

Determine the component of an entity

A disposal group that has been part of an entity's continuing operations can be reported in discontinued operations only if it is a component of the entity.

The first step in applying Subtopic 205-20 to a disposal group is to determine if the group is a component. A disposal group that does not constitute a component is not reported in discontinued operations unless it is a business or NFP activity that was classified as held-for-sale on acquisition.

A disposal group is a component under this Subtopic if it has "operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity." This definition is the same as the definition of a component in other Codification Topics.

Read more: Chapter 3

Disposed of or held-for-sale

To be reported in discontinued operations, a disposal group has to either have been disposed of in the period or meet six held-for-sale criteria.

The second step in applying Subtopic 205-20 to a component that has been part of an entity's continuing operations is to determine if it has been disposed of during the period (either by sale or other means) or is considered held-for-sale as of the end of the period. If it passes this second step, it is then subject to Step 3 before it can be reported in discontinued operations.

In contrast, if a disposal group is a business or NFP activity acquired with the intent to dispose of it, it is automatically reported in discontinued operations if it is considered held-for-sale on acquisition.

Subtopic 205-20 contains six criteria that a disposal group has to meet to be considered held-for-sale. A component that an entity plans to dispose of by means other than a sale (e.g. abandonment or spinoff) cannot meet these criteria and therefore is not reported in discontinued operations until it is disposed of.

Disposal groups that meet the held-for-sale criteria are measured under Subtopic 360-10 at the lower of carrying amount and fair value less cost to sell if they are in scope of that subtopic. The measurement requirements apply regardless of whether the disposal group is reported in discontinued operations.

Read more: Chapter 4

Strategic shift test

A component that either has been disposed of during the period or meets the held-for-sale criteria by period end is reported in discontinued operations if it meets the strategic shift test.

The strategic shift test requires a component to:

— represent a strategic shift in the entity's business; and

— have (now or in the future) a major effect on the entity's operations and financial results.

These are two separate, but interrelated conditions of the strategic shift test. Neither condition is well defined in Subtopic 205-20, but the FASB has given some guidance and there are best practices to follow.

Read more: Chapter 5

Presentation of discontinued operations

When a disposal group meets the requirements in Subtopic 205-20 to be reported in discontinued operations, it is referred to as a 'discontinued operation', even if it has not yet been disposed of.

Discontinued operations are reported separately on the balance sheet, and in the income statement and statement of cash flows – and are labeled as discontinued operations for the current and comparative periods. For comparative purposes, prior periods are adjusted to reflect the effect of operations discontinued in the current period.

- **Balance sheet.** When a discontinued operation has not yet been disposed of at the reporting date, its assets and liabilities are measured the same as other held-for-sale assets and liabilities – i.e. at the lower of carrying amount and fair value less cost to sell.
- **Income statement.** The primary income statement issue under Subtopic 205-20 is allocating costs between discontinued and continuing operations. This may be challenging because only direct costs may be associated with a discontinued operation.

Read more: Chapter 6

Disclosure of discontinued operations

Disclosure requirements exist for disposal groups regardless of whether they are discontinued operations.

The disclosures for discontinued operations are in Subtopic 205-20; the disclosures for other disposal groups are in Subtopic 360-10.

The disclosure requirements in Subtopic 205-20 regarding discontinued operations vary depending on the type of disposal group:

- a component or group of components;
- a business or NFP activity; or
- an equity method investment.

Disposal groups that are not discontinued operations are subject to the disclosure requirements in Subtopic 360-10. Those requirements are similar to those in Subtopic 205-20.

Further, there are special disclosure requirements for ‘significant’ disposal groups that are not discontinued operations.

Read more: Chapter 7

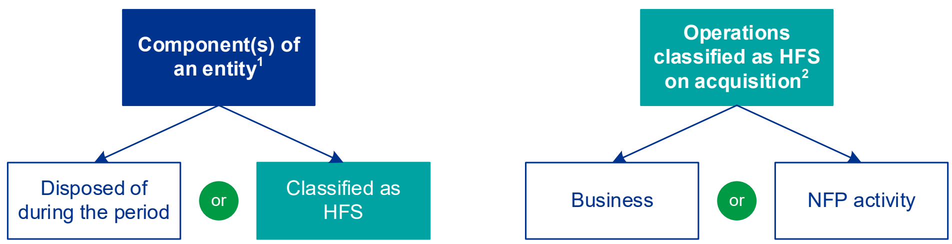
2. Scope of discontinued operations

Detailed contents

2.1 How the standard works

Subtopic 205-20 applies to disposal groups – i.e. operations an entity has disposed of or intends to dispose of. However, not all disposal groups are in the scope of Subtopic 205-20.

The following are in the scope of Subtopic 205-20.



Notes:

1. Components in the scope of Subtopic 205-20 – i.e. components that were disposed of during the period or are classified as held-for-sale at the reporting date – need to satisfy the strategic shift test before they can be reported in discontinued operations.
2. Operations classified as held-for-sale on acquisition are automatically reported in discontinued operations; they do not have to satisfy the strategic shift test.

Subtopic 205-20 applies equally to business and NFP entities, but not to certain oil and gas properties.

2.2 Scope of Subtopic 205-20

Excerpt from ASC 205-10

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

a. A **component of an entity** that either has been disposed of or is classified as held for sale
b. A **business** or **nonprofit activity** that, on acquisition, is classified as held for sale.

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

> Overall Guidance

15-1 The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Presentation of Financial Statements Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Presentation of Financial Statements Topic.

> Entities

15-2 The guidance in the Presentation of Financial Statements Topic applies to business entities and not-for-profit entities (NFPs).

Excerpt from ASC 205-20

05-1 This Subtopic provides guidance on the presentation and disclosure requirements for discontinued operations. A discontinued operation may include a **component of an entity** or a group of components of an entity, or a **business** or **nonprofit activity**.

> Overall Guidance

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

> Transactions

15-2 The guidance in this Subtopic applies to either of the following:

a. A **component of an entity** or a group of components of an entity that is disposed of or is classified as held for sale

b. A **business** or **nonprofit activity** that, on acquisition, is classified as held for sale.

> Entities

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

> What Is a Discontinued Operation?

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

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

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

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

• > A Discontinued Operation Comprising a Business or Nonprofit Activity

45-1D A business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held-for-sale is a discontinued operation. If the one-year requirement in paragraph 205-20-45-1E(d) is met (except as permitted by paragraph 205-20-45-1G), a business or nonprofit activity shall be classified as held for sale as a discontinued operation at the acquisition date if the other criteria in paragraph 205-20-45-1E are probable of being met within a short period following the acquisition (usually within three months).

Only the following types of disposal groups are in the scope of Subtopic 205-20 and can be reported in discontinued operations, although further assessment is necessary for some disposal groups. [205-10-15-2]

Nature of disposal group	Where in the disposal process?	Further assessment needed under Subtopic 205-20?
Component of an entity (see chapter 3)	Disposed of during the period or meets the held-for-sale criteria at the reporting date (see chapter 4)	Yes. The strategic shift test needs to be satisfied before concluding that the component should be reported in discontinued operations (see chapter 5).

Nature of disposal group	Where in the disposal process?	Further assessment needed under Subtopic 205-20?
Acquired business or NFP activity (see section 2.3)	On acquisition, it meets the held-for-sale criteria (see chapter 4).	No. Reported in discontinued operations automatically.

Question 2.2.10

Can oil and gas properties accounted for using the successful efforts method be in the scope of Subtopic 205-20?

Interpretive response: Yes. Oil and gas properties accounted for using the **successful efforts method** can be in the scope of Subtopic 205-20 and therefore can be reported in discontinued operations if the requirements of Subtopic 205-20 are met.

Only oil and gas properties accounted for using the **full-cost method** are explicitly excluded from the scope of Subtopic 205-20. They are excluded because the tracking and allocation of costs are performed at a much higher level under the full-cost method than both the asset group level under Subtopic 360-10 and the component level under Subtopic 205-10. [205-10-15-3, ASU 2014-08.BC28]

However, even if an unproved oil and gas property is accounted for under the **successful efforts method**, it rarely will qualify to be reported in discontinued operations. This is because it generally will not have operations (see Question 3.3.10) and therefore will not qualify as a component of an entity. Further, even if an unproved oil and gas property does qualify as a component of an entity, its disposal would have to represent a strategic shift for it to be reported in discontinued operations, which typically will not be the case.

Question 2.2.20

Is the disposal of a business in the scope of Subtopic 205-20 when the transferor and receiving entity are under common control?

Background: Common control transactions involve exchanges or movements of net assets or equity interests between entities controlled, directly or indirectly, by the same parent, investor or ownership group that has agreed to vote in concert. Combinations of entities under common control are discussed in chapter 28 of KPMG Handbook, Business combinations.

A change in reporting entity is a circumstance that results in financial statements of a different reporting entity than previously presented. The change is applied retrospectively, meaning that the comparative financial information is that of the new reporting entity. See section 3.6 of KPMG Handbook, Accounting changes and error corrections.

Interpretive response: Generally, yes. However, there may be limited circumstances where the transferor (transferring entity) concludes that Subtopic 205-20 does not apply because the common control transaction represents a change in reporting entity.

As explained in Question 3.6.50 in KPMG Handbook, Accounting changes and error corrections, we believe that a common control transaction may represent a change in reporting entity if the transferor and receiving entity: [SAB Topic 5.Z.7]

- are in dissimilar businesses;
- have been managed and financed historically as if they were autonomous;
- have no more than incidental common facilities and costs;
- will be operated and financed autonomously after the transaction; and
- will not have material financial commitments, guarantees or contingent liabilities to each other after the transaction.

Careful consideration is necessary to determine whether a change in reporting entity has truly occurred for the transferor, and the SEC staff may challenge an entity's assertion that a such a change has occurred. We believe that if any of the above criteria are not met, the transaction generally does not represent a change in reporting entity; the transferor should instead assess the disposal under Subtopic 205-20.

2.3 Acquired business or NFP activity

A business or NFP activity that on acquisition meets the held-for-sale criteria (see chapter 4) is not analyzed under the strategic shift test. Instead, it is reported in discontinued operations automatically based on its held-for-sale classification. The strategic shift test does not apply because the acquired business or NFP activity was not previously part of the entity and is classified as held-for-sale on acquisition. [205-10-45-1D]

A business or NFP activity that on acquisition is classified as held-for-sale is measured at fair value less cost to sell. This is similar to acquired long-lived assets or other disposal groups classified as held-for-sale on acquisition. [805-20-30-22]

Question 2.3.10

Does an acquired business or NFP activity need to meet the held-for-sale criteria on its acquisition date to be reported in discontinued operations?

Interpretive response: No. An acquired business or NFP activity is not required to meet all the held-for-sale criteria on the exact date of acquisition to be classified as held-for-sale and reported in discontinued operations. The only criterion it needs to meet on the acquisition date is the one-year criterion, which requires that a completed sale within one year needs to be probable (see section 4.2.50).

If the one-year criterion is met on the acquisition date, and if it is probable that the other held-for-sale criteria will be met within a short period (usually three months) following the acquisition, then the acquired business or NFP activity is:

— reported in discontinued operations in the income statement and statement of cash flows;
— classified as held-for-sale on the balance sheet; and
— measured at fair value less cost to sell; there is an exception for foreclosed assets (see Question 2.3.20).

See chapter 7 for a discussion of the disclosure requirements. [205-20-45-1D]

Question 2.3.20

What are considerations for lenders in relation to foreclosed assets held-for-sale?

Background: A lender may execute foreclosure proceedings on a mortgage loan, and repossess an asset from a debtor. In our experience, typically the lender intends to resell the foreclosed asset immediately.

Interpretive response: Consistent with Question 2.3.10, a lender classifies a foreclosed asset as held-for-sale at the date of foreclosure if it is probable that (1) the asset will be sold within one year and (2) the other held-for-sale criteria will be met within a short period (usually three months) after foreclosure. By contrast, Example 7 in Subtopic 360-10 (see section 4.2.80) illustrates situations in which a foreclosed asset is not available for immediate sale. [360-10-55-42]

As an exception to the regular measurement for held-for-sale assets discussed in Question 2.3.10, a foreclosed asset is recorded at the lower of the recorded investment in the receivable and the foreclosed asset's fair value less cost to sell. [310-40-40-3, 360-10-35-43]

2.4 Equity method investments

Equity method investments are excluded from the scope of Subtopic 360-10, but not from the scope of Subtopic 205-20. Therefore, an equity method investment can be a component of an entity (see chapter 3) in the scope of Subtopic 205-20 when the investor plans to dispose of it. [205-20-45-1C]

Disclosure requirements for equity method investments reported in discontinued operations are reduced compared to other types of components. Further, specific disclosures are required when the entity retains an equity method investment in a former subsidiary after the disposal (see section 7.2.10).

Question 2.4.10

Are equity method investments that meet the held-for-sale criteria always presented as held-for-sale?

Interpretive response: No. The held-for-sale criteria in Subtopic 205-20 (see chapter 4) are applied to an equity method investment to determine whether the investment should be reported in discontinued operations. If an investment meets the held-for-sale criteria, it is reported:

— as held-for-sale on the balance sheet; and
— in discontinued operations in the income statement and statement of cash flows, if it is also a component and satisfies the strategic shift test (see chapter 5).

However, if one of those two conditions is not met (component or strategic shift test), we believe the investor should not present the equity method investment as held-for-sale on the balance sheet even if it meets the held-for-sale criteria. This is because equity method investments are outside the scope of Subtopic 360-10.

Regardless of how the equity method investment is reported, the investor continues to apply the measurement principles of Topic 323 (equity method and joint ventures). The held-for-sale measurement principles in Subtopic 360-10 do not apply to equity method investments. [205-10-05-3A, 360-10-15-5(d)]

The following table summarizes the treatment of an equity method investment that the investor plans to dispose of.

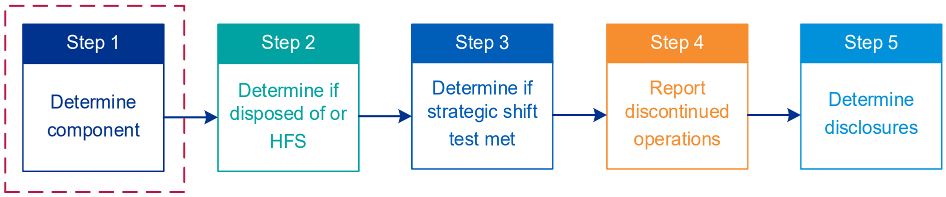
Equity method investment:	Present as HFS	Report in discontinued operations	Apply measurement guidance in Topic 323
Does not meet HFS criteria	✘	✘	✔
Meets HFS criteria but is not a component	✘	✘	✔
Is a component that meets HFS criteria but not strategic shift test	✘	✘	✔
Is a component that meets HFS criteria and strategic shift test	✔	✔	✔

See chapter 7 of KPMG Handbook, Equity method of accounting, for discussion about the presentation and disclosure of equity method investments.

3. Component of an entity

Detailed contents

3.1 How the standard works



The five-step model applies to disposal groups in the scope of Subtopic 205-20. However, Steps 1 and 3 are irrelevant to a business or NFP activity that was classified as held-for-sale on acquisition because it is automatically reported in discontinued operations (see section 2.3).

The first step in assessing whether a disposal group is reported in discontinued operations is to determine if it is a component of the entity. This determination is based on whether the disposal group has "operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity." [205-20 Glossary]

If a disposal group does not qualify as a component but contains a long-lived asset in the scope of Subtopic 360-10, Step 2 is still performed to determine if the disposal group meets the held-for-sale criteria. If the disposal group is classified as held-for-sale under Subtopic 360-10, the following guidance in that Subtopic applies: measurement (see section 4.5), presentation (see section 6.2.30) and disclosure (see section 7.3).

3.2 Definition of component of an entity

Excerpt from ASC 205-20

20 Glossary

Component of an Entity – 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.

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.

A 'component of an entity' is one of the units of account under Subtopic 205-20 – the other being a business or NFP activity that is classified as held-for-sale on acquisition (see chapter 2). It represents the lowest level at which a disposal group is evaluated to determine if it should be reported in discontinued operations. [205-20-15-2(a)]

The definition of component of an entity is broad, and "comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity." [205-20 Glossary]

A 'disposal group' is the unit of account under Subtopic 360-10 to assess the held-for-sale criteria (see chapter 4). A long-lived asset or an asset group form a disposal group if they are intended for disposal in a single transaction. A disposal group might be smaller or larger than a component. [205-20 Glossary]

Question 3.2.10

Can a disposal group be reported in discontinued operations if it is not a component?

Interpretive response: No. A disposal group can be a single long-lived asset or a group of assets, and therefore does not necessarily have operations and cash flows that can be clearly distinguished from the rest of the entity. An entity cannot report a disposal group in discontinued operations if it does not meet the definition a component because a 'component' or 'group of components' is the unit of account in applying Subtopic 205-20. [205-20-15-2(a), 205-20 Glossary]

However, there may be situations in which a disposal group includes a component that is reported in discontinued operations as well as other assets that are not part of the discontinued operations (see Question 6.2.60).

Further, Subtopic 360-10 includes specific measurement (see section 4.5), presentation (see section 6.2.30) and disclosure requirements (see sections 7.3 and 7.4) relevant to disposal groups held-for-sale (or disposed of) that are not reported in discontinued operations. [360-10-50-3A]

Question 3.2.20

Can a disposal group comprise several components that are evaluated in aggregate?

Interpretive response: Yes. Subtopic 205-20 applies to the disposal of a component *or* group of components. Therefore, a single disposal group comprising several components may:

— contain a single component that meets all the requirements to be reported in discontinued operations, while the other components do not. Only that single component is reported in discontinued operations, and the rest are reported in continuing operations.

— contain some components that in the aggregate meet all the requirements to be reported in discontinued operations, while other components do not. The former are reported in discontinued operations and the latter are reported in continuing operations.

— be a discontinued operation in its entirety. The entire disposal group is reported in discontinued operations.

The above are general statements about how groups of components are treated after they are analyzed under Subtopic 205-20 – i.e. the held-for-sale criteria (Step 2) and the strategic shift test (Step 3). For a discussion of how to apply these requirements to a group of components, see Question 4.2.10 (held-for-sale criteria) and Question 5.3.30 (strategic shift test).

Question 3.2.30

In identifying components, can an entity use units of account identified in applying other Codification Topics?

Background: The definition of a component of an entity is the same under both Subtopic 205-20 and Subtopic 360-10 (impairment of long-lived assets). Further, the definition of a component of an entity directly affects the determination of not only discontinued operations under Subtopic 205-20, but also operating segments under Topic 280 (segment reporting) and reporting units under Topic 350 (goodwill impairment testing).

Unit of account	ASC	Definition	Purpose
Operating segment	Topic 280	A component of a public entity that engages in business activities, from which it may	**Used as a stepping stone to**

Unit of account	ASC	Definition	Purpose
		recognize revenues and incur expenses, has operating results regularly reviewed by the CODM and has discrete financial information available.	**determine reportable segments.**
Reportable segment	Topic 280	An operating segment or grouping of operating segments that exceeds certain quantitative thresholds.	**Used by public entities to disclose segment information.**
Reporting unit	Topic 350	An operating segment or one level below.	**Used to test goodwill for impairment.**
Asset group	Topic 360	The unit of account for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.	**Used to test long-lived assets (excluding goodwill) for impairment.**

Interpretive response: Yes, with caveats. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group as defined in these other Topics. [205-20 Glossary]

Operating segments and reportable segments under Topic 280

An operating segment is defined by reference to a component; therefore, a disposal group that is an operating segment typically is a component (or a group of components) under Subtopic 205-20. However, not all components are operating segments. Therefore, a disposal group that does not constitute an operating segment may still be a component under Subtopic 205-20. The same is true of a disposal group that is also a reportable segment because a reportable segment is either a single operating segment or a group of operating segments. [280-10-50-1 – 50-10]

Chapter 4 of KPMG Handbook, Segment reporting, further discusses how to identify and aggregate operating segments.

Reporting units under Topic 350

Topic 350 requires that an entity test goodwill for impairment at the level of a reporting unit, which is an operating segment or one level below (which is a component). A component is a reporting unit for goodwill impairment purposes if it constitutes a business (or an NFP activity) for which discrete financial information is available and for which segment management (as defined in Topic 280) regularly reviews the operating results. [350-20-35-34]

A reporting unit for goodwill impairment purposes varies depending on the level at which performance of the segment is reviewed, how many businesses the operating segment includes, and the similarity of those businesses. A reporting unit often exists at a lower level than an operating segment because segment managers review the financial information of a reporting unit, whereas the CODM reviews the operating results of an operating segment. Segment managers can review components and aggregate them as a single reporting unit if they have similar economic characteristics under Topic 350. This aggregation of several components with similar economic characteristics may result in a reporting unit or an operating segment that comprises multiple components. [350-20-35-35]

Therefore, a disposal group that is a reporting unit typically is a component (or a group of components) under Subtopic 205-20, but not all components are reporting units.

Section 3.2 in KPMG Handbook, Impairment of nonfinancial assets, further discusses how to identify reporting units.

Asset groups under Subtopic 360-10

Under Subtopic 360-10, an asset group represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. A component of an entity is one that comprises "operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity." If a disposal group's cash flows are not largely independent – meaning the disposal group does not meet the definition of an asset group – it is unlikely that the disposal group could meet the definition of a component under Subtopic 205-20. [360-10 Glossary, 205-20 Glossary]

Therefore, we do not believe a component of an entity can be identified at a level lower than an asset group. However, it is possible that a component of an entity may be larger than an asset group – e.g. a reportable or operating segment, a reporting unit or subsidiary.

Section 3.3 in KPMG Handbook, Impairment of nonfinancial assets, further discusses how to determine asset groups.

3.3 Clearly distinguished operations and cash flows

For a disposal group to be a component, its operations and cash flows need to be clearly distinguishable from the rest of the entity. Therefore, the disposal group's legal form (or lack thereof) is irrelevant to the overall assessment. [205-20 Glossary]

Question 3.3.10
Must a component have cash inflows?

Interpretive response: Generally, yes. We believe that revenue (or other cash inflows) generally is an element of 'operations' under the definition of a component. Therefore, a disposal group that has a cost or cash outflow stream but no revenue stream (or other type of cash inflow) generally is not a component.

For example, a vertically integrated cost center or function generally does not meet the definition of a component under Subtopic 205-20 because it has no revenues and therefore its disposal would not be reported in discontinued operations. Further, if an entity disposes of a vertically integrated cost function but subsequently engages a third party to perform services on an outsourced basis, the entity generally is just changing the composition of its cost structure and not eliminating it. Therefore, even if the vertically integrated cost center or function is considered to be a component, the disposal generally would not be reported in discontinued operations because it is unlikely that the disposal represents a strategic shift (see chapter 5).

Question 3.3.20

What factors are considered in determining if a component has clearly 'distinguishable' operations and cash flows?

Interpretive response: Whether a component has operations and cash flows that can be clearly distinguished from the rest of the entity is based on:

— the availability of information; and
— the level of shared costs between the component and the rest of the entity.

To be available, we do not believe financial information needs to be 'currently compiled' as long as it can be obtained. Whether financial information is available may depend on the level of effort required to obtain it, which may include analysis and allocation of expenses.

Further, significant shared costs, even if they can be allocated (see section 6.3.40), may indicate that operations and cash flows cannot be clearly distinguished from the rest of the entity.

Question 3.3.30

Can a customer relationship be a component?

Interpretive response: Generally, no. Although a customer relationship is not precluded from being a component of an entity, it is unlikely to meet the definition. Therefore, the loss of a specific customer relationship will not usually need to be reported in discontinued operations.

We understand the FASB staff discussed this issue informally with the Board in connection with issuing previous discontinued operations guidance. While Board members indicated that the loss of a customer relationship could be the disposal of a component of an entity, neither the Board nor the staff identified the criteria to be met to support that conclusion.

The entity should consider all facts and circumstances surrounding the customer relationship when making this assessment, in particular the level of shared costs (see Question 3.3.20).

Further, even if the customer relationship is a component, the loss of that relationship is not reported in discontinued operations unless it represents a strategic shift (see chapter 5). It is unlikely that the loss of a customer relationship on its own constitutes a strategic shift. [205-20-45-1B]

Question 3.3.40

Can an entity retain certain assets of a disposal group and still consider it a component?

Interpretive response: Yes. If an entity retains certain assets (e.g. working capital, corporate headquarters, intangible assets) related to the disposal group, we believe the disposal group might still be considered a component of the entity, depending on the facts and circumstances. The entity also needs to assess if keeping certain assets affects whether the disposal is a strategic shift (see Question 5.3.60).

Question 3.3.50

Is the disposal of all or almost all of an entity's operations reported in discontinued operations?

Interpretive response: No. We do not believe that an entity should report the disposal of all or almost all its activities in discontinued operations. In this instance, the operations disposed of generally do not meet the definition of a component of an entity in Subtopic 205-20 because they are not clearly distinguishable from the rest of the entity. [205-20 Glossary]

For further discussion of how the requirements in Subtopic 360-10 apply in this circumstance, see Question 4.2.20.

Example 3.3.10

Disposal of single asset in a 'single-asset' company

ABC Corp. is a 'single-asset' company formed to own, develop, operate, maintain and lease one commercial office building. Other insignificant assets include trade receivables and cash. Tenant's lease contains an option to purchase the building, which Tenant exercises before year-end. Closing is expected to occur within two months of the year-end.

Because the building is ABC's sole asset, the operations (the building) to be disposed of cannot be distinguished from the rest of the entity. Therefore, the disposal of ABC's only asset does not meet the definition of a component of an entity as contemplated in Subtopic 205-20 and cannot be reported in discontinued operations in ABC's financial statements.

However, ABC needs to apply the measurement requirements in Subtopic 360-10 (see section 4.5).

4. Disposed of or held-for-sale

Detailed contents

Item significantly updated in this edition: #

Examples

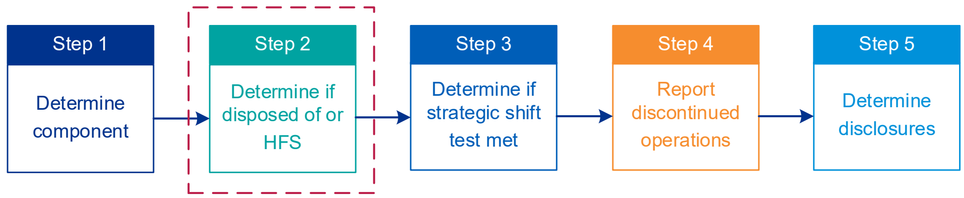
Questions

Examples

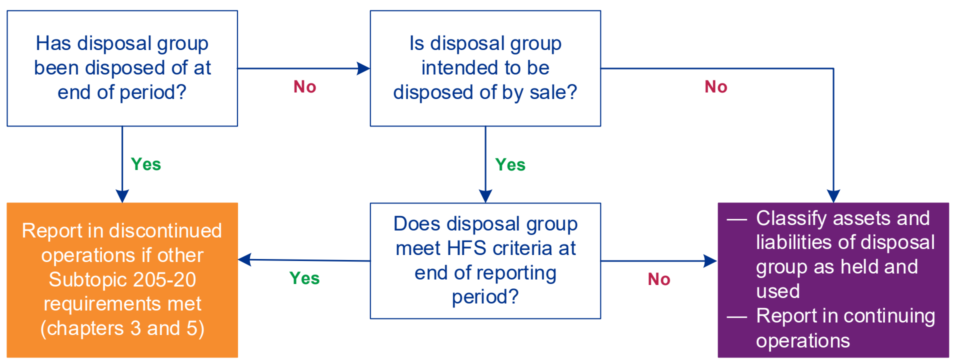
4.6 Changes to a plan of sale

Questions

4.1 How the standard works



A disposal group that is a component of an entity (see chapter 3) cannot be reported in discontinued operations unless it has actually been disposed of (by sale or other means) during the period, or it is classified as held-for-sale at the reporting date.



Effect of held-for-sale analysis

The held-for-sale analysis is performed as of each reporting date for each disposal group that an entity intends to sell.

Held-for-sale criteria met	— Write down the disposal group to fair value less cost to sell and recognize any resulting loss (see section 4.5). — Present the assets and liabilities of the disposal group separately as held-for-sale (see section 6.2). — Report in discontinued operations if the disposal group is also a component and its sale satisfies the strategic shift test (see chapter 5) or if it is a business or NFP activity that is classified as held-for-sale on acquisition (see section 2.3).
Held-for-sale criteria no longer met	— Remeasure the disposal group's long-lived assets individually and recognize any resulting adjustment (see section 4.6). — Reclassify the assets and liabilities of the disposal group as held-and-used. — Report in continuing operations.

4.2 Disposed of by sale (held-for-sale criteria)

Excerpt from ASC 205-20

• > Initial Criteria for Classification of Held for Sale

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

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

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

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

a. If at the date that an entity commits to a plan to sell an entity to be sold, the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the entity to be sold that will extend the period required to complete the sale and both of the following conditions are met:
   1. Actions necessary to respond to those conditions cannot be initiated until after a **firm purchase commitment** is obtained.

2. A firm purchase commitment is probable within one year. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)

b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of an entity to be sold previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:
   1. Actions necessary to respond to the conditions have been or will be timely initiated.
   2. A favorable resolution of the delaying factors is expected. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)

c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, an entity to be sold previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:
   1. During the initial one-year period, the entity initiated actions necessary to respond to the change in circumstances.
   2. The entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances.
   3. The criteria in paragraph 205-20-45-1E are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

4.2.10 Overview

The held-for-sale criteria are relevant under Subtopic 205-20 to two types of disposal groups:

— a component (or group of components) that has not yet been disposed of; and
— an acquired business or NFP activity that, on acquisition, the entity intends to dispose of (see section 2.3).

Subtopic 205-20 contains six criteria that a disposal group must meet to be classified as held-for-sale. [205-20-45-1E]

Held-for-sale criteria	
A	Management commits to a plan to sell the disposal group.
B	The disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for such sales.
C	Management has initiated an active program to locate a buyer or buyers and other actions required to complete the plan to sell the disposal group.
D	The sale of the disposal group is probable, and transfer of the group is expected to qualify for recognition as a completed sale within one year (see exceptions discussed in section 4.2.50).
E	The disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
F	Actions required to complete the plan indicate it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Subtopic 360-10 uses the above criteria to assess when a long-lived asset (or a disposal group other than one in the scope of Subtopic 205-20) is classified as held-for-sale instead of held-and-used. Subtopic 360-10 provides examples and implementation guidance that are generally relevant to the held-for-sale analysis under Subtopic 205-20.

Observation
Timing of disposal affects evaluation

When a disposal group that is a component of an entity has not yet been disposed of as of the reporting date, an entity determines whether the held-for-sale criteria are met and, if so, whether the intended sale will meet the strategic shift test (see chapter 5). In contrast, if the sale occurs in the same period that the entity initially decides to sell the disposal group, the entity need not perform the held-for-sale analysis. Rather, it simply determines whether the sale meets the strategic shift test.

Question 4.2.10
How is a group of components assessed under the held-for-sale criteria?

Interpretive response: A group of components may need to be assessed in aggregate under the held-for-sale criteria.

Single disposal transaction

A group of components intended for sale through a single transaction (see Question 4.2.15) meets the definition of a disposal group. In this case, all components in the group are classified as held-for-sale at the same date. If one component fails any of the held-for-sale criteria, the group of components cannot be classified as held-for-sale. However, retaining certain assets and liabilities of the components does not necessarily prevent held-for-sale classification of the group of components (see Question 3.3.40). [205-20 Glossary]

Single disposal plan

Alternatively, management may intend to dispose of a group of components as part of a single disposal plan but through several transactions. In this case, it may be necessary to individually assess each component in the group under the held-for-sale criteria. We believe the existence of a single disposal plan is not sufficient to conclude that all the components meet the held-for-sale criteria at the same time. Therefore, each component that will be sold in a separate transaction should be classified as held-for-sale if it meets the held-for-sale criteria – even if the other components in the disposal plan do not meet these criteria.

Further, to conclude that a group of components must be reported in discontinued operations, the disposal of the components also needs to meet (in aggregate) the strategic shift test (see Question 5.3.30).

Question 4.2.15

When does a disposal occur in a 'single transaction'?

Interpretive response: Subtopic 360-10 does not provide guidance on what constitutes a 'single transaction'. We believe the guidance in Topic 810 (consolidation) can be used by analogy to determine whether multiple arrangements should be accounted for as a single transaction.

In this assessment, an entity considers all of the terms and conditions of the arrangements and their economic effects. Any of the following may indicate that multiple arrangements constitute a single transaction: [810-10-40-6]

- They are entered into at the same time or in contemplation of one another.
- They form a single transaction designed to achieve an overall commercial effect.
- The occurrence of one arrangement depends on the occurrence of at least one other arrangement.
- One arrangement considered on its own is not economically justified, but the arrangements are economically justified when considered together. An example is when one disposal is priced below market, compensated for by a subsequent disposal priced above market.

Question 4.2.20

Does the intended disposal of all or almost all of an entity's net assets result in held-for-sale classification?

Interpretive response: No. We do not believe that an entity should present the intended disposal of all or almost all of its net assets as held-for-sale, even if the held-for-sale criteria are met.

The separate presentation of such a significant portion of the entity's net assets as a single line item (assets held-for-sale) on the balance sheet generally would not be meaningful to financial statement users. Therefore, we believe an entity should:

- continue to present all of its assets and liabilities in their usual categories on the balance sheet; and
- provide appropriate disclosures regarding the nature and extent of the pending disposal and how it will affect the entity.

However, the measurement principles of Subtopic 360-10 apply. The held-for-sale disposal group is measured at the lower of its carrying amount and fair value less cost to sell (see section 4.5).

See Example 3.3.10 for an illustration, and Question 3.3.50 for further assessment of the requirements in Subtopic 205-20 when an entity sells all or almost all its operations.

Question 4.2.30

When a parent intends to sell a subsidiary, are the held-for-sale criteria evaluated separately at the subsidiary and consolidated levels?

Interpretive response: Yes. Separate evaluations are made at each level of financial statement reporting.

The subsidiary is a continuing business and its management has not committed to dispose of any of the assets of the business. From the subsidiary's perspective, its assets remain classified as held-and-used. Therefore, in its stand-alone financial statements, the subsidiary presents its assets and liabilities as assets held-and-used and considers whether it needs to test its long-lived assets for impairment under Subtopic 360-10. Step 1 of the impairment test (the recoverability analysis) is performed without regard to the parent's plan to sell the subsidiary. For in-depth guidance on the impairment of nonfinancial assets, see KPMG Handbook, Impairment of nonfinancial assets.

In contrast, in the consolidated financial statements, the parent classifies the subsidiary as held-for-sale if the six held-for-sale criteria are satisfied and the subsidiary does not represent all or almost all of the parent’s net assets. See Question 4.2.20 if the subsidiary represents all or almost all of the net assets of the parent. [205-20-45-1E]

4.2.20 Criterion A: Management commits to a plan of sale

The first held-for-sale criterion (Criterion A) requires an entity’s management to commit to a plan to sell the disposal group. A request to explore options for selling a disposal group is not a commitment to a plan of sale. Further, the person or group making that commitment must have the authority to do so. To support the classification as held-for-sale, such a plan should be documented. [205-20-45-1E(a)]

Question 4.2.40

Can Criterion A be met before management approval is formally obtained?

Interpretive response: No. Even if it is probable or virtually guaranteed that the board of directors or management with the authority to approve a plan to sell will commit to a sale, we believe that Criterion A is not met until the plan is approved.

Question 4.2.50

Can Criterion A be met without shareholder approval of the final terms of sale?

Background: ABC Corp. has a policy that requires final approval by the board of directors and shareholders of the terms of sale before it can complete a sale transaction. The board of directors has already approved the plan to sell the disposal group.

Interpretive response: It depends on the entity's governance policy and ownership structure. Criterion A requires that management, having the authority to approve the action, *commits to a plan* to sell the disposal group. This criterion does not explicitly require the final terms of the disposition to be known or approved. Therefore, the final approval of the *terms of sale* by the board that may be required by corporate governance policies or best practices is not sufficient reason to defer the measurement or presentation as assets held-for-sale.

However, if an entity's corporate governance policies require final approval of the terms of the sale by a higher governing authority, management may not have the authority to approve the plan.

Shareholder approval is perfunctory

If shareholder approval is perfunctory, approval of the plan of sale by management and the board of directors may be sufficient to meet Criterion A. This may be the case, for example, when the entity's voting shares are controlled by management and the board. [718-10-55-82]

Shareholder approval is substantive

If the entity's voting shares are controlled by third parties and shareholder approval of a disposal plan is required under the entity's governance policy, we believe that commitment to a plan of disposal has not occurred until shareholder approval has been obtained. We do not believe that Criterion A can be met in advance of shareholder approval, even if it is determined that shareholder approval is highly probable. The shareholder approval in this case demonstrates that the board of directors on its own does not have the authority to approve the plan to sell.

Question 4.2.60

If the sale requires approval by a Bankruptcy Court, can Criterion A be met before such approval?

Background: ABC Corp. is operating under Chapter 11 bankruptcy protection. Its management has approved the sale of a disposal group under Section 363 of the US Bankruptcy Code, which authorizes a sale by public auction. However, ABC has not received approval of the sale from the Bankruptcy Court.

Interpretive response: Generally, no. In Chapter 11 bankruptcy, management is typically restricted from taking actions related to the entity's assets and liabilities outside the normal course of business until such actions are confirmed by the Bankruptcy Court and potentially the creditors. For example, management is required to obtain the approval of the Bankruptcy Court to conduct a Section 363 public auction of assets. Therefore, we believe that commitment to a plan of disposal has generally not occurred until Bankruptcy Court approval has been obtained. The Bankruptcy Court approval demonstrates that management on its own does not have the authority to approve the plan to sell.

Further, Criterion D is relevant, which requires that a completed sale be probable within one year (see section 4.2.50). The additional approvals increase the difficulty in estimating when the sale of the disposal group is expected to occur. In some cases, Bankruptcy Court approval of key actions takes years to resolve, especially for more significant strategic decisions. This means that it may not be probable that the sale will occur within one year.

In our experience, presentation of a disposal group as held-for-sale is usually delayed until Bankruptcy Court approval has been obtained. For further guidance on bankruptcies, see KPMG Handbook, Accounting for bankruptcies.

4.2.30 Criterion B: Disposal group is available for immediate sale

The second held-for-sale criterion (Criterion B) requires that a disposal group be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. The entity must have the intent and ability to transfer the assets. However, Criterion B does not preclude an entity from using or continuing to operate the disposal group, and it does not require a binding agreement for future sale as a condition for classifying a disposal group as held-for-sale. [205-20-45-1E(b)]

Subtopic 360-10's Examples 5 – 7 (see section 4.2.80) illustrate situations in which a disposal group is both available and not available for immediate sale.

Question 4.2.70

Can Criterion B be met if the seller decides to remediate environmental contamination before sale?

Interpretive response: No. We believe the decision to remediate environmental contamination before the sale generally indicates that the disposal group is not immediately available for sale in its current condition and therefore does not meet Criterion B.

However, we believe the existence of an environmental remediation obligation does not in itself prevent Criterion B from being met. For example, if a typical buyer (market participant) would be willing to assume the obligation, the disposal group could still be immediately available for sale in its current condition.

Question 4.2.80

Can Criterion B be met if the entity continues to make capital improvements before sale?

Interpretive response: It depends. We believe that making capital improvements does not preclude Criterion B from being met if the improvements are part of the normal and customary expenditures the entity would make to operate its business.

For example, the requirement for a wireless service provider to continue to update its network is typically normal and customary. Conversely, an overhaul of an office building or manufacturing facility to prepare the asset for its sale is not, and therefore Criterion B is not met because the asset is not available for immediate sale in its current condition.

Question 4.2.90

What conditions placed on a sale are considered usual and customary?

Interpretive response: It depends. Any condition to a sale needs to be analyzed to determine whether it is usual and customary. [205-20-45-1E(b)]

Such conditions may include the following.

Condition	Description
Buyer's due diligence	Generally, buyers will perform financial due diligence as part of the acquisition process. This is usually customary and anticipated and therefore does not preclude the disposal group from being available for immediate sale.
Regulatory or legal notification or approval	Usual and customary regulatory approval that prohibits a planned sale for a specified period after regulators or other parties are notified of the sale does not preclude the disposal group from being considered available for immediate sale.
Lender approval	Lender approval that is usual and customary for the sale of that type of asset does not on its own preclude the disposal group from being available for immediate sale.

Although regulatory approval can be usual and customary under Criterion B, if the approval process could take more than one year, this may be a barrier to satisfying Criterion D (see Question 4.2.140).

Subtopics 205-20 and 360-10 do not define 'usual and customary'. We believe that an entity should consider all facts and circumstances relevant to the conditions and compare the conditions to those in disposals of similar assets. This could result in identifying terms that are not considered usual and customary for a particular disposal based on the entity's prior sales of similar assets, even when the entity has an established history of similar sales terms for other types of disposals.

Example 4.2.10

Notification of sale to regulators

Bank commits to a plan to sell a retail branch. Bank is required by regulation to notify its regulators and customers of the sale in writing; no other parties are required to be notified or to pre-approve the sale. The regulation prohibits a transfer of the branch until 90 days after the notification.

Bank determines that the branch is available for immediate sale under Criterion B because the notification requirement is usual and customary for the sale of this type of asset. The regulation requires only that the entity *notify* the regulators and customers.

Question 4.2.100

Can Criterion B be met if the sale requires a major customer's consent?

Background: ABC Corp. plans to sell the assets and operations of one of its businesses (the disposal group) to an unrelated third party. DEF Corp. is one of ABC disposal group's major customers. The standard terms and conditions of the customer contract between ABC and DEF state that ABC may not assign or delegate any of its obligations under the arrangement without obtaining the written consent of DEF.

Interpretive response: It depends. Using the background example to illustrate, the contractual clause with DEF may preclude the disposal group from being available for immediate sale; this is because the customer's approval of the sale to a third party is required. However, the nature of the clause and the specific facts and circumstances of the proposed sale must be considered.

The following are examples in which the above contract clause would not on its own preclude the disposal group from being available for immediate sale.

— The contract clause with DEF is customary in the industry. For example, it helps protect the customer from a slowdown in its supply chain by allowing the customer to veto an agreement that would move its relationship from a financially secure supplier to one who may not be financially secure.

— The identified buyer would render the customer approval process perfunctory – e.g. the buyer is the customer.

— The assignment of the customer contract is not essential to the sale of the business – i.e. the buyer is willing to purchase the disposal group without DEF as an ongoing customer.

Question 4.2.110

Can Criterion B be met if the sale of a production facility requires an entity to secure an alternate long-term supply arrangement?

Background: ABC Corp. determines that it can purchase a critical ingredient in its manufacturing process for less than its current production cost. The ingredient relates to a product that is part of ABC's long-term strategic plan. ABC decides to sell the facility that produces the key ingredient (the disposal group) before it has entered into a long-term supply arrangement for the ingredient with another party.

Interpretive response: It depends on whether supply is scarce. The following explanation is in the context of the background example.

— **Supply is scarce.** If there are limited sources from which to obtain the ingredient, the production facility is not available for immediate sale until a new source of supply for the ingredient has been obtained. Therefore, entering into a long-term supply arrangement that commences immediately or in which ABC controls the future commencement date may be necessary for the production facility to qualify as available for immediate sale.

— **Supply is not scarce.** If the ingredient is readily available from a variety of sources, securing a long-term supply source is not so critical to ABC's operations that it would preclude the immediate sale of the production facility. Therefore, it is not necessary for ABC to obtain an alternative long-term source for the ingredient to meet Criterion B.

Question 4.2.120

Can Criterion B be met if the sale of a production facility is planned for after the upcoming year's production cycle?

Interpretive response: No. An entity's need or intent to use the facilities for another production cycle demonstrates that the property is not available for immediate sale. [360-10-55-40(b)]

4.2.40 Criterion C: Active program to locate a buyer has been initiated

The third held-for-sale criterion (Criterion C) requires that an entity actively market the disposal group. This may entail directing employees and/or engaging a third party to facilitate the transaction. [205-20-45-1E(c)]

Criterion C is often assessed in conjunction with Criterion E (see section 4.2.60), because the price at which the disposal group is being marketed may be indicative of the entity's intent to sell.

4.2.50 Criterion D: Sale is probable within one year

The fourth held-for-sale criterion (Criterion D) requires that it be probable that the sale of the disposal group will be completed within one year. However, the one-year period to complete the sale may be extended in any of the following circumstances, if they are beyond the entity's control. [205-20-45-1E(d), 45-1G]

One-year period extended when:	Requirements for extension
At the date it commits to a plan to sell the disposal group, the entity reasonably expects that a third party (other than the buyer) will impose conditions on the transfer that will extend the period to complete the transaction beyond one year.	— The entity cannot initiate actions to respond to the third-party conditions until it obtains a firm purchase commitment; and — A firm purchase commitment is probable within one year.
Once an entity obtains a firm purchase commitment of a disposal group classified as held-for-sale, the buyer or third party imposes unexpected conditions on the transfer that will extend the period to complete the transaction beyond one year.	— The entity has or will initiate actions timely to respond to the conditions; and — A favorable resolution of the delaying factors is expected.
During the one-year period, circumstances arise that were previously considered unlikely, but which now cause the sale to not occur during the one-year period.	— During the one-year period, the entity initiates actions to respond to the change in circumstances; — The disposal group is being actively marketed at a price that is reasonable given the change in circumstances; and — The other held-for-sale criteria are met.

Subtopic 360-10's Examples 8 – 11 (see section 4.2.80) illustrate situations in which a disposition is not expected to qualify as a completed sale, as well as the exceptions to the one-year requirement.

Question 4.2.130
When is a completed sale within one year deemed probable?

Interpretive response: The meaning of 'probable' in this context is consistent with the meaning in Topic 450 (contingencies) and refers to a future sale that is likely to occur. [450-20 Glossary]

Criterion D is particularly subjective, because it requires an entity to ascertain the likelihood of the sale. Therefore, an entity should have evidence and documentation to support meeting this criterion. This might include an evaluation of the entity's past experience, industry knowledge, and/or analysis of the current regulatory environment.

Question 4.2.140

Can Criterion D be met if regulatory approval is expected to take longer than one year?

Interpretive response: It depends. Subtopic 205-20 provides an exception to Criterion D's general one-year requirement. The exception applies and Criterion D is met if, upon committing to a plan to sell a disposal group: [205-20-45-1G(a)]

— the entity reasonably expects that regulatory approval will take longer than one year;

— the regulatory approval cannot be initiated until a firm purchase commitment is obtained; and

— a firm purchase commitment is probable within one year.

However, the nature of the asset or the counterparty to a commitment may affect the probability of receiving regulatory approval and completing the sale, and therefore the ability to meet Criterion D. For example, the regulator might be very selective about approving a purchaser for a certain type of asset. The entity may then be unable to conclude that regulatory approval is probable, thereby failing Criterion D. In this case, the entity would continue to classify the asset as held-and-used. [205-20-45-1G]

Further, Criterion F (see section 4.2.70) requires that actions needed to complete the plan to sell an asset indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Question 4.2.150#

Can Criterion D be met if an entity intends to sell and lease back an asset?

Interpretive response: It depends on the terms of the lease. This is further illustrated in Example 8 of Subtopic 360-10 (see section 4.2.80).

Criterion D requires that the sale of the asset be probable and that the entity (seller-lessee) expects the asset's transfer to qualify for recognition as a completed sale within one year. An ROU asset obtained through a leaseback is a different and separate asset from the underlying asset. Accordingly, if it is probable that the entity will transfer control of the underlying asset under the asset sale requirements in Subtopic 842-20 to the buyer-lessor within one year, Criterion D is met. [360-10-55-43(b), 842-40-25-1 – 25-3, ASU 2016-02 BC352(a)]

See chapter 9 of KPMG Handbook, Leases, for further discussion of sale-leaseback transactions.

Question 4.2.160

Can Criterion D be met if there is uncertainty about the nature of the disposition?

Interpretive response: No. We believe that Criterion D cannot be met if the entity has not decided whether it will sell, lease or spin off a disposal group. This is because the entity has not committed to *sell* the disposal group; leases and spinoffs are not sales (see also Question 4.3.50) and therefore a sale is not probable. [ASU 2016-02 BC.93, 360-10-45-15, 55-43(a)]

Further, an entity may enter into a contractual arrangement that purports to be a sale of an asset, but the transaction does not qualify for recognition as a sale. For example, an arrangement in which the risks and rewards of a business are not transferred is not accounted for as a sale transaction. If an arrangement will not qualify as a completed sale within one year, the criteria to classify the asset as held-for-sale are not met. [810-10-S99-5]

4.2.60 Criterion E: Disposal group is being actively marketed at a reasonable price

The fifth held-for-sale criterion (Criterion E) requires that an entity demonstrate it is committed to selling the disposal group by evaluating the price at which the disposal group is being marketed. A price that is unreasonably higher than the fair value of the disposal group indicates that management may be merely exploring the possibility of selling the group as opposed to actively marketing the group with an intent to sell it. [205-20-45-1E(e)]

4.2.70 Criterion F: Significant changes to the plan are unlikely

The sixth held-for-sale criterion (Criterion F) requires that any actions needed to complete the sale plan indicate it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. [205-20-45-1E(f)]

Question 4.2.180

How is Criterion F assessed?

Interpretive response: In assessing Criterion F, we believe an entity needs to consider:

— its history of similar transactions; and
— any other relevant facts or circumstances that indicate the plan could change in timing, scope or price.

Question 4.2.190
Can Criterion F be met if the consideration is not fixed until the sale occurs?

Interpretive response: Yes. There is no requirement for the selling price of a disposal group to be fixed for Criterion F to be met.

We believe the fact that the consideration is not fixed until the sale occurs does not necessarily preclude held-for-sale classification – as long as it is unlikely that there will be significant changes to the sale plan or that the plan will be withdrawn.

Example 4.2.20
Reduction of sale price on date of sale

ABC Corp. is selling one of its businesses on January 1, Year 2. As a result of last-minute negotiations, the consideration is reduced by approximately 4% on the day of the sale.

The fact that the business is sold on January 1, Year 2 is a strong indicator that all of the held-for-sale criteria are met as of December 31, Year 1. The last-minute adjustment to the sale price of the magnitude noted does not indicate the lack of a plan or a change of plan.

Consequently, ABC classifies the business as held-for-sale for the period ended December 31, Year 1.

4.2.80 FASB examples

Excerpt from ASC 360-10

• > Example 5: Plan to Sell Headquarters Building

55-37 This Example illustrates the classification as held for sale of a long-lived asset (**disposal group**) in accordance with paragraph 360-10-45-9(b).

55-38 An entity commits to a plan to sell its headquarters building and has initiated actions to locate a buyer. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would or would not be met:

a. The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.
b. The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing

of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

• > Example 6: Plan to Sell Manufacturing Facility with Backlog of Orders

55-39 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with paragraph 360-10-45-9(b).

55-40 An entity commits to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would or would not be met:

a. The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date would transfer to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.
b. The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility is obtained earlier.

• > Example 7: Intent to Sell Acquired Real Estate Foreclosure

55-41 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with paragraph 360-10-45-9(b).

55-42 An entity acquires through foreclosure a real estate property that it intends to sell. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would not be met:

a. The entity does not intend to transfer the property to a buyer until after it completes renovations to increase its sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the renovations are completed.
b. After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not continue to be met. The property

would be reclassified as held and used in accordance with paragraph 360-10-45-7.

• > Example 8: Proposed Disposition Not Expected to Qualify as Completed Sale

55-43 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with the criterion in paragraph 360-10-45-9(d). The following illustrates situations in which that criterion would not be met:

a. An entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently come off lease and the ultimate form of a future transaction (sale or lease) has not yet been determined.
b. An entity commits to a plan to sell an asset that is in use and lease back that asset; however, the transfer of the asset will not be accounted for as a sale and leaseback transaction because the buyer-lessor does not obtain control of the asset based on the guidance in paragraphs 842-40-25-1 through 25-3. The asset would continue to be classified as held and used following the appropriate guidance in Sections 360-10-35, 360-10-45, and 360-10-50.

• > Example 9: Regulatory Approval of Sale Required

55-44 This Example illustrates an exception to the one-year requirement in paragraph 360-10-45-9(d) to complete the sale of a long-lived asset (disposal group) (see paragraph 360-10-45-11). The following illustrates situations in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would be met.

55-45 An entity in the utility industry commits to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale will require regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is probable within one year. In that situation, the conditions in paragraph 360-10-45-11(a) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

• > Example 10: Environmental Damage Identified During Buyer's Inspection

55-46 This Example illustrates an exception to the one-year requirement in paragraph 360-10-45-9(d) to complete the sale of a long-lived asset (disposal group) (see paragraph 360-10-45-11). The following illustrates a situation in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would be met.

55-47 An entity commits to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to remediate the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to remediate the damage, and satisfactory remediation of the damage is probable. In that situation, the conditions in paragraph 360-10-45-

11(b) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

• > Example 11: Deterioration of Market Conditions

55-48 This Example illustrates an exception to the one-year requirement in paragraph 360-10-45-9(d) to complete the sale of a long-lived asset (disposal group) (see paragraph 360-10-45-11).

55-49 An entity commits to a plan to sell a long-lived asset and classifies the asset as held for sale at that date. The following illustrates situations in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would or would not be met:

a. During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraph 360-10-45-9 are met. In that situation, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.
b. During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by the criterion in paragraph 360-10-45-9(b). In addition, the criterion in paragraph 360-10-45-9(e) requires that an asset be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would not be met. The asset would be reclassified as held and used in accordance with paragraph 360-10-35-44.

4.3 Disposal other than by sale

Excerpt from ASC 360-10

• > Long-Lived Assets to Be Abandoned

35-47 For purposes of this Subtopic, a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 to reflect the use of the asset over its shortened useful life (see paragraph 360-10-35-22).

35-48 Because the continued use of a long-lived asset demonstrates the presence of service potential, only in unusual situations would the fair value of a long-lived asset to be abandoned be zero while it is being used. When a long-lived asset ceases to be used, the carrying amount of the asset should equal its salvage value, if any. The salvage value of the asset shall not be reduced to an amount less than zero.

• > Long-Lived Assets Temporarily Idled

35-49 A long-lived asset that has been temporarily idled shall not be accounted for as if abandoned.

> Transfer or Sale of Property, Plant, and Equipment

40-3A An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset and an asset subject to a lease, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a **contract** with a **customer** shall be accounted for in accordance with Topic 606 on **revenue** from contracts with customers.

> Long-Lived Assets to Be Exchanged or to Be Distributed to Owners in a Spinoff

40-4 For purposes of this Subtopic, a long-lived asset to be disposed of in an exchange measured based on the recorded amount of the nonmonetary asset relinquished or to be distributed to owners in a spinoff is disposed of when it is exchanged or distributed. If the asset (**asset group**) is tested for recoverability while it is classified as held and used, the estimates of future cash flows used in that test shall be based on the use of the asset for its remaining useful life, assuming that the disposal transaction will not occur. In such a case, an undiscounted cash flows recoverability test shall apply prior to the disposal date. In addition to any **impairment** losses required to be recognized while the asset is classified as held and used, an impairment loss, if any, shall be recognized when the asset is disposed of if the carrying amount of the asset (**disposal group**) exceeds its fair value. The provisions of this Section apply to nonmonetary exchanges that are not recorded at fair value under the provisions of Topic 845.

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

45-15 A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35, 360-10-45, and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group meets the conditions in paragraphs 205-20-45-1A through 45-1C to be reported in discontinued operations, paragraphs 205-20-45-3 through 45-5 shall apply to the disposal group at the date it is disposed of.

Subtopic 205-20 applies to both disposal groups that will be disposed of by sale or by means described in paragraph 360-10-45-15. That paragraph relates to disposals by means other than sale, such as through abandonment, exchange measured at carry-over basis or distribution to owners (e.g. a spinoff). [205-20-45-1B(c), 360-10-45-15]

Understanding if the disposal is a sale is key because it determines the timing of reporting discontinued operations as well as the balance sheet presentation of the disposal group assets and liabilities.

Question 4.3.10

Can a disposal group that will be disposed of other than by sale be classified as held-for-sale?

Interpretive response: No. A disposal group that will be disposed of other than by sale will never meet the held-for-sale criteria. Unlike a disposal group to be disposed of by sale, it remains classified as held-and-used – and therefore cannot be reported in discontinued operations – until the disposal has effectively occurred. Determining the disposal date may be challenging when the disposal group is being abandoned (see Question 4.3.20). [360-10-45-15]

Once the disposal has occurred and although the held-for-sale criteria were never met, the relevant assets and liabilities of the disposal group may need to be presented separately from the other assets and liabilities of the entity in the comparative periods. See Question 6.2.10 if the disposal group is a discontinued operation, and Question 6.2.50 if it is not.

Question 4.3.20

At what date are runoff operations considered disposed of?

Background: A common disposal strategy is to run off operations by not accepting new business. Often, existing contracts or regulation obligate the entity to continue providing services under those existing contracts for a specified period.

Interpretive response: Subtopic 205-20 refers to paragraph 360-10-45-15. That paragraph states that if a long-lived asset to be disposed of other than by sale is part of a disposal group that meets the Subtopic 205-20 requirements, the entire disposal group is not reported in discontinued operations until it is disposed of. Therefore, even though such a disposal group is not entirely made up of long-lived assets in the scope of Subtopic 360-10, it is not reported in discontinued operations until all operations (including runoff operations) cease. [205-10-45-1B(c), 360-10-45-15]

Further, the decision to run off operations may indicate that the long-lived assets are impaired or have shortened expected useful lives for depreciation purposes under Subtopic 360-10. Generally, the continued use of the assets during the runoff period demonstrates the presence of service potential even if the assets will ultimately be abandoned. Therefore it would be unusual for their value to be zero while being used. In our experience, it would also be unusual for their fair value to be less than their salvage value. [360-10-35-47 – 35-48]

Question 4.3.30

Can a temporarily idled long-lived asset be considered abandoned?

Interpretive response: No. In some situations, long-lived assets may become temporarily idled with little or no service potential. Such assets are still considered to be held-and-used and cannot be accounted for as if abandoned. [360-10-35-49]

Depreciation generally does not cease if an asset is idled or temporarily removed from service; all facts should be carefully considered before concluding otherwise. However, the asset should be reviewed for indicators of impairment. See section 4.3 in KPMG Handbook, Impairment of nonfinancial assets. [360-10-35-4, 35-17]

In other situations, the entity may have constructively abandoned an asset because no future service potential exists; however, management may not have committed to a formal plan to abandon or otherwise dispose of the idled assets. If an asset has been constructively abandoned, we believe the carrying amount should be written down to its salvage value as an abandoned long-lived asset (see Question 4.3.20).

Question 4.3.40

Is a nonmonetary reciprocal exchange a sale?

Background: The Codification distinguishes reciprocal exchanges from nonreciprocal transfers. A nonreciprocal transfer is a transfer of assets or services in one direction. It can be to owners (e.g. a spinoff or split-off), or to parties other than owners (e.g. a gift). [845-10-05-4]

For nonreciprocal transfers, see Question 4.3.50.

Interpretive response: It depends on whether the nonmonetary reciprocal exchange is measured at fair value.

If the exchange is measured at fair value, the transaction is considered a 'sale' and the held-for-sale analysis is relevant until the exchange is executed. Examples of when this is generally the case include when:

- the disposal group comprises nonfinancial assets (or nonfinancial assets and in-substance nonfinancial assets) that are derecognized under Subtopic 610-10; and
- the disposal group is a business or a nonprofit activity derecognized under Subtopic 810-10.

However, if the exchange is not measured at fair value, the disposal is considered 'other than by sale'. In this case, the disposal group remains classified as held-and-used until disposed of. For example, under Topic 845, if certain conditions are met (e.g. lack of commercial substance), a nonmonetary exchange is measured using a carry-over basis and therefore disposal is considered other than by sale. [360-10-45-15, 845-10-30-3 – 30-8]

Example 4.3.10

Disposal group contributed in exchange for equity method investment

ABC Corp. is contributing a disposal group (a business under Topic 805) to DEF Corp. In exchange, ABC receives a 30% equity interest in DEF that it will account for as an equity method investment.

The exchange transaction is planned to close five months after the reporting date, which is when ABC will lose control over the disposal group. The plan of disposal has been finalized and the held-for-sale criteria are met as of the reporting date.

Because the disposal group is considered a business, the deconsolidation guidance in Subtopic 810-10 applies to the exchange. Under that guidance, at the exchange date ABC will:

- deconsolidate the assets and liabilities of the disposal group;
- measure the inbound equity method investment in DEF at fair value; and
- recognize a gain or loss on the disposal.

Because the exchange will qualify for fair value measurement, it is considered a sale and the disposal group is classified as held-for-sale and measured under the requirements of Subtopic 360-10 (see section 4.5) at the reporting date.

If the disposal group qualifies for reporting in discontinued operations (see chapter 5 for strategic shift test considerations), ABC must disclose its continuing involvement in DEF's operations (see section 7.2.10). See Question 6.2.40 for discussion of the classification of the assets and liabilities of the discontinued operation as current or noncurrent.

Question 4.3.50

Are spinoffs or split-offs considered a sale?

Background: A spinoff is a transaction in which a parent entity distributes to its owners its stock in a subsidiary. A split-off is a transaction in which a parent exchanges its stock in a subsidiary for parent stock held by its owners. The distribution or exchange of shares can be pro rata to all owners, or non-pro rata.

Both spinoffs and split-offs are a form of nonreciprocal transfers with owners (see Question 4.3.40) and may be recorded at fair value or carry-over basis, depending on the facts and circumstances. For example, non-pro rata spinoffs and split-offs are accounted for at fair value. [845-10-30-10, 30-12]

Interpretive response: No. Subtopic 360-10 explicitly refers to spinoffs as disposals other than by sale. Further, we believe nonreciprocal transfers are disposals other than by sale regardless of the counterparty and measurement. Therefore, in a spinoff or a split-off, the disposal group remains classified as held-and-used until the transfer is complete (see Question 4.3.60).

Question 4.3.60

At what date is a spinoff deemed a complete disposal?

Background: ABC Corp. decides to distribute the shares of a subsidiary (a disposal group) to its owners in a spinoff that is anticipated to close one month after the reporting date. All approvals have been obtained as of the reporting date, but the shares have not yet been distributed to the owners.

Interpretive response: A spinoff is not a sale; therefore, the disposal group cannot be considered disposed of until the shares have been distributed to the owners. Its assets and liabilities are classified as held-and-used and its operations are reported in continuing operations until the shares have been distributed. Further, the impairment testing requirements in Subtopic 360-10 apply to the held-and-used assets expected to be distributed. See also Question 2.4.10 in KPMG Handbook, Impairment of nonfinancial assets. [360-10-40-4, 45-15]

If the disposal group qualifies to be reported in discontinued operations after the spinoff, we believe that any incremental direct transaction costs should also be reported in discontinued operations. [360-10-35-38]

Question 4.3.70

Is a partial sale of a subsidiary considered a sale?

Background: The loss by a parent of a controlling financial interest in a subsidiary is a significant economic event that causes the parent-subsidiary relationship to cease and an investor-investee relationship to begin. The parent deconsolidates the subsidiary by removing its net assets and recognizing a gain or loss in net income. [610-20-32- 3 – 32-5, 810-10-40-3A – 4A]

Conversely, decreases in a parent's ownership interest in a subsidiary while the parent retains its controlling financial interest are accounted for as equity transactions. No gain or loss is recognized. [810-10-45-23]

For more guidance on deconsolidation and changes in ownership while retaining control, see sections 7.6 and 7.5 respectively in KPMG Handbook, Consolidation.

Interpretive response: It depends on whether the parent loses control over the subsidiary.

If control is lost, we believe the transaction is considered a sale that should be assessed under the held-for-sale criteria. When the held-for-sale criteria are met, all the assets and liabilities of the subsidiary should be presented separately as held-for-sale (see section 6.2) – even if the parent will retain a noncontrolling interest in the subsidiary after the sale.

If control is not lost, the transaction is not a sale. The assets and liabilities of the subsidiary remain classified as held-and-used.

4.4 Subsequent events

Excerpt from ASC 360-10

• > Change of Classification After Balance Sheet Date but Before Issuance of Financial Statements

45-13 If the criteria in paragraph 360-10-45-9 are met after the balance sheet date but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), a long-lived asset shall continue to be classified as held and used in those financial statements when issued or when available to be issued. In addition, information required by paragraph 205-20-50-1(a) shall be disclosed in the notes to financial statements. If the asset (asset group) is tested for recoverability (on a held-and-used basis) as of the balance sheet date, the estimates of future cash flows used in that test shall consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of the future sale of the asset. That assessment made as of the balance sheet date shall not be revised for a decision to sell the asset after the balance sheet date. Because it is difficult to separate the benefit of hindsight when assessing conditions that existed at a prior date, it is important that judgments about those conditions, the need to test an asset for recoverability, and the application of a recoverability test be made and documented together with supporting evidence on a timely basis. An impairment loss, if any, to be recognized shall be measured as the amount by which the carrying amount of the asset (asset group) exceeds its fair value at the balance sheet date.

Topic 855 (subsequent events) requires an entity to recognize the effects of a subsequent event if that event provides additional evidence about conditions that existed at the reporting date. Subtopic 360-10 has specific guidance to assess the effect of a disposal after the reporting date but before the financial statements are issued (or available to be issued). [855-10-25-1, 360-10-45-13]

Subsequent events are assessed as follows.

Subsequent event	Reporting in prior period
Disposal group sold	A sale completed shortly after the prior-period reporting date may indicate that the held-for-sale criteria were met at the reporting date.

Subsequent event	Reporting in prior period
Held-for-sale criteria met	The disposal group remains classified as held-and-used at the reporting date and is reported in continuing operations.
Sale no longer intended	The disposal group remains classified as held-for-sale at the reporting date and is reported in discontinued operations (if applicable). See chapter 7 for specific disclosures.
Disposal group disposed of other than by sale	The disposal group remains classified as held-and-used at the reporting date and is reported in continuing operations.

Example 4.4.10

Sale of a component before financial statements are issued

ABC Corp. sells a component on January 5, Year 2, which is before its December 31, Year 1 annual financial statements are issued.

Because the date of the disposal is shortly after its year-end, ABC reviews the transaction to determine if the held-for-sale criteria were met as of December 31, Year 1. Given the short period between year-end and the disposal date, and considering all relevant facts and circumstances, ABC concludes that the held-for-sale criteria were met as of December 31, and classifies the component's assets and liabilities as held-for-sale at year-end.

Further, ABC assesses if the sale of the component is a strategic shift (see chapter 5), thereby requiring the component to be reported in discontinued operations in Year 1.

Example 4.4.20

Held-for-sale criteria met before financial statements are issued

ABC Corp. classifies a component as held-for-sale on February 15, Year 6, which is before its December 31, Year 5 annual financial statements are issued.

The held-for-sale classification is a nonadjusting subsequent event. Therefore, in the Year 5 financial statements, ABC presents the assets and liabilities of the component as held-and-used and reports its operations in continuing operations.

Further, ABC considers the disclosure requirements in Topic 855. As a result, ABC discloses the nature of the event and an estimate of its financial effect, to ensure the financial statements are not misleading.

In its March 31, Year 6 interim financial statements, ABC classifies the component's assets and liabilities as held-for-sale for the first time. ABC also assesses if the sale of the component is a strategic shift (see chapter 5), which would require the component to be reported in discontinued operations.

4.5 Measurement of held-for-sale disposal group

Excerpt from ASC 205-20

> Statement in Which Net Income is Reported

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

Excerpt from ASC 360-10

> Transactions

15-4 The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:

a. Except as indicated in (b) and the following paragraph, all of the transactions and activities related to recognized long-lived assets of an entity to be held and used or to be disposed of, including:
   1. Right-of-use assets of lessees
   2. Long-lived assets of lessors subject to operating leases
   3. Proved oil and gas properties that are being accounted for using the successful-efforts method of accounting
   4. Long-term prepaid assets.

b. The following transactions and activities related to assets and liabilities that are considered part of an asset group or a disposal group:
   1. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by the Impairment or Disposal of Long-Lived Assets Subsections, the guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset or assets to be held and used, that group is referred to as an asset group. For a long-lived asset or assets to be disposed of by sale or otherwise, that group is referred to as a disposal group. Examples of liabilities included in a disposal group are legal

obligations that transfer with a long-lived asset, such as certain environmental obligations, and obligations that, for business reasons, a potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base.

2. The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not change generally accepted accounting principles (GAAP) applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by the Impairment or Disposal of Long-Lived Assets Subsections that are included in such groups.

> Long-Lived Assets Classified as Held for Sale

• > Measurement of Expected Disposal Loss or Gain

35-38 Costs to sell are the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. Those costs include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. Those costs exclude expected future losses associated with the operations of a long-lived asset (**disposal group**) while it is classified as held for sale. Expected future operating losses that marketplace participants would not similarly consider in their estimates of the fair value less cost to sell of a long-lived asset (disposal group) classified as held for sale shall not be indirectly recognized as part of an expected loss on the sale by reducing the carrying amount of the asset (disposal group) to an amount less than its current fair value less cost to sell. If the sale is expected to occur beyond one year as permitted in limited situations by paragraph 360-10-45-11, the cost to sell shall be discounted.

35-39 The carrying amounts of any assets that are not covered by this Subtopic, including goodwill, that are included in a disposal group classified as held for sale shall be adjusted in accordance with other applicable GAAP prior to measuring the fair value less cost to sell of the disposal group. Paragraphs 350-20-40-1 through 40-7 provide guidance for allocating goodwill to a lower-level asset group to be disposed of that is part of a reporting unit and that constitutes a business. Goodwill is not included in a lower-level asset group to be disposed of that is part of a reporting unit if it does not constitute a business.

35-40 A loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell. A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write-down to fair value less cost to sell). The loss or gain shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group.

35-41 See paragraphs 310-40-35-11 and 310-40-40-10 for guidance related to determination of cost basis for foreclosed assets under Subtopic 310-40 and the measurement of cumulative losses previously recognized under the preceding paragraph.

35-42 See paragraphs 830-30-45-13 through 45-15 for guidance regarding the application of Topic 830 to an investment being evaluated for impairment that will be disposed of.

• > Accounting While Held-for-Sale

35-43 A long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date. A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.

> Recognition of Gain or Loss from Sale

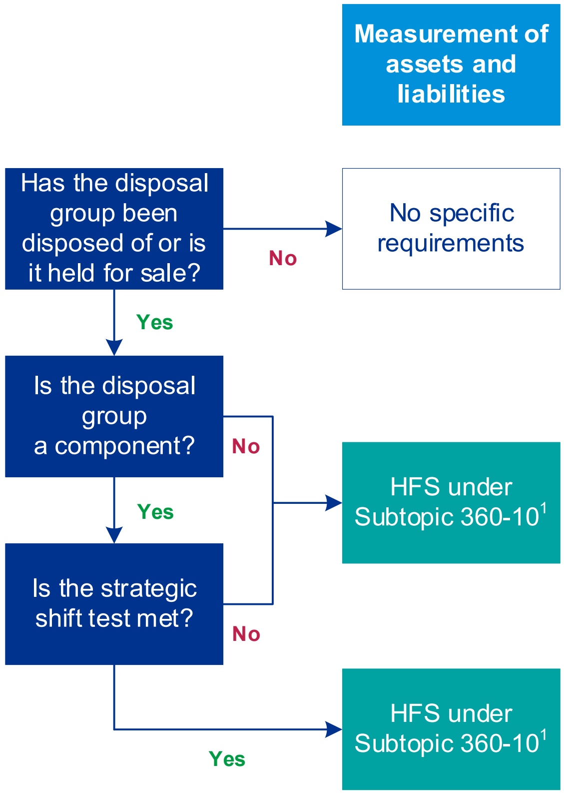
40-5 A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized when the long-lived asset (disposal group) is derecognized in accordance with applicable Topics (for example, Topic 610 on other income, Topic 810 on consolidation, or Topic 860 on transfers and servicing)

Question 4.5.10

When is a disposal group measured under Subtopic 360-10?

Interpretive response: A disposal group is measured under Subtopic 360-10 if it is held-for-sale and in the scope of that Subtopic (see section 2.2). These measurement requirements apply regardless of whether the disposal group is a component or meets the strategic shift test under Subtopic 205-20.

The following diagram, which is an excerpt from the full overview diagram in chapter 1, highlights when the measurement requirements in Subtopic 360-10 apply.



Note:

1. If in scope of Subtopic 360-10 and not yet disposed of.

Question 4.5.20

What are the measurement requirements of Subtopic 360-10?

Interpretive response:

Initial measurement

Subtopic 360-10 requires a held-for-sale disposal group to be measured at the lower of its carrying amount (section 4.5.10), and fair value (section 4.5.20) less cost to sell (section 4.5.30). Therefore, no gain is recognized upon held-for-sale classification, but a potential loss associated with the sale is recognized. [360-10-35-43]

Measuring the disposal group is a two-step process. [360-10-35-38 – 35-39]

Step A	Adjust the carrying amount of the assets in the disposal group not in the scope of Subtopic 360-10 by applying other relevant guidance.	Examples of assets not in the scope of Subtopic 360-10 are goodwill, inventory and financial assets.

Step B	Adjust the carrying amount of the disposal group as a whole to fair value less cost to sell, if lower; i.e. the writedown loss (see section 4.5.40).	The costs to sell are the incremental direct costs incurred to execute the sale – e.g. broker commissions, legal and title transfer fees, closing costs before legal title is transferred.

This measurement process excludes any expected future losses associated with the disposal group's operations. [360-10-35-38 – 35-39]

Subsequent measurement

A held-for-sale disposal group's long-lived assets are neither depreciated nor amortized, even if the assets continue to be used in operations or their disposal group continues to generate revenue for the entity. The entity remeasures the disposal group each reporting period at the lower of its carrying amount and fair value less cost to sell. If on remeasurement the change in fair value results in a gain, then the entity may write up the value of the disposal group, not exceeding its original carrying amount. Section 4.5.50 further discusses subsequent measurement. [360-10-35-40; 35-43]

Questions 6.3.20 and 6.3.140 discuss the presentation of the writedown loss resulting from initial held-for-sale classification and any subsequent remeasurement gain or loss when the disposal group is reported in discontinued operations and when it does not qualify as a discontinued operation, respectively.

4.5.10 Carrying amount

Step A in measuring the disposal group requires the entity to adjust the carrying amount of the *individual assets* in the disposal group that are not in the scope of Subtopic 360-10 by applying other relevant guidance. In Step B, the carrying amount of the *disposal group as a whole* is written down to fair value less cost to sell, if lower. [360-10-35-39]

Question 4.5.30
What assets and liabilities are included in the disposal group?

Interpretive response: Subtopics 205-20 and 360-10 define a disposal group as representing "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." [205-20 Glossary, 360-10 Glossary]

Disposal group assets may include long-lived assets in the scope of Subtopic 360-10 (including ROU assets – see Question 4.5.130) as well as other assets such as goodwill (see Question 4.5.35), inventory, receivables and financial assets.

Liabilities are included in the disposal group only if they are directly associated with the assets to be disposed of – e.g. legal obligations that transfer to the buyer, or obligations that a potential buyer would prefer to settle for business reasons when assumed as part of the disposal group. [360-10 Glossary, 360-10-15-4]

We believe such liabilities may include the following:

— contractual obligations associated with the activities to be transferred (e.g. trade payables, product warranty);
— lease liabilities associated with ROU assets;
— employee-related liabilities directly associated with assets to be transferred (e.g. accrued time off and defined benefit obligations for active employees of the disposal group, pension liabilities for retired employees of the disposal group if the legal obligation is assumed by the buyer);
— legal obligations associated with a long-lived asset (e.g. environmental, asset retirement obligation);
— other obligations (e.g. litigation, tax liability); and
— financial debt.

We believe only financial debt that is assumed by the buyer should be included in the disposal group. We do not consider corporate-level debt that is required to be repaid in connection with the transaction as directly associated with the disposal group assets.

Question 4.5.35#

How is goodwill assigned to a disposal group?

Interpretive response:

Disposal group is a reporting unit

If a reporting unit is to be disposed of in its entirety, the goodwill of that reporting unit is included in its carrying amount. [350-20-40-1, 360-10-35-39]

Disposal group is a portion of a reporting unit and is a business

If only a portion of a reporting unit is disposed of (further referred to as the disposal group) and that disposal group is considered a business, then goodwill is included in the carrying amount and is generally allocated based on relative fair values. The relative fair value is assigned by comparing the fair value of the disposal group to the fair value of the remainder of the reporting unit. [350-20-40-3]

We believe that Subtopic 360-10 requires the relative fair value assignment of goodwill to be done upon held-for-sale classification and factored into the writedown loss, if any, at that date (see Question 4.5.20). However, US GAAP does not specify whether the goodwill allocation must be revised when there are changes in facts and circumstances affecting relative fair values between the held-for-sale classification date and the disposal date. As a result, there is diversity in practice.

Given the relatively short timeframe between the held-for-sale classification date and the disposal date (less than one year), we would generally not expect fair value to change significantly. However, we acknowledge there may be situations where facts and circumstances may change, and the question may arise as to whether a revision to the goodwill allocation is required.

In these situations, we believe it is acceptable not to revise the amount of goodwill initially allocated to the disposal group at the date of held-for-sale classification. We believe this is supported under Subtopic 360-10 considering that a held-for-sale disposal group is its own unit of account and its composition for accounting purposes should not be revised from the date it is classified as held-for-sale, unless the identifiable assets and liabilities to be sold change. [360-10-35-43]

The notion of not 'redefining the unit of account' is consistent with one of the views expressed in a 2008 speech given by former SEC Professional Accounting Fellow Adam Brown. This approach also avoids recognizing a change in the disposal group's gain or loss for reasons unrelated to the fair value of the disposal group itself (e.g. when the fair value of the portion of the reporting unit to be retained changes). [2008 AICPA Conf]

Disposal group is not a business

Goodwill is not included in the carrying amount of a disposal group that is part of a reporting unit, if it does not constitute a business. [360-10-35-39]

For additional guidance on reassigning goodwill to reporting units when there is a disposal, see Question 5.4.130 of KPMG Handbook, Impairment of nonfinancial assets.

Question 4.5.40

Under Step A, in what order are the disposal group's assets tested for impairment?

Interpretive response: When a disposal group contains assets (other than goodwill) that are not long-lived assets in the scope of Subtopic 360-10, the entity tests those assets first for impairment. Goodwill is then evaluated for impairment before adjusting the disposal group as a whole under Step B. This order ensures that the individual carrying amounts of these assets are adjusted for impairment as necessary before the overall carrying amount of the disposal group is determined in Step B.

This order is reversed (i.e. goodwill is tested last) when goodwill and long-lived assets classified as held-and-used are tested for impairment. See section 4.4 in KPMG Handbook, Impairment of nonfinancial assets.

Long-lived assets in the scope of Subtopic 360-10 do not need to be tested for impairment upon classification as held-for-sale. These assets are subject to the Topic 360 impairment model only if they are classified as held-and-used. However, such assets are adjusted for any depreciation (amortization) expense through the date the held-for-sale criteria are met (see section 4.2). [360-10-35-16]

Question 4.5.45

Under Step A, are held-for-investment loans and held-to-maturity debt securities reclassified as held-for-sale or available-for-sale, respectively?

Background: At acquisition, an entity determines and documents its classification of loans and debt securities into categories. The classification impacts measurement and treatment of unrealized gains and losses, as follows. [310-10-35-47A, 35-48, 948-310-30-4, 35-1, 320-10-25-1, 35-1, 45-9]

Classification	Subsequent measurement	Gains and losses
Loans		
Held-for-investment (HFI)	Amortized cost basis	Reported in earnings only when realized
Held-for-sale (HFS)	Lower of amortized cost basis or fair value	Changes in the valuation allowance are reported in earnings
Debt securities		
Held-to-maturity (HTM)	Amortized cost basis	Reported in earnings only when realized
Available-for-sale (AFS)	Fair value	Unrealized gains and losses reported in OCI
Trading	Fair value	Unrealized gains and losses reported in earnings

For additional guidance on accounting for debt securities, see chapters 3 and 4 of KPMG Handbook, Investments.

Prior to its classification as held-for-sale, a disposal group may include HFI loans and/or HTM debt securities, which will be sold together with other assets and liabilities in the disposal group, including long-lived assets in the scope of Topic 360.

Interpretive response: US GAAP does not provide specific guidance on applying Step A to a disposal group with HFI loans and HTM debt securities. We believe there are two acceptable approaches to the accounting in this situation. The approach selected is disclosed and applied consistently. [235-10-50-3]

Approach 1: Maintain classification as HFI (loans) and HTM (debt securities)

Approach 1 considers that the disposal group as a whole is being sold rather than the individual assets comprising it – i.e. the disposal group is the unit of account for purposes of applying held for sale accounting. Therefore, the intent and ability to hold the loans and debt securities is assessed from the disposal group’s perspective and has not necessarily changed at the loan and debt security level as a result of the disposal group being sold.

If the intent and ability to hold the loans and debt securities has not changed from the disposal group’s perspective, then under Approach 1, the classification of the HFI loans and HTM debt securities is unchanged. We believe this approach may only be appropriate when the disposal group meets the definition of a business and should not be applied if substantially all of the fair value of the assets of the disposal group are concentrated in financial assets – e.g. the transaction is in substance the disposal of a loan or security portfolio.

Under Approach 1, the allowance for credit losses is included in the carrying amount of the disposal group for purpose of Step B – i.e. to determine any writedown loss resulting from initial held-for-sale classification of the disposal group or any subsequent remeasurement or disposal gain or loss. This is because the carrying amount of the loans and securities, net of the allowance, is intended to be recovered through the sale of the disposal group. Upon the sale of the disposal group, the allowance for credit losses is included in the carrying amount of the assets sold, as opposed to being reversed through earnings.

Approach 2: Reclassify to HFS (loans) and AFS (debt securities)

Approach 2 considers that held-for-sale accounting applies at both the individual asset and the disposal group level. Therefore, Step A requires an entity to first apply the held-for-sale guidance in Topics 310, 320 and 948 to the loans and debt securities to be sold as part of the disposal group. As a result, the entity assesses the intent and ability to hold these assets from its own perspective, as opposed to the perspective of the disposal group. Because these assets will be sold as part of the disposal group, the entity's intent and ability has changed with respect to each of the assets in the group. Therefore, the HFI loans are reclassified to held-for-sale and the HTM debt securities are reclassified to AFS.

This means that before the carrying amount of the disposal group as a whole is compared to fair value less cost to sell (i.e. Step B), the following happens.

Transfer debt securities from HTM to AFS	Transfer loans from HFI to HFS
— Reverse in earnings any allowance for credit losses previously recorded on HTM debt securities. — Reclassify and transfer HTM debt securities to the AFS category at their amortized cost basis.[1] — Determine if an allowance for credit losses is necessary by applying Subtopic 326-30. — Report in OCI any unrealized gain or loss on the AFS debt securities at the date of transfer, excluding the amount recorded in the allowance for credit losses in the immediately preceding step. — Evaluate whether the transfer calls into question the entity's intent and ability to hold to maturity securities that remain in the HTM category in accordance with paragraphs 320-10-35-8 and 35-9. [320-10-35-10A]	— Reverse in earnings any allowance for credit losses previously recorded on the loans. — Reclassify and transfer the loans into the held-for-sale classification at their amortized cost basis.[1] — Determine whether a valuation allowance is necessary by following the guidance in Subtopic 310-10 or 948-310, as applicable. [310-10-35-48A, 948-310-35-2A]

Note:

1. The amortized cost basis that is transferred is reduced by any previous writeoffs but excludes any allowance for credit losses, as applicable.

As a result of the above, under Approach 2, the impact of the allowance reversal is recognized in earnings at the time of the reclassification. It is therefore excluded from the writedown loss resulting from Step B and the disposal gain or loss.

Question 4.5.50

Under Step B, are accumulated balances in AOCI included in the carrying amount of the disposal group?

Background: The following are examples of the accumulated balances that might be included in accumulated other comprehensive income (AOCI):

— accumulated foreign currency translation adjustments (CTA);
— accumulated gains or losses on pension or other postretirement benefit plans; and
— accumulated gains or losses on available-for-sale debt securities.

Interpretive response: Yes. We believe the guidance in Topic 830 (foreign currency) for CTA applies by analogy to other accumulated balances in AOCI when determining whether these amounts are included in the measurement of a held-for-sale disposal group's carrying amount.

If an entity *commits to a plan* that causes the CTA for an equity method investment or consolidated investment in a foreign entity to be reclassified to earnings, Topic 830 requires the entity to include the CTA in the investment's carrying amount when evaluating that investment for impairment. See section 7.6.20 in KPMG Handbook, Consolidation and Question 5.5.50 in KPMG Handbook, Equity method of accounting. [830-30-45-13]

Topic 830 also requires an entity to include the portion of the CTA that represents a gain or loss from an effective hedge of the net investment in a foreign operation in the investment's carrying amount when evaluating that investment for impairment if it has *committed to a plan* to dispose of the net investment. [830-30-45-15]

Topic 830 does not provide specific guidance about what is meant by *commits to a plan.* However, we believe that if the disposal of the equity method investment or consolidated subsidiary meet the held-for-sale criteria, the Topic 830 criterion of committing to a plan is also met.

On disposal, the accumulated balances will be reclassified from AOCI to earnings. [830-30-45-13]

Example 4.5.10

Measurement of a held-for-sale disposal group with CTA losses

ABC Corp. commits to a plan to sell consolidated Sub S in Mexico, for $55 (net of cost to sell). Sub S uses the Mexican Peso as its functional currency.

In ABC's consolidated financial statements, the financial position of Sub S at the date the held-for-sale criteria are met (see section 4.2) includes: total assets of $75 (long-lived assets), total liabilities of $25 and accumulated CTA losses (i.e. debit balance) of $10 reported in AOCI.

As discussed in Question 4.5.50, an entity includes the CTA in the held-for-sale disposal group's carrying amount, for comparison to its fair value less cost to sell. ABC calculates the carrying amount of Sub S as follows.

Carrying amount	
Total assets (long-lived assets)	$75
Less: Total liabilities	(25)
Plus: Accumulated CTA losses	10
Carrying amount of Sub S	**$60**

Because the carrying amount ($60) exceeds fair value less cost of sale ($55), ABC recognizes a writedown loss of $5 when Sub S is classified as held-for-sale.

ABC does not reclassify the CTA balance of $10 from AOCI to earnings until disposal, when all assets (net of the writedown loss) and liabilities are derecognized.

Example 4.5.20 illustrates the implications if the CTA loss is so significant that the writedown loss exceeds the carrying amount of the assets of Sub S.

4.5.20 Fair value

The fair value of a disposal group is measured under Topic 820. For further discussion about fair value measurement, see KPMG Handbook, Fair value measurement.

4.5.30 Costs to sell

Costs to sell are the incremental direct costs to transact a sale – the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. While not exhaustive, Subtopic 360-10 provides the following examples of costs to sell: broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. [360-10-35-38]

When the disposal group is first classified as held-for-sale, costs to sell typically have not yet been incurred and need to be estimated. Additionally, if the sale is expected to occur beyond one year (see section 4.2.50), the costs to sell may need to be discounted. [360-10-35-38]

Question 4.5.60

Are internal costs included in costs to sell?

Interpretive response: It depends. Internal costs an entity pays to its employees for finding a buyer or consummating a sale are included as costs to sell only if they are incremental and directly related to the sale of the assets. [360-10-35-38]

For example, instead of paying a broker a commission to negotiate a sale, an entity may pay its CEO a bonus in the same amount. In that case, the costs are incremental and directly related to the sale of the assets, and are therefore included as costs to sell.

The following are examples of internal costs that would not be considered direct and incremental:

— recurring bonus payment to management, even if that bonus is contingent on the sale of assets;
— salaries for individuals in the real estate department responsible for the disposal of assets;
— the tax impact of an internal legal entity restructuring to prepare for the sale of assets.

Careful consideration needs to be given to the nature of the internal costs incurred in determining if they are costs to sell for purposes of measuring fair value less costs to sell.

Question 4.5.70

Are fees paid in conjunction with a sale included in costs to sell?

Interpretive response: It depends. Costs to sell only include fees that are incremental and directly related to the sale that would not have been incurred by the entity had the decision to sell not been made. Examples of such fees include broker commissions and legal and title transfer fees. [360-10-35-38]

We believe that bank fees paid to renegotiate corporate-level debt as a result of a disposal transaction are generally not included in costs to sell. This is because such financial debt is not included in the disposal group (see Question 4.5.30). Additionally, we believe these costs are not incurred to consummate the sale although they result directly from the transaction. Instead, the bank fees should be evaluated under the guidance for debt modifications under Topic 470. See chapter 4 in KPMG Handbook, Debt and equity financing.

Likewise, fees paid by the entity to an investment banker to evaluate its corporate structure, develop asset sale strategies, or evaluate legal and tax issues associated with potential sales are generally not incremental costs that are directly related to consummating a sale transaction.

Question 4.5.80

Are future planned capital expenditures included in costs to sell?

Background: An entity may plan to incur capital expenditures for a disposal group that meets the held-for-sale criteria discussed in section 4.2.

Interpretive response: No. We believe future planned capital expenditures related to held-for-sale disposal group assets are not incremental and directly related to the sale transaction and therefore are not costs to sell.

As a result, an entity should only recognize a writedown loss for the disposal group at the time the capital expenditures are made, if the capital expenditures increase the carrying amount of the asset in excess of its fair value less costs to sell. However, if the capital expenditures also increase the fair value (selling price) of the asset, the loss may be eliminated or reduced.

Question 4.5.90

Is a gain or loss on extinguishment of debt included in costs to sell?

Interpretive response: No. On the sale of a disposal group, an entity may be required by terms of a loan arrangement to extinguish debt secured by the disposal group itself or assets of the disposal group. We do not believe the extinguishment gain or loss on the debt should be included in costs to sell.

The sale of the assets and the extinguishment of the debt are discrete events and therefore are accounted for separately. The extinguishment gain or loss on the debt is part of the entity's financing costs regardless of the timing of the extinguishment, and not a cost of selling the disposal group. The manner in which an entity chooses to finance or leverage an individual asset that is in the scope of Subtopic 360-10 or a disposal group does not affect the fair value of, or the gain or loss on the sale of, that asset or disposal group.

However, when incurred, the extinguishment gain or loss may be allocated to discontinued operations when reporting results in the income statement (see Question 6.3.80).

Question 4.5.100

How are costs incurred in connection with a disposal or retirement of long-lived assets recognized?

Interpretive response: Subtopic 360-10 does not provide guidance about recognizing a liability for costs that will be incurred in connection with a disposal or retirement of long-lived assets. Disposal costs, as well as costs associated with an exit activity, should be recognized in accordance with Topic 420 (exit or disposal cost obligations). Costs related to the retirement of long-lived assets should be recognized in accordance with Topic 410 (asset retirement obligations).

4.5.40 Writedown loss

In Step B of measuring a disposal group as a whole, if its fair value less cost to sell is lower than its carrying amount, a loss is recognized to write down the carrying amount.

Question 4.5.110

Under Step B, how is any writedown loss presented?

Interpretive response: The writedown loss determined in Step B is not allocated to the major classes of assets of the disposal group. It constitutes a reconciling item when disclosing the major classes of assets in the disposal group (see section 7.2.20). [205-20-45-11, 205-20-50B(b), 360-10-50-3(e)]

We believe it is appropriate to maintain a valuation allowance (sometimes referred to as a contra-asset account) to write down the disposal group to its fair value less cost to sell. In subsequent measurement of the disposal group, the valuation allowance is then adjusted for any changes.

Question 6.3.20 discusses the income statement presentation of the writedown loss resulting from initial held-for-sale classification of a discontinued operation. Question 6.3.140 discusses the income statement presentation of the writedown loss resulting from initial held-for-sale classification when an asset or disposal group is not a discontinued operation.

Question 4.5.120

Under Step B, is the writedown loss always recognized?

Background: A situation may arise in which the carrying amount of the disposal group in excess of its fair value less cost to sell (i.e. the writedown loss) is greater than the carrying amount of the long-lived assets included in the disposal group.

For example, the carrying amount of a disposal group is $1,000 and its fair value less cost to sell is $700, indicating a writedown loss of $300. The carrying amount of the long-lived assets in the disposal group is $200. Therefore, the indicated writedown loss exceeds the carrying amount of the long-lived assets in the disposal group by $100.

Because balances of AOCI are included in the carrying amount of the disposal group (see Question 4.5.50), this situation can arise for example when significant CTA losses exists, as illustrated in Example 4.5.20.

Interpretive response: No. The SEC staff has indicated that there are two acceptable approaches to the accounting in this situation. [2008 AICPA Conf]

Approach 1: Writedown loss is recognized

Approach 1 redefines the unit of account as the disposal group. Therefore, a loss is recognized to record the disposal group at the lower of its carrying amount and its fair value less cost to sell. Under this approach, a writedown loss of $300 is recognized in the background example, which effectively impairs other assets in the disposal group, such as accounts receivable or inventory, although it does not need to be allocated to those assets (see Question 4.5.110). [360-10-35-43]

The SEC staff has indicated that registrants applying Approach 1 should disclose where the excess writedown loss has been recognized on the balance sheet (i.e. the effective credit entry), and whether further losses are expected in the future. [2008 AICPA Conf]

Approach 2: Writedown loss is not recognized

Approach 2 limits the writedown loss to the carrying amount of the long-lived assets, because only long-lived assets are in the scope of Subtopic 360-10. Under this approach, a writedown loss of $200 is recognized in the background example. [360-10-35-40]

When applying Approach 2, an entity also needs to consider other guidance (e.g. loss contingencies in Subtopic 450-20) to ensure all liabilities have been recognized.

Other considerations

While we acknowledge that either approach generally is acceptable, we believe Approach 1 is preferable because it appropriately values the disposal group as a whole.

These approaches relate only to the measurement of a disposal group classified as held-for-sale. Under the held-and-used impairment model, an individual long-lived asset is not impaired below its fair value if that fair value is determinable without undue cost and effort. See Question 9.3.10 in KPMG Handbook, Impairment of nonfinancial assets.

Additionally, an indicated impairment in excess of the carrying amount of the long-lived assets may suggest that other assets (outside the scope of Subtopic 360-10) in the asset group are also impaired. Consequently, an entity may need to revisit the impairment analysis for these other assets under other Codification Topics. See KPMG Handbook, Impairment of nonfinancial assets.

Example 4.5.20

Measurement of a held-for-sale disposal group with CTA losses – writedown loss exceeds carrying amount of long-lived assets

Assume the same facts as Example 4.5.10 except that accumulated CTA losses (i.e. debit balance) of $100 are attributable to Sub S.

As discussed in Question 4.5.50, an entity includes the CTA in the held-for-sale disposal group's carrying amount, for comparison to its fair value less cost to sell. ABC calculates the carrying amount of Sub S as follows.

Carrying amount	
Total assets (long-lived assets)	$75
Less: Total liabilities	(25)
Plus: Accumulated CTA losses	100
Carrying amount of Sub S	**$150**

Because the carrying amount ($150) exceeds fair value less cost of sale ($55), the writedown loss is $95.

ABC determines that recognizing the full writedown loss of $95 when Sub S is classified as held-for-sale is more appropriate in the circumstances (i.e. Approach 1 in Question 4.5.120). ABC recognizes $75 as a contra-asset to write down the held-for-sale assets' balance; it also recognizes a liability of $20 presented in held-for-sale liabilities.

ABC does not reclassify the CTA balance of $100 from AOCI to earnings until disposal, when all assets (net of the writedown loss) and liabilities of Sub S are derecognized.

4.5.50 Subsequent measurement

At each reporting date subsequent to the asset group being classified as held-for-sale, the entity remeasures the disposal group at the lower of its carrying amount and fair value less cost to sell. The disposal group's long-lived assets are not depreciated or amortized after being classified as held-for-sale. [360-10-35-43]

Question 4.5.130

Do depreciation and amortization cease on lease-related assets classified as held-for-sale?

Interpretive response: It depends. Depreciation ceases on long-lived assets in the scope of Subtopic 360-10 that are classified as held-for-sale. In its basis for conclusions to ASU 2016-02 (leases), the FASB stated that an ROU asset is a long-lived, nonfinancial asset. Therefore, we believe amortization should cease when ROU assets are classified as held-for-sale. See section 6.5.3 in KPMG Handbook, Leases, for further discussion of the interaction of Subtopic 360-10 when an ROU asset is part of a held-for-sale disposal group. [ASU 2016-02.BC255]

Tenant improvements are also long-lived assets in the scope of Subtopic 360-10 for which depreciation ceases when the property meets the held-for-sale criteria. Similarly, assets recorded at the acquisition date of a property for the fair value of in-place leases and tenant relationships for a lessor are amortizable intangible assets for which amortization ceases at the date the related property is classified as held-for-sale.

In contrast, the following items under lessor accounting for operating leases are not long-lived assets because they relate to the revenue stream of related leases:

— straight-line rent receivables;
— lease assets or liabilities recorded at the acquisition date of a property for the difference between contractual and market rents;
— deferred lease commissions; and
— tenant inducements.

Because they are not long-lived assets, these costs continue to be amortized over the lease life even if the property is classified as held-for-sale.

4.6 Changes to a plan of sale

Excerpt from ASC 360-10

> Long-Lived Assets Classified as Held for Sale

• > Changes to a Plan of Sale

35-44 If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used. A long-lived asset that is reclassified shall be measured individually at the lower of the following:

a. Its carrying amount before the asset (disposal group) was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset (disposal group) been continuously classified as held and used
b. Its fair value at the date of the subsequent decision not to sell.

35-45 If an entity removes an individual asset or liability from a disposal group previously classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the criteria in paragraph 360-10-45-9 are met. Otherwise, the remaining long-lived assets of the group shall be measured individually at the lower of their carrying amounts or fair values less cost to sell at that date.

> Long-Lived Assets Classified as Held and Used

• > Changes to a Plan of Sale

45-6 If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used.

45-7 Any required adjustment to the carrying amount of a long-lived asset that is reclassified as held and used shall be included in income from continuing operations in the period of the subsequent decision not to sell. That adjustment shall be reported in the same income statement caption used to report a loss, if any, recognized in accordance with paragraph 360-10-45-5. If a component of an entity is reclassified as held and used, the results of operations of the component previously reported in discontinued operations in accordance with paragraph 205-20-45-3 shall be reclassified and included in income from continuing operations for all periods presented.

45-8 Any long-lived assets that will not be sold shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

After a disposal group has been classified as held-for-sale, management may decide to reverse its plan to divest, or circumstances may change so that the disposal group no longer meets the held-for-sale criteria.

Question 4.6.10

How does an entity reclassify a disposal group as held-and-used when the held-for-sale criteria are no longer met?

Interpretive response: An entity takes the following steps at the time the held-for-sale criteria are no longer met.

Step 1	Reclassify the disposal group's assets and liabilities on the balance sheet as held-and-used. [205-20-45-1F; 360-10-45-6 – 45-8]
Step 2	Remeasure each long-lived asset in the scope of Subtopic 360-10 at the lower of: [360-10-35-44] — its carrying amount before being classified as held-for-sale, adjusted for any depreciation or amortization expense that would otherwise have been recognized had the asset (disposal group) been continuously classified as held-and-used; and — the fair value of the asset at the date it is reclassified as held-and-used. Recognize the resulting adjustment (see Question 4.6.50).
Step 3	Report the disposal group's operations in continuing operations in the income statement and statement of cash flows for all periods presented (see Question 4.6.60). [360-10-45-7]

Step 4	Disclose the change and the facts and circumstances that led to the change (see chapter 7). [205-20-50-3]

Question 4.6.20

Does the loss of a prospective buyer preclude a disposal group from continuing to be classified as held-for-sale?

Interpretive response: No. We believe the loss of a prospective buyer does not by itself preclude a disposal group from continuing to be classified as held-for-sale, nor does it indicate a change to the plan of sale. Identifying a buyer is not necessary to meet any of the held-for-sale criteria. However, the loss of a prospective buyer may require an entity to reassess whether the held-for-sale criteria continue to be met. If they continue to be met, the disposal group remains classified as held-for-sale. [205-20-45-1E(c)]

Question 4.6.30

Does a decision to remediate environmental contamination preclude the disposal group from continuing to be classified as held-for-sale?

Background: ABC Corp. classifies a disposal group as held-for-sale. However, it subsequently decides to remediate environmental contamination affecting real property in the disposal group before obtaining a firm purchase commitment and transferring the disposal group to a buyer.

Interpretive response: Yes. We believe that the decision to remediate the environmental contamination imposes a delay in timing on the ability to obtain a firm purchase commitment and on the transfer of the disposal group. This demonstrates that the disposal group is no longer available for immediate sale. Therefore, we believe that the disposal group no longer meets Criterion B (see Question 4.2.70) and should be reclassified as held-and-used.

Question 4.6.40

Does a decision to retain certain assets or liabilities originally intended to be sold preclude the disposal group from continuing to be classified as held-for-sale?

Interpretive response: It depends. We believe that retaining certain assets of a disposal group does not necessarily preclude the disposal group from being classified as held-for-sale, nor does it indicate a change to the plan of sale. However, the entity must reassess whether the reduced disposal group still meets the definition of a component (see Question 3.3.40) and all the held-for-sale criteria.

The retained assets are reclassified as held-and-used and are remeasured accordingly (see Step 2 in Question 4.6.10). [360-10-35-45]

Question 4.6.50

How is the remeasurement adjustment reported when a disposal group is reclassified as held-and-used?

Background: The change in classification from held-for-sale back to held-and-used often triggers a remeasurement of the disposal group. The remeasurement can be positive (write-up gain) or negative (impairment loss).

A remeasurement may occur for any of the following reasons. [360-10-35-44]

— **Disposal group was measured at fair value less cost to sell.** If on reclassification as held-and-used, a long-lived asset in the disposal group is measured at fair value (see Step 2 in Question 4.6.10), this may trigger an immediate write-up of the disposal group for the amount of the cost to sell.

— **Disposal group was measured at its carrying amount.** The reclassification as held-and-used triggers an immediate recognition of the amortization and depreciation that was not recognized during the held-for-sale period for all long-lived assets in the disposal group that are in the scope of Subtopic 360-10.

— **Disposal group was measured as a group** (see Step B in Question 4.5.20). On reclassification as held-and-used, any long-lived assets in the disposal group are measured individually if they are in the scope of Subtopic 360-10.

Interpretive response: When a disposal group is reclassified as held-and-used, any adjustment to its carrying amount is reported in the income statement as an impairment charge in continuing operations, in the period that the held-for-sale criteria are no longer met. See KPMG Handbook, Impairment of nonfinancial assets, for in-depth guidance on the impairment of held-and-used assets. [360-10-45-7]

Question 4.6.60

Are prior-period financial statements or comparatives adjusted when a disposal group is reclassified as held-and-used?

Interpretive response:

Prior-period financial statements

No. We believe an entity should not restate its prior-period financial statements when a disposal group is reclassified as held-and-used. Any impairment loss recognized in the prior period while the disposal group's assets were classified as held-for-sale is not adjusted, and the entity does not restate depreciation expense as if those assets had been classified as held-and-used.

This interpretation is supported by EITF Issue 90-16, Accounting for Discontinued Operations Subsequently Retained, which did not permit an entity to restate its prior-period financial statements. Although this EITF was nullified by FASB Statement 144 (subsequently codified as Subtopic 360-10), we believe it provides relevant guidance on the consequences of deciding to retain a disposal group classified as held-for-sale and reported in discontinued operations.

Comparative information

Subtopics 205-20 and 360-10 are silent regarding the presentation in prior periods of assets and liabilities of a disposal group that is no longer classified as held-for-sale. In the reporting period that includes the decision to retain the disposal group, prior periods presented for comparative purposes may need to be adjusted as follows.

	The disposal group was previously reported in:	
	Discontinued operations	**Continuing operations**
Retrospectively adjust measurement of long-lived assets in the disposal group as if always held and used [360-10-45-7]	**No**	**No**
Reclassify assets and liabilities from held-for-sale to held-and-used	**Yes**[1]	Permitted but not required[2]
Reclassify operations from discontinuing to continuing [360-10-45-7]	**Yes**	N/A

Notes:

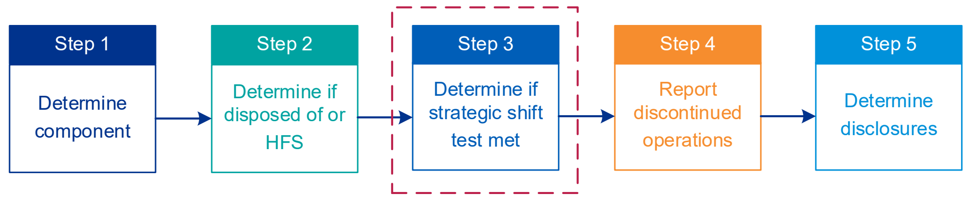
1. Subtopic 205-20 requires consistency across all periods presented when the discontinued operation is first classified as held-for-sale – i.e. it requires separate presentation of assets and liabilities of a discontinued operation for all periods presented (see section 6.2.20). Therefore, when the held-for-sale criteria are no longer met, we believe it is appropriate to present those assets and liabilities as held-and-used for all periods presented.
2. Subtopic 360-10 neither requires nor prohibits the adjustment of comparative periods when the held-for-sale criteria are no longer met. If an entity chooses to restate comparative periods, we believe it should clearly disclose when the held-for-sale criteria ceased to be met. This presentation election should be disclosed and consistently applied and should have no measurement effect. [235-10-50-3]

The entity also needs to consider whether the decision not to sell the disposal group results from the correction of an error instead of a change in circumstances. In that case, the requirements of Topic 250 (accounting changes and error corrections) apply. See chapter 4 of KPMG Handbook, Accounting changes and error corrections.

5. Strategic shift test

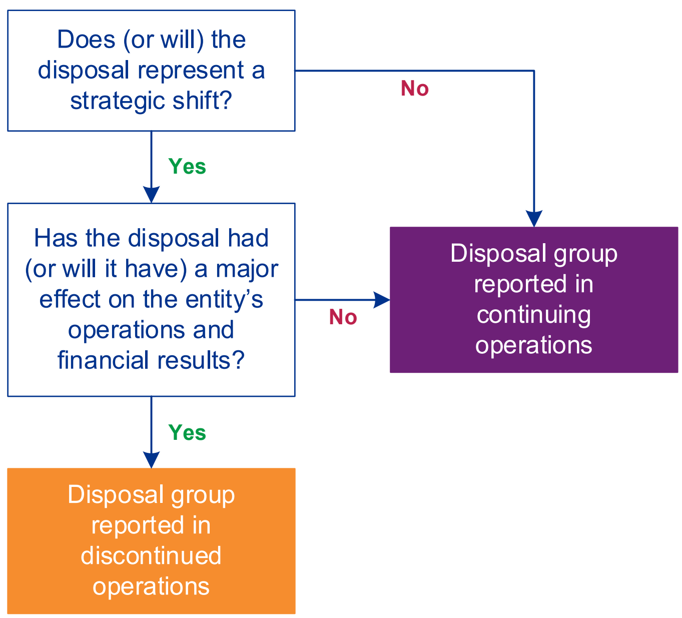
Detailed contents

5.1 How the standard works



A disposal group that is a component (group of components) of an entity (Step 1 – see chapter 3) and that has been disposed of or is held-for-sale (Step 2 – see chapter 4) is reported in discontinued operations only if it meets a third step, referred to in this publication as the 'strategic shift test'.

The test in Step 3 has two conditions.



5.2 Overview

Excerpt from ASC 205-20

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

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

A component that has been disposed of or is held-for-sale (see chapter 4) is reported in discontinued operations if its disposition: [205-20-45-1B]

— represents a strategic shift (see section 5.3); and
— has (or will have) a major effect on the entity's operations and financial results (see section 5.4).

Although these two conditions are interrelated (and are referred to collectively as the 'strategic shift test' in this publication), they are assessed separately.

A strategic shift with a major effect on operations and financial results is often evidenced by the disposal of a major geographic area, a major line of business, or a major equity method investment. However, other types of disposals can also meet these two conditions. [205-20-45-1C]

Observation
Adoption of strategic shift test

The strategic shift test was introduced by the FASB to address comments from certain stakeholders that too many disposals of small groups of assets were qualifying for discontinued operations under legacy US GAAP. This resulted in a higher cost for preparers due to Subtopic 205-20's then inherent complexity. However, the FASB left the interpretation of what is considered a strategic shift and a major effect to the judgment of preparers. [ASU 2014-08.BC2]

Question 5.2.10
Does a disposal that has a major effect on operations and financial results always represent a strategic shift?

Interpretive response: No. A disposal's effect on operations and financial results is assessed separately from the 'strategic shift' concept. However, we believe the more significant that effect – particularly relative to the component's historical and expected future effect on ongoing operating results – the more likely it is that the disposal represents a strategic shift.

Example 5.2.10
Major disposal not considered a strategic shift

Scenario 1: Shutdown of a major facility

ABC Corp. is a bottling company with distribution in North America under one brand name. The operations comprise three individual bottling facilities, all located in North America. Due to a slowdown in the beverage industry, ABC decides to shut down one of its bottling facilities and will run production out of the other two.

ABC determines that the shutdown of its bottling facility will have a major effect on its operations and financial results. However, ABC also determines that the shutdown does not represent a strategic shift because it is not changing the way it is running its business (see section 5.3); ABC has not shifted the nature of its operations, nor is it exiting a major geographic area. Therefore, ABC does not report any discontinued operations.

Note: This scenario contrasts with Examples 1 and 2 in Subtopic 205-20 (see section 5.5) where the entity exits a major product line and a major geographic area, respectively.

Scenario 2: Exchange of a controlled business for an equity method investment

ABC also has distribution in Europe selling to wholesalers. DEF Corp., a third party, operates a similar sized business in Europe selling to retailers.

ABC enters into an agreement with DEF to merge their European businesses. The merger will result in a joint venture between ABC and DEF in which ABC will own a 50% noncontrolling interest. The joint venture will sell to both ABC's and DEF's distribution channels, which will result in an increased customer base and synergies. Europe remains a reportable segment for ABC after the transaction.

Because ABC exchanges a controlled business for an equity method investment in the joint venture, the transaction will have a significant effect on the line-by-line presentation of its financial results and balance sheet. However, ABC determines that the transaction does not represent a strategic shift because ABC has not changed the nature of its operations nor exited a major geographic area. Instead, the transaction represents an expansion of ABC's business and European footprint. This analysis is consistent with how ABC has communicated to investors on this transaction, and with its segment reporting. Therefore, ABC does not report any discontinued operations.

Note: This scenario contrasts with Example 5 in Subtopic 205-20 (see section 5.5) where the entity also retains an equity method investment in the disposal group, but significantly reduces its exposure in the disposed-of operations.

Question 5.2.20

Is a disposal by a subsidiary evaluated separately at the subsidiary and consolidated levels to determine if a strategic shift has occurred?

Interpretive response: Yes. We believe separate evaluations are made at each level of financial statement reporting as to whether a strategic shift has occurred that has (or will have) a major effect on operations and financial results. Therefore, a different conclusion may be reached at the stand-alone subsidiary level versus at the consolidated parent level.

For example, the component's disposal may represent a strategic shift that has a major effect on the stand-alone subsidiary's operations and financial results, but may be inconsequential in the parent's consolidated financial statements.

See Question 2.2.20 for additional considerations when the disposal is a common control transaction.

5.3 Strategic shift

For a component to be reported in discontinued operations, its disposal needs to represent a strategic shift that has (or will have) a major effect on the entity's operations and financial results. Subtopic 205-20 provides no guidance on what constitutes a strategic shift. [205-20-45-1B]

Question 5.3.10

How does an entity determine whether a disposal represents a strategic shift?

Interpretive response: Although Subtopic 202-50 is silent on what type of disposals represent strategic shifts, the basis for conclusions to ASU 2014-08 provides some insight into how to make these determinations.

An entity making such a determination should generally consider, among other things, how:

- operations are organized, analyzed, and managed;
- operating and reportable segments are identified; and
- the nature of business and operations are disclosed.

The nature of the disposal and its effect on an entity's operations and financial results matter more than the composition of the transaction.

Therefore, a strategic shift may occur with a disposal of an entire reportable segment or with a disposal of components within or across reportable segments, lines of business or geographic areas. If disposed components cross reportable segments, lines of business or geographic areas, we would expect the disposed components to have one or more common attributes to support the analysis that the disposal in its totality represents a strategic shift.

In contrast, the disposal of the only component in a particular geographic area (such as a single state) may not represent a strategic shift if the entity does not manage its business by state and has not otherwise shifted the nature of its operations. [ASU 2014-08.BC13 – BC14]

Question 5.3.20
Is the disposal of a reportable segment a strategic shift?

Interpretive response: Generally, yes. For many entities, individual reportable segments are quantitatively significant and comprise a number of operating segments sharing similar economic characteristics. Therefore, the disposal of a reportable segment likely (but not necessarily) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. [280-10-50-11– 50-12]

However, all facts and circumstances in a specific situation need to be considered because there may be situations in which the disposal of a reportable segment should not be considered a strategic shift. For example, Topic 280 requires at least 75% of consolidated revenues to be included in reportable segments. Incremental reportable segments identified to meet the 75% threshold should be carefully evaluated to determine if their disposal represents a strategic shift. [280-10-50-14]

Question 5.3.30
Can a strategic shift occur in multiple transactions?

Background: ABC Corp. has a single plan to dispose of a major geographical area that comprises two components in two separate transactions. When considered in the aggregate, the disposals constitute a strategic shift and have a major effect on operations and financial results, but separately they do not.

Interpretive response: It depends. Subtopic 205-20 does not require a strategic shift to occur in a single disposal transaction (see Question 4.2.15). However, we believe that if two (or more) transactions are to be assessed together under the strategic shift test, they need to:

- be part of the same plan or decision-making process, formalized when (or before) the first component is disposed of or classified as held-for-sale; and
- occur over a reasonable period of time.

Generally, we believe that assessing the components together under the strategic shift test should be performed when the disposal plan is formalized. However, reporting each component in discontinued operations requires an individual assessment at the component level and is delayed until:

- the component meets the held-for-sale criteria (or has been disposed of), (see chapter 4); and

— the disposal of the component has a major effect when assessed individually or together with the other components in the group that are already held-for-sale (or disposed of).

This analysis requires judgment and consideration of all facts and circumstances.

Both components are held-for-sale (or have been disposed of) at the reporting date

Using the background example, if both components meet the held-for-sale criteria (or have been disposed of) at the reporting date, we believe ABC should report the two components in discontinued operations at that date. This is because they are part of the same disposal plan and together represent a strategic shift that has a major effect on ABC's operations and financial results. [205-20-45-1B]

One component is held and used at the reporting date

Using the background example, if one of the components is still classified as held-and-used at the reporting date, we believe ABC should consider whether the disposal of the component that is held-for-sale (or was disposed of) will have (or has had) a major effect on its own. If it does not, that held-for-sale (or disposed of) component is not reported in discontinued operations at the reporting date.

However, that component's operations will be reported in discontinued operations in a later period – i.e. when the second component is disposed of or meets the held-for-sale criteria – because both components are part of the same disposal plan and together pass the strategic shift test.

Question 5.3.40

Can a strategic shift occur in a series of individual decisions to abandon operations?

Interpretive response: No. We believe that a series of individual decisions to abandon a component (or group of components) generally does not qualify as a strategic shift, and therefore such components are not reported in discontinued operations. This is true even if the decisions ultimately result in a strategic shift, because the entity did not initially decide to strategically abandon the entire component (or group of components).

Question 5.3.50

Is continuing involvement considered when assessing a strategic shift?

Interpretive response: Yes. We believe that in evaluating whether the disposal is a strategic shift, continuing involvement (e.g. guarantees, options to repurchase assets, distribution agreements) should be considered. Further, the nature of any significant continuing involvement should be disclosed (see Question 7.2.10).

Example 5 in Subtopic 205-20 (see section 5.5) illustrates a strategic shift where the entity retains a 20% stake in the discontinued operation. Scenario 2 of Example 5.2.10 illustrates a transaction where an entity's continuing involvement in a disposal group does not represent a strategic shift. [205-20-55-97– 55-101]

Note: ASU 2014-08 eliminated the continuing involvement criterion, and therefore continuing involvement by itself no longer precludes a component from being reported in discontinued operations. However, SAB Topic 5.Z.4 has not yet been removed or modified post-ASU to reflect the updated guidance. [205-20-S99-1]

Question 5.3.60

Can a strategic shift occur when certain assets and liabilities of the disposal group are retained?

Background: ABC Corp. is disposing of a subsidiary but certain subsidiary assets, liabilities or contracts are scoped out of the sale and will be retained by ABC. ABC has assessed that the disposal group (excluding the retained items) meets the definition of a component (see Question 3.3.40).

Interpretive response: It depends. In evaluating whether the disposal is a strategic shift, ABC needs to consider its ongoing interest in the subsidiary's historical operations as a result of retaining some of its assets, liabilities or contracts. Its analysis requires judgment and consideration of all facts and circumstances.

Question 5.3.70

Can a strategic shift occur when disposal transactions are part of the entity's ongoing strategy?

Background: Assume that ABC Corp. is a private equity entity regularly disposing of its portfolio subsidiaries that are quantitatively significant and meet the definition of a component (see Question 3.3.40).

Interpretive response: No. In certain industries (e.g. private equity, real estate, retail), entities frequently execute disposal transactions as part of their ongoing strategy. We believe that disposal transactions in the normal course of operations generally do not represent a strategic shift, irrespective of size. All entity-specific facts and circumstances must be considered to determine whether the disposal transaction occurs in the normal course of operations.

5.4 Major effect on operations and financial results

The second condition of the strategic shift test is that a disposal has (or will have) a major effect on the entity's operations and financial results. This condition is relevant only if a disposal represents a strategic shift, as discussed in section 5.3. Subtopic 205-20 does not provide explicit guidance on what constitutes a 'major' effect in this context. [205-20-45-1B]

Question 5.4.10

How does an entity determine whether a disposal has (or will have) a major effect on operations and financial results?

Interpretive response: Subtopic 205-20 simply states that a disposal needs to represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

It provides no specific quantitative thresholds, but does include several examples suggesting that 'major' is assessed both quantitatively and qualitatively (see section 5.5). The examples illustrate major disposals with quantitative significance ranging from 1% – 20% of various metrics (e.g. assets, revenue and net income) as of the disposal date and 30% – 40% of net income in historical periods.

Further, Subtopic 360-10 includes disclosure requirements for disposals of individually 'significant' components that do not qualify to be reported in discontinued operations, which supports that 'major' is a high quantitative hurdle (see section 7.4).

We believe an entity should consider the following types of factors when determining whether a disposal is major.

— **Quantitative factors.** For example, the effect of the disposal on revenue, gross profit, operating income, net income, cash flows, total assets and key non-GAAP financial measures.

— **Qualitative factors.** For example, the expected effect on future operations, trends and profitability, competitive advantage and market share, compliance with regulatory, loan or other contractual requirements.

Relevant factors will vary based on the entity's individual facts and circumstances.

Effect on both historical and future operations is relevant

An entity considers the effect of the disposed component on both its historical operations and expected future operations. For example, although the disposed component's historical operations may be small, the expected effect on future operations may be significant – e.g. an entity disposes of a relatively new product line that is expected to have significant growth potential in the future.

However, the effect needs to relate to an entity's ongoing operations (either current or future). This means that a gain or loss recognized on the disposal (no matter how large) is not relevant in determining the effect of a disposal.

SEC staff views

The SEC staff has commented in the past that the quantitative thresholds in Topic 205-20's examples "are illustrative and do not establish bright lines or safe harbors." The staff has also discussed that judgment is required to determine which financial results should be considered, but noted that financial metrics that are prominently presented in the financial statements and communicated to investors should be the primary metrics in determining strategic shift and major effect. [2015 AICPA Conf]

Question 5.4.20

At what date does an entity evaluate if runoff operations have (or will have) a major effect on operations and financial results?

Interpretive response: Runoff operations are not considered disposed of, and therefore are not reported in discontinued operations, until all operations have ceased (see Question 4.3.20). However, we believe that assessing whether the disposal meets the strategic shift test needs to occur earlier, at the initial decision to run off the operations. The quantitative and qualitative effect on operations and financial results will lessen throughout the runoff period. Therefore, the true impact of the disposal may not be properly captured if the evaluation is made only when operations have ceased.

5.5 FASB examples

Excerpt from ASC 205-20

> Illustrations

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

• > Example 1: Consumer Products Manufacturer

55-84 An entity manufactures and sells consumer products that are grouped into five major product lines. Each product line includes several brands that comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, for that entity, each major product line includes a group of components of the entity.

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

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

• > Example 2: Processed and Packaged Goods Manufacturer

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

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

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

• > Example 3: General Merchandise Retailer

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

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

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

• > Example 4: Oil and Gas Entity

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

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

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

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

• > Example 5: Sports Equipment Manufacturer

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

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

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

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

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

6. Presentation of discontinued operations

Detailed contents

Item significantly updated in this edition: #

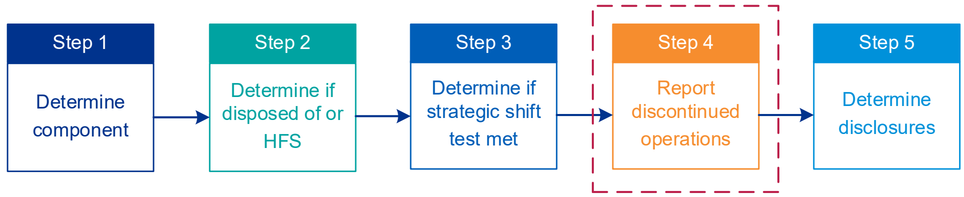
Questions

Examples

6.4 Statement of cash flows presentation

Question

6.1 How the standard works



When a disposal group meets the requirements in Subtopic 205-20 to be reported in discontinued operations, it is referred to as a 'discontinued operation', even if it has not yet been disposed of.

Discontinued operations are reported separately from continuing operations:

— on the balance sheet (see section 6.2);
— in the income statement (see section 6.3); and
— in the statement of cash flows (see section 6.4).

For comparative purposes, prior periods are adjusted to reflect the effect of operations discontinued in the current period.

The purpose of reporting discontinued operations separately from continuing operations is to provide financial statement users with information needed to evaluate an entity's ongoing operations.

6.2 Balance sheet presentation

Excerpt from ASC 205-20

> Statement of Financial Position

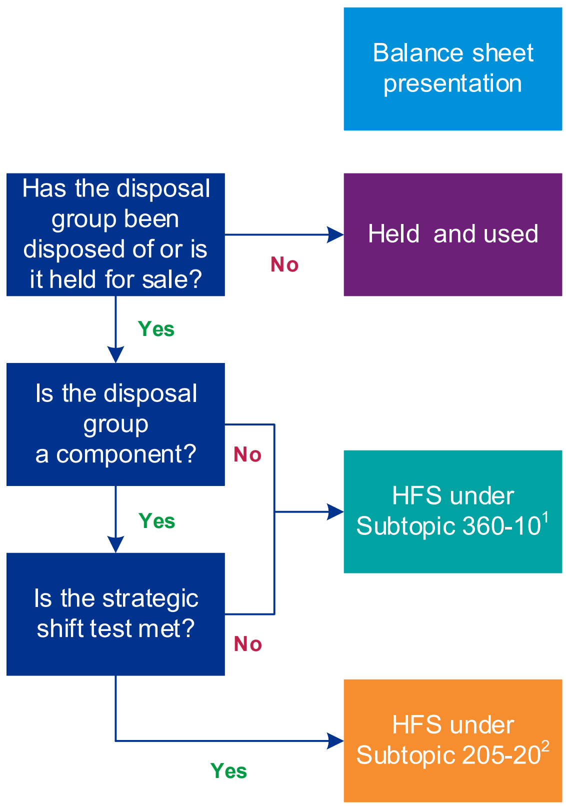
45-10 In the period(s) that a discontinued operation is classified as held for sale and for all prior periods presented, the assets and liabilities of the discontinued operation shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those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

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

6.2.10 Overview

The assets and liabilities of a disposal group are required to be presented separately in the asset and liability sections of the balance sheet beginning in the period the disposal group is first classified as held-for-sale. This presentation applies regardless of whether the disposal group qualifies as a discontinued operation.

The following diagram, which is an excerpt from the full overview diagram in chapter 1, shows how a disposal group's balance sheet presentation is evaluated. It highlights that held-for-sale presentation in the balance sheet arises from both discontinued operations (see section 6.2.20) and disposal groups not qualifying as discontinued operations (see section 6.2.30). [205-20-45-10, 360-10-45-14]



Notes:

1. If in scope of Subtopic 360-10 and not yet disposed of.
2. If not yet disposed of.

6.2.20 Presentation of assets and liabilities of discontinued operations

The assets and liabilities of a discontinued operation are presented separately on the balance sheet – beginning in the period in which the discontinued operation is classified as held-for-sale – for all periods presented. The assets and liabilities may not be offset and presented as a single amount. [205-20-45-10]

For all periods presented, additional information about the major classes of assets and liabilities of the discontinued operation is also required. The information can be provided either on the balance sheet or in the notes. If disclosed in the notes, a reconciliation must be provided to the amounts shown on the balance sheet (see section 7.2.20). [205-20-45-11]

Question 6.2.10

Are the assets and liabilities of a discontinued operation always presented separately on the balance sheet?

Interpretive response: It depends on the nature and timing of the disposal. The following table explains the balance sheet reporting requirements in both the current period and comparative periods. [205-20-45-10]

	Assets and liabilities of the discontinued operation presented separately on balance sheet:	
At the end of reporting period:	**Current period**	**Comparative periods**
Held-for-sale criteria are met	**Yes**	**Yes**
Sale is complete	N/A	**Yes**[1]
Disposal other than by sale is complete	N/A	**Yes**[1, 2]
Disposal other than by sale is not complete	**No**	**No**

Notes:

1. See Question 6.2.20 for labeling conventions.
2. Subtopic 205-20 does not explicitly require assets and liabilities of a discontinued operation to be separately presented in prior periods when the disposal is other than by sale (e.g. spinoff or abandonment). However, we believe that such presentation is appropriate in order to achieve Subtopic 205-20's objective of providing financial statement users with information needed to evaluate an entity's ongoing operations. Separate presentation is not permitted before the disposal is complete (see section 4.3).

Question 6.2.20

How are assets and liabilities of a discontinued operation labeled in comparative periods?

Interpretive response: Subtopic 205-20 does not specifically address the labeling of the assets and liabilities of a discontinued operation that are presented separately in comparative periods.

If the held-for-sale criteria are first met in the current reporting period

Although the discontinued operation did not meet the held-for-sale criteria in prior periods, we believe its assets and liabilities may be labeled 'held-for-sale' or some other similar wording and reported on a single line (subject to the current/noncurrent split – see Question 6.2.30) across all periods presented. However, the assets and liabilities should not be measured as if they were held-for-sale in those prior periods.

If the discontinued operation is disposed of before the held-for-sale criteria are met

In this case, the discontinued operation was never classified as held-for-sale. We would expect the relevant assets and liabilities on the pre-disposal balance sheet(s) to be labeled something other than 'assets/liabilities held-for-sale' (e.g. 'assets/liabilities of discontinued operations') because:

— the discontinued operation did not meet the held-for-sale criteria in those prior periods; and
— there is no comparable held-for-sale presentation of the discontinued operation's assets and liabilities on the current-period balance sheet.

Question 6.2.30

Are the assets and liabilities of a discontinued operation always classified as current?

Interpretive response: No. In general, we believe assets and liabilities of a discontinued operation should be classified as current or noncurrent depending on their anticipated disposal date, and comparative periods' current versus noncurrent classification should not be changed. However, an exception is discussed in Question 6.2.40.

Subtopic 205-20 does not specifically address this issue. Topic 210 indicates that current classification applies to: [210-10 Glossary]

— assets reasonably expected to be realized in cash, sold or consumed during the normal operating cycle of the business; and

— liabilities whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities.

This guidance typically leads to classifying assets and liabilities of a discontinued operation as current in the current period. However, noncurrent classification may be appropriate in the rare cases where the held-for-sale criteria are met although the sale is not probable within one year (see section 4.2.50).

Example 6.2.10

Balance sheet presentation of discontinued operations

The following is an example of balance sheet presentation for ABC Corp. ABC has a disposal group that meets the requirements to be reported in discontinued operations in Year 2 but has not yet been sold at the end of Year 2.

ABC consolidated balance sheets – December 31, Year 2 and Year 1

	Year 2	Year 1
Assets		
Cash and cash equivalents	$XXX	$XXX
Trade accounts receivable, less allowance for doubtful accounts of $XXX in Year 2 and $XXX in Year 1	$XXX	$XXX
Inventories	$XXX	$XXX
Current assets held-for-sale	$XXX	$XXX
Other current assets	$XXX	$XXX
Total current assets	**$XXX**	**$XXX**
Property, plant and equipment	$XXX	$XXX
Intangible assets	$XXX	$XXX
Goodwill	$XXX	$XXX
Noncurrent assets held-for-sale	-	$XXX
Total noncurrent assets	**$XXX**	**$XXX**
Total assets	**$XXX**	**$XXX**
Liabilities		
Trade accounts payable	$XXX	$XXX
Income taxes payable	$XXX	$XXX
Accrued expenses	$XXX	$XXX
Current liabilities held-for-sale	$XXX	$XXX
Other current liabilities	$XXX	$XXX
Total current liabilities	**$XXX**	**$XXX**
Long-term debt	$XXX	$XXX
Other liabilities	$XXX	$XXX
Noncurrent liabilities held-for-sale	-	$XXX
Total noncurrent liabilities	**$XXX**	**$XXX**
Total liabilities	**$XXX**	**$XXX**

Stockholders' equity		
Capital stock	$XXX	$XXX
Retained earnings	$XXX	$XXX
Total stockholders' equity	**$XXX**	**$XXX**
Total liabilities and stockholders' equity	**$XXX**	**$XXX**

In this example, the required additional information about the major classes of assets and liabilities is not provided on the face of the balance sheet. Therefore, it needs to be included in the notes. See section 7.2.20 for an example.

Question 6.2.40

Are the assets and liabilities of a discontinued operation always classified as current or noncurrent based on their anticipated disposal date?

Interpretive response: No. Although the anticipated disposal date of a discontinued operation may indicate current classification on the balance sheet, noncurrent classification might sometimes be appropriate. In that case, we believe all assets and liabilities of the discontinued operation should be classified as noncurrent.

Sale proceeds used in the near term to retire long-term debt

We believe this exception applies when the proceeds from the sale of the discontinued operation will clearly be used in the near term to retire debt that is appropriately classified as a long-term liability. This is because Subtopic 210-10 requires that cash and claims to cash be excluded from current assets if they are clearly to be used in the near future for the liquidation of long-term debts. However, debt that is expected to be repaid within the next 12 months will generally be classified as a current liability; therefore, we expect that classifying assets and liabilities of a discontinued operation as noncurrent based on the above exception should be rare in practice. [210-10-45-4(a)]

Further, an entity should carefully consider the relationship between assets held-for-sale and any related debt. The debt may need to be classified as current if the sale of the assets triggers its immediate repayment. This may occur if the assets are pledged or mortgaged against the debt.

Discontinued operation exchanged for a noncurrent asset

We believe it is acceptable to classify as noncurrent the assets and liabilities of a discontinued operation that will be exchanged for a noncurrent asset (e.g. an equity method investment – see Example 4.3.10), regardless of its anticipated disposal date.

This view is supported by Subtopic 210-10, which requires that cash and claims to cash that are designated for expenditure in the acquisition of noncurrent assets be excluded from current assets. We believe it is acceptable to analogize to this guidance even though consideration exchanged for the acquisition of the long-term asset is not cash. [210-10-45-4(a)]

However, in this scenario, we believe it is also acceptable to classify the assets and liabilities of the discontinued operation based on the anticipated disposal date, irrespective of the nature of the proceeds. If disposal is expected to occur within 12 months, current classification would therefore be appropriate under this view.

Question 6.2.45#

Are intercompany balances with a discontinued operation eliminated in consolidation if transactions will continue after disposal?

Background: Often an entity and its discontinued operation have intercompany transactions that will continue after the disposal. For example, an entity and its discontinued operation may have a contract manufacturing and supply agreement resulting in related party payables/receivables.

Interpretive response: Neither Subtopic 205-20 nor Subtopic 360-10 provide guidance on the treatment of intercompany balances with a discontinued operation when the underlying transaction streams will continue after disposal. In our experience, there is diversity in practice in this area; some entities eliminate intercompany balances in full, and others do not. [810-10-45-1]

If intercompany balances will not be settled on disposal, we believe it is acceptable to reinstate them in a way that reflects the planned continuance of the underlying transaction streams after disposal. The selected approach for the balance sheet should be consistent with the selected approach for the income statement (see Question 6.3.110). The approach should be disclosed and consistently applied to relevant transactions in all periods presented. [235-10-50-3]

See also Question 7.2.10 for disclosure considerations when retaining significant continuing involvement.

6.2.30 Presentation of assets and liabilities of held-for-sale disposal groups that are not discontinued operations

Excerpt from ASC 360-10

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

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

Subtopic 360-10 contains the presentation requirements for the assets and liabilities of held-for-sale disposal groups that are not discontinued operations.

Question 6.2.50

How are the assets and liabilities of a disposal group that is held-for-sale but not a discontinued operation presented?

Interpretive response: If a disposal group is classified as held-for-sale but does not qualify as a discontinued operation, its assets and liabilities are presented separately on the balance sheet for the periods in which the held-for-sale criteria are met. [360-10-45-14]

Subtopic 360-10 is silent regarding the presentation in comparative periods when the disposal group was held and used. We believe that if an entity chooses to adjust comparative periods, it should clearly disclose when the held-for-sale criteria were met. This presentation election should be disclosed and consistently applied and should have no measurement effect. [235-10-50-3]

Similar to Subtopic 205-20, Subtopic 360-10 also requires the major classes of assets and liabilities of the disposal group to be presented either on the balance sheet or in the notes to the financial statements (see sections 7.2.20 and 7.3). [360-10-45-14, 50-3(e)]

Subtopic 360-10 does not provide specific guidance on classifying held-for-sale assets and liabilities as current or noncurrent. See Questions 6.2.30 and 6.2.40 for further guidance.

Question 6.2.60

How are assets and liabilities presented when a disposal group includes a discontinued operation?

Interpretive response: It depends on whether the broader disposal group is classified as held-for-sale. All the assets (and related liabilities) of the disposal group should be separately presented in the period in which the held-for-sale criteria are met, but an entity may have a choice in how to report them separately as explained below. [360-10-45-14]

Subtopic 205-20 also requires assets and liabilities of discontinued operations to be separately presented in comparative periods (see Question 6.2.10), while Subtopic 360-10 is silent on this issue (see Question 6.2.50). [205-20-45-10]

The larger disposal group is classified as held-for-sale

If the larger disposal group is classified as held-for-sale, in the period in which the held-for-sale criteria are met, an entity can present the assets and liabilities of the discontinued operation either: [205-20-45-10]

— together with the assets and liabilities of the larger disposal group for separate presentation on the balance sheet. In this case, we believe it is acceptable to separately present the assets and liabilities of the entire disposal group in comparative periods as well; or

— separately from the other assets and liabilities of the larger disposal group. In this case, we believe it is acceptable to separately present the other assets and liabilities of the larger disposal group in comparative periods.

If an entity elects to adjust comparative periods for the other assets and liabilities of the disposal group, it should clearly disclose when the held-for-sale criteria were met (see Question 6.2.50). This presentation election should be disclosed and consistently applied and should have no measurement effect. [235-10-50-3]

The larger disposal group is classified as held-and-used

If the discontinued operation is either disposed of or classified as held-for-sale before the larger disposal group, we believe an entity should separately present only the assets and liabilities of the discontinued operation – not the entire disposal group.

6.3 Income statement presentation

Excerpt from ASC 205-20

> Statement in Which Net Income Is Reported

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

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

Income from continuing operations before income taxes	$XXXX	
Income taxes	XXX	
Income from continuing operations		$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

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

45-4 Adjustments to amounts previously reported in discontinued operations in a prior period shall be presented separately in the current period in the discontinued operations section of the statement where net income is reported.

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

• > Allocation of Interest to Discontinued Operations

45-6 Interest on debt that is to be assumed by the buyer and interest on debt that is required to be repaid as a result of a disposal transaction shall be allocated to discontinued operations.

45-7 The allocation to discontinued operations of other consolidated interest that is not directly attributable to or related to other operations of the entity is permitted but not required. Other consolidated interest that cannot be attributed to other operations of the entity is allocated based on the ratio of net assets to be sold or discontinued less debt that required to be paid as a result of the disposal transaction to the sum of total net assets of the consolidated entity plus consolidated debt other than the following:

a. Debt of the discontinued operation that will be assumed by the buyer
b. Debt that is required to be paid as a result of the disposal transaction
c. Debt that can be directly attributed to other operations of the entity.

45-8 This allocation assumes a uniform ratio of consolidated debt to equity for all operations (unless the assets to be sold are atypical—for example, a finance company—in which case a normal debt-equity ratio for that type of business may be used). If allocation based on net assets would not provide meaningful results, then the entity shall allocate interest to the discontinued operations based on debt that can be identified as specifically attributed to those operations. This guidance applies to income statement presentation of both continuing and discontinued operations (including the presentation of the gain or loss on disposal of a component of an entity). A decision as to interest allocation shall be applied consistently to all discontinued operations.

• > Allocation of Overhead to Discontinued Operations

45-9 General corporate overhead shall not be allocated to discontinued operations.

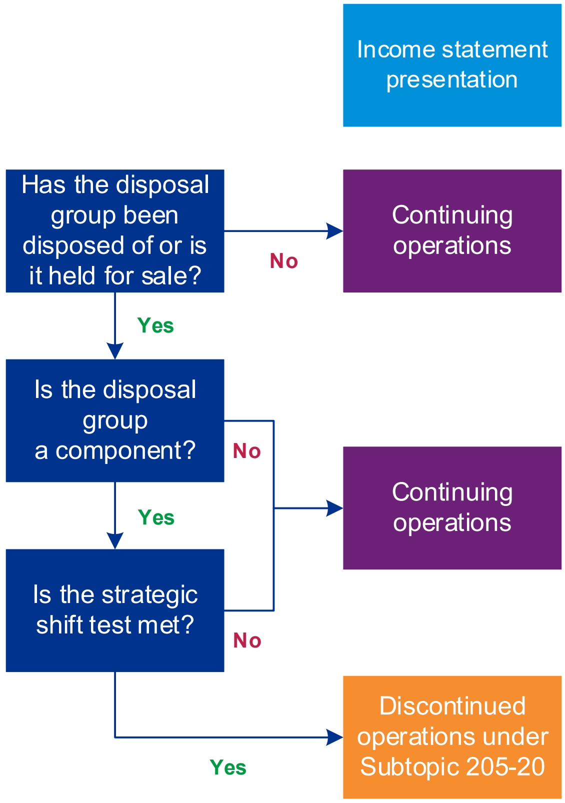
6.3.10 Overview

A discontinued operation can affect the income statement in several ways, as follows.

Items affecting net income	Comments
Results of discontinued operations	The results of discontinued operations are reported separately (net of income tax) from continuing operations in both the current and comparative periods. Subtopic 205-20 provides guidance on allocating interest and some corporate overhead between discontinued and continuing operations. [205-20-45-3A, 45-6 – 45-9]
Loss from classifying the discontinued operation as held-for-sale (writedown loss)	The loss (see section 4.5) is part of the results of discontinued operations in the period of classification. [205-20-45-3B]
Gain or loss from subsequent measurement as held-for-sale of the discontinued operation	The gain or loss from a subsequent change in fair value (see Question 4.5.20) is part of the results of discontinued operations in the current period. [205-20-45-3B]
Gain or loss from disposal of the discontinued operation	The gain or loss is part of the results of discontinued operations in the period of disposal. [205-20-45-3B]
Adjustments to amount previously reported in discontinued operations	The adjustments are part of the results of discontinued operations in the current period. [205-20-45-4]

For all periods presented, in the period the held-for-sale criteria are first met, additional information is also required about the major classes of line items constituting the pre-tax profit or loss of the discontinued operation – e.g. revenue, cost of sales, depreciation and amortization, and interest expense. The information can be provided either on the income statement or in the notes. If disclosed in the notes, a reconciliation must be provided to the amounts shown in the income statement (see section 7.2.20).

The following diagram, which is an excerpt from the full overview diagram in chapter 1, shows how a disposal group's income statement presentation is evaluated.



6.3.20 Reporting results of discontinued operations

Question 6.3.10
How is the income tax benefit or loss associated with discontinued operations presented?

Interpretive response: The income tax benefit or loss associated with the results of operations and with the gain or loss on disposal (or loss on classification as held-for-sale) of discontinued operations may be: [205-20-45-3A]

— presented in the income statement as a separate component of the results of discontinued operations; an example of this presentation is shown in paragraph 205-20-45-3A (reproduced above); or

— disclosed in the notes to the financial statements (see section 7.2.20). In this case, the results of discontinued operations are shown in the income statement as a single line item, net of tax.

Section 9 in KPMG Handbook, Accounting for income taxes, further discusses the tax treatment of discontinued operations.

Question 6.3.20

How is the gain or loss on the disposal (or writedown loss on classification as held-for-sale) of a discontinued operation presented?

Interpretive response: The gain or loss on disposal (or writedown loss on classification as held-for-sale) of a discontinued operation may be: [205-20-45-3B]

— presented in the income statement as a separate component of the results of discontinued operations or parenthetically; an example of this presentation is shown in paragraph 205-20-45-3A (reproduced above); or

— disclosed in the notes to the financial statements (see section 7.2.20). In this case, the results of discontinued operations are shown in the income statement as a single line item, including the gain or loss.

The gain or loss on disposal is determined in accordance with other Subtopics, such as Topic 810 (consolidation) or Topic 610 (other income), depending on the nature of the disposal group. [205-20-45-3C]

See section 4.5 for the calculation of the writedown loss on initial classification as held-for-sale. See Question 4.3.60 for reporting transaction costs in a spinoff transaction.

Example 6.3.10

Income statement presentation of discontinued operations

The following is an example of income statement presentation for ABC Corp. ABC has a disposal group that meets the requirements to be reported in discontinued operations in Year 2 and is disposed of by the end of Year 2.

ABC consolidated statements of net income – Years ended December 31, Year 2 and Year 1

	Year 2	**Year 1**
Revenues	$ XXX	$ XXX
Cost of goods sold	$ XXX	$ XXX
Selling, general and administrative expenses	$ XXX	$ XXX
Income from continuing operations before income taxes	**$XXX**	**$XXX**
Income taxes	$ XXX	$ XXX
Income from continuing operations	**$XXX**	**$XXX**

	Year 2	Year 1
Discontinued operations:		
Loss from discontinued operations (including loss on disposal of $XXX in Year 2) before income taxes	$ XXX	$ XXX
Income taxes	$ XXX	$ XXX
Loss from discontinued operations	**$XXX**	**$XXX**
Net income	**$XXX**	**$XXX**

In this example, the required additional information about the major classes of line items constituting the pre-tax profit of the discontinued operation is not provided on the face of the income statement. Therefore, it needs to be included in the notes. See section 7.2.20 for an example.

Question 6.3.30

How is the NCI share of earnings of a subsidiary classified as a discontinued operation presented?

Interpretive response: A parent entity includes the net income attributable to NCI as part of discontinued operations for all periods presented. The discontinued operation's profit or loss that is attributable to the parent is disclosed in either the income statement or the notes to the financial statements (see section 7.2). [205-20-50-5B(d), 810-10-50-1A]

Question 6.3.40

How is EPS from discontinued operations presented?

Background: An entity in the scope of Topic 260 presents basic and diluted EPS amounts for income from continuing operations, income from discontinued operations and net income. Basic and diluted per share amounts for income from continuing operations and net income are presented on the face of the income statement. [260-10-45-2]

See chapter 3 of KPMG Handbook, Earnings per share, for further discussion.

Interpretive response: An entity can present basic and diluted EPS for income from discontinued operations either in the income statement or in the notes to the financial statements. [260-10-45-3]

Question 6.3.50

Is the adjustment to retained earnings for a retrospective change in accounting principle allocated between continuing and discontinued operations?

Background: Topic 250 (accounting changes and error corrections) requires a change in accounting principle to be recorded retrospectively unless the change arises from a Codification update that provides specific transition requirements. [250-10-45-3, 45-5]

Retrospectively applying a change in accounting principle typically requires adjusting all comparative periods presented as if the new accounting principle had always been applied. The effect of the change is recorded through the opening balance of retained earnings of the earliest period presented, meaning that the amounts in comparative periods are consistently presented. [250-10-45-5]

Interpretive response: No. The adjustment to retained earnings as a result of a retrospective change in accounting principle is not allocated between continuing and discontinued operations. The amount is presented as a single line item, net of related income tax effects.

6.3.30 Interest and other debt-related costs allocation

Question 6.3.55

How is interest cost allocated to a discontinued operation?

Interpretive response: Interest cost directly attributable to discontinued and continuing operations must be allocated to these respective operations. An entity can decide to further allocate to the discontinued operation a portion of the interest cost that is *not* directly attributable to either discontinued or continuing operations. An entity allocates interest cost as follows. [205-20-45-6 – 45-7]

Interest cost on:	Allocated to:
Debt that will be assumed by the buyer	Discontinued operations
Debt required to be repaid as a result of the disposal.	Discontinued operations
Debt directly attributable or related to continuing operations	Continuing operations
Other debt	Continuing operations or a combination of continuing and discontinued operations (see Question 6.3.70). The approach selected should be disclosed and applied consistently. [235-10-50-3]

As shown above, interest cost on debt that is required to be repaid as a result of the disposal is allocated to discontinued operations. This may include corporate-level debt that is not included in the disposal group (see Question 4.5.30).

Question 6.3.60

What constitutes 'interest cost'?

Interpretive response: 'Interest cost' for purposes of Subtopic 205-20 refers to 'interest on debt'.

— Interest means interest expense and amortization of discounts, premiums and debt issuance costs.

— Debt encompasses obligations with interest rates that are either explicit or implicit (i.e. payables where interest is imputed under Subtopic 835-30), and lease liabilities from finance leases under Topic 842. [835-20 Glossary]

Interest cost does not include costs such as prepayment penalties or other debt extinguishment and prepayment penalties (see Question 6.3.80).

Question 6.3.70

How is interest cost on debt that is not directly attributable to discontinued operations allocated?

Interpretive response: An entity can elect to allocate interest cost that is not directly attributable to either continuing or discontinued operations to discontinued operations using the following ratio. [205-20-45-7]

— Net assets to be sold or discontinued less debt that is required to be paid as a result of the disposal.

Divided by

— The sum of total net assets of the entity and debt other than: 1) debt of the discontinued operation that will be assumed by the buyer; 2) debt that is required to be paid as a result of the disposal transaction; and 3) debt that can be directly attributed to other operations of the entity.

If this allocation does not provide meaningful results, the entity allocates interest costs based on debt that can be identified as specifically attributed to the discontinued operations. [205-20-45-8]

The decision to allocate interest that is not directly attributable to discontinued operations is a presentation election. It should be consistently applied to all discontinued operations and disclosed, together with the allocation method used. [205-20-45-8, 235-10-50-3]

Further, SEC registrants should disclose the amount allocated to in discontinued operations for all periods presented. [205-20-S99-3]

Example 6.3.20

Allocation of interest cost on debt not directly attributable to a discontinued operation

ABC Corp. is disposing of its distribution segment that qualifies as a discontinued operation. At period end, ABC has $1,200 of total outstanding debt. $200 of debt must be repaid upon disposal, and therefore relates to the discontinued operation for purposes of interest allocation. The remaining debt of $1,000 is not attributable to any specific operation.

During the period, ABC incurs $25 of interest cost, including $20 on debt that is not directly attributable to any specific operations. ABC has elected to allocate a portion of the interest cost not directly attributable to any specific operations to the discontinued operation, as permitted by Subtopic 205-20.

The following financial information of ABC is before the allocation of non-directly attributable interest cost.

Account	Discontinued operations (A)	Total consolidated (B)	Difference (B-A)
Assets	$1,000	$ 2,500	$ 1,500
Liabilities other than debt	(500)	(750)	(250)
Net assets before debt	**500**	**1,750**	**1,250**
Debt	(200)	(1,200)	(1,000)
Net assets	**$ 300**	**$ 550**	**$ 250**
Interest cost	$ 5	$ 25	$ 20

ABC determines that the net assets to be sold less the debt required to be paid on disposal amount to $300. It compares this amount to the total consolidated net assets ($550) plus all debt other than the debt required to be repaid on disposal ($1,000) – i.e. $1,550.

ABC calculates an allocation ratio of 0.19 ($300 / $1,550), which it determines to be reasonable under the circumstances.

It applies this ratio to the interest cost of $20 on the unattributable debt. The allocated interest cost amounts to $4 ($20 × 0.19).

In total, ABC separately reports interest cost of $9 in discontinued operations: $4 of allocated interest cost in addition to the directly attributable interest cost of $5.

Question 6.3.80

Are debt prepayment penalties and other extinguishment gains or losses allocated to discontinued operations?

Interpretive response: It depends. We believe that prepayment penalties and other extinguishment gains or losses on debt should only be allocated to discontinued operations if the debt is included in the disposal group. Question 4.5.30 discusses debt to be included in a disposal group.

Extinguishment gains or losses on corporate-level debt should not be allocated to discontinued operations.

6.3.40 Other costs allocation considerations

An entity allocates costs other than interest cost (see section 6.3.30) to a discontinued operation as follows. [205-20-45-9]

Costs type:	Allocated to:
Costs directly attributable to discontinued operations	Discontinued operations
Overhead costs	Continuing operations

However, certain costs may not be obviously attributable and require analysis to determine the proper allocation.

Question 6.3.90

Which costs are allocated to discontinued operations?

Interpretive response: We believe that only costs directly attributable to operations being discontinued should be allocated to discontinued operations. Examples of such costs include:

— compensation costs for specific employees who worked solely on the component to be disposed of; and
— exit and disposal costs, including lease termination costs.

An entity that aggregates costs in corporate cost centers may need to perform a detailed evaluation to determine what costs are directly attributable to discontinued operations. Any shared costs in the corporate cost centers are not considered directly attributable to discontinued operations even if they benefit discontinued operations. Examples of shared costs that should not be allocated to discontinued operations include:

— general corporate accounting function;
— facility costs for a shared facility; and
— shared service center costs.

An entity should not allocate costs to discontinued operations simply because those costs may be eliminated due to a reduction in size of a general corporate function.

Example 6.3.30
Allocation of employee costs to discontinued operations

ABC Corp. operations comprise 10 components. ABC intends to dispose of one component and has determined that the component must be reported in discontinued operations. ABC's accounting function is centralized in a shared service center with 10 employees.

If each employee is assigned to work on a specific component

ABC allocates only the cost of the employee who works solely on the disposed component to discontinued operations.

If all 10 employees collectively work on the 10 components

No employee cost of the shared service center is allocated to discontinued operations because the costs are not direct costs of the disposed component.

Question 6.3.91
Are acquisition-related costs allocated to discontinued operations?

Background: An entity may report in discontinued operations a business that was recently acquired and for which acquisition-related costs were expensed as incurred in the current or comparative periods. Examples of these costs are legal fees, due diligence fees, and other professional and consulting fees incurred to effect the business combination. [805-10-25-23]

Interpretive response: No. Similar to the rationale discussed in Question 6.3.90, we believe acquisition-related costs are not directly attributable to the discontinued operation because the acquisition benefited both continuing and discontinued operations through synergies. These costs are general corporate overhead costs, which are not allocated to discontinued operations. Therefore, the acquisition costs should remain in continuing operations.

Likewise, we believe these costs should not be included in costs to sell when measuring the disposal group (see section 4.5.30). [205-20-45-9]

Question 6.3.100

Are settlements of employee benefit plan obligations allocated to discontinued operations?

Excerpt from ASC 715-30

• > Presentation Matters

55-193 An employer may sell a component of an entity and may settle a pension benefit obligation related to the employees affected by the sale. The separate classification of the settlement gain or loss, recognized pursuant to paragraphs 715-30-35-79 through 35-83, in discontinued operations requires an evaluation of the facts and circumstances.

55-194 Paragraph 205-20-45-5(c) indicates that a settlement is directly related to the disposal transaction if there is a demonstrated cause-and-effect relationship and the settlement occurs no later than one year following the disposal transactions, unless it is delayed by events or circumstances beyond an entity's control. In a disposal of a component of an entity, the timing of a settlement may be at the discretion of the employer. If the employer simply chooses to settle a pension benefit obligation at the time of the sale, the resulting coincidence of events is not, in and of itself, an indication of a cause-and-effect relationship and, therefore, paragraphs 715-30-35-79 through 35-83 apply. However, a direct cause-and-effect relationship can be demonstrated if, for example, settlement of a pension benefit obligation for those employees affected by the sale is a necessary condition of the sale.

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

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 paragraphs 205-20-45-1A through 45-1D, the related gain or loss (determined in accordance with paragraph 715-30-35- 79) shall be recognized in earnings in the period in which the settlement occurs and classified in discontinued operations provided that the settlement is directly related to the disposal transaction.

55-197 If a curtailment loss results from the disposal of a component of an entity, it is likely that the curtailment loss will be recognized earlier than the settlement gain or loss, if any, is recognized. As indicated in paragraph 715-30-55- 195, the curtailment loss, if reasonably estimable, shall be recognized when the disposal is probable. The settlement gain or loss, if any, however, shall be recognized when the settlement occurs. See Example 9, Case A (paragraph 715- 30-55-247) for an illustration in which the curtailment loss is recognized earlier than the settlement gain. See also Example 9, Case B (paragraph 715-30-55-250), which demonstrates the less likely scenario in which the effects of the curtailment and the settlement are recognized in the same reporting period.

Interpretive response: It depends. A settlement of an employee benefit plan obligation is allocated to discontinued operations if the settlement is directly related to the disposal transaction. That condition is met if there is a demonstrated direct cause-and-effect relationship and the settlement occurs within a year of the disposal transaction – unless it is delayed by events or circumstances beyond an entity's control. [205-20-45-5(c)]

Topic 715 (retirement benefits) provides additional guidance and examples related to employee benefit plan obligations. [715-30-55-193 – 55-197, 715-60-55-111]

6.3.50 Intercompany transactions and transition services agreements

Question 6.3.110#

Are intercompany transactions with a discontinued operation eliminated in consolidation if they will continue after disposal?

Background: Often an entity and its discontinued operation have intercompany transactions that will continue after the disposal. For example, a discontinued operation may continue to purchase products and services from its former parent.

Interpretive response: Neither Subtopic 205-20 nor Subtopic 360-10 provide guidance on the treatment of intercompany transactions with a discontinued operation when the transactions will continue after disposal. In our experience, there is diversity in practice in this area. For example, some entities eliminate intercompany transactions in full regardless of their continuation after disposal; other entities reinstate all continuing transactions, or only those that result in sales to third parties.

We believe it is acceptable to reinstate continuing transactions in a way that reflects their planned continuance in both the continuing and discontinued operations. The approach should be disclosed and consistently applied to relevant transactions in all periods presented. [235-10-50-3]

See Question 6.2.45 for balance sheet considerations and Question 7.2.10 for disclosure considerations when retaining significant continuing involvement.

Example 6.3.40

Reporting intercompany sales to a discontinued operation

ABC Corp. has Segment A and Segment B. Segment A sells a product to Segment B for $10 (arm's-length basis). Segment B sells the product to external customers for $12. Segment B does not hold any of this inventory at the beginning or end of the reporting period.

The revenue, cost of sales and gross margins of Segment A, Segment B and ABC (consolidated – before the discontinued operation) are as follows.

Account	Segment A	Segment B	Intercompany eliminations	Consolidation
Revenue	$ 10	$ 12	$ (10)	$ 12
Cost of sales	(7)	(10)	10	(7)
Gross margin	**$ 3**	**$ 2**	**$ –**	**$ 5**

Segment B will be disposed of and qualifies to be reported in discontinued operations. It is expected that the supply relationship between Segments A and B will continue after the disposal.

ABC has elected to report discontinued operations as a single line item in the income statement (i.e. with supporting disclosures in the notes to the financial statements). Therefore, ABC reports:

- continuing revenues of $10;
- continuing cost of sales of $7; and
- discontinued operations as a single amount in the income statement that includes the discontinued gross margin of $2.

This means that the intercompany sales between Segments A and B are no longer eliminated in consolidation. This allocation of revenue and expenses has the advantage of reporting the appropriate gross margin for the discontinued operation and also the appropriate revenue and expenses for the continuing operations. The revenue and cost of sales in Segment A related to the discontinued Segment B is retained and shown as continuing operations to reflect that the supply relationship will continue after the disposal. The gross margin obtained by Segment B from the sales to external customers is reported in discontinued operations because this gross margin will be discontinued after the disposal.

In the notes, ABC details the major line items constituting the income from discontinued operations and reports revenue of $12 and cost of sales of $10.

Question 6.3.120

How are revenues and expenses from transition services provided to the discontinued operation after the disposal reported?

Background: Often, an entity agrees with the buyer to continue to provide certain services to the discontinued operation for a specified period of time after the disposal occurs. Those transition services agreements (TSA) may cover, for example, IT, accounting or distribution services.

Interpretive response: We believe these transition services should not be reported in discontinued operations because they will be part of the entity's ongoing operations after the disposal. Generally, TSA expenses should remain classified in operating income under the same expense line they had been classified under prior to the TSA.

Further, we believe that TSA revenues generated after the disposal should not be classified as revenue from customers, unless the services constitute ordinary revenue generating activities of the entity. Judgment is necessary to determine the income statement classification. Disclosure requirements related to significant continuing involvement may also apply (see Question 7.2.10).

6.3.60 Adjustments to amounts previously reported

Adjustments to amounts previously reported in discontinued operations in a prior period are presented separately in the current period's income statement in discontinued operations. [205-20-45-4]

These adjustments generally result from the resolution of contingencies directly related to: [205-20-45-5]

- the disposal transaction – e.g. resolution of purchase price adjustments;
- the operations of the discontinued operation – e.g. warranties and environmental liabilities retained by the seller; or
- the settlement of employee-related obligations, when the settlement directly relates to the disposal.

For the presentation of adjustments to income tax uncertainties directly associated with prior-period discontinued operations, see paragraph 9.122 in KPMG Handbook, Accounting for income taxes.

Question 6.3.130

What are the SEC requirements related to changes in amounts previously reported in discontinued operations?

Interpretive response: The SEC staff believes that the requirement to adjust amounts previously reported in discontinued operations applies only to: [205-20-S99-2]

— adjustments that are necessary to reflect the resolution of contingencies; and

— changes in facts and circumstances directly related to the discontinued operation that existed prior to its disposal.

Therefore, this requirement does not apply to events that occur after the disposal date that are not directly related to the disposal or the operations of the discontinued operation before its disposal.

For example, changes in the carrying amount of assets received as consideration in the disposal, or of residual interests in the business, should be reported in continuing operations. The SEC staff noted that these types of items represent the consequences of management's subsequent decisions to hold or sell those assets. As such, gains and losses, dividend and interest income, and portfolio management expenses associated with assets received as consideration should be reported in continuing operations. [205-20-S99-2]

For discussion of the related disclosure requirements, see Question 7.2.50.

Example 6.3.50

Resolution of a loss contingency

In Year 1, Parent divests from its Subsidiary, which qualifies as a discontinued operation. At the time of the sale, Subsidiary has an ongoing employee litigation, the obligation for which is not transferred to the buyer.

In Year 2, Parent settles the obligation and incurs $1 million of costs related to the litigation in addition to those already provided for at the end of Year 1. Parent reports the $1 million expense in discontinued operations in the income statement in Year 2. It also discloses the amount and nature of the adjustment related to discontinued operations previously reported.

6.3.70 Reporting results from disposal groups that are not discontinued operations

Question 6.3.140

How is the disposal gain or loss (or writedown loss) reported when the disposal group is not a discontinued operation?

Interpretive response: Disposal gains (or writedown losses – see section 4.5) of long-lived assets and asset groups that do not qualify as discontinued operations are reported in income from continuing operations before income taxes. If a subtotal such as income from operations is presented, the disposal gains or losses should be included in that subtotal. [360-10-45-5]

— Some entities include pre-tax gains on disposals on the same income statement line as impairment and disposal losses.

— Other entities include those gains in an other income/expense or similar income statement line within income from operations.

Registrants report gains and losses that result from the disposal of long-lived assets as a component of other general expenses (i.e. in continuing operations) with any material items stated separately. Further, the SEC staff distinguishes between other general expenses and selling, general and administrative expenses, although both line items are included in operating income. [S-X Rule 5-03(b)]

A writedown loss recognized on classification as held-for-sale is generally reported as an impairment loss when the disposal group does not qualify as a discontinued operation. This loss is reported in continuing operations.

6.4 Statement of cash flows presentation

The statement of cash flows provides financial statement users with information about the entity's ability to meet its obligations and bridges net income to net cash flows. Cash flows from discontinued operations can carry on for many periods after the disposal date.

Cash flows from discontinued operations must be separately disclosed for all periods affected and until they are no longer material. This information can be provided in the statement of cash flows or in the notes to the financial statements. [205-20-50-5B(c)]

The reconciliation of net income to net cash flows from operating activities begins with net income, not income from continuing operations. [230-10-45-29, 2005 AICPA Conf]

Question 6.4.10

How are discontinued operations reported in the statement of cash flows?

Interpretive response: Cash flows from discontinued operations are not required to be reported separately in the statement of cash flows. We believe there are three acceptable approaches that an entity can take to report cash flows from both continuing and discontinued operations. [2005 AICPA Conf]

Approach	Description
No separate identification	Cash flows from discontinued and continuing operations are reported together without separate identification within cash flows from operating, investing and financing activities.
By category, continuing then discontinued	The net total or detailed line items of discontinued operation cash flows are separately reported within cash flows from operating, investing and financing activities.
Continuing first (all categories), followed by discontinued (all categories)	Cash flows from operating, investing and financing activities of continuing operations are reported first. Discontinued operation cash flows are reported below financing activities of the continuing operations. Like the 'by category' approach, the discontinued operation shows the net total amount of activities or detailed line items comprising operating, investing and financing cash flows.

If not reported separately in the statement of cash flows, specific disclosures are required about the total operating and investing cash flows of the discontinued operation and certain noncash items (see section 7.2).

Further, an entity classifies the gain or loss from the disposal of a discontinued operation in the same manner as gains or losses from the disposal of its other investment assets. Therefore, an entity presents:

— the gain or loss (before income tax) as a reconciling item in the reconciliation of net income to net cash flows from operating activities.

— the proceeds from the sale (less any cash sold) in investing activities; and

— the income tax paid on a gain in operating activities.

Chapter 20 of KPMG Handbook, Statement of cash flows, provides further guidance.

7. Disclosure of discontinued operations

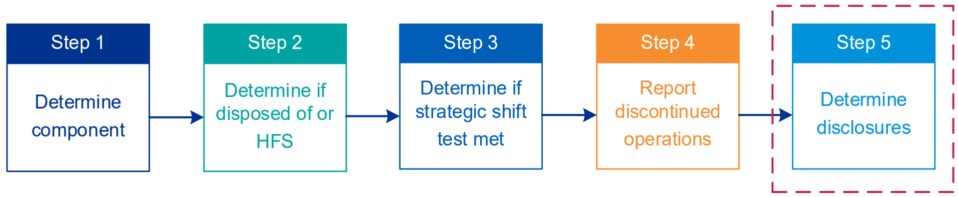
Detailed contents

7.4 Disclosure for individually significant components that do not qualify as discontinued operations (Subtopic 360-10)

Question

7.4.10 When is a component deemed to be significant?

7.1 How the standard works



The disclosure requirements in Subtopic 205-20 for discontinued operations vary depending on the type of operation being disposed of:

- a component or group of components;
- a business or nonprofit activity; or
- an equity method investment.

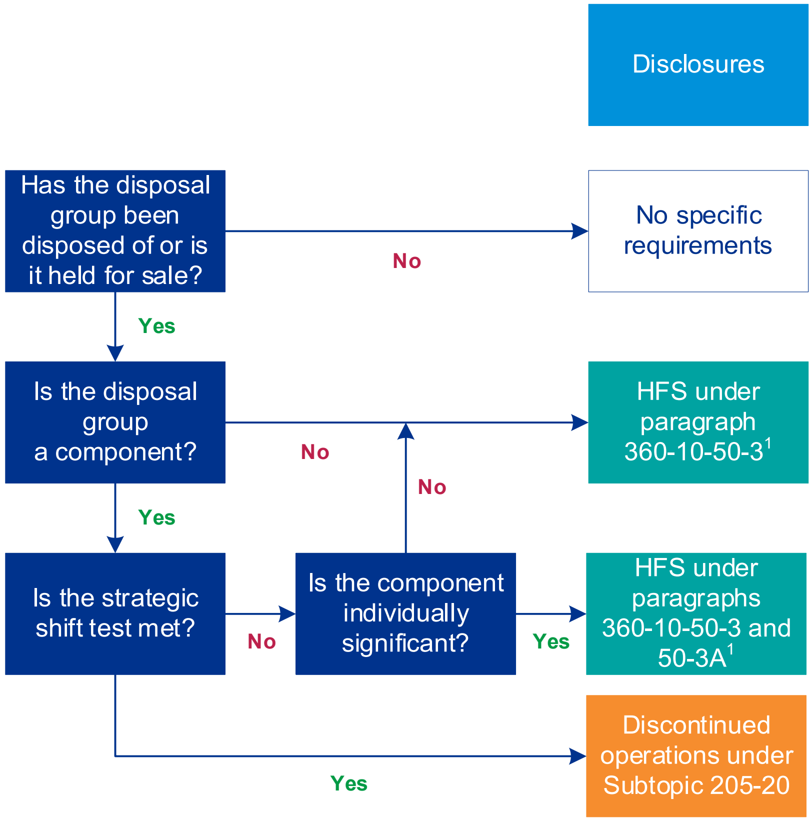
Disclosures	**Component (group of components) other than equity method investment**	**Acquired business or NFP activity classified as HFS on acquisition**	**Equity method investment**
General disclosures [205-20-50-1]	✔	✔	✔
Change to a plan of sale [205-20-50-3]	✔	✔	✔
Adjustments to previously reported amounts [205-20-50-3A]	✔	✔	✔
Continuing involvement [205-20-50-4A – 50-4B]	✔	✔	✔
Disclosures for a component or group of components of an entity [205-20-50-5A – 50-5D]	✔	✘	✘
Disclosures for an equity method investment [205-20-50-7]	✘	✘	✔

An entity may elect to provide certain information either on the face of the financial statements or in the notes.

Subtopic 205-20 provides a detailed flowchart to navigate the disclosure requirements (see section 7.2.30).

Subtopic 360-10 also includes general disclosure requirements for held-for-sale (or disposed of) disposal groups that do not qualify as discontinued operations; those are similar to the general requirements in Subtopic 205-20 (see section 7.3). Incremental disclosures are required for individually significant components that do not qualify as discontinued operations (see section 7.4).

The following diagram, which is an excerpt from the full overview diagram in chapter 1, shows how a disposal group's required disclosures are evaluated.



Note:

1. If in scope of Subtopic 360-10 and not yet disposed of.

7.2 Disclosure for discontinued operations (Subtopic 205-20)

Excerpt from ASC 205-20

05-2 The required disclosures about discontinued operations vary depending on the nature of the discontinued operation. For example, if a discontinued operation includes a component or group of components of an entity that is not an equity method investment, a more comprehensive set of disclosures about the discontinued operation is required. If the discontinued operation includes an equity method investment, or a business or nonprofit activity that is classified as held for sale on acquisition, a more limited set of disclosures is required (see the flowchart in paragraph 205-20-55-82 for an illustration).

> Disclosures Required for All Types of Discontinued Operations

50-1 The following shall be disclosed in the notes to financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under the requirements of paragraph 205-20-45-1E:

a. A description of both of the following:
    1. The facts and circumstances leading to the disposal or expected disposal
    2. The expected manner and timing of that disposal.
b. If not separately presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) as part of discontinued operations (see paragraph 205-20-45-3B), the gain or loss recognized in accordance with paragraph 205-20- 45-3C.
c. Subparagraph superseded by Accounting Standards Update No. 2014-08
d. If applicable, the segment(s) in which the discontinued operation is reported under Topic 280 on segment reporting.

> Change to a Plan of Sale

50-3 An entity may change its plan of sale as addressed in paragraph 360-10-35-44 or paragraph 360-10-35-45. In the period in which the decision is made to change the plan for selling the discontinued operation, an entity shall disclose in the notes to financial statements a description of the facts and circumstances leading to the decision to change that plan and the change's effect on the results of operations for the period and any prior periods presented.

• > Adjustments to Previously Reported Amounts

50-3A The nature and amount of adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be disclosed (see paragraph 205-20-45-5 for examples of circumstances in which those types of adjustments may arise).

> Continuing Involvement

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

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

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

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

50-5A Paragraphs 205-20-50-5B through 50-5D provide disclosures required for discontinued operations that meet the criteria in paragraphs 205-20-45-1B through 45-1C except for a discontinued operation that was an equity method investment before the disposal. For disclosures required for discontinued operations that were equity method investments before the disposal, see paragraph 205-20-50-7.

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

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

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

a. For the initial period in which the **disposal group** is classified as held for sale and for all prior periods presented in the statement of financial position, a reconciliation of both of the following:

   1. The amounts disclosed in paragraph 205-20-50-5B(e)
   2. Total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position. If the disposal group includes assets and liabilities that are not part of the discontinued operation, an entity shall present those assets and liabilities in line items in the reconciliations that are separate from the assets and liabilities of the discontinued operation (see paragraph 205-20-55-102 for an Example).

b. For the periods in which the results of operations of the discontinued operation are reported in the statement where net income is reported (or statement of activities for a not-for-profit entity), a reconciliation of both of the following:

   1. The amounts disclosed in paragraph 205-20-50-5B(a) and (b)
   2. The after-tax profit or loss from discontinued operations presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) (see paragraph 205-20-55-103 for an Example).

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

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

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

7.2.10 General disclosure considerations

The disclosure requirements in Subtopic 205-20 are listed in the above excerpt. This section explains issues that have arisen concerning these requirements.

Question 7.2.05

Are disclosures beyond those specified in Subtopic 205-20 required for discontinued operations?

Interpretive response: Generally, no. When a disposal group qualifies as a discontinued operation, we believe additional disclosures beyond those listed in the above Subtopic 205-20 excerpt are generally not required.

Disclosures required for continuing operations can be extensive. For example, depending on the nature its business, an entity may need to disclose information about the following: revenue under Topic 606, receivables under Topic 310, investments under Topics 320, 321 and 323, goodwill and other intangibles under Topic 350, leases under Topic 842, and derivative instruments under Topic 815.

These disclosures and other disclosures required for continuing operations under other topics are not required for discontinued operations. This is because reporting requirements outside of Subtopic 205-20 are generally aimed at providing financial statement users with information needed to evaluate an entity's ongoing operations.

However, certain disclosures under Topic 275 (e.g. pertaining to risks and uncertainties existing in the use of estimates) may be required for discontinued operations. Additionally, SEC registrants have additional disclosure requirements (see Question 7.2.50).

Question 7.2.10

When has an entity retained significant continuing involvement in a discontinued operation?

Background: Certain additional disclosures are required when, after the disposal, an entity retains significant continuing involvement in the discontinued operation. This includes information that enables financial statement users to compare the financial performance from period to period. [205-20-50-4B(d)]

Interpretive response: Subtopic 205-20 does not define 'significant continuing involvement' but provides examples of when it may exist. While not an exhaustive list, the following agreements and investments should be carefully evaluated to determine if they constitute significant continuing involvement with a discontinued operation post-disposal: [205-20-50-4A]

- supply and distribution agreement;
- transition services agreement;
- financial guarantee;
- repurchase option;
- equity method investment in the discontinued operation.

Judgment may also be required to determine whether any such relationship is considered significant before concluding that additional information must be disclosed.

Question 7.2.20

When is summarized information disclosed for an equity method investee reported in discontinued operations?

Background: Subtopic 205-20 requires an entity with an equity method investment that is a discontinued operation to disclose summarized information about the assets, liabilities and results of operations of the investee if that information was disclosed previously in accordance with Topic 323. [205-20-50-7]

Under Topic 323, an investor may have to disclose summarized information about its equity method investees, either individually or in groups, if the investees are material in aggregate in relation to the investor's financial position or results of operations. The summarized information is disclosed in the notes to the financial statements and relates to the investees' assets, liabilities and results of operations. [323-10-50-3(c)]

Interpretive response: We believe this information is required to be separately disclosed even if it was historically provided only as part of an aggregated disclosure under Topic 323.

If the information was historically provided separately for that individual investee, the investor would not need to repeat the disclosure in the discontinued operations note, but should continue to include it in the investments note. [323-10-50-3(c)]

Question 7.2.30

What are the disclosure requirements when a reportable segment is discontinued?

Interpretive response: If a 'component of an entity' is a reportable segment and meets the conditions in Subtopic 205-20 to be reported in discontinued operations, the entity is not required to disclose the information required by Topic 280. This is because Subtopic 205-20 provides the required financial statement disclosures for discontinued operations.

If a reportable segment or a component of a reportable segment includes discontinued operations, the discontinued operations are excluded from the reportable segment's disclosure of segment information for the period in which the reportable segment or component is classified as discontinued operations. [280-10-55-7]

Reportable segment information of the discontinued operations for prior periods is not required to be restated. [280-10-55-19]

See section 6.7 in KPMG Handbook, Segment reporting, for further discussion.

Question 7.2.40

What are the disclosure requirements when allocating interest cost on debt that is not directly attributable to discontinued operations?

Interpretive response: Interest cost that is not directly attributable to either continuing or discontinued operations may be allocated between continuing and discontinued operations. Question 6.3.70 discusses possible allocation methods.

The decision to allocate interest that is not directly attributable to discontinued operations is a presentation election. It should be consistently applied to all discontinued operations and disclosed, together with the allocation method used. [205-20-45-8, 235-10-50-3]

See Question 7.2.50 for additional disclosure requirements for SEC registrants.

Question 7.2.50

What are the additional disclosure requirements for SEC registrants?

Interpretive response: The SEC staff expects registrants to make a number of additional disclosures. Registrants should disclose interest costs allocated to and included in discontinued operations for all periods presented, in addition to standard disclosures related to allocated interest detailed in Question 7.2.40.

MD&A should include disclosure of known trends, events and uncertainties involving discontinued operations that may materially affect the registrant's liquidity, financial condition and results of operations (including net income) between:

— the date that a component of an entity is classified as discontinued; and
— the date that the risks of those operations will be transferred or otherwise terminated.

Further, any material contingent liabilities should be identified in the notes to the financial statements and any reasonably likely range of possible loss should be disclosed. Examples of such material contingent liabilities include product or environmental liabilities and litigation that may remain with the registrant.

Financial interest in material discontinued operation retained

If a financial interest in the discontinued operation (or its buyer) that is material to the registrant is retained (see Question 6.3.130), MD&A should include discussion of the known trends, events, and uncertainties, such as the financial condition and operating results of the issuer of the security, that may be reasonably expected to affect the amounts ultimately realized on the investments. [205-20-S99-2 – S99-3]

Question 7.2.60

How does an SEC registrant disclose the disposal of a component recognized in Q4 if it is not separately reporting for Q4?

Background: If interim financial data and disclosures are not separately reported for the fourth quarter (Q4), users of the interim financial information often make inferences about that quarter by subtracting data based on the Q3 interim report from the annual results. For example, SEC registrants are only required to report interim financial information (Form 10-Q) for the first three quarters of the fiscal year and some are also exempt from providing Q4 information in their annual report. [270-10-50-2, S-K Item 302, §249.308a Act 1934]

Interpretive response: If an SEC registrant is not reporting financial data and disclosures for Q4 in its annual report or otherwise, it considers the requirements in Topic 270. Topic 270 requires a publicly traded company to disclose the following in a note to its annual financial statements: [270-10-50-2]

— disposals of the components of an entity and unusual or infrequently occurring items recognized in Q4; and
— the aggregate effect of year-end adjustments that are material to the results of that quarter.

7.2.20 Disclosure reconciliation requirements

Subtopic 205-20 requires an entity to disclose (for all periods presented) the major classes of: [205-20-50-5B(b), 50-5B(e)]

— line items constituting the pre-tax profit or loss of the discontinued operation – e.g. revenue, cost of sales, depreciation and amortization, and interest expense;

— assets and liabilities included as part of the discontinued operation classified as held-for-sale.

'Major' is not defined and therefore determining how to disaggregate to meet the disclosure requirements may require judgment. To the extent that these disclosures are not included on the face of the financial statements, a reconciliation must be performed between the disaggregated amounts disclosed and the total amounts presented on the face of the financial statements. [205-20-50-5C – 50-5D]

Required reconciliation (if not provided on the face of the financial statements)	Potential reconciling items
Balance sheet	Writedown losses attributable to the discontinued operation that are not allocated by individual assets (see section 4.5)
Income statement	Income tax expense or benefit, disposal gain or loss, adjustments to amounts previously reported in discontinued operations

Subtopic 205-20 provides examples of these reconciliations in paragraphs 205-20-55-102 and 55-103 (reproduced below).

Excerpt from ASC 205-20

> Implementation Guidance

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

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

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 Positions (in thousands of currency units)

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

Total major classes of liabilities of the discontinued operation	XX	XX
Other liabilities included in the disposal group classified as held for sale	XX	XX
Total liabilities of the disposal group classified as held for sale in the statement of financial position	$ XX	$ XX

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

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

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

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

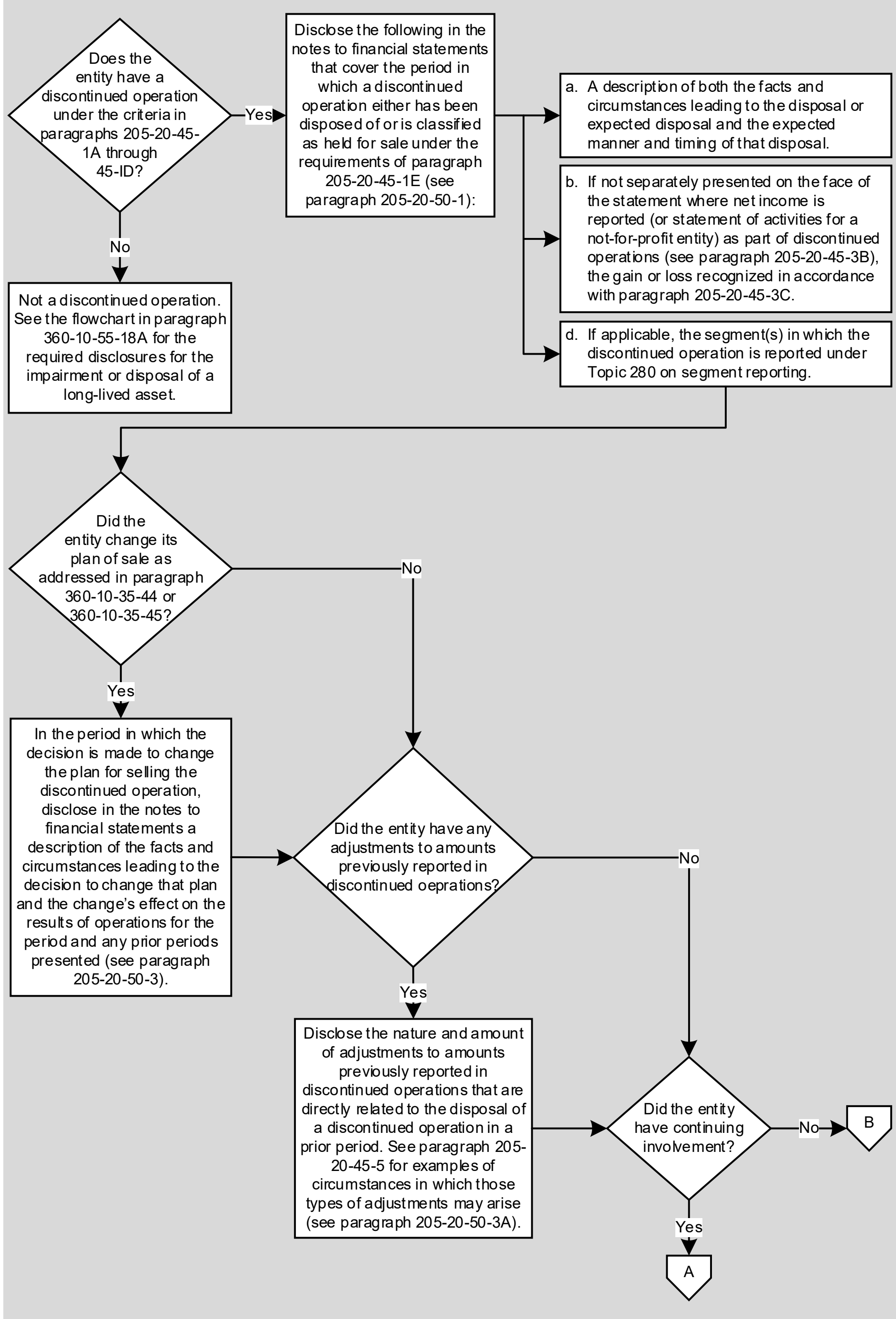
7.2.30 Disclosure flowchart

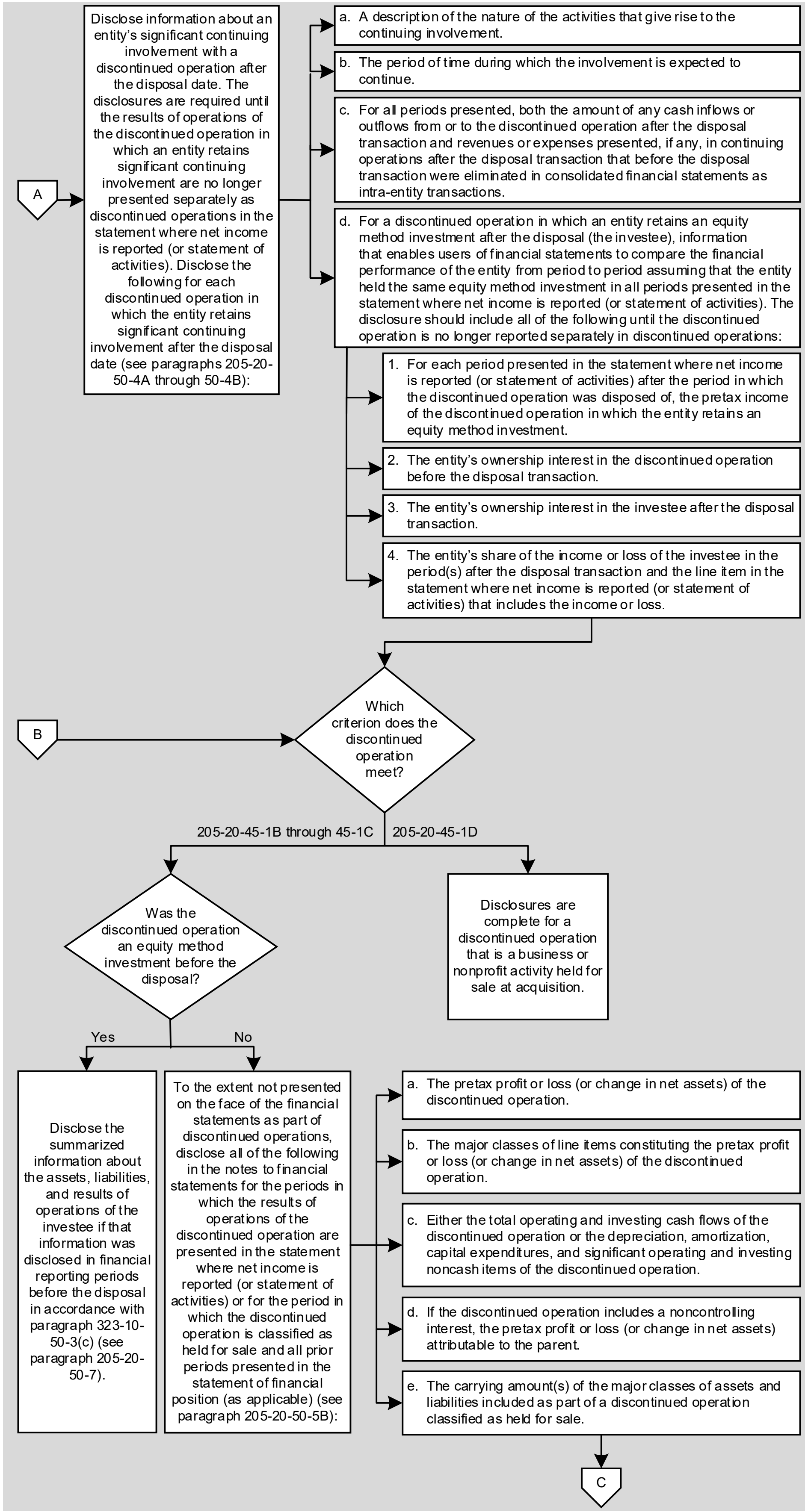
Excerpt from ASC 205-20

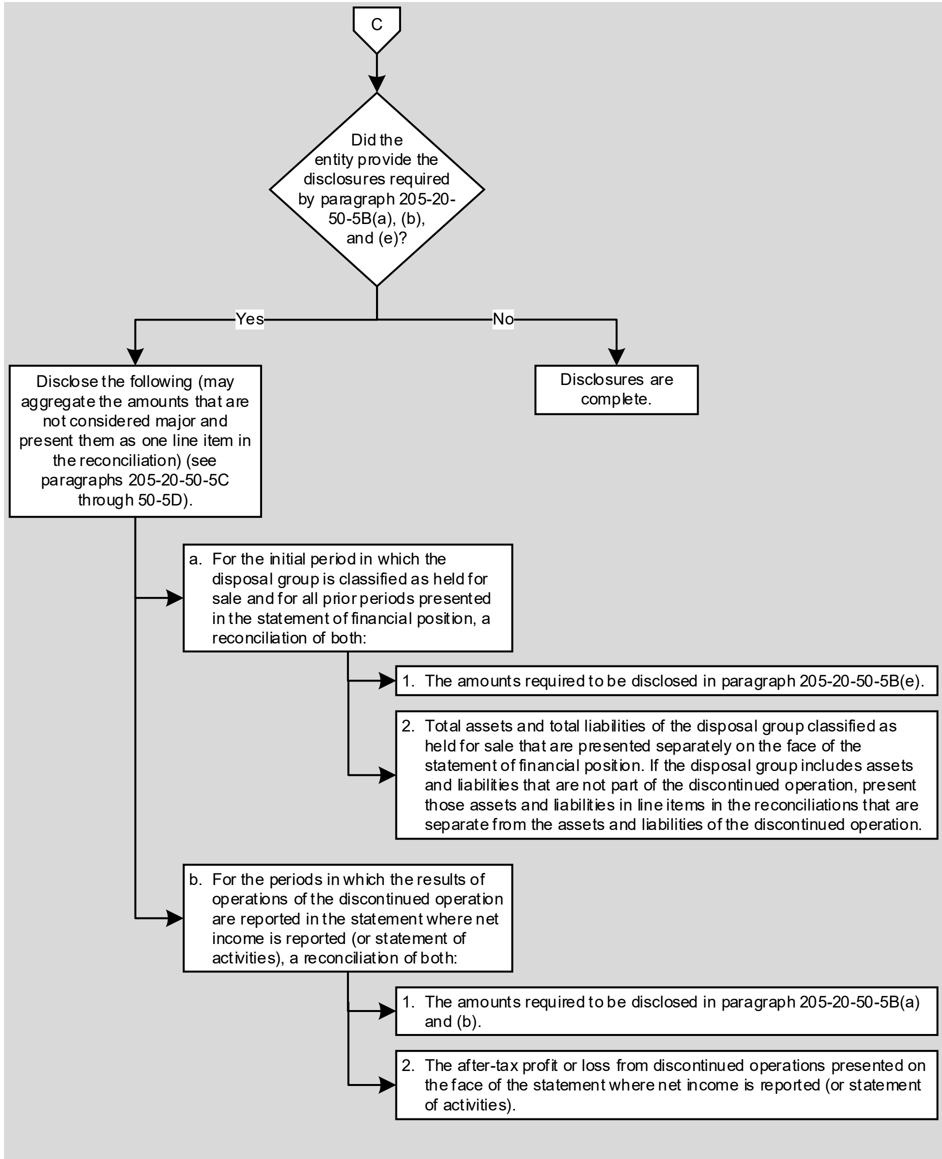
> Implementation Guidance

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

Required Disclosures for a Discontinued Operation




A
Disclose information about an entity's significant 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 significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported (or statement of activities). Disclose the following for each discontinued operation in which the entity retains significant continuing involvement after the disposal date (see paragraphs 205-20-50-4A through 50-4B):
a. A description of the nature of the activities that give rise to the continuing involvement.
b. The period of time during which the involvement is expected to continue.
c. For all periods presented, both the amount of any cash inflows or outflows from or to the discontinued operation after the disposal transaction and revenues or expenses presented, if any, in continuing operations after the disposal transaction that before the disposal transaction were eliminated in consolidated financial statements as intra-entity transactions.
d. For a discontinued operation in which an entity retains an equity method investment after the disposal (the investee), information that enables users of financial statements to compare the financial performance of the entity from period to period assuming that the entity held the same equity method investment in all periods presented in the statement where net income is reported (or statement of activities). The disclosure should include all of the following until the discontinued operation is no longer reported separately in discontinued operations:
1. For each period presented in the statement where net income is reported (or statement of activities) after the period in which the discontinued operation was disposed of, 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 investee after the disposal transaction.
4. The entity's share of the income or loss of the investee in the period(s) after the disposal transaction and the line item in the statement where net income is reported (or statement of activities) that includes the income or loss.
B
Which criterion does the discontinued operation meet?
205-20-45-1B through 45-1C
205-20-45-1D
Was the discontinued operation an equity method investment before the disposal?
Disclosures are complete for a discontinued operation that is a business or nonprofit activity held for sale at acquisition.
Yes
No
Disclose the summarized information about the assets, liabilities, and results of operations of the investee if that information was disclosed in financial reporting periods before the disposal in accordance with paragraph 323-10-50-3(c) (see paragraph 205-20-50-7).
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 for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities) or for the period in which the discontinued operation is classified as held for sale and all prior periods presented in the statement of financial position (as applicable) (see paragraph 205-20-50-5B):
a. The pretax profit or loss (or change in net assets) of the discontinued operation.
b. The major classes of line items constituting the pretax profit or loss (or change in net assets) of the discontinued operation.
c. Either the total operating and investing cash flows of the discontinued operation or the depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discontinued operation.
d. If the discontinued operation includes a noncontrolling interest, the pretax profit or loss (or change in net assets) attributable to the parent.
e. The carrying amount(s) of the major classes of assets and liabilities included as part of a discontinued operation classified as held for sale.
C



7.3 Disclosure for held-for-sale disposal groups that are not discontinued operations (Subtopic 360-10)

Excerpt from ASC 360-10

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

50-3 For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

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

Subtopic 360-10 provides disclosure requirements for disposal groups that have been disposed of or are classified as held-for-sale. The requirements are consistent with those included in Subtopic 205-20 (see section 7.2).

Question 7.3.05

Are disclosures beyond those specified in Subtopic 360-10 required for held-for-sale or disposed of disposal groups that are not discontinued operations?

Interpretive response: No. When a disposal group is either disposed of or classified as held-for-sale, additional disclosures beyond those listed in the above Subtopic 360-10 excerpts and in section 7.4 (if applicable) are generally not required.

Disclosures required for assets classified as held-and-used can be extensive. For example, depending on the nature of its assets, an entity may need robust disclosures about the following: receivables under Topic 310, investments under Topics 320, 321 and 323, goodwill and other intangibles under Topic 350, leases under Topic 842, and derivative instruments under Topic 815.

These disclosures and other disclosures required for held-and-used assets under other topics are not required for disposal groups that have been disposed of or are held-for-sale. This is because reporting requirements are aimed at providing financial statement users with information needed to evaluate an entity's ongoing operations.

However, we believe certain disclosures under Topic 275 (e.g. pertaining to risks and uncertainties existing in the use of estimates) may be required for held-for-sale or disposed of disposal groups that are not discontinued operations.

Question 7.3.10

Is the date at which the held-for-sale criteria are met disclosed for a disposal group that is held-for-sale but not a discontinued operation?

Interpretive response: Generally no. However, if an entity chooses to adjust comparative periods (Subtopic 360-10 is silent regarding this presentation – see Question 6.2.50), we believe it should clearly disclose when the held-for-sale criteria were met. This presentation election should also be disclosed and consistently applied and should have no measurement effect. [235-10-50-3]

Question 7.3.20

What are the disclosure requirements when the disposal of all or almost all of an entity's net assets meets the held-for-sale criteria?

Interpretive response: As discussed in Question 4.2.20 we do not believe that an entity should present the intended disposal of all or almost all of its net assets as held-for-sale, even if the held-for-sale criteria are met.

However, we believe the entity should consider the disclosure requirements in Subtopic 360-10 to ensure it provides appropriate information regarding the nature and extent of the pending disposal and how it will affect the entity.

7.4 Disclosure for individually significant components that do not qualify as discontinued operations (Subtopic 360-10)

Excerpt from ASC 360-10

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

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

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

b. For all other entities, both of the following:

1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9
2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

An entity is required to disclose pre-tax profit or loss (or change in net assets for an NFP entity) for an individually significant component disposed of or classified as held-for-sale that does not qualify as a discontinued operation. [360-10-50-3A]

Question 7.4.10

When is a component deemed to be significant?

Interpretive response: Subtopic 360-10 does not describe how an entity evaluates whether a component is individually significant. We believe an entity needs to consider both qualitative factors and whether the component is quantitatively significant from a financial statement perspective (see Question 5.4.10). Because the disclosure requirement is specific to individually significant components, we do not believe these disclosures are required when the disposals of individually insignificant components aggregate to a significant amount.

There can be a fine line between a component that is a discontinued operation and one that is significant but not a discontinued operation. Therefore, an entity should consider the interplay between disclosing the disposal of an individually significant component and reporting discontinued operations for the disposal of a component that represents a strategic shift with a major effect on financial results. The more significant the effect of the disposal of an individually significant component (particularly relative to the disposed component's historical and expected future effect on ongoing operating results), the more likely it may be that the disposal is a discontinued operation under Subtopic

205-20. The entity should consider all facts and circumstances when making this determination.

Subtopic 205-20 Glossary

Excerpt from ASC 205-20

20 Glossary

Asset Group – An asset group is the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

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.

Component of an Entity – 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**.

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.

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

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

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

Not-for-Profit Entity – An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

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

Operating Segment – A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.

Probable – The future event or events are likely to occur.

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

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

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

Reporting Unit – The level of reporting at which goodwill is tested for impairment. A reporting unit is an **operating segment** or one level below an operating segment (also known as a component).

Security – A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in

which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Settlement of a Pension or Postretirement Benefit Obligation – A transaction that is an irrevocable action, relieves the employer (or the plan) of primary responsibility for a pension or postretirement benefit obligation, and eliminates significant risks related to the obligation and the assets used to effect the settlement.

Index of changes

This index lists the significant changes made in this edition to assist you in locating recently added or updated content. Items that have been significantly updated or revised are identified with **#**.

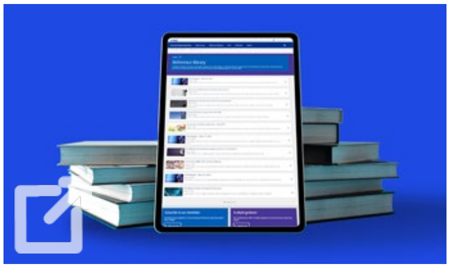
Pending content

KPMG Financial Reporting View

Delivering guidance and insights, KPMG Financial Reporting View is ready to inform your decision making. Stay up to date with us.

Defining Issues

Our collection of newsletters with insights and news about financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.



Handbooks and Hot Topics

Our discussion and analysis of accounting topics – from short Hot Topics that deal with a topical issue, to our in-depth guides covering a broad area of accounting.

CPE opportunities

Register for live discussions of topical accounting and financial reporting issues. CPE-eligible replays also available.

Financial Reporting Podcasts

Tune in to hear KPMG professionals discuss major accounting and financial reporting developments.

Visit **frv.kpmg.us**
and sign up for news and insights

Access our US Handbooks

As part of Financial Reporting View, our library of in-depth guidance can be accessed here, including the following Handbooks.

- Accounting changes and error corrections
- Asset acquisitions
- Bankruptcies
- Business combinations
- Business combinations (SEC reporting)
- Climate risk in the financial statements
- Consolidation
- Credit impairment
- Debt and equity financing
- Derivatives and hedging
- Discontinued operations and held-for-sale disposal groups
- Earnings per share
- Employee benefits
- Equity method of accounting
- Fair value measurement
- Financial statement presentation
- Foreign currency
- GHG emissions reporting
- Going concern
- IFRS® compared to US GAAP
- Impairment of nonfinancial assets
- Income taxes
- Internal control over financial reporting
- Inventory
- Investments
- Leases
- Leases: Real estate lessors
- Long-duration contracts
- Reference rate reform
- Research and development
- Revenue recognition
- Revenue: Real estate
- Revenue: Software and SaaS
- Segment reporting
- Service concession arrangements
- Share-based payment
- Software and website costs
- Statement of cash flows
- Tax credits
- Transfers and servicing of financial assets

Acknowledgments

This Handbook has been produced by the Department of Professional Practice (DPP) of KPMG LLP in the United States.

We would like to acknowledge the efforts of the main contributors to this edition:

Valerie Boissou

Stacey Phung

Edna Wong

David Yates

We would also like to acknowledge the significant contributions of the following DPP members: Kimber Bascom, Nick Burgmeier, Tim Brown, Regina Croucher, Teddy Fabry, Kayla Futch, Patrick Garguilo, Nick Goodier, Kayreen Handley, Dan Langlois, Erin McCloskey, Mahesh Narayanasami, Tim Phelps, Joan Rood, Julie Santoro, Angie Storm.

kpmg.com/socialmedia