A Roadmap to Disposals of Long-Lived Assets and Discontinued Operations

2019
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Acknowledgments

Michael Morrissey and Stefanie Tamulis oversaw the development of this publication. They are grateful for the thought leadership and technical contributions of Marla Lewis, Christine Mazor, Lisa Mitrovich, Ignacio Perez, Jonathan Tambourine, and Andy Winters. They also wish to extend their appreciation to Diane Castro, Sandy Cluzet, David Frangione, Jeanine Pagliaro, and Joseph Renouf for delivering the first-class editorial and production effort that we have come to rely on for all of Deloitte’s publications.
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Preface

August 2019

To our friends and clients:

We are pleased to present A Roadmap to Disposals of Long-Lived Assets and Discontinued Operations. This Roadmap provides Deloitte’s insights into the guidance in ASC 360-10\(^1\) and ASC 205-20 on disposals of long-lived assets and discontinued operations. ASC 360-10 specifies the criteria for when long-lived assets to be sold must be classified as held for sale, along with the accounting and reporting requirements associated with that classification. ASC 205-20 further provides guidance on when a component, or group of components, of an entity that is classified as held for sale or disposed of must be reported as a discontinued operation.

The body of this Roadmap combines the guidance in ASC 360-10 and ASC 205-20 on classifying long-lived assets as held for sale — as well as that on the presentation of disposals that both do and do not qualify for discontinued-operations reporting — with Deloitte’s interpretations and examples in a comprehensive, reader-friendly format. Further, the table of contents is a helpful navigational tool, providing links to topics and interpretations.

Note that this publication represents a replacement of the 2017 publication A Roadmap to Reporting Discontinued Operations and has been expanded to address the disposal of long-lived assets.

Subscribers to the Deloitte Accounting Research Tool (DART) may access any interim updates to this publication by selecting the document from the “Roadmaps” tab on DART’s home page. If a “Summary of Changes Since Issuance” displays, subscribers can view those changes by clicking the related links or by opening the “active” version of the Roadmap.

We hope that you find this publication a valuable resource when accounting and reporting for disposals of long-lived assets and discontinued operations.

Sincerely,

Deloitte & Touche LLP

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\(^1\) For a list of the titles of standards and other literature referred to in this publication, see Appendix C. For a list of abbreviations used in this publication, see Appendix D.
Contacts

If you have questions about the information in this publication, please contact any of the following Deloitte professionals:

Michael Morrissey
Partner
Deloitte & Touche LLP
+1 203 761 3630
mmorrissey@deloitte.com

Stefanie Tamulis
Managing Director
Deloitte & Touche LLP
+1 203 563 2648
stamulis@deloitte.com

Ignacio Perez
Managing Director
Deloitte & Touche LLP
+1 203 761 3379
igperez@deloitte.com

Andy Winters
Partner
Deloitte & Touche LLP
+1 203 761 3355
anwinters@deloitte.com
Chapter 1 — Overview and Scope

1.1 Overview
This Roadmap combines the guidance in ASC 360-10 and ASC 205-20 related to the classification of assets as held for sale and the presentation of disposals that both qualify and do not qualify for discontinued-operations presentation. Topics addressed in this publication include:

- Criteria for reporting a long-lived asset (disposal group) or a component, or group of components, of an entity as held for sale (Section 3.1).
- Measuring the disposal group while it is classified as held for sale (Sections 3.3 through 3.5).
- Reporting for assets to be disposed of other than by sale, such as (1) by abandonment, (2) in an exchange measured on the basis of the recorded amount of the nonmonetary asset relinquished, or (3) in a distribution to owners in a spin-off (Section 3.8).
- Criteria for reporting a component, or group of components, as a discontinued operations (Chapter 4).
- Presentation and disclosure requirements for disposals reported as discontinued operations (Chapter 5 and Chapter 6).
- Presentation and disclosure requirements for disposals that are not reported as discontinued operations (Chapter 7).
- Reporting considerations for SEC registrants (Chapter 8).

The same held-for-sale criteria in ASC 360-10 were incorporated into ASC 205-20 to allow entities to classify a component of an entity as held for sale even though the component may not include long-lived assets that are within the scope of ASC 360-10. Because the held-for-sale criteria are the same, the discussion of the criteria in Chapter 3 applies to assets within the scope of both ASC 360-10 and ASC 205-20.
## 1.2 Scope of ASC 360-10

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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<tbody>
<tr>
<td>05-5 For long-lived assets disposed of or classified as held for sale, different presentation and disclosures are required depending on the nature of the disposal. If the long-lived assets are a significant component of an entity, more extensive disclosures are required. Additionally, if the component of an entity meets the definition of discontinued operation in paragraph 205-20-45-1B, an entity shall refer to Subtopic 205-20 for the presentation and disclosure requirements for discontinued operations (see the flowchart in paragraph 360-10-55-18A for an illustration).</td>
</tr>
<tr>
<td>15-4 The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:</td>
</tr>
<tr>
<td>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:</td>
</tr>
<tr>
<td>1. Capital leases of lessees</td>
</tr>
<tr>
<td>2. Long-lived assets of lessors subject to operating leases</td>
</tr>
<tr>
<td>3. Proved oil and gas properties that are being accounted for using the successful-efforts method of accounting</td>
</tr>
<tr>
<td>4. Long-term prepaid assets.</td>
</tr>
<tr>
<td>b. The following transactions and activities related to assets and liabilities that are considered part of an asset group or a disposal group:</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
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.
ASC 360-10 (continued)

15-5 The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not apply to the following transactions and activities:

   a. Goodwill
   b. Intangible assets not being amortized that are to be held and used
   c. Servicing assets
   d. Financial instruments, including investments in equity securities accounted for under the cost or equity method
   e. Deferred policy acquisition costs
   f. Deferred tax assets
   g. Unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting
   h. Oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the 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)
   i. Certain other long-lived assets for which the accounting is prescribed elsewhere in the standards:
      1. For guidance on financial reporting in the record and music industry, see Topic 928.
      2. For guidance on financial reporting in the broadcasting industry, see Topic 920.
      3. For guidance on accounting for the costs of computer software to be sold, leased, or otherwise marketed, see Subtopic 985-20.
      4. For guidance on accounting for abandonments and disallowances of plant costs for regulated entities, see Subtopic 980-360.

ASC 360-10 applies to the long-lived assets of all entities. The unit of account may be an individual long-lived asset, or one or more long-lived assets may be grouped with other assets (and liabilities) into an asset group (while classified as held and used) or a disposal group (while classified as held for sale). However, an asset group or disposal group must also contain one or more long-lived assets that are within the scope of ASC 360-10.

ASC 360-10-15-5 lists a number of assets (e.g., servicing assets, deferred policy acquisition costs, costs of computer software to be sold) that are outside the scope of the guidance in the subsections on impairment or disposal of long-lived assets. These scope exclusions apply only to the assets for which the accounting is prescribed by other GAAP, not to the entire entity with those assets. As a result, an entity may account for some assets in accordance with other GAAP and others in accordance with ASC 360-10.

ASC 360-10-05-5 clarifies that ASC 360-10 applies to the accounting for disposals of long-lived assets. If the disposal meets the definition of a discontinued operation (see Chapter 4), an entity must apply the presentation and disclosure requirements in ASC 205-20; if the disposal does not meet the definition of a discontinued operation, an entity must apply the presentation and disclosure requirements in ASC 360-10. The disclosure requirements an entity would need to apply under ASC 360-10 differ depending on the significance of the disposal (see Chapter 7).
1.3 Scope of ASC 205-20

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.

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.

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.

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).

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.

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

ASC 205-20 applies to all businesses and not-for-profit entities. ASC 205-20 applies to a component, or group of components, of an entity (see Section 2.2) or a newly acquired business or nonprofit activity that meets the held-for-sale criteria upon acquisition (see Section 3.3.5). A component of an entity “comprises operations and cash flows that can be clearly distinguished . . . from the rest of the entity.” Unlike a disposal group, a component of an entity does not need to include long-lived assets. For example, an equity method investment is a financial instrument and is not within the scope of ASC 360-10 but is within the scope of ASC 205-20. An entity would therefore evaluate the held-for-sale criteria and discontinued-operations reporting criteria in ASC 205-50 for the disposal of an equity method investment.

ASC 205-20 does include a scope exception for oil and gas properties that use the full-cost method of accounting. Paragraphs BC27 and BC28 of ASU 2014-08 explain the FASB's reasoning behind retaining this exception:

Under the full cost method of accounting, all costs associated with property acquisition, exploration, and development activities are capitalized to cost centers, which are established on a country-by-country basis. The definition of discontinued operation, however, applies to disposals of components of an entity, which is defined
as the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The Board concluded that the definition of discontinued operation will not be operable under the full cost method of accounting because of differences in the tracking and allocation of costs, which is at a much higher level than the method in Topic 360 and in the definition of discontinued operation.
Chapter 2 — Definitions of Disposal Group and Component of an Entity

2.1 Definition of a Disposal Group

Long-lived assets may be disposed of individually or as part of a disposal group. The ASC master glossary defines a “disposal group” as follows:

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 disposal group may include not only long-lived assets that are within the scope of ASC 360-10 but also other assets such as receivables, inventory, indefinite-lived intangible assets, or goodwill. A disposal group may also “include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.” A disposal group may also include liabilities directly associated with the assets. Examples of such liabilities include environmental obligations, asset retirement obligations, and mortgage obligations.

2.2 Definition of a Component of an Entity

ASC 205-20

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.

The ASC master glossary defines a “component of an entity” as follows:

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

The legal form of a component is not relevant, as demonstrated by the inclusion of a subsidiary or a reporting unit in the definition. However, we do not believe that a component of an entity can be at a lower level than an asset group. Further, as described in Section 2.1, a disposal group represents the assets and liabilities that will be disposed of together in a single transaction. Because a component does not have to be disposed of in a single transaction, a component of an entity may consist of multiple disposal groups.

Because the operations and cash flows of the component must be clearly distinguishable from the rest of the entity, the financial information of the component must be available. A disposal group can be a component of an entity even if the parent retains certain assets associated with or used by the component to be disposed of, such as cash, accounts receivable, other working capital, or specific
assets (e.g., IT systems, intellectual property, a manufacturing facility, or headquarters). Entities must sometimes use judgment in determining whether a disposal group constitutes a component of an entity.

**Example 2-1**

**Sale of a Component to Multiple Buyers**

Company C manufactures and markets men's shoes and coats. Company C discloses that it operates two segments under ASC 280-10 and two lines of business — the Shoe Group and the Coat Group. The operations and cash flows of the Shoe Group can be clearly distinguished, operationally and for financial reporting purposes, from the rest of C. Therefore, the Shoe Group is a component of the entity. In the fourth quarter of 20X6, C initiates and closes on a transaction to sell the majority of the Shoe Group's manufacturing and distribution operations to Company E. In addition, management, having the appropriate level of authority, commits to a formal plan to sell the remaining assets of the Shoe Group.

ASC 205-20 does not require that a component be sold in a single transaction. If the Shoe Group's remaining assets and liabilities continue to meet the requirements for held-for-sale classification, C may continue to classify them as held for sale.

**Example 2-2**

**Sale of an Entire Entity**

The owners of Company A, a manufacturing entity, enter into an agreement to sell A in its entirety to Company B. Because the operations being sold represent the entire entity (and therefore are not distinguishable from the rest of the entity), A does not meet the definition of a component of an entity. Therefore, the operations of A cannot be presented as discontinued operations.
Chapter 3 — Held-for-Sale Classification Criteria and Related Measurement

This chapter discusses the criteria for reporting a long-lived asset (disposal group) and a component of an entity as held for sale (Section 3.1), the accounting while these items are classified as held for sale (Sections 3.3 through 3.5), and the reporting for disposals other than by sale (Section 3.8). The guidance in ASC 360-10 on the held-for-sale classification criteria is the same as that in ASC 205-20, regardless of whether an asset (disposal group) or a component of an entity is being evaluated. Therefore, the discussion below applies to assets (disposal groups) and components that are within the scope of ASC 360-10 and ASC 205-20.

3.1 Held-for-Sale Criteria

<table>
<thead>
<tr>
<th>ASC 360-10 (ASC 205-20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>360-10-45-9 (205-20-45-1E)</td>
</tr>
<tr>
<td>a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group) (entity to be sold).</td>
</tr>
<tr>
<td>b. The asset (disposal group) (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 assets (disposal groups) (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.)</td>
</tr>
<tr>
<td>c. An active program to locate a buyer (or buyers) and other actions required to complete the plan to sell the asset (disposal group) (entity to be sold) have been initiated.</td>
</tr>
<tr>
<td>d. The sale of the asset (disposal group) (entity to be sold) is probable, and transfer of the asset (disposal group) (entity to be sold) is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 360-10-45-11 (205-20-45-1G). (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.) The term probable refers to a future sale that is likely to occur.</td>
</tr>
<tr>
<td>e. The asset (disposal group) (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 a long-lived asset (an entity to be sold) is being marketed is indicative of whether the entity currently has the intent and ability to sell the asset (disposal group) (entity to be sold). A market price that is reasonable in relation to fair value indicates that the asset (disposal group) (entity to be sold) is available for immediate sale, whereas a market price in excess of fair value indicates that the asset (disposal group) (entity to be sold) is not available for immediate sale.</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
As indicated above, the same held-for-sale criteria in ASC 360-10-45-9 were incorporated into ASC 205-20-45-1E to allow entities to classify a component of an entity as held for sale even though the component may not include long-lived assets that are within the scope of ASC 360-10 (e.g., the sale of an equity method investment). See Section 1.3 for more information. Because the held-for-sale criteria are the same, the discussion of the criteria in the following sections applies to both ASC 360-10-45-9 and ASC 205-20-45-1E.

3.1.1 Management, Having the Authority to Approve the Action, Commits to a Plan
To meet this criterion, the plan should be formal and documented, identify the assets (and liabilities) to be disposed of, and specify the actions necessary and expected timing to complete the plan. We believe that a request from the board of directors or management to explore options for selling would not constitute commitment to a plan.

If, in addition to management approval, approval from the board of directors or shareholders to sell is required or is sought by management, we believe that this criterion cannot be met until such approval is obtained unless there is evidence that approval has been effectively obtained. Approval might be effectively obtained, for example, if board directors holding a majority of the voting shares have signed irrevocable agreements stating that they will vote their shares in favor of the disposal.

Because of the increased governance power of the bankruptcy court or creditors’ committee, we believe that when an entity has filed for bankruptcy, the level of authority that can commit to a plan to sell may be the bankruptcy court or the creditors’ committee. Therefore, this criterion may not be met until such approval is obtained.

This criterion may be met if the entity is awaiting third-party approval to sell the component (e.g., approval from a government agency, such as the Federal Trade Commission (FTC) or the Federal Communications Commission (FCC), or approval from a lender). However, an entity generally would have to assess any required third-party approval under criterion (d) (see Section 3.1.4) to determine whether the sale is probable.

3.1.2 Available for Immediate Sale in Its Present Condition
The assets to be sold are available for immediate sale if the entity has the intent and ability to sell them in their current condition. Some planned actions by the seller before a disposal may indicate that the assets are not available for immediate sale, while other planned actions in the normal course of business (i.e., usual and customary) might indicate that they are.

Example 3-1

Completion of Plant Overhauls Before Disposition by Sale
On March 1, 20X2, Company A announced plans to close and sell one of its manufacturing facilities. Company A will be required to perform certain major building and equipment overhauls so that it can market the facility effectively. The facility was closed on April 30, 20X2, and the overhauls were completed on May 31, 20X2. After the overhauls were completed, A began marketing the facility and the facility was sold on July 15, 20X2.

In this example, the held-for-sale criteria would not be met as of March 31, 20X2, because the manufacturing facility was not “available for immediate sale in its present condition.”
Example 3-2

Capital Expenditures Related to a Held-for-Sale Component in the Normal Course of Business

Company G owns and operates cable television franchises throughout the United States. In June 20X7, G commits to a plan and enters into an agreement to sell its Midwestern franchises to Company J; the sale is subject to approval by the FCC. The sales agreement requires G, while waiting for regulatory approval, to continue to expand the cable networks of the franchises to be sold, since new subscribers are requesting service. Such capital expenditures are common to all cable franchises, and G would have to make these normal and customary expenditures even if it did not sell the franchises.

In this example, the held-for-sale criteria would be met because the capital expenditures that G is required to make are usual and customary for the operation of such assets.

Examples 5–7 in the implementation guidance in ASC 360-10-55-37 through 55-42 illustrate situations in which a long-lived asset (disposal group) is both available and not available for immediate sale in its present condition. Because the held-for-sale criteria in ASC 360-10 are the same as those in ASC 205-20, we believe that these examples also provide interpretive guidance that applies to disposals within the scope of ASC 205-20.

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).
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

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.

3.1.3 An Active Program to Locate a Buyer and Other Actions Required to Complete the Plan Have Been Initiated

To meet this criterion, an entity must be actively seeking a buyer. Different entities use different processes for identifying buyers. Some entities will direct their employees to market the assets to be sold, while others will hire third parties (e.g., investment bankers or brokers) to market the assets and identify buyers. Evidence that employees have been directed to meet with potential buyers or that third parties have been engaged to market the assets would indicate that the entity has an active program to locate a buyer.
3.1.4 The Sale Is Probable and Is Expected to Be Complete Within One Year

The meaning of the term “probable” in this context is the same as that in ASC 450-20-20 and refers to a future sale that is likely to occur. There is no bright-line or quantitative threshold for determining the meaning of probable; however, it is a higher threshold than more likely than not. This criterion is often the most difficult to assess because it requires management to consider the likelihood that the sale will close. As part of this assessment, management would typically consider factors such as its ability to close past sales transactions, the ability of other entities in similar industries to complete sales transactions in the current environment, the market in which the entity operates, and the buyer’s ability to obtain any necessary financing. Entities should also consider whether third-party approval (e.g., approval from a government agency, such as the FTC or the FCC, or approval from a lender) may be required and the likelihood of obtaining such approval. However, certain third-party approvals may be considered routine and may not preclude this criterion from being met. This criterion should also be considered in conjunction with criterion (e) (see Section 3.1.5) because, if the entity is being marketed at an unreasonably high price, it is most likely not probable that the sale will occur.

Example 8 in the implementation guidance in ASC 360-10-55-43 illustrates situations in which proposed dispositions are not expected to qualify as completed sales:

**ASC 360-10**

**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 a property that is in use, and the transfer of the property will be accounted for as a sale-leaseback through which the seller-lessee will retain more than a minor portion of the use of the property. The property 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. If at the date of the sale-leaseback the fair value of the property is less than its undepreciated cost, a loss would be recognized immediately up to the amount of the difference between undepreciated cost and fair value in accordance with paragraphs 840-40-25-3(c) and 840-40-30-3.

**Pending Content (Transition Guidance: ASC 842-10-65-1)**

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-lessee 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.
To meet this criterion, the entity must also expect that the component will be sold within one year from the date on which it meets the held-for-sale criteria. However, ASC 360-10-45-11 and ASC 205-20-45-1G contain an exception to the one-year requirement if the delay results from events or circumstances beyond the entity's control and management continues to be committed to the plan of sale and is performing actions necessary to respond to the conditions causing the delay.

**ASC 360-10 (ASC 205-20)**

**360-10-45-11 (205-20-45-1G)** Events or circumstances beyond an entity's control may extend the period required to complete the sale of a long-lived asset (disposal group) (an entity to be sold) beyond one year. An exception to the one-year requirement in paragraph 360-10-45-9(d) (205-20-45-1E(d)) shall apply in the following situations in which such (those) events or circumstances arise:

a. If at the date (that) an entity commits to a plan to sell a long-lived asset (disposal group) (an entity to be sold), the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (group) (entity to be sold) that will extend the period required to complete the sale and both of the following conditions are met:
   1. Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained.
   2. A firm purchase commitment is probable within one year. (See Example 9 [paragraph 360-10-55-44], which illustrates that situation.)

b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a long-lived asset (disposal group) (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, a long-lived asset (disposal group) (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 asset (group) (entity to be sold) is being actively marketed at a price that is reasonable given the change in circumstances.
   3. The criteria in paragraph 360-10-45-9 (205-20-45-1E) are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

Examples 9–11 in the implementation guidance in ASC 360-10-55-44 through 55-49 illustrate situations that may or may not qualify for an exception to the one-year requirement:

**ASC 360-10**

**Example 9: Regulatory Approval of Sale Required**

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.
Chapter 3 — Held-for-Sale Classification Criteria and Related Measurement

**ASC 360-10 (continued)**

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.
3.1.5 Actively Marketed at a Reasonable Price

The price at which the assets (entity to be sold) are being marketed indicates whether management is committed to selling them and the likelihood that management will be able to complete the sale. A market price that is reasonable compared with the assets’ fair value indicates that they are available for immediate sale, whereas a market price in excess of fair value indicates that they are not available for immediate sale or that it is not probable that the sale will occur.

3.1.6 Unlikely That Significant Changes Will Be Made to the Plan or the Plan Will Be Withdrawn

As discussed above, we believe that for an entity to meet the criterion discussed in Section 3.1.1, it should have a formal and documented plan that identifies the assets (and liabilities) to be sold, actions necessary to complete the plan, and expected timing of the plan’s completion. Even when the plan is formal and documented, an entity must evaluate the plan to determine whether significant changes are likely. When evaluating this criterion, the entity should consider the specific facts and circumstances related to the plan as well as whether it has a history of changing its plans of sale. Further, entities undergoing or expecting management changes (e.g., new CEO, new Board members) should consider whether new management will be committed to the plan or will seek to modify or withdraw the plan.

3.2 Including Specific Items in a Disposal Group

The sections below provide guidance on determining whether certain items should be included in a disposal group.

3.2.1 Goodwill

Entities may need to include goodwill in a disposal group even if goodwill was not assigned to the asset group while the assets were classified as held and used in accordance with ASC 360-10-35-26. If the disposal group is a reporting unit or group of reporting units, the goodwill assigned to the reporting unit(s) is included in the carrying amount of the disposal group in accordance with ASC 350-20-40-1. If the disposal group is a portion of a reporting unit and meets the definition of a business in ASC 805-10, goodwill should be allocated to it in accordance with ASC 350-20-40-2 through 40-6, generally on a relative fair value basis. If the disposal group is a portion of a reporting unit but does not meet the definition of a business in ASC 805-10, goodwill should not be allocated to it because goodwill is only recognized or derecognized when a business is acquired or disposed of. When a disposal group is classified as held for sale and meets the criteria for reporting in discontinued operations, an entity must reclassify the assets and liabilities of the disposal group in the prior-period balance sheets (see Section 5.1). We believe that goodwill related to a disposal group that is a reporting unit or that meets the definition of a business should also be included with the assets and liabilities of the discontinued operation in those prior periods. See Section 5.3.1 for guidance on including goodwill impairment charges in discontinued operations.

For more information about determining whether a disposal group meets the definition of a business in ASC 805-10, see Deloitte’s A Roadmap to Accounting for Business Combinations.
3.2.2 Cumulative Translation Adjustment and Other Items of Accumulated Other Comprehensive Income

ASC 830-30-45-13 states that “an entity that has committed to a plan that will cause the cumulative translation adjustment [CTA] for an equity method investment or a consolidated investment in a foreign entity to be reclassified to earnings shall include the [CTA] as part of the carrying amount of the investment when evaluating that investment for impairment.” Therefore, the carrying value of a disposal group or component of an entity should include the CTA that will be eliminated upon sale once the disposal group is classified as held for sale. If unrealized gains in AOCI are not included in the carrying amount of the disposal group, a loss may be recognized in the period in which the disposal group is classified as held for sale, and a subsequent gain may be recognized when the disposition occurs. Alternatively, if unrealized losses in AOCI are not included in the carrying amount of the disposal group, a loss that might otherwise be measured might be deferred until the disposition occurs.

The CTA should remain classified in equity until the disposal group or component is sold (or disposed of other than by sale) on the basis of the guidance in ASC 830-30-40-1, which states:

Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be both:

a. Removed from the separate component of equity
b. Reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs.

Furthermore, the FASB's implementation group regarding foreign currency matters indicated in its meeting minutes that:

Paragraph 14 [of FASB Statement 52 (codified in ASC 830-30-40-1)] states that the translation component is removed from equity and reported as part of the gain or loss on sale or complete or substantially complete liquidation. We believe the timing of loss and gain recognition remains consistent with the provisions of [FASB Statement 5 (codified in ASC 450)] and APB Opinion 30 (codified in ASC 225-20).

Therefore, the CTA should be reclassified out of equity in the period in which the disposal occurs but the CTA balance related to prior periods should not be reclassified.

While ASC 830-30-40-1 and ASC 830-30-45-13 address foreign currency translation adjustments, we believe that it is appropriate to analogize to that guidance for all items of accumulated other comprehensive income (AOCI).

If an asset group does not yet meet the criteria to be classified as held for sale, we do not believe that it is appropriate to analogize to the guidance in ASC 830-30-45-13 since management has not yet “committed to a plan that will cause the [CTA] . . . to be reclassified to earnings.” Therefore, we do not believe that it is appropriate for an entity to include amounts in AOCI in the carrying amount of an asset group when evaluating it for recoverability while it is classified as held and used. For more information about testing a foreign entity for impairment and the reclassification of CTA out of equity, see Deloitte’s *A Roadmap to Foreign Currency Transactions and Translations*. 
3.3 Initial Measurement Upon Classification of a Disposal Group as Held for Sale

**ASC 360-10**

*Long-Lived Assets Classified as Held for Sale*

35-37 This guidance addresses the accounting for expected disposal losses for long-lived assets and asset groups that are classified as held for sale but have not yet been sold. See paragraphs 360-10-45-9 through 45-11 for the initial criteria to be met for classification as held for sale.

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.

**ASC 205-20**

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

ASC 360-10 provides guidance on how to measure a long-lived asset (disposal group) upon its classification as held for sale. Although ASC 205-20 does not provide such guidance, it refers to the guidance in ASC 360-10 on measuring long-lived assets or the guidance in other standards on measuring assets that are not within the scope of ASC 360-10. However, ASC 205-20 did not incorporate all of the guidance from ASC 360-10. To the extent that ASC 205-20 does not provide specific guidance, we believe that entities should look to the guidance in ASC 360-10. Therefore, assets (and liabilities) that are classified as held for sale are measured in the same manner (i.e., lower of carrying amount or fair value less cost to sell) regardless of whether they qualify for discontinued-operations reporting.

For simplicity, the guidance in this section refers to assets that meet the held-for-sale criteria (i.e., one or more long-lived assets, disposal groups, or components of an entity) as a “disposal group.”
A disposal group that is classified as held for sale is measured “at the lower of its carrying amount or fair value less cost to sell” in the period in which the held-for-sale criteria are met. To determine the carrying value of the disposal group, an entity must determine whether any of the assets in the disposal group are impaired before comparing the group's carrying value with its fair value less cost to sell (see Section 3.3.1). If the carrying amount of the disposal group exceeds its fair value less cost to sell even after any impairment charges have been recognized, the entity will recognize an additional loss to write the disposal group down to its fair value less cost to sell.

ASC 205-20-45-11 states that “[a]ny 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.” Therefore, an entity typically presents a valuation allowance or contra asset account to adjust the component to its fair value less cost to sell when presenting the major classes of assets. The valuation allowance or contra asset account is adjusted for any subsequent changes in the entity's estimate of fair value less cost to sell. Although ASC 360-10 does not provide guidance similar to that in ASC 205-20-45-11, we believe that the same principle may be applied to disposal groups that do not qualify for reporting as a discontinued operation.

In addition, the measurement guidance in ASC 360-10 does not apply to foreclosed assets accounted for under ASC 310-40 or investments accounted for under ASC 830.

### 3.3.1 Measuring the Carrying Value of a Disposal Group

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<thead>
<tr>
<th><strong>ASC 360-10</strong></th>
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<tbody>
<tr>
<td><strong>35-39</strong> 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.</td>
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Under ASC 360-10-35-39, upon classifying a disposal group as held for sale, an entity must determine whether any of the assets in the disposal group are impaired before comparing the carrying value of the disposal group with its fair value less costs to sell. In applying that guidance, the entity first assesses the assets that are not within the scope of ASC 360-10 (e.g., receivables, inventory, or indefinite-lived intangible assets), then goodwill in accordance with ASC 350-20 if goodwill is assigned to the disposal group (see Section 3.2.1), and then the long-lived assets within the scope of ASC 360-10. The order for testing when a disposal group is classified as held for sale (goodwill, then long-lived assets) is the reverse for testing when an asset group is classified as held and used (long-lived assets, then goodwill) in accordance with ASC 360-10-35-27.

### 3.3.2 Measuring the Fair Value of a Disposal Group

<table>
<thead>
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<th><strong>ASC 360-10</strong></th>
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<tbody>
<tr>
<td><strong>Fair Value</strong></td>
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<tr>
<td><strong>35-36</strong> For long-lived assets (asset groups) that have uncertainties both in timing and amount, an expected present value technique will often be the appropriate technique with which to estimate fair value.</td>
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</tbody>
</table>
The fair value of a disposal group is measured in accordance with ASC 820. ASC 820 does not require entities to use a specific valuation technique for measuring fair value. However, ASC 360-10-35-36 indicates that “for long-lived assets (asset groups) that have uncertainties both in timing and amount, an expected present value technique will often be the appropriate technique with which to estimate fair value.” Entities should use all available evidence in determining the fair value of a disposal group.

**Example 3-3**

Company T determines that a long-lived asset meets the criteria to be classified as held for sale in its year-end financial statements and, in accordance with ASC 360-10, reduces the asset’s carrying value to its estimated fair value less cost to sell. After year-end but before its financial statements are issued, T enters into an agreement to sell the asset for an amount less than the estimated fair value used in the measurement of the asset’s carrying amount as of the reporting date.

In determining whether it should further reduce the carrying amount of the asset in its year-end financial statements, T should evaluate whether the evidence of fair value provided by the agreement to sell is indicative of conditions that existed as of the reporting date. If T concludes that the sales price determined after year-end constitutes additional evidence of the asset’s fair value as of the reporting date, T should reflect that fair value in assessing fair value less cost to sell as of that date.

### 3.3.3 Costs to Sell

**ASC 360-10**

*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.

ASC 360-10-35-38 states that “[c]osts 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.” Examples of costs to sell include legal and other professional fees, broker fees, and title transfer fees. Costs to sell do not include costs that would have been incurred if the assets were not sold, such as rent, insurance, utilities, or security services. Costs to sell also do not include costs that are within the scope of ASC 420-10, such as one-time termination benefits, lease termination costs, facility closing costs, and employee relocation costs.

Recognition of a disposal group at its fair value less costs to sell essentially results in the entity's accrual of its costs to sell in advance of the sale. Entities should ensure that their estimates of costs to sell are reasonable and should continue to adjust their estimates in each reporting period. The entity recognizes a loss for any initial adjustment of the disposal group's carrying amount to its fair value less costs to sell in the period in which the held-for-sale criteria are met. If, however, the entity expects to recognize a gain from the sale of the disposal group, any costs to sell that are incurred before the date of sale should be expensed as incurred.
3.3.4 Loss That Exceeds the Carrying Amount of the Disposal Group

In some cases, the loss that would be incurred to write down a disposal group to its fair value less costs to sell may exceed the carrying amount of the long-lived assets within that group. Views differ on how to account for such an excess.

ASC 360-10 does not require entities to record a loss in excess of the carrying amount of the long-lived assets within the group. Paragraph BC92 of FASB Statement 144 stated, in part:

[T]he Board decided that because other accounting pronouncements prescribe the accounting for assets and liabilities not covered by this Statement that are included in a disposal group, a loss recognized for a disposal group classified as held for sale should reduce only the carrying amounts of the long-lived assets of the group. The Board concluded that the allocation method for a loss recognized for a disposal group classified as held for sale provides a reasonable basis for reporting both the assets and liabilities of the disposal group in the statement of financial position. [Emphasis added]

In prepared remarks at the 2008 AICPA Conference on Current SEC and PCAOB Developments, Adam Brown, a professional accounting fellow in the SEC’s Office of the Chief Accountant, addressed this scenario, stating, in part:

Consider a fact pattern in which a disposal group held for sale was established that consisted of long-lived assets in the form of property & equipment, as well as other assets such as trade receivables, and inventory. An estimate of the group's fair value, less its costs to sell, was lower than the group's carrying value. Further, the difference between the disposal group's fair value and its carrying value exceeded the existing net book value of long-lived assets. This might lead you to a question: "Should you recognize a liability for the loss in excess of the carrying amount of the long-lived assets, and, if so, what does it represent?"

I can think of two views for this particular fact pattern. One approach is to record the loss in excess of the carrying amount of the long-lived assets as a reduction to the carrying value of the entire group, effectively reducing trade receivables and inventory. A second approach is to limit the impairment to the carrying value of the long-lived assets in the disposal group.

The first view interprets paragraph 34 of Statement 144 [codified as ASC 360-10-35-43] to redefine the unit of account as the disposal group and to record it at the lower of its carrying amount or fair value less cost to sell. In effect, the individual assets lose their identity, even though the recoverability of AR and inventory are addressed by other GAAP.

The second view looks at paragraph 37 of Statement 144 [codified as ASC 360-10-35-40], which indicates a "loss . . . 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." This approach would limit the loss to the carrying value of the long-lived assets. There seems to be an additional level of simplicity in the second view in that it does not result in the recognition of what, in effect, is a liability created by an asset impairment model. . . .

After considering these two views, we ultimately concluded that we would not object to either interpretation of the literature. If companies expect to incur a loss on sale in excess of the impairment associated with long-lived assets, it may be an indicator that other assets such as AR and inventory are impaired. In any event, we believe that registrants who use the first view should clearly disclose where such amounts are reflected in the financial statements and whether additional losses are expected in the future.

An entity should consider whether all necessary impairments have been taken on the other assets and whether any specialized accounting may prevent the entity from recording the loss at the time the disposal group is tested for impairment. Further, an entity should consider other accounting literature (e.g., ASC 450-20) to determine whether it has incurred a liability that may have to be accrued.
3.3.5 Newly Acquired Long-Lived Assets

An entity may acquire a business or a group of assets, expecting that some of the long-lived assets will be sold rather than held and used. ASC 360-10-45-12 requires entities to classify a newly acquired long-lived asset or disposal group as held for sale as of the acquisition date, and to measure the assets at fair value less costs to sell, if:

- The criterion in ASC 360-10-45-9(d) is met — that is, the sale of the disposal group is probable and transfer of the disposal group “is expected to qualify for recognition as a completed sale, within one year, except as permitted by [ASC] 360-10-45-11.”
- “[A]ny other criteria in [ASC] 360-10-45-9 that are not met at [the acquisition] date are probable of being met within a short period following the acquisition (usually within three months).”

See Section 4.4 for information about discontinued-operations reporting related to a newly acquired business or nonprofit activity.

3.4 Subsequent Measurement While a Disposal Group Is Classified as Held for Sale

<table>
<thead>
<tr>
<th>ASC 360-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

The fair value less costs to sell of a long-lived asset (disposal group) must be reassessed in each reporting period in which it is classified as held for sale. In accordance with ASC 360-10-35-40, “[a] loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell” while “[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).”

Example 3-4

On January 31, 20X8, Company T announces a plan to move to a new corporate headquarters. According to the plan, T expects to vacate and sell the company-owned office building that currently houses its corporate headquarters. On April 30, 20X8, T completes the move and has met the criteria to classify the property as held for sale. As of that date, the carrying value of the property is $21 million and T estimates that the fair value less cost to sell is $16 million (including $1 million in estimated sale costs). Accordingly, T recognizes a loss of $5 million.

As of December 31, 20X8, T had not yet sold the property; however, because of improved conditions in the real estate market, T estimates that the fair value less costs to sell of the property is $18 million. Therefore, in its December 31, 20X8, financial statements, T recognizes a gain of $2 million because the increase is less than the cumulative loss previously recognized.
3.4.1 Depreciation and Amortization

Long-lived assets to be sold will be recovered through sale and not through future operations. Therefore, long-lived assets are not depreciated or amortized once they are classified as held for sale in accordance with ASC 360-10-35-43. Although an entity may still be using the assets and obtaining benefits from their use, the FASB concluded, as noted in FASB Statement 144, that continuing to depreciate or amortize them is “inconsistent with the use of a lower of carrying amount or fair value measure for a long-lived asset classified as held for sale.”

3.5 Recognition of a Gain or Loss Upon Sale of the Disposal Group

<table>
<thead>
<tr>
<th><strong>ASC 360-10</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recognition of Gain or Loss From Sale</strong></td>
</tr>
<tr>
<td>40-5 A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized at the date of sale.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Pending Content (Transition Guidance: ASC 606-10-65-1)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
</tr>
</tbody>
</table>

Upon sale of the disposal group, the entity recognizes any previously unrecognized gain or loss and derecognizes the assets, liabilities, and AOCI of the disposal group in accordance with other GAAP such as:

- ASC 810-10 if the disposal group is a nonprofit activity or meets the definition of a business in ASC 805.
- ASC 610-20 if the assets are nonfinancial assets (or in-substance nonfinancial assets).
- ASC 860 if the assets are financial assets.

The decision tree below depicts the process for determining which guidance an entity should apply when derecognizing a disposal group.
The following decision tree depicts the process for evaluating whether assets promised to a counterparty in a contract (or parts of a contract) shall be derecognized within the scope of this Subtopic. The decision tree is not intended as a substitute for the guidance in this Subtopic.

1. **Is the counterparty a customer?**
   - Yes: **Apply Topic 606**
   - No:
     2. **Is the transaction the transfer of a business or nonprofit activity?**
        - Yes: **Apply Topic 810-10**
        - No:
          3. **Is the transaction entirely accounted for in accordance with Topic 860?**
             - Yes: **Apply Topic 860**
             - No:
               4. **Does another scope exception apply?**
                  - Yes: **Apply other Topics or Subtopics**
                  - No:
                    5. **Are the assets promised in the contract all nonfinancial assets or all nonfinancial assets and in substance nonfinancial assets?**
                       - Yes: Apply Subtopic 610-20 to each distinct asset promised in the contract. Apply other Topics or Subtopics to the remaining parts of the contract, if any.¹
                       - No:
                         6. **Does the contract include the transfer of an ownership interest in one or more consolidated subsidiaries?**
                            - Yes: If the assets in an individual consolidated subsidiary are all nonfinancial assets or all nonfinancial assets and in substance nonfinancial assets, the apply Subtopic 610-20 to each distinct asset within that subsidiary. Otherwise, apply paragraph 810-10-40-3A(c) or 810-10-45-21A(b)(2) to the subsidiary. Apply other Topics or Subtopics to the remaining parts of the contract, if any.¹
                            - No: Apply Subtopic 610-20 to each distinct nonfinancial asset promised in the contract. Apply other Topics or Subtopics to the remaining parts of the contract, if any.¹

¹ If the transfer includes other contractual arrangements that are not assets of the seller to be derecognized (for example, guarantees), those contracts are separated and accounted for in accordance with other Topics of Subtopics.
For more information about the application of ASC 610-20, see Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* and for more information about the application of ASC 810, see Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

### 3.6 Changes to a Plan of Sale

**ASC 360-10**

**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:

- 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
- 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.

**45-10** If at any time the criteria in [ASC 360-10-45-9] are no longer met (except as permitted by [ASC 360-10-45-11]), a long-lived asset (disposal group) classified as held for sale shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

**ASC 205-20**

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

If, at any time, the held-for-sale criteria are no longer met, the assets and liabilities of the disposal group should be reclassified as held and used and should be measured, in accordance with ASC 360-10-35-44, at the lower of:

- “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.”
- “Its fair value at the date of the subsequent decision not to sell.”

Any assets or liabilities of the disposal group that are outside the scope of ASC 360-10 are not adjusted when the asset group is reclassified to held and used.

In addition, as of the date on which the held-for-sale criteria are no longer met, the statement of financial position and notes to the financial statements should no longer separately identify the assets and liabilities of the disposal group as held for sale, and any amounts that had been reported in discontinued operations should be reclassified to continuing operations for all periods presented.
In some cases, an entity may decide to retain an asset or liability that it had previously thought it would sell and that was included in a disposal group classified as held for sale. ASC 360-10-35-45 states that “[i]f 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 [held-for-sale criteria] are met.”

**Example 3-5**

Company C has a wholly owned subsidiary, Subsidiary D. Subsidiary D represents a component of C. Company C plans to dispose of D and, at the end of the first quarter, C determines that D meets the criteria to be classified as held for sale and reported as a discontinued operation.

In the third quarter, C decides to retain certain fixed assets of D while continuing to pursue a disposal of D’s remaining net assets and operations. In accordance with ASC 360-10-45-10, in the third quarter, C reclassifies to assets held and used the fixed assets it no longer seeks to dispose of and measures those fixed assets at the lower of (1) their carrying amounts before being classified as held for sale less depreciation expense that would have been recognized if they had not been classified as held for sale or (2) the fair value as of the date of the subsequent decision not to sell. Given the change in the assets that will be sold, C must reassess whether D’s remaining net assets should continue to qualify for classification as held for sale and, if so, whether D’s operations should continue to be reported as a discontinued operation.

**3.7 Consideration of Subsequent Events for Assessing Held-for-Sale Classification**

ASC 360-10-45-13 states that if the held-for-sale criteria “are met after the balance sheet date but before the financial statements are issued or are available to be issued” (as discussed in ASC 855-10-25), the long-lived asset (or disposal group) is “classified as held and used in those financial statements when issued or when available to be issued.” This paragraph further indicates that an entity should disclose the information required by ASC 205-20-50-1(a) in the notes to financial statements.

While ASC 205-20 does not include similar guidance, we believe that entities should apply it to disposal groups that qualify for discontinued-operations reporting. Similarly, we think that if the held-for-sale criteria are met before the balance sheet date but are no longer met when the financial statements are issued or are available to be issued, the disposal group should be classified as held for sale in the financial statements. We also believe that an entity should disclose the required information about
changes in plan of sale in ASC 205-20-50-3 (or in ASC 360-10-35-44 for disposals that do not qualify as discontinued operations). See Section 3.6 for guidance on the accounting in situations in which an entity has a change in its plan of sale.

Further, ASC 360-10-45-13 goes on to say that “[i]f 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.”

### 3.8 Assets Disposed of Other Than by Sale

<table>
<thead>
<tr>
<th>ASC 360-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>45-15</strong>  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.</td>
</tr>
</tbody>
</table>

Entities may dispose of assets other than by sale. ASC 360-10-45-15 notes that examples of disposals other than by sale include “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.”

Assets being disposed of other than by sale are classified as held and used until they are disposed of. Accordingly, the operations and any incremental, direct costs (e.g., advisory fees or legal fees) that are incurred in connection with the disposal cannot be reported in discontinued operations until the disposal occurs.

#### 3.8.1 Assets to Be Abandoned

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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<tbody>
<tr>
<td><strong>Long-Lived Assets to Be Abandoned</strong></td>
</tr>
<tr>
<td><strong>35-47</strong> 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).</td>
</tr>
<tr>
<td><strong>35-48</strong> 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.</td>
</tr>
<tr>
<td><strong>Long-Lived Asset Temporarily Idled</strong></td>
</tr>
<tr>
<td><strong>35-49</strong> A long-lived asset that has been temporarily idled shall not be accounted for as if abandoned.</td>
</tr>
</tbody>
</table>
**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.

ASC 360-10-35-47 states that “a long-lived asset to be abandoned is disposed of when it ceases to be used.” Therefore, a long-lived asset (or asset group) may not be classified as held for sale or reported in discontinued operations until it is abandoned. Further, EITF Topic D-104 clarified that when “a component of an entity will be abandoned through the liquidation or run-off of operations, that component should not be reported as a discontinued operation in accordance with [ASC 205-20] until all operations, including run-off operations, cease.” (While the guidance in Topic D-104 was not codified, we believe that it continues to be relevant.) However, ASC 360-10-35-49 points out that a “long-lived asset that has been temporarily idled [is not] accounted for as if abandoned.”

**Example 3-6**

**Classifying a Component to Be Abandoned as a Discontinued Operation**

On December 15, 20X6, Company M, a calendar-year company, announced a plan to abandon the operations of its Argentinean subsidiary, Company E. Company M has determined that E represents a component of the entity, the abandonment of which is determined to represent a strategic shift that will have a major effect on operations and financial results. According to the plan of abandonment, E would cease accepting any new business as of December 31, 20X6. Company M expects that E will be able to complete production of all remaining orders and ancillary operations and close both the plant and office facilities by March 15, 20X7.

Company M would not classify E’s operations in discontinued operations until E has fulfilled all remaining orders and ancillary operations and closed both the plant and office facilities. Thus, M would not classify E’s operations in discontinued operations in its December 31, 20X6, financial statements. However, as of December 15, 20X6, M may need to test E’s assets for recoverability if the plan to abandon E indicates an expectation that, more likely than not, E’s assets will be otherwise disposed of significantly before the end of their previously estimated useful life (i.e., one of the impairment indicators in ASC 360-10-35-21). In addition, M may need to revise its depreciation estimates in accordance with ASC 360-10-35-47 to reflect the use of E’s assets over their shortened useful life.

An entity that commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life should test the asset for recoverability (i.e., test by using the held-and-used model). The entity would then revise its future depreciation estimates prospectively to reflect the use of the asset over its shortened remaining useful life. Although the asset group may still be recoverable, the entity may still need to adjust depreciation estimates of the asset to be abandoned in accordance with ASC 360-10-35-47. However, ASC 360-10-35-48 states that “[b]ecause 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.”
3.8.2 Assets to Be Distributed to Owners in a Spin-Off

ASC 360-10

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.

The ASC master glossary defines a spin-off as “[t]he transfer of assets that constitute a business by an entity (the spinnor) into a new legal spin-off entity (the spinnee), followed by a distribution of the shares of the spinnee to its shareholders, without the surrender by the shareholders of any stock of the spinnor.” A transfer of long-lived assets that constitute a business to owners in a spin-off should be accounted for on the basis of the recorded amount of the assets transferred (after reduction, if appropriate, for any impairment) in accordance with ASC 845-10-30-10.

The assets and liabilities being distributed to owners in a spin-off are classified as held and used until the spin-off occurs. As a result, even if the entity being spun off is expected to meet the discontinued-operations reporting criteria, its operations, including the direct costs of the spin-off, cannot be presented as a discontinued operation until the shares are distributed to the owners. ASC 360-10-40-4 provides guidance on testing the recoverability of long-lived assets distributed to owners in a spin-off while the assets are classified as held and used.

Example 3-7

Company B, a public company, announced its intent to spin off one of its segments, Segment H, into a separate public company. Before its calendar year ending December 31, 20X8, B filed a Form 10 with the SEC and received approval from its board of directors and shareholders to distribute H to its shareholders in a spin-off. On December 27, 20X8, shares of B were traded as “ex-dividend.” The record date of distribution was January 2, 20X9, and the distribution date was January 6, 20X9.

Under ASC 360-10-40-4, the asset group that is to be distributed to owners in a spin-off is disposed of when it is distributed. Until the shares are distributed to the shareholders on January 6, 20X9, the asset group should continue to be classified as held and used and continue to be reported in continuing operations.

3.9 Classification of Long-Lived Assets to Be Disposed of in Exchange for a Noncontrolling Interest in Those Assets

Long-lived assets to be disposed of by sale are classified as held for sale once the criteria in ASC 360-10-45-9 are met. By contrast, long-lived assets to be disposed of other than by sale should “continue to be classified as held and used until [they are] disposed of.” Some have asked whether assets that will be contributed to an entity in exchange for a noncontrolling interest in that entity (e.g., an investment in an equity method investee or joint venture) should be considered disposed of by sale or disposed of other than by sale (i.e., whether the assets being contributed can be classified as held for sale if the criteria are met).
In 2006, the FASB issued proposed FSP FAS 144-c, which stated that “[a]n entity shall classify the entire long-lived asset as held-for-sale and cease depreciating the long-lived asset once the long-lived asset meets the held-for-sale criteria even if the entity plans to account for its direct or indirect interest in the long-lived asset under the equity method of accounting.” While that proposed FSP was not finalized and was removed from the FASB’s agenda, the Board’s rationale for removing it was that Statement 160 (codified in ASC 810-10) clarified that assets that will be contributed to an entity in exchange for an equity method investment in that entity are assets to be disposed of by sale. Thus, long-lived assets to be contributed to an entity in exchange for a noncontrolling interest in that entity should be classified as held for sale if and when the criteria are met.
Chapter 4 — Criteria for Reporting a Discontinued Operation

ASC 205-20

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).

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).

ASC 205-20 requires that a disposal be reported in discontinued operations if all of the following criteria are met:

- The disposal constitutes a component of an entity (or a group of components of an entity) (see Section 2.2).
- The component (or group of components) has been disposed of or meets the held-for-sale classification criteria (see Chapter 3).
- The disposal “represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.”

In addition, a newly acquired business or nonprofit activity that meets the held-for-sale classification criteria in ASC 205-20-45-1E upon acquisition qualifies for reporting in discontinued operations regardless of whether the other criteria are met. (See Section 4.4 for further discussion.)
ASC 205-20 does not define the terms “strategic shift” and “major effect” but provides the following examples of dispositions that represent strategic shifts that have (or will have) a major effect on an entity’s operations:

- A major geographical area.
- A major line of business.
- A major equity method investment.
- Other major parts of an entity.

In addition, ASC 205-20-55 includes five examples of dispositions that are strategic shifts that have or will have a major effect on the entity’s operations and financial results and therefore qualify for presentation as a discontinued operation:

- The sale of a product line that represents 15 percent of the entity’s total revenues.
- The sale of a geographical area that represents 20 percent of the entity’s total assets.
- The sale of all the entity’s stores in malls to focus solely on supercenter stores that historically have provided 30 to 40 percent of the entity’s total net income and 15 percent of current total net income.
- The sale of a component that is an equity method investment that represents 20 percent of the entity’s total assets.
- The sale of an 80 percent interest in one of two product lines that accounts for 40 percent of total revenue.

The examples indicate that the assessment of whether a disposal should be reported as a discontinued operation is both qualitative and quantitative. A strategic shift implies that the disposal must result from a change in the way management had intended to run the business. For example, if management has a history of closing retail locations that operate at a loss, the decision to close a number of stores operating at a loss in a given period might have a major effect on an entity’s operations and financial results but would not represent a strategic shift. The determination of whether a disposal represents a strategic shift will be based on the entity’s specific facts and circumstances.

Likewise, ASC 205-20 offers no bright lines regarding whether the disposal has or will have a “major” effect on an entity’s operations and financial results. However, on the basis of the examples from ASC 205-20-55, a disposal would have a major effect if it represents (1) 15 percent of the entity’s total revenues, (2) 20 percent of the entity’s total assets, or (3) 15 percent of the entity’s total net income. Thus, we believe that “major” is a quantitatively high threshold, especially when considered alongside the disclosure requirements added to ASC 360-10 related to disposals of individually significant components that do not qualify for discontinued operations (see Chapter 7). According to the examples, the disposal only has to have a major effect on one metric (i.e., revenue, net income, or assets), not all three.

In addition, ASC 205-20 does not state which metrics must be considered. While ASC 205-20 does not preclude consideration of the impact on other metrics such as operating cash flows or EBITDA, we believe other metrics should be considered only if they are relevant to investors and have been used by management to communicate operating and financial results. We do not believe that the assessment should be based on whether a sale results in a significant one-time gain or loss to the entity but on whether eliminating the operations and assets of the component(s) will have a major effect on an entity’s ongoing operations and financial results. Similarly, an entity may need to use judgment in evaluating metrics when those metrics include the effects of events considered to be nonrecurring.
In prepared remarks at the 2015 AICPA Conference on Current SEC and PCAOB Developments, Barry Kanczwizer, an associate chief accountant in the SEC’s Office of the Chief Accountant, provided the following insights regarding the staff's views on strategic shift and major effect:

So how does one determine what represents a strategic shift that has or will have a major effect? I would observe that the standard requires judgment to determine whether a disposal meets the revised definition for a discontinued operation. ASC 205-20 provides several examples of what may constitute a strategic shift that will have a major effect on operations and financial results. The examples include a sale of a product line that represents 15% of total revenue; the sale of a geographic area that represents 20% of total assets; and the sale of all stores in one of two types of store formats that historically provided 30–40% of net income and 15% of current net income. We have heard suggestions that the quantitative factors included in the examples are meant to create thresholds by which to determine whether a disposal represents a strategic shift that has a major effect on the entity's operations and financial results. In my view, the thresholds are illustrative and do not establish bright lines or safe harbors.

A question also arises as to what constitutes a financial result? I believe that judgment is required to determine which financial results are indicative of a strategic shift that has a major effect. I think there are certain “primary” metrics that are prominently presented in the financial statements and communicated to investors. For example, revenue, total assets and net income are items that I would clearly consider to be relevant metrics. However, the identification of other financial results may require judgment, with an eye toward what is relevant from an investor's perspective. It also may be helpful to understand alternative measures, as certain operating metrics may also be relevant, particularly where the Company has used the measure on a consistent basis for communicating operating and financial results. I also believe that it is prudent to consider the effect of the relevant financial metric on the entity from the perspective of current, historical and forecasted results. In my view, the guidance indicates a need to evaluate the totality of the evidence, and there is no single financial metric that is determinative in concluding that a disposal had a major effect on the entity’s operations and financial results.

While the guidance does not provide quantitative bright lines in determining whether a disposal is a strategic shift that has a major effect, the less significant a financial impact the disposal has on an entity, the stronger the qualitative evidence would need to be. In evaluating whether the qualitative evidence supports a strategic shift that has a major effect, I think it is important to consider the prominence and consistency with which the disposed component and related qualitative factors have been discussed within periodic filings.

We believe that disposal of a reportable segment will generally qualify for presentation as a discontinued operation, while an entity will need to use judgment when the disposal is an operating segment, reporting unit, or other parts of the entity. An entity will also want to consider the extent to which information about the component was provided publicly (e.g., via the entity's Web site, earnings releases, or MD&A).

The examples of a strategic shift that has (or will have) a major effect on an entity's operations include the disposal of “other major parts of an entity,” not just a major line of business or geographical region. In the 2013 proposal on which ASU 2014-08 was based, the FASB contemplated limiting the definition of a discontinued operation to a separate major line of business or a major geographical area of operations. Paragraphs BC13 and BC14 of ASU 2014-08 offer some insight into why the Board ultimately decided not to limit the definition:

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

The Board concluded that the nature of the disposal and its effect on an entity's operations and financial results matter more than the composition of the transaction. Therefore, the Board decided that a discontinued operation could include different parts of an entity other than an entire major line of business or a major geographical area of operations as long as those parts are a disposal group that together represents a strategic shift that has a major effect on an entity's operations and financial results.
The following examples in ASC 205-20-55 illustrate disposals that would qualify for discontinued-operations presentation:

**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.
**ASC 205-20 (continued)**

**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.

### 4.1 Disposals That Occur Over Multiple Reporting Periods

A component of an entity may be as low a level as an asset group (see Section 2.2). However, to qualify for discontinued-operations presentation, the disposal must have a major effect, which must be quantitatively significant. Sometimes management plans to dispose of a group of components but those components will qualify as held for sale or will be disposed of over multiple reporting periods. In such cases, the disposal may represent a strategic shift in its entirety but the component or components that are disposed of or classified as held for sale in any individual reporting period may not have a quantitatively major effect.

We believe that, in such instances, entities may assess, at the time the plan is formalized, whether the overall plan represents a strategic shift that has or will have a major effect on an entity's operations and financial results, provided that the plan will be executed within a reasonable amount of time. However, we also think that before reporting any component in discontinued operations, it is appropriate for entities to wait until the components that are classified as held for sale or disposed of, in aggregate, have a major effect. Then, the results of any components classified as held for sale or disposed of in prior periods in accordance with the plan should be reclassified to discontinued operations. We do not believe that the remaining components should be presented in discontinued operations until they are classified as held for sale or otherwise disposed of, even if they are part of the overall plan. Entities should also provide appropriate disclosures describing the plan.

### 4.2 Normally Occurring Disposals

Entities in certain industries (e.g., real estate, private equity, or retail) frequently enter into disposal transactions that may be quantitatively major. We do not believe that, if the dispositions are part of the
entity's ongoing strategy and therefore do not represent a strategic shift for the entity, such dispositions would qualify for reporting in discontinued operations. The determination of whether a disposal is a strategic shift will be based on the entity's specific facts and circumstances.

**Example 4-1**

**Normally Occurring Disposals**

Entity A is a real estate investment trust (REIT) that acquires properties in areas experiencing a downturn in prices. Entity A renovates the properties, leases them, and manages them until it is able to capitalize on appreciation by selling them.

In the current reporting period, A sells 25 properties, identifying the properties that are sold on the basis of its assessment of whether the sale would provide it with a specified rate of return. Regardless of whether the sales have a major effect on A's operations and financial results (e.g., reduced rental income and maintenance costs), the sales do not represent a strategic shift because they occurred as part of A's ongoing strategy to sell the properties that have appreciated sufficiently to provide A with its specified rate of return.

**4.3 Continuing Involvement**

While ASC 205-20 does not preclude discontinued-operations reporting if the entity has continuing involvement with the disposed-of component, we believe that entities should consider the nature, time frame, and extent of any continuing involvement in determining whether there has been a strategic shift that has (or will have) a major effect on their operations and financial results. Continuing involvement may be indicated by, for example, (1) supply chain and distribution agreements, (2) financial guarantees, (3) options to repurchase assets that were disposed of, and (4) retained equity method investments (but generally not retained cost method investments).

ASC 205-20-50-4A and 50-4B require entities to disclose the nature of any significant continuing involvement with a discontinued operation after the disposal date. See Section 6.2.3 for more information about those disclosure requirements.

ASC 205-20-55-97 through 55-101 contain the following example of a disposal transaction in which the entity retains a significant investment in the discontinued operation:

**ASC 205-20**

**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.

### 4.4 A Business or Nonprofit Activity Classified as Held for Sale on Acquisition

**ASC 205-20**

**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).

A business or nonprofit activity that meets the held-for-sale classification criteria on acquisition (see Section 3.3.5) is reported as a discontinued operation regardless of whether its disposal will represent a strategic shift or have a major effect on the entity's operations or financial results. The FASB's rationale was that if an entity classifies a business as held for sale at the time of acquisition, the business was never considered part of an entity's continuing operations and should therefore be reported in discontinued operations.

See Section 6.5 for a description of the related disclosure requirements, which are more limited than those for other types of disposals.

### 4.5 Consideration of Subsequent Events for Assessing Discontinued-Operations Classification

ASU 2014-08 (codified in ASC 205-20) deleted the previous guidance in ASC 205-20-55-24, under which the evaluation of whether a disposal qualified for discontinued-operations presentation took into account significant events or circumstances that occurred after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance was inconsistent with the guidance in ASC 360-10-45-13, which states that the evaluation of whether a component meets the held-for-sale criteria is not affected by events that occur after the balance sheet date but before the financial statements are issued or are available to be issued (see Section 3.7). Therefore, the assessment of the discontinued-operations criteria is now consistent with the assessment of the held-for-sale criteria.

Under ASC 205-20-50-3, in the period in which an entity decides to change its plan for selling a discontinued operation, the entity must disclose 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. This disclosure will provide users of financial statements with the information they need to assess the effect of the changes that occur after the balance sheet date.
Chapter 5 — Presentation of Discontinued Operations

5.1 Balance Sheet Presentation of Discontinued Operations

<table>
<thead>
<tr>
<th>ASC 205-20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>45-10</strong> 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.</td>
</tr>
</tbody>
</table>

Under ASC 205-20-45-10, in the period in which a component meets the held-for-sale and discontinued-operations criteria, an entity must present the assets and liabilities of the discontinued operation separately in the asset and liability sections of the balance sheet. Assets and liabilities cannot be offset and presented as a single amount. ASC 205-20-45-10 also requires that an entity reclassify not only the current-period balance sheet but also any comparative balance sheets presented. For example, a discontinued operation that is classified as held for sale and sold in the same reporting period would be presented as held for sale in prior-period balance sheets (but not in the current-period balance sheet). Similarly, the assets and liabilities of a discontinued operation that is abandoned in the current period would be reclassified in the prior-period balance sheet.

ASC 205-20 does not address whether entities should separately present the assets and liabilities of a discontinued operation as current and noncurrent. We believe that it is appropriate to do so and that four balance sheet captions may result from such presentation (e.g., “current assets held for sale,” “noncurrent assets held for sale,” “current liabilities held for sale,” and “noncurrent liabilities held for sale”). In addition, we believe that it is acceptable for an entity to present the assets and liabilities of a discontinued operation classified as held for sale as current in the current-period balance sheet if it is probable that the sale will occur and proceeds will be collected within one year. We think that the current and noncurrent classifications of a discontinued operation’s assets and liabilities should not change in prior periods because the noncurrent assets and liabilities did not meet the criteria for presentation as current in those prior periods.

In the period in which a component meets the criteria for presentation in discontinued operations, the entity must provide detailed information about the assets and liabilities of the discontinued operation.
Therefore, the major classes of the discontinued operation’s assets and liabilities must be either (1) presented on the face of the balance sheet in accordance with ASC 205-20-45-11 or (2) disclosed in the notes in accordance with ASC 205-20-50-5B(e) (see Section 6.3.1).

Such presentation or disclosure must be provided for the discontinued operation in the current period and all prior periods presented. If the major classes of assets and liabilities of a discontinued operation are disclosed in the notes, the disclosure must be reconciled to the amounts presented on the balance sheet, and if the disposal group includes assets or liabilities that are not part of the discontinued operation, the reconciliation should show them separately from the assets and liabilities of the discontinued operation. Entities will need to apply judgment in determining what constitutes “major” with respect to such presentation or disclosure, since ASC 205-20 does not provide guidance on this topic.

SEC registrants should also evaluate the reporting considerations discussed in Chapter 8.

**Example 5-1**

**Illustrative Balance Sheet Presentation of a Discontinued Operation**

Below is an example of a simplified comparative balance sheet presentation for a component that meets the criteria to be presented as a discontinued operation in the current period.

<table>
<thead>
<tr>
<th>Company A and Subsidiaries</th>
<th>Consolidated Balance Sheets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of December 31, 20X8</td>
</tr>
<tr>
<td>Assets:</td>
<td>$1,475,000</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>65,000</td>
</tr>
<tr>
<td>Receivables, net of allowances of $15,000 as of December 31, 20X8, and $12,000 as of December 31, 20X7</td>
<td>85,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>75,000</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>55,000</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Current assets held for sale</strong></td>
<td><strong>220,000</strong></td>
</tr>
<tr>
<td>Total current assets</td>
<td>525,000</td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>650,000</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>60,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>85,000</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>75,000</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>80,000</td>
</tr>
<tr>
<td><strong>Noncurrent assets held for sale</strong></td>
<td><strong>—</strong></td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,475,000</td>
</tr>
</tbody>
</table>
### Example 5-1 (continued)

**Company A and Subsidiaries**  
**Consolidated Balance Sheets**

<table>
<thead>
<tr>
<th></th>
<th>As of December 31, 20X8</th>
<th>As of December 31, 20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and shareholders’ equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 40,000</td>
<td>$ 30,000</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>60,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>45,000</td>
<td>45,000</td>
</tr>
<tr>
<td><strong>Current liabilities held for sale</strong></td>
<td><strong>70,000</strong></td>
<td><strong>42,000</strong></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>215,000</td>
<td>157,000</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>650,000</td>
<td>695,000</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>55,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>35,000</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities held for sale</strong></td>
<td><strong>—</strong></td>
<td><strong>12,000</strong></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>955,000</td>
<td>939,000</td>
</tr>
</tbody>
</table>

| **Shareholders’ equity:** |                         |                         |
| Common stock, $0.01 par value, 100,000 issued and outstanding shares as of December 31, 20X8 and 20X7 | $ 1,000 | $ 1,000 |
| Additional paid-in capital | 200,000                  | 200,000                |
| Retained earnings        | 311,000                 | 255,000                 |
| **Accumulated other comprehensive income (loss)** | **8,000**               | **5,000**             |
| Total shareholders’ equity | 520,000                | 461,000                |
| **Total liabilities and shareholders’ equity** | **$1,475,000** | **$1,400,000** |

* Because it is probable that the sale will be completed in less than one year, it is appropriate to classify the assets and liabilities that are held for sale as current in the December 31, 20X8, balance sheet.

** If the component to be sold did not meet the criteria for reporting as a discontinued operation, the assets and liabilities of the component would not be classified and presented as held for sale in the December 31, 20X7, balance sheet.

See Example 6-1 for an illustration of the disclosure in the notes to financial statements (see ASC 205-20-50-5B(e)) of the discontinued operation’s major classes of assets and liabilities classified as held for sale for all periods presented in the statement of financial position.
5.2 Income Statement Presentation of Discontinued Operations

<table>
<thead>
<tr>
<th>Rule</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASC 205-20</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>45-3</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Income from continuing operations before income taxes</strong></td>
<td>$XXXX</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Income from continuing operations</strong></td>
<td>$XXXX</td>
</tr>
<tr>
<td><strong>Discontinued operations (Note X)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Loss from operations of discontinued Component X (including loss on disposal of $XXX)</strong></td>
<td>XXXX</td>
</tr>
<tr>
<td><strong>Income tax benefit</strong></td>
<td>XXXX</td>
</tr>
<tr>
<td><strong>Loss on discontinued operations</strong></td>
<td>XXXX</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$XXXX</td>
</tr>
<tr>
<td><strong>45-3A</strong></td>
<td>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)).</td>
</tr>
<tr>
<td><strong>45-11</strong></td>
<td>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.</td>
</tr>
</tbody>
</table>

In the period in which a component meets the criteria for presentation as a discontinued operation, the component’s results of operations, including any gain or loss recognized, should be reclassified to discontinued operations. The illustration in ASC 205-20-45-3A shows a possible income statement presentation related to such reclassification; however, the illustration depicts a single-year presentation only. If comparative income statements are presented, an entity should also reclassify the component’s results of operations to discontinued operations for all prior periods. See Example 5-2 for an illustration of a multiyear presentation.

In the illustration in ASC 205-20-45-3A, the income tax benefit and the loss on disposal are presented as separate line items; however, entities may (1) present discontinued operations as a single line item that is labeled, for example, “discontinued operations net of tax,” and (2) disclose, in the notes, the income tax benefit or expense and the gain or loss recognized.

See Section 3.3 for more information about the requirement in ASC 205-20-45-11 that any loss should not be allocated to specific assets or classes of assets.
Under ASC 205-20, in the period in which the discontinued-operations criteria are met, an entity must report the disposal in discontinued operations retrospectively in all periods presented. SEC registrants should also evaluate the reporting considerations discussed in Chapter 8.

### Example 5-2

**Illustrative Income Statement Presentation of a Discontinued Operation**

This example is a continuation of Example 5-1 and shows a simplified, comparative income statement for a component that meets the criteria for presentation as a discontinued operation in the current period.

<table>
<thead>
<tr>
<th>Company A and Subsidiaries</th>
<th>Consolidated Statement of Income</th>
<th>For the 12 Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 20X8</td>
<td>December 31, 20X7</td>
</tr>
<tr>
<td>Net sales</td>
<td>$1,000,000</td>
<td>$ 850,000</td>
</tr>
<tr>
<td>Costs of sales</td>
<td>(650,000)</td>
<td>(552,500)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>350,000</td>
<td>297,500</td>
</tr>
<tr>
<td>Selling, general, and administrative expenses</td>
<td>(250,000)</td>
<td>(212,500)</td>
</tr>
<tr>
<td>Operating income</td>
<td>100,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Other income (loss)</td>
<td>10,000</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>110,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Income tax provision</td>
<td>(38,500)</td>
<td>(28,000)</td>
</tr>
<tr>
<td>Net income from continuing operations</td>
<td>71,500</td>
<td>52,000</td>
</tr>
<tr>
<td>Loss from discontinued operations, net of tax*</td>
<td>(15,500)</td>
<td>(8,450)</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 56,000</td>
<td>$ 43,550</td>
</tr>
</tbody>
</table>

**Earnings per common share:**

- Earnings from continuing operations per common share — basic
  - December 31, 20X8: $0.72
  - December 31, 20X7: $0.52
  - December 31, 20X6: $0.50

- Earnings from continuing operations per common share — diluted
  - December 31, 20X8: $0.57
  - December 31, 20X7: $0.42
  - December 31, 20X6: $0.40

- Loss from discontinued operations per common share — basic
  - December 31, 20X8: $(0.16)
  - December 31, 20X7: $(0.08)
  - December 31, 20X6: $(0.10)

- Loss from discontinued operations per common share — diluted
  - December 31, 20X8: $(0.12)
  - December 31, 20X7: $(0.07)
  - December 31, 20X6: $(0.08)

- Earnings per common share — basic
  - December 31, 20X8: $0.56
  - December 31, 20X7: $0.44
  - December 31, 20X6: $0.40

- Earnings per common share — diluted
  - December 31, 20X8: $0.45
  - December 31, 20X7: $0.35
  - December 31, 20X6: $0.32

* Income or loss from discontinued operations may be shown as a single line item, as illustrated above, with disclosure of the components in the notes or with the components stated separately on the face of the income statement, as illustrated in ASC 205-20-45-3A.
See Example 6-2 for an illustration of the disclosure in the notes to the financial statements (see ASC 205-20-50-5B(b)) of the major classes of line items constituting a discontinued operation's pretax profit or loss.

[Section 5.2.1 has been relocated to Section 7.2.1.]

5.3 Presentation of Income Statement Items in Discontinued Operations

5.3.1 Asset Impairment Charges

Impairment charges related to the assets of a disposal group reported in discontinued operations should be included in discontinued operations in the current and prior periods. Such charges might include impairments related to property, plant, and equipment; intangible assets; and goodwill. It may be appropriate to calculate the amount of a goodwill impairment charge on a relative fair value basis if the goodwill assigned to the disposal group was calculated on a relative fair value basis (see Section 3.2.1).

5.3.2 Adjustments to Amounts Previously Reported in Discontinued Operations

ASC 205-20-45-4 states that “[a]djustments to amounts previously reported in discontinued operations in a prior period shall be presented separately in the current period in discontinued operations.” Adjustments related to components that were classified as discontinued operations under previous guidance should be classified as discontinued operations in the current period even if the disposed-of component to which the adjustments are related would not meet the criteria for presentation as a discontinued operation under the guidance in ASC 205-20, as amended by ASU 2014-08.

See Section 6.2.2 for related disclosure requirements for adjustments to amounts previously reported.

5.3.2.1 Classification and Disclosure of Contingencies

ASC 205-20-45-5 indicates that the resolution of certain contingencies represents an adjustment to amounts previously reported and should be recognized in discontinued operations in the current period. In SAB Topic 5.Z.5 (codified in ASC 205-20-S99-2), the SEC staff provided the guidance below on the classification and disclosure of contingencies related to discontinued operations. While the SAB was not revised to reflect the amendments made by ASU 2014-08, we believe that it continues to provide relevant guidance.
Facts: A company disposed of a component of an entity in a previous accounting period. The Company received debt and/or equity securities of the buyer of the component or of the disposed component as consideration in the sale, but this financial interest is not sufficient to enable the Company to apply the equity method with respect to its investment in the buyer. The Company made certain warranties to the buyer with respect to the discontinued business, or remains liable under environmental or other laws with respect to certain facilities or operations transferred to the buyer. The disposition satisfied the criteria of FASB ASC Subtopic 205-20 for presentation as “discontinued operations.” The Company estimated the fair value of the securities received in the transaction for purposes of calculating the gain or loss on disposal that was recognized in its financial statements. The results of discontinued operations prior to the date of disposal or classification as held for sale included provisions for the Company’s existing obligations under environmental laws, product warranties, or other contingencies. The calculation of gain or loss on disposal included estimates of the Company’s obligations arising as a direct result of its decision to dispose of the component, under its warranties to the buyer, and under environmental or other laws. In a period subsequent to the disposal date, the Company records a charge to income with respect to the securities because their fair value declined materially and the Company determined that the decline was other than temporary. The Company also records adjustments of its previously estimated liabilities arising under the warranties and under environmental or other laws.

Question 1: Should the writedown of the carrying value of the securities and the adjustments of the contingent liabilities be classified in the current period’s statement of operations within continuing operations or as an element of discontinued operations?

Interpretive Response: Adjustments of estimates of contingent liabilities or contingent assets that remain after disposal of a component of an entity or that arose pursuant to the terms of the disposal generally should be classified within discontinued operations. However, the staff believes that changes in the carrying value of assets received as consideration in the disposal or of residual interests in the business should be classified within continuing operations.

Registrants are reminded that FASB ASC Topic 460, Guarantees requires recognition and disclosure of certain guarantees which may impose accounting and disclosure requirements in addition to those discussed in this SAB Topic.

FASB ASC paragraph 205-20-45-4 requires that “adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period shall be classified separately in the current period in discontinued operations.” The staff believes that the provisions of FASB ASC paragraph 205-20-45-4 apply only to adjustments that are necessary to reflect new information about events that have occurred that becomes available prior to disposal of the component of the entity, to reflect the actual timing and terms of the disposal when it is consummated, and to reflect the resolution of contingencies associated with that component, such as warranties and environmental liabilities retained by the seller.

Developments subsequent to the disposal date that are not directly related to the disposal of the component or the operations of the component prior to disposal are not “directly related to the disposal” as contemplated by FASB ASC paragraph 205-20-45-4. Subsequent changes in the carrying value of assets received upon disposition of a component do not affect the determination of gain or loss at the disposal date, but represent the consequences of management’s subsequent decisions to hold or sell those assets. Gains and losses, dividend and interest income, and portfolio management expenses associated with assets received as consideration for discontinued operations should be reported within continuing operations.
SAB Topic 5.Z.5 (codified in ASC 205-20-S99-2) (continued)

Question 2: What disclosures would the staff expect regarding discontinued operations prior to the disposal date and with respect to risks retained subsequent to the disposal date?

Interpretive Response: MD&A FN57 should include disclosure of known trends, events, and uncertainties involving discontinued operations that may materially affect the Company’s liquidity, financial condition, and results of operations (including net income) between the date when a component of an entity is classified as discontinued and the date when the risks of those operations will be transferred or otherwise terminated. Disclosure should include discussion of the impact on the Company’s liquidity, financial condition, and results of operations of changes in the plan of disposal or changes in circumstances related to the plan. Material contingent liabilities, FN58 such as product or environmental liabilities or litigation, that may remain with the Company notwithstanding disposal of the underlying business should be identified in notes to the financial statements and any reasonably likely range of possible loss should be disclosed pursuant to FASB ASC Topic 450, Contingencies. MD&A should include discussion of the reasonably likely effects of these contingencies on reported results and liquidity. If the Company retains a financial interest in the discontinued component or in the buyer of that component that is material to the Company, MD&A should include discussion of 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.

FN57 Item 303 of Regulation S-K.
FN58 Registrants also should consider the disclosure requirements of FASB ASC Topic 460.

Example 5-3

Classification of a Gain Related to a Retained Equity Interest Sold in a Subsequent Period

Company D, an SEC registrant, is proposing to sell a significant subsidiary, Company T, which qualifies for reporting as a discontinued operation. Because this transaction arose from an unexpected offer from Company X, a third party, D does not have immediate plans for use of the proceeds from this sale. Accordingly, D would like to retain an equity interest (common stock) of up to 10 percent for the next four to five years.

In addition, D has a put option on the retained equity interest in T to sell this interest over a four-year period to X. Company X also would receive a call option to purchase the equity interest retained by D at the end of the four-year period.

The gains resulting from D’s exercise of its put option to sell a portion of its retained interest in T, or the gains resulting from X’s exercise of its call option to purchase the remaining interest in T, should be reported in continuing operations since they (1) are not directly related to D’s initial sale of T to X and (2) have resulted from management’s decision to hold and then sell a cost method investment. Furthermore, any increases or decreases that may need to be reflected under other authoritative accounting pronouncements (e.g., ASC 320-10 and ASC 815) would be reported in continuing operations.

5.3.2.2 Settlement of Employee Benefit Plan Obligations

ASC 205-20-45-5(c) states that the “settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits)” should be presented in discontinued operations in the current period “provided that the settlement is directly related to the disposal transaction.” This paragraph further notes that 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.” ASC 715-30-55-193, and ASC 715-30-55-196 and 55-197 provide additional guidance on this topic, and ASC 715-30-55-239 through 55-252 contain a related example.
5.3.3 Allocation of Interest to Discontinued Operations

**ASC 205-20**

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 is 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.

Interest expense and amortization of discounts, premiums, and debt issuance costs related to debt that will be assumed by the buyer or debt that must be repaid as a result of a disposal transaction should be reported in discontinued operations. We also believe that gains or losses (e.g., prepayment penalties) from the extinguishment of debt that is directly related to the component being disposed of should be included in discontinued operations.

We believe that if an entity chooses to allocate other consolidated interest to the discontinued operation, the allocation should also include amortization of discounts, premiums, and debt issuance costs. If the allocation approach in ASC 205-20-45-7 (i.e., on net assets) would not yield “meaningful results,” the approach in ASC 205-20-45-8 (i.e., on debt attributable to the entity’s operations) should be used. The method selected is an accounting policy election. Further, as noted in ASC 205-20-S99-3:

The SEC staff will expect registrants electing to allocate interest in accordance with paragraph 205-20-45-6 to clearly disclose the accounting policy (including the method of allocation) and the amount allocated to and included in discontinued operations for all periods presented.

5.3.4 Allocating Direct Expenses (but Not Indirect Expenses) to Discontinued Operations

**ASC 205-20**

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

An entity should only include in discontinued operations direct operating expenses incurred by the discontinued operation that (1) are clearly identifiable as costs of the component (or group of components) being disposed of and (2) the entity will not continue to recognize on an ongoing basis. Indirect expenses, such as allocated corporate overhead, should not be included in discontinued operations.
Example 5-4

Costs That Are Not Costs of the Component
A company allocates the salary costs of its executive committee to all of its divisions on the basis of total revenues. No executive has direct responsibility for the division being disposed of; however, two executives will be transferred with the division. The division meets the criteria for reporting in discontinued operations. Because the costs are not clearly related to the division, the company may not include the salaries of the transferred executives in discontinued operations.

5.3.5 Allocating the Cost of Shared Assets to Discontinued Operations
Certain assets may be shared by components that will be disposed of and components that will be retained. If an entity will retain the shared assets, the expenses related to the shared assets should not be allocated to the discontinued operation because the entity will continue to recognize such costs on an ongoing basis.

Example 5-5

Allocation of Part of an Asset’s Cost to Discontinued Operations
Company T, a public entity, currently reports three segments. In the current year, T implements a new computer system that is purchased centrally and implemented and tailored separately for each of the three segments. After implementing the computer system, T enters into an agreement to sell one of the segments. The disposition of the segment will be reported as a discontinued operation.

Because T is retaining the central computer system and is not including it in the disposal group, T may not allocate a portion of the overall costs incurred on the new computer system to the discontinued operation being disposed of. In addition, if T recognizes any impairment related to the central computer system, the impairment would not be included in discontinued operations.

5.3.6 Intercompany Sales Between an Entity and a Discontinued Operation
We believe that if an entity and its discontinued operation had intercompany purchases and sales that were eliminated in consolidation, it would be appropriate to gross up and recast those sales and expenses in continuing operations and discontinued operations if such sales or purchases will continue with the discontinued operation after the disposal.

Example 5-6

Presentation of Intercompany Sales Related to a Discontinued Operation
Company A is a paper manufacturing company and owns a distribution business, Company X, that buys paper from A and then sells the paper to outside customers. Company A has appropriately eliminated the intercompany sales between itself and X and therefore only recognizes the sales from X to customers. Company A is planning to sell X to another paper manufacturer and has concluded that X should be presented in discontinued operations in the second-quarter financial statements.

After the disposal, X will continue to purchase paper from A to sell to outside customers. Therefore, A will continue to have sales to X that will not be eliminated when X is no longer a related party.
Example 5-6 (continued)

The sales from A to X that have not been passed on to outside customers should be shown in A's continuing operations. For example, assume that A sells paper to X for $6 and makes a profit of $2 (i.e., cost of $4) and that X sells paper to outside customers for $7 (X's purchase price from N) and makes a profit of $1. In A's consolidated financial statements, the intercompany sales of $6 will be eliminated along with the $6 cost of sales, leaving a profit of $3. The $3 margin will be reflected as $2 in continuing operations (representing the sales from A to X) and $1 in discontinued operations (representing the sales from X to outside customers). After the disposal (if the facts are the same), when A sells paper to X, it will have the same $6 sale, $4 cost of sales, and $2 profit in its continuing operations (and will not have the additional $1 profit from sales to the outside customers).

Therefore, A would record sales from continuing operations of $6, cost of sales of $4, a profit of $2, and $1 of profit in discontinued operations.

5.3.7 Transition Services

When a component is sold or spun off, an entity often enters into agreements with the buyer or with the component to provide certain services to the component, usually for a specified period (e.g., one year). Such arrangements are often called “transition service arrangements.” The revenues and expenses associated with transition services provided to a discontinued operation after its disposal should be reported in continuing operations because such services are part of the entity's continuing activities. The entity should use judgment in determining the income statement line item in which to report the income and expenses. For example, revenues from transition services would generally be recognized as other income if the services are not part of the entity's recurring revenue-generating activities.

5.3.8 Changes in the Carrying Value of Assets Received as Consideration

In some transactions, an entity may receive noncash consideration in exchange for a discontinued operation. Question 1 from SAB Topic 5.Z.5 (codified in ASC 205-20-S99-2) states:

[The staff believes that changes in the carrying value of assets received as consideration in the disposal or of residual interests in the business should be classified within continuing operations. . . . Subsequent changes in the carrying value of assets received upon disposition of a component do not affect the determination of gain or loss at the disposal date, but represent the consequences of management's subsequent decisions to hold or sell those assets. Gains and losses, dividend and interest income, and portfolio management expenses associated with assets received as consideration for discontinued operations should be reported within continuing operations.

5.3.9 Income Taxes

See Deloitte's A Roadmap to Accounting for Income Taxes for more information regarding income tax related to discontinued operations.
Chapter 6 — Disclosures for Discontinued Operations

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).

Under ASC 205-20, certain disclosures are required for all disposals that qualify as a discontinued operation; however, the disclosure requirements for disposals of an equity method investment or a business or nonprofit activity classified as held for sale on acquisition are more limited. See Chapter 7 for information about disclosures related to individually significant disposals that do not meet the discontinued-operations reporting criteria.

See Sections 6.6 and 7.5 for flowcharts that provide an overview of the disclosures required for discontinued operations and for the disposal of an asset or component of an entity that does not meet the discontinued-operations reporting criteria.

6.1 Disclosures That Apply to All Discontinued Operations

The disclosures in ASC 205-20-50-1 below are required in periods in which a discontinued operation is classified as held for sale or has been otherwise disposed of, including disposals of equity method investments and newly acquired businesses or nonprofit activities classified as held for sale at acquisition.
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.

6.2 Other Required Disclosures

The disclosures in ASC 205-20-50-3 through 50-4B concern changes to a plan of sale, adjustments to amounts previously reported, and continuing involvement (see Section 4.3). These disclosures must be provided for all discontinued operations to which these events or circumstances apply.

6.2.1 Changes 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.

As described in ASC 205-20-45-1F, an entity may change its plan and decide not to sell a component that was classified as held for sale and presented in discontinued operations. In the period in which the discontinued operation no longer meets the held-for-sale criteria, the assets and liabilities of the discontinued operation should be reclassified as held and used and the operations should be reclassified to continuing operations for all periods presented. An entity must also provide the above disclosures in accordance with ASC 205-20-50-3. See Section 3.6 for a discussion of the accounting for changes to a plan to sell.

6.2.2 Adjustments to Amounts Previously Reported

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).

ASC 205-20-45-4 states that “[a]djustments 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.”
Chapter 6 — Disclosures for Discontinued Operations

ASC 205-20-50-3A requires disclosure of the nature and amount of such adjustments. See Section 5.3.2 for presentation requirements and examples of adjustments to amounts previously reported.

6.2.3 Disclosures About Continuing Involvement, Including Retained Equity Method Investments

**ASC 205-20**

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

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.

As described in ASC 205-20-50-4A above, an entity must disclose “information about its significant continuing involvement with a discontinued operation after the disposal date.” See Section 4.3 for examples of significant continuing involvement. Because ASC 205-20 does not provide guidance on what level of continuing involvement would be considered “significant” with respect to these disclosure requirements, an entity will need to use judgment.
6.3 Disclosures for a Discontinued Operation That Was Not an Equity Method Investment Before Its Disposal

### ASC 205-20

**50-5A** Paragraphs 205-20-50-5B through 50-5D provide disclosures required for discontinued operations that meet the criteria in paragraphs 205-20-45-1B through 45-1C except for a discontinued operation that was an equity method investment before the disposal. For disclosures required for discontinued operations that were equity method investments before the disposal, see paragraph 205-20-50-7.

Entities that dispose of a component that qualifies as a discontinued operation, other than a discontinued operation that was an equity method investment before the disposal, must disclose the information required by ASC 205-20-50-5B through 50-5D to the extent that such information is not presented on the face of its financial statements. See Section 6.4 for the disclosure requirements for an equity method investment that qualifies as a discontinued operation.

### ASC 205-20

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

a. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

b. The major classes of line items constituting the pretax profit or loss (or change in net assets for a not-for-profit entity) of the discontinued operation (for example, revenue, cost of sales, depreciation and amortization, and interest expense) for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

c. Either of the following:

1. The total operating and investing cash flows of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity)

2. The depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

d. If the discontinued operation includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

e. The carrying amount(s) of the major classes of assets and liabilities included as part of a discontinued operation classified as held for sale for the period in which the discontinued operation is classified as held for sale and all prior periods presented in the statement of financial position. Any loss recognized on the discontinued operation classified as held for sale in accordance with paragraphs 205-20-45-3B through 45-3C shall not be allocated to the major classes of assets and liabilities of the discontinued operation.
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).

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.

6.3.1 Balance Sheet Disclosures for a Discontinued Operation That Was Not an Equity Method Investment Before Its Disposal

In the period in which the discontinued-operations presentation criteria are met and for all comparative periods, the entity must provide detailed information about the major classes of assets and liabilities of the discontinued operation. If the entity does not present the discontinued operation's major classes of assets and liabilities on the face of the balance sheet in accordance with ASC 205-20-45-10 (see Section 5.1), the entity must disclose such information in the notes in accordance with ASC 205-20-50-5B(e).

ASC 205-20-50-5C(a) also requires that the entity provide a reconciliation of the amounts disclosed in ASC 205-20-50-5B(e) to the amounts in the balance sheet. If the disposal group includes assets or liabilities that are not part of the discontinued operation, those assets should be separately presented in the reconciliation. ASC 205-20-50-5D allows entities to aggregate amounts that are not major into a single line item. ASC 205-20 does not provide any guidance on what constitutes “major” in this context. Accordingly, entities will need to use judgment.
The implementation guidance in ASC 205-20-55-102 illustrates the disclosure requirement in ASC 205-20-50-5C(a):

<table>
<thead>
<tr>
<th>ASC 205-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>55-102 The table in this illustration provides one example of how to disclose the reconciliation required by paragraph 205-20-50-5C(a).</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amounts of major classes of assets included as part of discontinued operations</td>
<td>20X4</td>
</tr>
<tr>
<td>Cash</td>
<td>$ XX</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>XX</td>
</tr>
<tr>
<td>Inventories</td>
<td>XX</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>XX</td>
</tr>
<tr>
<td>Other classes of assets that are not major</td>
<td>XX</td>
</tr>
<tr>
<td>Total major classes of assets of the discontinued operations</td>
<td>XX</td>
</tr>
<tr>
<td>Other assets included in the disposal group classified as held for sale</td>
<td>XX</td>
</tr>
<tr>
<td>Total assets of the disposal group classified as held for sale in the statement of financial position</td>
<td>$ XX</td>
</tr>
</tbody>
</table>

| Carrying amounts of major classes of liabilities included as part of discontinued operations | 20X4 | 20X3 |
| 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 |
Example 6-1

Illustration of the Disclosure Requirements in ASC 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 the Financial Statements to Total Assets and Liabilities of the Disposal Group Classified as Held for Sale That Are Presented Separately in the Balance Sheet |
|--------------------------------------------------|------------------|
| As of December 31, 20X8 | As of December 31, 20X7 |
| Carrying amounts of the major classes of assets included in discontinued operations: | |
| Receivables | $ 20,000 | $ 25,000 |
| Inventories | 25,000 | 25,000 |
| Deferred income taxes | 5,000 | 6,000 |
| Prepaid expenses and other | 20,000 | 24,000 |
| Total current assets* | 80,000 | |
| Property, plant, and equipment | 100,000 | 85,000 |
| Deferred income taxes | 10,000 | 12,000 |
| Goodwill | 25,000 | 25,000 |
| Intangible assets | 10,000 | 16,000 |
| Other noncurrent assets | 5,000 | 10,000 |
| Total noncurrent assets* | | 148,000 |
| Total assets of the disposal group classified as held for sale | $ 220,000 | $ 228,000 |

Carrying amounts of the major classes of liabilities included in discontinued operations:

|Accounts payable | $ 20,000 | $ 12,000 |
|Accrued liabilities | 35,000 | 30,000 |
|Total current liabilities* | | 42,000 |
|Other liabilities | 15,000 | 12,000 |
|Total noncurrent liabilities* | | 12,000 |
|Total liabilities of the disposal group classified as held for sale | $ 70,000 | $ 54,000 |

* The assets and liabilities of the disposal group classified as held for sale are classified as current on the December 31, 20X8, balance sheet because it is probable that the sale will occur and proceeds will be collected within one year.

6.3.2 Income Statement Disclosures for a Discontinued Operation That Was Not an Equity Method Investment Before Its Disposal

In the period in which a component meets the criteria for presentation as a discontinued operation and for all comparative periods, the entity must provide detailed information about the discontinued operation’s pretax profit or loss in accordance with ASC 205-20-50-5B(a) and the major classes of line items constituting pretax profit or loss, including any noncontrolling interest, in accordance with ASC 205-20-50-5B(b) and (d).
ASC 205-20-50-5C(b) also requires that the entity provide a reconciliation of the amounts disclosed in ASC 205-20-50-5B(a) and (b) to the amounts on the face of the income statement. ASC 205-20-50-5D allows entities to aggregate amounts that are not major into a single line item. Again, ASC 205-20 does not provide any guidance on what constitutes “major” with respect to this disclosure requirement, so entities will need to use judgment.

The implementation guidance in ASC 205-20-55-103 illustrates the disclosure requirement in ASC 205-20-50-5C(b):

<table>
<thead>
<tr>
<th>ASC 205-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>55-103 The table in this illustration provides one example of how to disclose the reconciliation required by paragraph 205-20-50-5C(b).</td>
</tr>
</tbody>
</table>

**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**

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major classes of line items constituting pretax profit (loss) of discontinued operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Selling, general, and administrative expenses</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Other income and expense items that are not major</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Pretax profit or loss of discontinued operations related to major classes of pretax profit (loss)</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Pretax gain or loss on the disposal of the discontinued operation</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Total pretax gain or loss on discontinued operations</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Income tax expense or benefit</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Total profit or loss on discontinued operations that is presented in the statement where net income is presented</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
</tbody>
</table>
The following illustration is a continuation of Examples 5-1 and 5-2 and demonstrates how an entity might disclose the reconciliations required by ASC 205-20-50-5C(b).

**Example 6-2**

**Illustration of the Disclosure Requirements in ASC 205-20-50-5C(b)**

<table>
<thead>
<tr>
<th>Reconciliation of the Major Line Items Constituting Pretax Profit (Loss) of Discontinued Operations That Are Disclosed in the Notes to Financial Statements to the After-Tax Profit or (Loss) of Discontinued Operations That Are Presented in the Income Statement</th>
<th>December 31, 20X8</th>
<th>December 31, 20X7</th>
<th>December 31, 20X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major line items constituting pretax loss from discontinued operations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>$ 200,000</td>
<td>$ 220,000</td>
<td>$ 240,000</td>
</tr>
<tr>
<td>Costs of sales</td>
<td>(150,000)</td>
<td>(165,000)</td>
<td>(175,000)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>50,000</td>
<td>55,000</td>
<td>65,000</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(62,000)</td>
<td>(65,000)</td>
<td>(70,000)</td>
</tr>
<tr>
<td>Operating income</td>
<td>(12,000)</td>
<td>(10,000)</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Other income (loss)</td>
<td>(8,000)</td>
<td>(3,000)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Total pretax loss from discontinued operations</td>
<td>(20,000)</td>
<td>(13,000)</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Loss from classification to held for sale</td>
<td>(4,000)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>8,500</td>
<td>4,550</td>
<td>5,250</td>
</tr>
<tr>
<td>Total loss from discontinued operations</td>
<td>$(15,500)</td>
<td>$(8,450)</td>
<td>$(9,750)</td>
</tr>
</tbody>
</table>

### 6.3.3 Cash Flow Disclosures for a Discontinued Operation That Was Not an Equity Method Investment Before Its Disposal

**ASC 205-20**

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

   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).

See Deloitte’s *A Roadmap to the Preparation of the Statement of Cash Flows* for more information.
6.4 Disclosures for a Discontinued Operation That Was an Equity Method Investment Before Its Disposal

**ASC 205-20**

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

ASC 323-10-50-3(c) requires an entity to disclose summarized information about assets, liabilities, and results of operations “in the notes or in separate statements, either individually or in groups, as appropriate,” if the equity method investments “are, in the aggregate, material in relation to the financial position or results of operations of an investor.” The Board concluded that if such information was disclosed or provided in periods before the disposal, the same information should be disclosed in the period of the disposal and for all periods presented until the discontinued-operations presentation is no longer included in the financial statements. Such disclosure could enable financial statement users to understand the impact of the disposal on the entity.

6.5 Disclosures for a Business or a Nonprofit Activity Classified as Held for Sale Upon Acquisition

ASC 205-20 requires more limited disclosures for a business or nonprofit activity that is classified as held for sale on acquisition. Specifically, an entity must provide the disclosures required by (1) ASC 205-20-50-1, (2) ASC 205-20-50-3 if there is a change to the plan of sale, (3) ASC 205-20-50-3A if there are any adjustments to amounts previously reported, and (4) ASC 205-20-50-4A and 50-4B if the entity will have any significant continuing involvement with the business or nonprofit activity. The entity would not be required to provide the disclosures in ASC 205-20-50-5A through 50-7.
6.6 Flowchart of the Required Disclosures for Discontinued Operations

ASC 205-20

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

Required Disclosures for a Discontinued Operation

Does the entity have a discontinued operation under the criteria in paragraphs 202-20-45-1A through 45-1D?

Yes

Disclose the following 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 (see paragraph 205-20-50-1):

a. A description of both the facts and circumstances leading to the disposal or expected disposal and 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.

d. If applicable, the segment(s) in which the discontinued operation is reported under Topic 280 on segment reporting.

No

Not a discontinued operation. See the flowchart in paragraph 360-10-55-18A for the required disclosures for the impairment or disposal of a long-lived asset.

Did the entity change its plan of sale as addressed in paragraph 360-10-35-44 or 360-10-35-45?

No

In the period in which the decision is made to change the plan for selling the discontinued operation, 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 (see paragraph 205-20-50-3).

Yes

Did the entity have any adjustments to amounts previously reported in discontinued operations?

No

Did the entity have continuing involvement?

Yes

Disclose 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. See paragraph 205-20-45-4 for examples of circumstances in which those types of adjustments may arise (see paragraph 205-20-4-50-3A).

No

A

B
ASC 205-20 (continued)

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):

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.

Which criterion does the discontinued operation meet?

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 operations is no longer reported separately in discontinued operations:

1. Which criterion does the discontinued operation meet?
Chapter 6 — Disclosures for Discontinued Operations

**ASC 205-20 (continued)**

Was the discontinued operation an equity method investment before the disposal?

- **Yes**
  - 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).

- **No**
  - 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 discounted 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.

Disclosures are complete for a discontinued operation that is a business or nonprofit activity held for sale at acquisition.
Did the entity provide the disclosures required by paragraph 205-20-50-5B(a), (b), and (e)?

Disclose the following (may aggregate the amounts that are not considered major and present them as one line item in the reconciliation) (see paragraphs 205-20-50-5C through 50-5D):

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:

1. The amounts required to be 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, present those assets and liabilities in line items in the reconciliations that are separate from the assets and liabilities of the discontinued operation.

For the periods in which the results of operations of the discontinued operation are reported in the statement where net income is reported (or statement of activities), a reconciliation of both:

1. The amounts required to be 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).
6.7 Restatement of Prior Periods Because of the Disposal of Part of an Operating Segment

**ASC 280-10**

55-7 If a reportable segment meets the conditions in paragraphs 205-20-45-1A through 45-1G to be reported in discontinued operations, an entity is not required to also disclose the information required by this Subtopic. Paragraph 280-10-55-19 addresses whether there is a need to restate previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.

55-19 Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be restated. However, if the income statement and balance sheet information for the discontinued component have been reclassified in comparative financial statements, the segment information for the discontinued component need not be provided for those years. Paragraph 280-10-55-7 addresses disclosure requirements if a component of a public entity that is reported as a discontinued operation is a reportable segment.

ASC 280-10-55-7 notes that when the discontinued operation is a reportable segment, an entity is not required to separately disclose information for the discontinued operation within the segment footnote. However, if the discontinued operation is only a component of a reportable segment, the entity should not include the discontinued operation in the disclosures for the reportable segment but should restate prior periods, beginning in the period in which the component is presented as a discontinued operation.

We believe that the failure of a disposal to meet the criteria to be presented as a discontinued operation would not be considered a change in an entity's internal organization that causes the composition of its reportable segments to change. Accordingly, prior periods would not need to be restated.

**Example 6-3**

Company A has identified the following reportable segments: computer hardware, computer software, and customer service. Before year-end, A disposed of a portion of its computer hardware segment, and the disposal does not meet the criteria to be presented as a discontinued operation.

In preparing the current-year segment disclosures, A is not required to restate prior-period segment information to remove the portion of the computer hardware segment disposed of before year-end or to quantify the effect in the segment footnote.
Chapter 7 — Presentation and Disclosure Requirements for Disposals That Are Not Reported as Discontinued Operations

The guidance in this chapter applies to disposals of long-lived assets or disposal groups within the scope of ASC 360-10 that do not qualify for presentation as discontinued operations.

7.1 Balance Sheet Presentation for Assets (Disposal Groups) Classified as Held for Sale That Are Not Discontinued Operations

For long-lived assets or disposal groups that are classified as held for sale but that do not meet the criteria for discontinued-operations reporting, ASC 360-10-45-14 requires that the assets and liabilities of the disposal group be separately presented on the face of the balance sheet only in the initial period in which it is classified as held for sale. The entity should not reclassify prior-period balance sheets. As a result, if a disposal group is sold in the same period in which it is classified as held for sale, the assets and liabilities would not be separately presented in the balance sheet.

In the period in which long-lived assets or disposal groups that do not qualify as discontinued operations are classified as held for sale, their major classes of assets and liabilities must be either (1) presented on the face of the balance sheet in accordance with ASC 360-10-45-14 or (2) disclosed in the notes in accordance with ASC 360-10-50-3(e).

ASC 360-10 does not address whether entities should separately present the assets and liabilities of a disposal group classified as held for sale as current and noncurrent. Accordingly, we believe that it is acceptable to present these assets and liabilities as current in the current-period balance sheet if it is probable that the sale will occur and consideration will be collected within one year.

7.2 Income Statement Presentation for Disposals That Are Not Discontinued Operations

As noted above, ASC 360-10-45-5 requires that entities present gains or losses recognized from a sale of a long-lived asset (disposal group) that does not qualify as a discontinued operation “in income from operations” before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

As noted above, ASC 360-10-45-5 requires that entities present gains or losses recognized from a sale of a long-lived asset (disposal group) that does not qualify as a discontinued operation “in income from continuing operations before income taxes in the income statement.” If, instead of income before income taxes, an entity presents a similar subtotal, such as income from operations or operating income, it should include such gains or losses.
Diversity in practice has been observed with regard to the presentation of gains or losses from the sale of disposal groups that meet the definition of a business in ASC 805-10. That is, some entities have presented such gains or losses in nonoperating income rather than as a component of income from operations when they present a subtotal such as income from operations or operating income. Entities should consider their specific facts and circumstances in deciding whether presentation in nonoperating income is appropriate and should ensure that the presentation is applied consistently.

7.2.1 Income Statement Presentation for Real Estate Investment Trusts

As part of its disclosure update and simplification technical release (DUSTR), the SEC issued a final rule in August 2018 to amend certain of its disclosure requirements “that have become redundant, duplicative, overlapping, outdated, or superseded, in light of other Commission disclosure requirements, [U.S. GAAP], or changes in the information environment.” The final rule deleted SEC Regulation S-X, Rule 3-15(a)(1), which prescribed guidance on the presentation of gains and losses related to the sale of properties by REITs, since Rule 3-15(a)(1) conflicted with U.S. GAAP.

Before the issuance of DUSTR, Rule 3-15(a)(1) required REITs to “present separately all gains and losses on the sale of properties outside of continuing operations in the income statement.” In contrast, ASC 360-10-45-5 states that gains or losses recognized on sales of long-lived assets that are not reported in discontinued operations should be included in “income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.” As indicated in the highlights of the June 25, 2014, CAQ SEC Regulations Committee joint meeting with the SEC staff, the staff had stated that it would not object to presentations that complied with either Rule 3-15(a)(1) or ASC 360-10, provided that the presentation was transparent and adequately disclosed.

However, because of the elimination of Rule 3-15(a)(1), REITs now must comply with the requirements of ASC 360-10-45-5 after November 5, 2018 (i.e., the effective date of DUSTR). While entities are not required by U.S. GAAP or SEC regulations to present income from continuing operations before income taxes or a similar subtotal such as operating income, if a REIT does present such a subtotal, it should include gains or losses on the sale of properties that do not qualify as discontinued operations. See Section 7.2 and Deloitte’s August 28, 2018, Heads Up for more information.

7.3 Disclosures for Disposals That Are Not Discontinued Operations

Because fewer dispositions qualify for discontinued-operations presentation under ASU 2014-08, the Board decided to amend ASC 360-10 and expand the disclosure requirements for disposals that do not qualify for discontinued-operations presentation. For such components, ASC 360-10-50-3 requires the following disclosures only in the period in which the component is classified as held for sale or disposed of.
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.

7.4 Disclosures for Individually Significant Assets (Disposal Groups) That Are Not Discontinued Operations

ASU 2014-08 also amended ASC 360-10 to add the following disclosure requirements related to pretax profit or loss for individually significant components that either have been disposed of or are classified as held for sale but that do not qualify for discontinued-operations presentation. If an individually significant component includes a noncontrolling interest, the pretax profit or loss attributable to the parent must also be disclosed.

The term individually significant is not defined. For instance, it is unclear how an entity should determine whether a disposal is major, individually significant, or not significant. As with their assessment of “strategic shift” and “major,” entities will need to use judgment and should consider both quantitative and qualitative factors related to the effect of the disposal on their balance sheets, income statements, and statements of cash flows.
#### 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.
7.5 Flowchart Illustrating the Required Disclosures for Assets (Disposal Groups) That Are Not Discontinued Operations

ASC 360-10

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

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

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), disclose all of the following in the notes to financial statements (see paragraph 360-10-50-3):

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

Does the disposal meet the criteria in paragraphs 205-20-45-1A through 45-1C?

Yes

Disposal qualifies as a discontinued operation. See the flowchart in paragraph 205-20-55-82 for the required disclosures for a discontinued operation.

No

Does the long-lived asset include an individually significant component of an entity that either has been disposed of or is classified as held for sale?

Yes

Is the entity a public business entity or 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?

Yes

C

No

Is the entity a public business entity or 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?

Yes

No

A

B
Chapter 7 — Presentation and Disclosure Requirements for Disposals That Are Not Reported as Discontinued Operations

ASC 360-10 (continued)

A

Disclosures are complete

B

Disclose both of the following in the notes to financial statements (see paragraph 360-10-50-3A(a)):

1. Pretax profit or loss (or change in net assets) 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) attributable to the parent 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.

C

Disclose both of the following in the notes to financial statements (see paragraph 360-10-50-3A(b)):

1. Pretax profit or loss (or change in net assets) 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) attributable to the parent for the period in which it is disposed of or is classified as held for sale.
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As noted in Chapter 5, in the period in which a component meets the criteria in ASC 205-20 for presentation as a discontinued operation, a registrant must present the component as a discontinued operation retrospectively for all prior periods presented. Accordingly, SEC registrants must consider the impact of the retrospective change on the historical financial statements included in their Exchange Act reports (e.g., Forms 10-K and 10-Q) and in registration statements under the Securities Act (e.g., registration statements on Form S-3) and other nonpublic offerings. Registrants may also be required to report a disposition, including certain disposals that do not qualify as discontinued operations, on a Form 8-K and provide pro forma financial information that gives effect to the disposition. Further, registrants must consider the impact the revised financial statements may have on other SEC requirements (e.g., SEC Regulation S-X, Rules 3-05, 3-09, 4-08(g), and 3-10). In addition, registrants undertaking an initial public offering may be able to consider using a “to-be issued” accountant’s report in certain circumstances.

8.1 Financial Statements and Other Affected Financial Information in Exchange Act Reports

When a component meets the criteria in ASC 205-20 for presentation as a discontinued operation, the component’s results of operations must be retrospectively reclassified to discontinued operations in the current period and all prior periods presented when it first reports the discontinued operation. In addition, other affected financial information for prior periods (e.g., MD&A, selected financial data, and selected quarterly financial data) should also be updated to reflect the retrospective adjustments. Because registrants must disclose selected financial data for each of their last five fiscal years, they must also retrospectively revise this information for the annual periods presented before those included in the annual audited financial statements — generally years 4 and 5. Selected financial data for years 4 and 5 may be derived from unaudited financial statements.

If a discontinued operation is first reported in interim financial statements in a Form 10-Q, a registrant is not immediately required to retrospectively adjust the annual financial statements presented in the most recent Form 10-K (annual pre-event financial statements) to reflect the discontinued operation. A registrant is generally not required to adjust the annual pre-event financial statements to reflect the discontinued operation until they are comparatively presented with the annual financial statements that report the discontinued operation (generally in the registrant’s next Form 10-K). However, see Section 8.2 for circumstances in which this requirement may be accelerated.

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1 When either a subsidiary is deconsolidated or a group of assets is derecognized, SEC registrants may be required to report the deconsolidation or derecognition on a Form 8-K and provide pro forma financial information that gives effect to the deconsolidation or derecognition. For more information, see Section F.4 of Deloitte’s A Roadmap to Consolidation — Identifying a Controlling Financial Interest.

2 See Section 9830 of the SEC’s Financial Reporting Manual (FRM) for guidance on MD&A in registration statements.

3 See Section 4420 of the FRM and Regulation S-K, Item 302.
Example 8-1

**Form 10-Q That First Reports a Component as a Discontinued Operation**

Company A, an SEC registrant, determines that it has met the requirements for presenting Component B as a discontinued operation on March 1, 20X6. When A files its Form 10-Q for the quarter ended March 31, 20X6, it must retrospectively reclassify B's results as a discontinued operation for the comparative interim period ended March 31, 20X5. Company A must also update MD&A for the interim period ended March 31, 20X5, to reflect the retrospective adjustments. However, there is no immediate requirement for A to retrospectively reclassify B's results as a discontinued operation for the annual financial statements presented in its Form 10-K for the year ended December 31, 20X5.

### 8.2 Registration Statements and Other Nonpublic Offerings

The requirement to retrospectively revise the annual pre-event financial statements and other affected financial information may be accelerated when the pre-event financial statements are reissued, as discussed in ASC 855-10-25-4 (see Form S-3, Item 11(b)(ii)). Such reissuance may occur when a registrant (1) files a new or amended registration statement, (2) files a Form S-8, (3) issues a prospectus supplement to a currently effective registration statement (e.g., an existing Form S-3 that already is effective but upon which the registrant wishes to draw down or issue securities), or (4) issues securities in a nonpublic offering. The discussion below addresses these requirements in the context of a discontinued operation. A registrant may need to similarly consider other retrospective changes, such as changes in segment presentation under ASC 280 and certain accounting changes resulting from the adoption of a newly issued standard.

#### 8.2.1 New Registration Statements (Other Than Form S-8)

If a registrant files a new or amended registration statement before it files the Form 10-Q that first reports a discontinued operation, the registrant is not required (or permitted) to file updated financial statements for prior periods to reflect the discontinued operation. However, the registrant should consult with its legal counsel and independent accountants regarding the appropriate disclosure to provide in the registration statement, including the pro forma considerations discussed in Section 8.4.

If a registrant files a new or amended registration statement after it files the Form 10-Q that first reports a discontinued operation, the registrant generally is required to file updated financial statements that reflect the discontinued operation for all periods presented. In addition, other affected financial information (e.g., MD&A, selected financial data, and selected quarterly financial data) also should be updated to reflect the retrospective adjustments. For new or amended registration statements that normally incorporate the financial statements by reference (e.g., Form S-3), the registrant may file updated financial statements as well as other affected financial information that reflects the retrospective adjustments on Form 8-K; alternatively, the registrant can include the retrospectively adjusted financial statements and related information in its registration statement. If the adjusted information is filed on Form 8-K, the Form 8-K will be incorporated by reference into the registration statement and will update the affected sections of the registrant's previously filed Exchange Act reports (e.g., Form 10-K or Form 10-Q). Because they were not incorrect when filed, prior Exchange Act reports should not be amended (i.e., the registrant should not file a Form 10-K/A or Form 10-Q/A). For more information, see Topic 13 of the FRM.

To prepare itself for a potential registration statement, a registrant is permitted to file updated financial statements and other affected financial information that reflect the retrospective adjustments in a Form 8-K. SEC registrants that file a proxy statement with the SEC should also refer to this guidance. For a Schedule TO (used to file tender offers), see paragraph 14310.3 of the FRM.

See the highlights of the June 23, 2009, CAQ SEC Regulations Committee joint meeting with the SEC staff.
8-K once the discontinued operation has been reported in a Form 10-Q. However, the registrant is not required to do so until immediately before a registration statement is filed. If the registrant expects to file a new registration statement, it may file the Form 8-K simultaneously with or any time after it files the Form 10-Q that reports the discontinued operation but before or simultaneously with the filing of the new registration statement.

Example 8-2

Registration Statement After Presentation of a Component as a Discontinued Operation

**Facts**

Company A, an SEC registrant, files its Form 10-K for the year ended December 31, 20X5, on February 28, 20X6. On June 1, 20X6, A determines that it has met the requirements for presenting Component B as a discontinued operation. Company A files its Form 10-Q for the quarter ended June 30, 20X6, on July 28, 20X6, and presents B as a discontinued operation for the interim periods presented.

**Example 1**

Company A files a new registration statement on September 15, 20X6. Company A must either (1) include financial statements and other affected financial information that present B as a discontinued operation for all periods presented in A’s December 31, 20X5, Form 10-K or (2) incorporate by reference a previously filed Form 8-K that contains financial statements and other affected financial information that present B as a discontinued operation for all periods presented in A’s December 31, 20X5, Form 10-K.

**Example 2**

Company A files a new registration statement on July 10, 20X6, instead of September 15, 20X6, before it files the Form 10-Q reporting B as a discontinued operation. Company A is not required (or permitted⁶) to (1) include in its registration statement updated financial statements that present B as a discontinued operation or (2) incorporate by reference a Form 8-K containing updated financial statements and other affected financial information that present B as a discontinued operation. However, A should consult with its legal counsel and independent accountants regarding the appropriate disclosure to provide in the new registration statement, including the pro forma considerations discussed in Section 8.4.

⁶ See footnote 5.
8.2.2 Form S-8

The requirements for a Form S-8 are addressed in Question 126.40 of the SEC staff's C&DIs on Securities Act Forms:

C&DIs — Securities Act Forms

| Question: | After its Form 10-K is filed, a registrant has a change in accounting principles (or changes in segment presentation or discontinued operations), which will cause the financial presentation in its subsequent Form 10-Qs to differ from that in its most recent Form 10-K. In this situation, Item 11(b)(ii) of Form S-3 would require the annual audited financial statements filed in the Form 10-K to be restated to reflect the change in accounting principles (or changes in segment presentation or discontinued operations). Would General Instruction G.2 of Form S-8, which requires that “material changes in the registrant's affairs” be disclosed in the registration statement, also require such restatement? |
| Answer: | Not necessarily. Form S-8 does not contain express language similar to Item 11(b)(ii) of Form S-3, requiring the restatement of financial statements to reflect specified events. The fact that financial statements eventually will be retroactively restated does not necessarily mean that there are “material changes in the registrant’s affairs,” thereby requiring the financial statements to be restated for inclusion, or incorporation by reference, in a Form S-8. In other words, financial statements for which Item 11(b)(ii) of Form S-3 would require restatement may not necessarily need to be restated for incorporation by reference in a Form S-8. The registrant is responsible for determining if there has been a material change and, if so, the related information that is required to be disclosed in a Form S-8. Correspondingly, it is the auditor’s responsibility to determine if it will issue a consent to use of its report in a Form S-8 if there has been a change in the financial statements in a subsequent Form 10-Q and the financial statements in the Form 10-K have not been retroactively restated. |

Accordingly, a registrant is generally not required to update its previously issued financial statements to reflect a discontinued operation unless it constitutes a “material change in the registrant’s affairs.”

8.2.3 Prospectus Supplements to Registration Statements That Currently Are Effective

For currently effective registration statements (e.g., an existing Form S-3) upon which a registrant wishes to draw down or issue securities, the registrant may use a prospectus supplement. Paragraph 13110.2 of the FRM indicates that “a prospectus supplement used to update a delayed or continuous offering registered on Form S-3 (e.g., a shelf takedown) is not subject to the Item 11(b)(ii) updating requirements.” Rather, the prospectus must be updated “in accordance with S-K 512(a) with respect to any fundamental change.”

The issuance of a prospectus supplement does not constitute a reissuance of the financial statements included or incorporated in the effective registration statement. Management, in consultation with legal counsel, should determine whether the retrospective presentation of a discontinued operation constitutes a fundamental change. (For more information, see SEC Regulation S-K, Item 512(a).) If the registrant and its legal counsel determine that the retrospective adjustment to present a discontinued operation is a fundamental change, updated financial statements and other affected financial information should be filed on Form 8-K or included in the registration statement, as described above. If the registrant and its legal counsel determine that the retrospective adjustment for a discontinued operation is not a fundamental change, the financial statements do not need to be updated, but the registrant should consult with its legal counsel and independent accountants regarding the appropriate disclosure to provide in the prospectus supplement. In addition, all post-effective amendments are considered “new filings” and are subject to the guidance discussed above in Section 8.2.1.
8.2.4 Nonpublic Offerings

Financial statements subject to retrospective changes may also be included in or incorporated into a nonpublic offering, such as a private placement pursuant to SEC Regulation D or Rule 144A of the Securities Act. We believe that the inclusion of the financial statements in the nonpublic offering constitutes a reissuance (as discussed in ASC 855-10-25-4) and that entities are therefore typically required under U.S. GAAP to update the financial statements for prior periods to reflect the discontinued operation. Accordingly, the considerations related to updating the financial statements for a discontinued operation would be similar to those discussed in Section 8.2.1. We believe that when the financial statements are incorporated by reference into a nonpublic offering, the considerations related to updating the financial statements for the retrospective change would be the same as those for prospectus supplements to registration statements that are currently effective, discussed above in Section 8.2.3.

8.3 Form 8-K Reporting Obligations

SEC registrants are required to periodically file current reports on Form 8-K to inform investors of certain events. Form 8-K, Item 2.01, requires a registrant to file a Form 8-K within four business days after a consummated\(^7\) disposition of (1) a significant amount of assets or (2) a business that is significant. In accordance with Instruction 2 of Item 2.01 of Form 8-K, “[t]he term disposition includes every sale, disposition by lease, exchange, merger, consolidation, mortgage, assignment or hypothecation of assets, whether for the benefit of creditors or otherwise, abandonment, destruction, or other disposition.” In addition, registrants must also consider the Form 8-K reporting obligations when a registrant contributes assets or a business in exchange for an equity interest in a joint venture. (For more information, see Sections 1.10.1 and 1.10.3 of Deloitte’s A Roadmap to SEC Reporting Considerations for Business Combinations.) Further, when either a subsidiary is deconsolidated or a group of assets is derecognized, SEC registrants may be required to report the deconsolidation or derecognition on a Form 8-K and provide pro forma financial information that gives effect to the deconsolidation or derecognition. (For more information, see paragraph 2110.1 of the FRM and Section F.4 of Deloitte’s A Roadmap to Consolidation — Identifying a Controlling Financial Interest).

The nature of the registrant’s disclosures depends on whether the disposed operations (1) represent a business for SEC reporting purposes or (2) are significant. The definition of a business in SEC Regulation S-X, Rule 11-01(d), for SEC reporting purposes differs from the definition of a business in ASC 805-10 for U.S. GAAP accounting purposes. Accordingly, the registrant must first perform an evaluation under Rule 11-01(d), to determine its SEC reporting requirement. For more information about the definition of a business for SEC reporting purposes, see Section C.5.2 of Deloitte’s A Roadmap to Accounting for Business Combinations.

Form 8-K, Item 2.01, Instruction 4, states, in part:

An acquisition or disposition shall be deemed to involve a significant amount of assets:

(i) if the registrant’s and its other subsidiaries’ equity in the net book value of such assets or the amount paid or received for the assets upon such acquisition or disposition exceeded 10% of the total assets of the registrant and its consolidated subsidiaries; or

(ii) if it involved a business (see 17 CFR 210.11-01(d)) that is significant (see 17 CFR 210.11-01(b)).

\(^7\) A Form 8-K may also be required by Item 1.01 when a registrant has entered into a material definitive agreement for a disposition (e.g., when it executes a contract to dispose of the assets) or business. An Item 1.01 Form 8-K is generally filed earlier than the Item 2.01 Form 8-K, which a registrant is not required to file until the disposition is consummated. Since Item 2.01 triggers a requirement to provide financial statements in accordance with Item 9.01 (typically pro forma financial statements for a disposition), such financial statements are not required in an Item 1.01 Form 8-K. Registrants may wish to consult with their legal advisers regarding these requirements.
If the disposed operations do not meet the definition of a business for SEC reporting purposes, the disposal should be regarded as an asset disposition and reported under Form 8-K, Item 2.01, if it exceeds the 10 percent threshold specified in the two significance tests in Instruction 4. These tests are similar to the asset and investment tests in SEC Regulation S-X, Rule 1-02(w).

If the disposed operations meet the definition of a business for SEC reporting purposes, the disposal should be regarded as a business disposition, if significant.

With respect to condition (ii), the disposition of a business is significant if any of the results of the three significance tests in SEC Regulation S-X, Rule 1-02(w) (i.e., the asset, income, or investment test), exceed 10 percent. Generally, the most recent annual financial statements before the disposition of both the registrant and the business being disposed of should be used for the significance tests. See paragraph 2130.3 of the FRM for more information. Registrants are not required to provide the historical financial statements of the disposed business in the Form 8-K. For additional guidance on dispositions of a business, see Section 2100 of the FRM.

In addition to the requirement to disclose — under Form 8-K, Item 2.01 — the date of the completion of the transaction, a description of the assets involved, and the identification and nature of the relationship of the person(s) to whom the assets were sold, Form 8-K, Item 9.01, requires registrants to provide, in accordance with SEC Regulation S-X, Article 11, pro forma financial information that reflects a significant asset disposition or business disposition (see Section 8.4). The Form 8-K, including the pro forma financial information, must be filed within four business days after the consummation of the disposition. The 71-day extension in Item 9.01 that is available for acquisitions is not available for a disposition, as indicated in Question 129.01 of the SEC staff's C&DIs on Exchange Act Form 8-K:

**Question:** Is the automatic 71-day extension of time in Item 9.01 of Form 8-K available with respect to dispositions?

**Answer:** No. The automatic 71-day extension of time in Item 9.01 of Form 8-K is available only with respect to acquisitions, not dispositions. The Division's Office of the Chief Accountant will continue to address questions regarding dispositions on a case-by-case basis.

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8 If a registrant is soliciting authorization for a disposal of a significant business in a proxy statement, unaudited financial statements of the business to be disposed of for each of the two most recent fiscal years (audited, if available), as well as unaudited financial statements for the appropriate interim periods, should be included in the proxy statement. See paragraphs 1140.6 and 2120.2 of the FRM for more information.

9 See footnote 7.
8.3.1 Flowchart Illustrating the Form 8-K Reporting Obligations for a Significant Disposition

The flowchart below outlines considerations related to the reporting obligations a registrant could have under Form 8-K, Item 2.01, when it completes a disposition. In the flowchart, it is assumed that an entity is required to file a Form 8-K to report the disposition. If the requirements for filing under Form 8-K, Item 2.01, are met, pro forma financial information prepared under Form 8-K, Item 9.01, must be filed within four business days of the consummation of the disposition.

Changing Lanes
On May 3, 2019, the SEC issued a proposed rule that would amend the financial statement requirements for acquisitions and dispositions of businesses, including real estate operations, and related pro forma financial information. These changes are intended to improve the information investors receive regarding acquired or disposed businesses, reduce complexity and costs of preparing the required disclosures, and facilitate timely access to capital. The proposed amendments include changes to improve the disclosure requirements for (1) acquired or to be acquired businesses in SEC Regulation S-X, Rule 3-05; (2) real estate operations in SEC Regulation S-X, Rule 3-14; and (3) pro forma financial information in SEC Regulation S-X, Article 11, as well as modifications to the significance tests in SEC Regulation S-X, Rule 1-02.

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10 The definition of a business for SEC purposes is outlined in SEC Regulation S-X, Rule 11-01(d). This definition can differ from the definition in accounting literature, including that in ASC 805-10.
11 Under Rule 11-01(b), a disposed-of business is significant if the business to be disposed of meets the conditions for a significant subsidiary in Regulation S-X, Rule 1-02(w), in accordance with any of the significance tests.
12 Instruction 4 of Item 2.01 indicates that if either of the following exceeds 10 percent of the registrant’s consolidated assets, the disposition of assets would be considered significant: (1) the equity in the net book value of the assets or (2) the amount paid that is received for the assets upon disposition.
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S-X, Rule 1-02(w). As discussed in Section 8.4 below, Article 11 currently requires pro forma financial information for the disposition or probable disposition of a business when it exceeds the 10 percent significance level on the basis of any of the three significance tests noted above. The proposed rule would raise the significance threshold from 10 percent to 20 percent and align the investment and income test to be consistent with the revised tests for a business acquisition. Although the proposed rule would increase the significance threshold for the disposal of a business to 20 percent, if adopted as written, it would not modify the threshold for reporting the acquisition or disposition of a significant amount of assets that do not constitute a business. Form 8-K, Item 2.01, would continue to require disclosure, including pro forma financial information, for asset acquisitions and dispositions for cases in which significance exceeds 10 percent. See Deloitte’s May 9, 2019, Heads Up for further details.

8.4 Pro Forma Financial Information Under Article 11

The objective of providing pro forma financial information is to enable investors to understand and evaluate the impact of a transaction by showing how that specific transaction (or group of transactions) might have affected the registrant’s historical financial position and results of operations had the transaction occurred at an earlier date. SEC Regulation S-X, Article 11, which establishes the requirements for pro forma information, lists several circumstances in which a registrant may be required to provide pro forma financial information, including when the disposition of a significant portion of a business has occurred or is probable or when other events have occurred for which pro forma information would be material to investors. Pro forma financial information for a significant disposition may be required in a registration statement, proxy statement, or Form 8-K. For additional information on the topics discussed below, see Chapter 3 of Deloitte’s A Roadmap to SEC Reporting Considerations for Business Combinations.

8.4.1 Pro Forma Financial Information for a Consummated or Probable Disposition

Pro forma financial information for a significant disposition may be required in a registration statement, proxy statement, or Form 8-K when a disposition has occurred or is probable and the historical financial statements do not yet reflect the transaction. If a disposal is presented as a discontinued operation in the historical financial statements before the disposition occurs (i.e., the held-for-sale and discontinued-operations criteria are met), certain pro forma financial information may not be required. Further, pro forma financial information may be required even if the disposed-of operations do not meet the discontinued-operations criteria.
Example 8-3

Pro Forma Financial Information for a Disposal That Has Occurred

Example 1
Company A, an SEC registrant, announced on April 30, 20X5, that it intends to spin off Component B to its shareholders. Company A determines that B will meet the criteria for presentation as a discontinued operation when the spin-off occurs. The spin-off is completed on November 30, 20X5, and A must file a Form 8-K to report the significant business disposition within four business days. Pro forma financial information reflecting B as a discontinued operation must be provided since A’s historical financial statements do not yet reflect the disposal of B (i.e., B is not presented as a discontinued operation in A’s historical financial statements at the time the Form 8-K must be filed).

Example 2
On December 15, 20X5, Company A, an SEC registrant, enters into an agreement to sell Component B and determines that B will meet the criteria for presentation as a discontinued operation in A’s December 31, 20X5, financial statements. Company A files its 20X5 Form 10-K on February 25, 20X6, and adjusts its financial statements to reflect the discontinued operation for all periods presented. The disposal of B is completed on May 1, 20X6, and A must file a Form 8-K to report the significant business disposition within four business days. However, because A’s historical financial statements present B’s operations as a discontinued operation, A is not required to provide pro forma income statements in the Form 8-K.

8.4.2 Periods to Be Presented in Pro Forma Financial Information

For the disposition of a significant business, a pro forma balance sheet should be presented for only the most recent balance sheet required by SEC Regulation S-X, Rule 3-01 (i.e., one pro forma balance sheet as of the end of the fiscal year or the subsequent interim period, whichever is later). In cases in which there are only a few pro forma adjustments and such adjustments are easily understood, a registrant may also consider including a narrative discussion in lieu of the pro forma balance sheet reflecting the effects of the disposition. Pro forma income statements generally should be presented for only the most recent fiscal year and interim period that must be presented. However, paragraph 3230.2 of the FRM states that “[p]ro forma presentation of all periods is required . . . [f]or discontinued operations (SFAS 144 [ASC 205-20]) that are not yet reflected in the annual historical statements” (emphasis added). Accordingly, if a disposal meets the discontinued-operations criteria in ASC 205-20, three years of pro forma income statements must be presented. However, if the disposition does not meet these criteria, only one year of pro forma income statement is required. The appropriate subsequent interim periods are required in both scenarios.

For a significant asset disposition in which such information would be material to investors, the registrant may consider including limited pro forma balance sheet information reflecting the effects of the disposition (or, for example, a narrative discussion if adjustments are easily understood).

As noted in Section 8.3, registrants should be mindful of the requirement to provide pro forma information for a significant disposition in the Form 8-K that must be filed four days after the disposition has occurred. Complying with this requirement can be particularly challenging when the registrant must provide three years of pro forma financial information reflecting the discontinued operation. As a reminder, the automatic 71-day extension in Form 8-K, Item 9.01, is not available for a significant disposition.
8.5  Impact of Reporting a Discontinued Operation on Financial Information About Other Entities

When a component meets the discontinued-operations criteria in ASC 205-20, a registrant must consider the impact this may have on its requirement to provide financial statements or financial information about other entities (e.g., acquired businesses, equity method investees, guarantors, and issuers of guaranteed securities).

8.5.1  SEC Regulation S-X, Rule 3-05: Financial Statements of Businesses Acquired or to Be Acquired

Under SEC Regulation S-X, Rule 3-05, SEC registrants are required to evaluate the significance of an acquired or to be acquired business (acquiree) in accordance with the tests in SEC Regulation S-X, Rule 1-02(w) (i.e., the asset, income, or investment test), to determine whether the acquiree's financial statements are required. Because the income test is based on a measure of income from continuing operations, the reporting of a discontinued operation could affect the results of the significance test.

As discussed in Section 8.2, a company may be required, or may elect, to file its audited annual financial statements that give retrospective effect to a discontinued operation. For businesses acquired after the date on which the retrospectively adjusted financial statements are filed, registrants must use those retrospectively revised financial statements when performing the significance tests. Paragraph 2025.1 of the FRM further indicates that registrants must also use these adjusted financial statements to evaluate (1) probable acquisitions and (2) the “[a]ggregate impact of all individually insignificant businesses that have occurred since the end of the most recently completed fiscal year.”

Note 1 to paragraph 2025.1 of the FRM indicates that for businesses acquired on or before the date on which the retrospectively adjusted financial statements are filed, significance may be measured on the basis of “either (A) the registrant’s audited financial statements for its most recently completed fiscal year that were filed prior to the retrospectively adjusted financial statements giving effect to the discontinued operation or (B) the registrant’s filed financial statements for the most recently completed fiscal year that reflect retrospective application of the discontinued operation.” This paragraph goes on to state that a “registrant must consistently use [either option A or B] to measure significance of all individual acquisitions completed on or before the date the retrospectively adjusted financial statements are filed.”

8.5.2  SEC Regulation S-X, Rules 3-09 and 4-08(g): Financial Statements and Summarized Financial Information for Equity Method Investments

Under SEC Regulation S-X, Rules 3-09 and 4-08(g), SEC registrants are required to evaluate the significance of an equity method investee in accordance with the tests in SEC Regulation S-X, Rule 1-02(w) (i.e., the asset, income, or investment test), to determine whether they are required to provide the investee’s (1) financial statements, (2) summarized financial information, or (3) both. Because the calculation for the income test is based on a measure of income from continuing operations, the reporting of a discontinued operation could affect the results of the significance test.

Under these rules, the prescribed significance tests are performed annually in connection with the filing of a Form 10-K (i.e., at the end of the registrant’s fiscal year). Accordingly, significance is not remeasured when updated financial statements that reflect retrospective adjustments are filed in a Form 8-K (or included in or incorporated into a registration statement). However, when a registrant files its next Form 10-K, it should be mindful that significance should be measured for each annual period presented in the financial statements on the basis of amounts that were retrospectively adjusted. Consequently, as a result of retrospective adjustments, a previously insignificant equity method investee may become significant and a registrant may be required to file the investee’s financial statements (or summarized...
information under Rule 4-08(g)) in the registrant’s next Form 10-K — even if the registrant was not required to provide these items in a prior Form 10-K. See paragraph 2410.8 of the FRM for additional guidance.

Example 8-4

Significance of an Equity Method Investee When a Discontinued Operation Is Reported

Company A, an SEC registrant, disposed of Component B on November 30, 20X5. Historically, A has not been required to provide separate financial statements for Equity Method Investment C because C has not met the significance thresholds. While preparing its Form 10-K for the year ended December 31, 20X5, which retrospectively reflects B as a discontinued operation for all periods presented, A determines that C is now more than 20 percent significant to each of the three years ended December 31, 20X5, as a result of the retrospective presentation of discontinued operations. Company A must file C’s audited financial statements as of December 31, 20X5, and December 31, 20X4, and for the three years ended December 31, 20X5.

8.5.3 SEC Regulation S-X, Rule 3-10: Financial Statements of Guarantors and Issuers of Guaranteed Securities

Registrants that have registered debt with subsidiary or parent guarantees may make use of certain accommodations in SEC Regulation S-X, Rule 3-10, and provide condensed consolidating financial information (consolidating information) in lieu of separate financial statements for guarantor subsidiaries. This consolidating information is generally presented in a columnar format with separate columns for the parent, issuer (if it is not the parent), guarantor subsidiaries, and nonguarantor subsidiaries, as appropriate.

When a registrant disposes of a guarantor subsidiary, that subsidiary is typically released from its guarantee. Changes in the composition of guarantors and nonguarantors (e.g., a change in a subsidiary designated as guarantor to one designated as nonguarantor) are generally reflected retrospectively on the basis of the guarantee structure that existed as of the most recent balance sheet date included in the financial statements. However, as indicated in the highlights of the March 19, 2013, CAQ SEC Regulations Committee joint meeting with the SEC staff, a registrant can apply the following two presentation alternatives when changes to the group of subsidiary guarantors occur as a result of a disposal:

- The “condensed consolidating financial information should reflect the guarantor designations as of the most recent balance sheet date included in the filing. Under this alternative, any subsidiary already disposed of and no longer designated as a guarantor at the most recent balance sheet date should be retrospectively reflected in the nonguarantor columns of the condensed consolidating financial information . . . . A guarantor subsidiary not disposed of but that qualifies for discontinued operations treatment and that is still designated as a guarantor at the balance sheet date should remain in the guarantor columns (as a discontinued operation) until the date of disposal (at which point the subsidiary would be retrospectively reflected in the nonguarantor columns).”

- A “disposed subsidiary should remain in the guarantor columns through the date of disposal with no retrospective application of loss of guarantor status in order to portray the operational history of the guarantor(s).” In this presentation, if the guarantor subsidiary qualifies as a discontinued operation, the amounts related to the subsidiary guarantor should be reclassified to discontinued operations in the guarantor column.

See SEC Regulation S-X, Rule 3-10(i), and Section 2515 of the FRM for more information.
The meeting highlights further indicate that the “staff will accept either approach [but] registrants should carefully consider which presentation is most appropriate in their facts and circumstances.”

### 8.6 “To-Be-Issued” Accountant’s Report in an Initial Public Offering

In anticipation of an initial public offering, an entity may enter into a transaction to dispose of a component or group of components that meets the discontinued-operations criteria in ASC 205-20. Although the disposal may occur after the date of the entity’s most recent balance sheet included in the registrant’s financial statements (in which case presentation as a discontinued operation would typically be precluded), in certain circumstances the registrant may be able to present the transaction retrospectively in the entity’s financial statements and include a “to-be-issued” accountant’s report on those financial statements. A “to-be-issued” accountant’s report is a “draft report” in the form that will be expressed when the registration statement is declared effective by the SEC. The draft report generally includes the auditor's signed preface (or legend) stating that it expects to be in a position to issue the report in the form presented when the registration statement is declared effective by the SEC. The highlights of the June 25, 2014, CAQ SEC Regulations Committee joint meeting with the SEC staff discuss the following situations related to such a presentation:

In certain situations, a registrant’s financial statements included in a registration statement may reflect a transaction that has not yet occurred but (a) will occur just prior to or at effectiveness and (b) will be reflected retrospectively in the historical financial statements in accordance with US GAAP. Examples are a stock split or a legal reorganization. In those circumstances, the staff will commence a review of a registration statement that includes a “to-be-issued” audit report on financial statements that have already been revised to reflect the transaction retrospectively (see FRM Section 4710).

The FRM guidance cites specific examples of when such a draft report may be used but indicates that use of a draft report is not limited to these events. The Committee asked the staff whether a registration statement including a to-be-issued audit report and the related retrospectively revised financial statements might be reviewed in a situation where a registrant has a component that qualifies as a discontinued operation before an initial registration statement is filed but after the date of the latest balance sheet included in the initial filing.

In order to qualify, the following must be completed prior to the initial filing: 1) the disposal of the discontinued operation has occurred; 2) the audit of the financial statements, including the retrospective revision; and 3) registrant consultation with the appropriate Assistant Director group. [Emphasis added]

In addition to meeting all of the requirements discussed by the SEC Regulations Committee above, a pre-effective amendment to the registration statement must contain (1) updated financial statements for a period that includes the disposal date and (2) an unrestricted accountant’s report. That is, the registration statement cannot be declared effective until the preface is removed and the accountant’s report is finalized. Entities are encouraged to consult with their independent accountants if they believe they meet the requirements noted above.
# Appendix A — Glossary of Terms in ASC 205-20 and ASC 360-10

<table>
<thead>
<tr>
<th><strong>ASC 205-20 and ASC 360-10 — Glossary</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Group</strong></td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

**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.

**Note:** The following definition is Pending Content; see Transition Guidance in paragraph 805-10-65-4.

**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.
### ASC 205-20 and ASC 360-10 — Glossary (continued)

**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).

**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.
Appendix B — Changes Made in the 2019 Edition of This Publication

The tables below summarize the substantive changes made in the 2019 edition of this Roadmap as a result of SEC activity and practice developments.

**New Content**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1.2</td>
<td>Scope of ASC 360-10</td>
<td>Added discussion of the scope of ASC 360-10.</td>
</tr>
<tr>
<td>2.1</td>
<td>Definition of a Disposal Group</td>
<td>Added discussion of the definition of a disposal group.</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Measuring the Fair Value of a Disposal Group</td>
<td>Added discussion of measuring the fair value of a disposal group.</td>
</tr>
<tr>
<td>3.3.3</td>
<td>Costs to Sell</td>
<td>Added discussion to clarify certain costs that do not qualify as costs to sell.</td>
</tr>
<tr>
<td>3.3.5</td>
<td>Newly Acquired Long-Lived Assets</td>
<td>Added discussion to clarify the requirements under which entities classify a newly acquired long-lived asset or disposal group as held for sale as of the acquisition date. This guidance used to be in Section 4.4.</td>
</tr>
<tr>
<td>3.4.1</td>
<td>Depreciation and Amortization</td>
<td>Added discussion to clarify that long-lived assets are not depreciated or amortized during the period in which they are classified as held for sale.</td>
</tr>
<tr>
<td>8.3.1</td>
<td>Flowchart Illustrating the Form 8-K Reporting Obligations for a Significant Disposition</td>
<td>Added discussion and flowchart outlining considerations related to the reporting obligations a registrant could have under Form 8-K, Item 2.01, when it completes a disposition.</td>
</tr>
<tr>
<td>Section</td>
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<tr>
<td>7.2</td>
<td>Income Statement Presentation for Disposals That Do Not Meet the Criteria for Reporting as Discontinued Operations</td>
<td>Revised to clarify the presentation of gains or losses recognized from a sale of a long-lived asset (disposal group) that does not qualify as a discontinued operation.</td>
</tr>
<tr>
<td>7.2.1</td>
<td>Income Statement Presentation for Real Estate Investment Trusts</td>
<td>Revised to provide updated guidance on the presentation of gains and losses related to the sale of properties by real estate investment trusts in response to amendments in the SEC’s DUSR. This guidance was previously included in Section 5.2.1.</td>
</tr>
</tbody>
</table>
Appendix C — Titles of Standards and Other Literature

The standards and literature below were cited or linked to in this publication.

**FASB Literature**

**ASC Topics**

ASC 205, *Presentation of Financial Statements*
ASC 225, *Income Statement*
ASC 280, *Segment Reporting*
ASC 310, *Receivables*
ASC 320, *Investments — Debt and Equity Securities*
ASC 323, *Investments — Equity Method and Joint Ventures*
ASC 350, *Intangibles — Goodwill and Other*
ASC 360, *Property, Plant, and Equipment*
ASC 420, *Exit or Disposal Cost Obligations*
ASC 450, *Contingencies*
ASC 460, *Guarantees*
ASC 606, *Revenue From Contracts With Customers*
ASC 610, *Other Income*
ASC 715, *Compensation — Retirement Benefits*
ASC 805, *Business Combinations*
ASC 810, *Consolidation*
ASC 815, *Derivatives and Hedging*
ASC 820, *Fair Value Measurement*
ASC 830, *Foreign Currency Matters*
ASC 842, *Leases*
ASC 845, *Nonmonetary Transactions*
ASC 855, *Subsequent Events*
ASC 860, *Transfers and Servicing*

**ASU**
ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

**SEC Literature**

**FRM**
Topic 1, “Registrant’s Financial Statements”
Topic 2, “Other Financial Statements Required”
Topic 3, “Pro Forma Financial Information”
Topic 4, “Independent Accountants’ Involvement”
Topic 9, “Management’s Discussion and Analysis of Financial Position and Results of Operations (MD&A)”
Topic 13, “Effects of Subsequent Events on Financial Statements Required in Filings”
Topic 14, “Tender Offers”

**Final Rule**
No. 33-10532, *Disclosure Update and Simplification*

**Form 8-K**
Item 1.01, “Entry Into a Material Definitive Agreement”
Item 2.01, “Completion of Acquisition or Disposition of Assets”
Item 9.01, “Financial Statements and Exhibits”

**Proposed Rule**
No. 33-10635, *Amendments to Financial Disclosures About Acquired and Disposed Businesses*

**Regulation S-K**
Item 302, “Supplementary Financial Information”
Item 303, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”
Item 512, “Undertakings”

**Regulation S-X**
Rule 1-02, “Definitions of Terms Used in Regulation S-X (17 CFR Part 210)”
Rule 3-01, “Consolidated Balance Sheets”
Rule 3-05, “Financial Statements of Businesses Acquired or to Be Acquired”
Rule 3-09, “Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons”
Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered”

Rule 3-14, “Special Instructions for Real Estate Operations to Be Acquired”

Rule 3-15, “Special Provisions as to Real Estate Investment Trusts”

Rule 4-08, “General Notes to Financial Statements”


Article 11, “Pro Forma Financial Information”

Rule 11-01, “Presentation Requirements”

**SAB Topic**

No. 5.Z, “Accounting and Disclosure Regarding Discontinued Operations”

**Securities Act of 1933**

Rule 144A, “Private Resales of Securities to Institutions”

**Superseded Literature**


**EITF Abstract**

Topic D-104, “Clarification of Transition Guidance in Paragraph 51 of FASB Statement No. 144”

**Proposed FASB Staff Position**

FAS 144-c, “Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment Is Obtained”

**FASB Statements**

No. 160, *Noncontrolling Interests in Consolidated Financial Statements*

No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

No. 52, *Foreign Currency Translation*

No. 5, *Accounting for Contingencies*
# Appendix D — Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>AOCI</td>
<td>accumulated other comprehensive income</td>
</tr>
<tr>
<td>APB</td>
<td>Accounting Principles Board</td>
</tr>
<tr>
<td>AR</td>
<td>accounts receivable</td>
</tr>
<tr>
<td>ASC</td>
<td>FASB Accounting Standards Codification</td>
</tr>
<tr>
<td>ASU</td>
<td>FASB Accounting Standards Update</td>
</tr>
<tr>
<td>BC</td>
<td>Basis for Conclusions</td>
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<tr>
<td>C&amp;DI</td>
<td>SEC’s Compliance and Disclosure Interpretation</td>
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<tr>
<td>CAQ</td>
<td>Center for Audit Quality</td>
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<tr>
<td>CEO</td>
<td>chief executive officer</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
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<tr>
<td>CTA</td>
<td>cumulative translation adjustment</td>
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<tr>
<td>DUSTR</td>
<td>SEC disclosure update and simplification technical release</td>
</tr>
<tr>
<td>EBITDA</td>
<td>earnings before income taxes, depreciation, and amortization</td>
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<td>EITF</td>
<td>Emerging Issues Task Force</td>
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<table>
<thead>
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<th>Abbreviation</th>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>FCC</td>
<td>Federal Communications Commission</td>
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<td>FSP</td>
<td>FASB Staff Position</td>
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<tr>
<td>FTC</td>
<td>Federal Trade Commission</td>
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<td>GAAP</td>
<td>generally accepted accounting principles</td>
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<td>IT</td>
<td>information technology</td>
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<tr>
<td>MD&amp;A</td>
<td>Management’s Discussion and Analysis</td>
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<tr>
<td>NFP</td>
<td>not-for-profit entity</td>
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<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
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<tr>
<td>REIT</td>
<td>real estate investment trust</td>
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<tr>
<td>SAB</td>
<td>SEC Staff Accounting Bulletin</td>
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<td>SEC</td>
<td>Securities and Exchange Commission</td>
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<td>Securities Act</td>
<td>Securities Act of 1933</td>
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<td>SFAS</td>
<td>Statement of Financial Accounting Standards</td>
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