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## Appendix A — Glossary of Terms in ASC 205-20, ASC 360-10, and ASC 805-10

## Appendix B — Titles of Standards and Other Literature

## Appendix C — Abbreviations

## Appendix D — Changes Made in the 2020 Edition of This Publication
Preface

October 2020

To our friends and clients:

We are pleased to present A Roadmap to Impairments and Disposals of Long-Lived Assets and Discontinued Operations. This Roadmap provides Deloitte’s insights into the guidance in ASC 360-10 and ASC 205-20 on impairments and disposals of long-lived assets and presentation of discontinued operations. ASC 360-10 specifies the accounting and reporting for long-lived assets that are being held and used by an entity and for long-lived assets that the entity intends to sell or otherwise dispose of. 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 accounting and reporting for long-lived assets — 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.

This publication represents a replacement of the 2019 publication A Roadmap to Disposals of Long-Lived Assets and Discontinued Operations and has been expanded to address the accounting for long-lived assets while classified as held and used.

Subscribers to the Deloitte Accounting Research Tool (DART) may access any interim updates to this publication by selecting the Roadmap from the Roadmap Series page on DART. 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 B. For a list of abbreviations used in this publication, see Appendix C.
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Chapter 1 — Overview and Scope

1.1 Overview

In August 2001, the FASB issued Statement No. 144 which provided accounting and reporting guidance on long-lived assets to be (1) held and used, (2) disposed of by sale, and (3) disposed of other than by sale. FASB Statement 144 also provided accounting and reporting guidance on discontinued operations and broadened the presentation to include more disposal transactions than previous guidance. The guidance in Statement 144 was subsequently codified into ASC 360-10 and ASC 205-20.

In April 2014, the FASB issued ASU 2014-08, which elevated the threshold for presenting a disposal transaction as a discontinued operation. The FASB issued this ASU partly in response to stakeholder feedback that “under current guidance too many disposals of assets qualify for discontinued operations presentation, resulting in financial statements that are less decision useful for users and higher costs for preparers.” Under the revised guidance, an entity presents a disposal as a discontinued operation if it “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results” or is “a business or nonprofit activity that, on acquisition, meets the criteria . . . to be classified as held for sale.” The guidance in ASU 2014-08 replaced the previous guidance in ASC 205-20 on reporting discontinued operations.

1.2 Overview of the Accounting and Reporting for Long-Lived Assets and Discontinued Operations

Long-lived assets within the scope of ASC 360-10 are accounted for and tested for impairment differently depending on the entity’s intent with regard to the assets. Long-lived assets that the entity intends to hold and use in its operations, including long-lived assets that the entity intends to abandon, distribute to owners, or exchange in a nonmonetary transaction accounted for at carrying amount, are tested for impairment differently than long-lived assets that the entity intends to sell.

The following flowchart summarizes how long-lived assets are accounted for and presented on the basis of the entity’s intent regarding the assets (also included are references to where additional information can be found):
## Accounting and Reporting for Long-Lived Assets

<table>
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<th>Step</th>
<th>Description</th>
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<td><strong>Entity's intent regarding the assets</strong></td>
<td>Assets the entity intends to use (Chapter 2)</td>
</tr>
<tr>
<td><strong>Classification</strong></td>
<td>Classified as held and used</td>
</tr>
<tr>
<td><strong>Grouping assets and liabilities</strong></td>
<td>Long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities (asset group)</td>
</tr>
<tr>
<td><strong>Timing of impairment testing</strong></td>
<td>Tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable (“triggering event”)</td>
</tr>
<tr>
<td><strong>Recoverability testing</strong></td>
<td>If triggering event occurs, perform a recoverability test by comparing the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset group with the carrying amount</td>
</tr>
<tr>
<td><strong>Measurement</strong></td>
<td>If the carrying amount is not recoverable, recognize an impairment loss for the excess of the carrying amount of the asset (asset group) over its fair value</td>
</tr>
<tr>
<td><strong>Reversal of impairments</strong></td>
<td>Impairment charges for assets classified as held and used cannot be reversed</td>
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<tr>
<td><strong>Presentation and disclosure</strong></td>
<td>Assets continue to be presented in their balance sheet line items</td>
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<td><strong>Presentation and disclosure</strong></td>
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<td><strong>Presentation and disclosure</strong></td>
<td>If no, apply the presentation and disclosure requirements for disposals that are not reported as discontinued operations (Chapter 6)</td>
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<td><strong>Presentation and disclosure</strong></td>
<td>If yes, apply the scope, presentation, and disclosure requirements for discontinued operations in ASC 205-20 (Chapter 7)</td>
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<td><strong>Presentation and disclosure</strong></td>
<td>If an SEC registrant, consider the reporting requirements applicable to SEC registrants (Chapter 8)</td>
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**Long-lived assets**
- Classified as held and used
- Classified as held for sale once all of the criteria are met
- Classified as held and used until disposed of

**Impairment**
- Tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable (“triggering event”)

**Reversal**
- Impairment charges for assets classified as held and used cannot be reversed

**Presentation and disclosure**
- If an SEC registrant, consider the reporting requirements applicable to SEC registrants (Chapter 8)
1.2.1 Long-Lived Assets Classified as Held and Used

Under ASC 360-10-35-21, long-lived assets that are classified as held and used “shall be tested for recoverability whenever events or changes in circumstances indicate that [their] carrying amount may not be recoverable.” In addition, ASC 360-10-35-23 states that such assets “shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.”

In accordance with ASC 360-10-35-17, a long-lived asset (asset group) is not recoverable if its carrying amount “exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group).” When a long-lived asset (asset group) is not recoverable, it is necessary to determine its fair value since “[a]n impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.”

See Chapter 2 for more information about the accounting for and presentation of long-lived assets classified as held and used.

1.2.2 Long-Lived Assets to Be Disposed of by Sale

All the criteria in ASC 360-10-45-9 must be met for a long-lived asset (disposal group) to be classified as held for sale. Once these criteria are met, the long-lived asset (disposal group) is measured at the lower of its carrying amount or fair value less cost to sell. The entity recognizes a loss, if any, to adjust the carrying amount of the long-lived asset (disposal group) to its fair value less cost to sell in the period in which the held-for-sale criteria are met and in each subsequent period until the long-lived asset (disposal group) is sold. Therefore, the carrying amount of the long-lived asset (disposal group) is adjusted for subsequent increases or decreases in its fair value less cost to sell, except that any subsequent increase cannot exceed the cumulative loss previously recognized. Any gain or loss from the sale of a long-lived asset (disposal group) not previously recognized is recognized on the date of sale. In addition, long-lived assets are not depreciated or amortized while they are classified as held for sale.

See Chapter 3 for more information about the accounting for and presentation of long-lived assets to be disposed of by sale.

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

An entity may dispose of one or more long-lived assets before the end of their previously estimated useful life by, for example, abandoning them, exchanging them in a transaction accounted for at carrying amount, or distributing them to owners in a spin-off. Assets to be disposed of other than by sale should continue to be classified as held and used until they are disposed of. Upon disposal, an entity must assess whether the disposed-of assets qualify for discontinued-operations reporting. If so, the entity should apply the presentation and disclosure requirements in ASC 205-20. If not, the entity should apply the presentation and disclosure requirements in ASC 360-10.

See Chapter 4 for more information about the accounting for and presentation of long-lived assets to be disposed of other than by sale.
1.2.4 Discontinued Operations
The purpose of reporting discontinued operations separately from continuing operations is to provide stakeholders with information on assessing the effects of a disposal on an entity’s ongoing operations. The operations of a disposal group may only be presented as a discontinued operation once the assets (and liabilities) meet the criteria to be classified as held for sale, have been sold, or have been otherwise disposed of (e.g., abandonment) and only if the disposal represents a strategic shift that has or will have a major effect on an entity’s operations and financial results. Therefore, not all disposal transactions qualify for discontinued-operations reporting.

See Chapter 5 for more information about assessing whether a disposal qualifies for discontinued-operations reporting.

1.2.5 Presentation and Disclosure Requirements for Disposals That Are Not Discontinued Operations
ASC 360-10-45-14 states that a “long-lived asset classified as held for sale (but not qualifying for presentation as a discontinued operation in the statement of financial position in accordance with paragraph 205-20-45-10) shall be presented separately in the statement of financial position of the current period).” The presentation and disclosure requirements for a long-lived asset (disposal group) that is classified as held for sale, or that has been disposed of but does not qualify for discontinued-operations reporting, differ depending on whether the disposal is an individually significant component of an entity. An entity will need to use judgment in interpreting the term “individually significant” since it is not defined.

See Chapter 6 for more information about the presentation and disclosure requirements for disposals that do not qualify as discontinued operations.

1.2.6 Presentation and Disclosure Requirements for Disposals That Are Discontinued Operations
If the criteria for discontinued-operations reporting are met, the results of operations of the component that is classified as held for sale or that has been sold or otherwise disposed of, including any gain or loss recognized, should be reported as discontinued operations in the statement of operations, retrospectively, for all periods presented. In addition, ASC 205-20-45-10 states that “[i]n 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.”

See Chapter 7 for more information about the presentation and disclosure requirements for disposals that qualify as discontinued operations.
1.2.7 Reporting Considerations for SEC Registrants

In the period in which a component meets the criteria to be presented as a discontinued operation, a registrant must present the component as a discontinued operation for all 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).

See Chapter 8 for more information about the reporting considerations for SEC registrants.

1.3 Scope of ASC 360-10 — Impairment or Disposal of Long-Lived Assets

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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</thead>
<tbody>
<tr>
<td>05-4 The Impairment or Disposal of Long-Lived Assets Subsections provide guidance for:</td>
</tr>
<tr>
<td>a. Recognition and measurement of the impairment of long-lived assets to be held and used</td>
</tr>
<tr>
<td>b. Measurement of long-lived assets to be disposed of by sale</td>
</tr>
<tr>
<td>c. Disclosures about the impairment or disposal of long-lived assets and disposals of individually significant components of an entity</td>
</tr>
<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>
</tbody>
</table>
ASC 360-10 (continued)

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

a. Except as indicated in (b) and the following paragraph, all of the transactions and activities related to recognized long-lived assets of an entity to be held and used or to be disposed of, including:
   1. Capital leases 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.
15-4 The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:

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

b. The following transactions and activities related to assets and liabilities that are considered part of an asset group or a disposal group:
   1. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by the Impairment or Disposal of Long-Lived Assets Subsections, the guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset or assets to be held and used, that group is referred to as an asset group. For a long-lived asset or assets to be disposed of by sale or otherwise, that group is referred to as a disposal group. Examples of liabilities included in a disposal group are legal obligations that transfer with a long-lived asset, such as certain environmental obligations, and obligations that, for business reasons, a potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base.
   2. The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not change generally accepted accounting principles (GAAP) applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by the Impairment or Disposal of Long-Lived Assets Subsections that are included in such groups.
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.

Pending Content (Transition Guidance: ASC 958-10-65-3)

15-6 Entities that hold collections shall follow the accounting and disclosure requirements in Subtopic 958-360 on not-for-profit entities — property, plant, and equipment.

ASC 360-10 addresses the impairment or disposal of long-lived assets and applies to all entities. ASC 360-10 applies to individual long-lived assets as well as groups of assets (and possibly liabilities) that include one or more long-lived assets. Once an entity adopts ASC 842, the impairment guidance in ASC 360-10 also applies to a lessee's right-of-use (ROU) assets for both operating and finance leases (see Section 2.3.4).

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. The impairment of those assets is addressed by other GAAP. 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, 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 needs to apply under ASC 360-10 differ depending on the significance of the disposal.
1.4 Scope of ASC 205-20 — Presenting Discontinued Operations

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 or a newly acquired business or nonprofit activity that meets the held-for-sale criteria upon acquisition. 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 could qualify for discontinued-operations reporting under ASC 205-20. If so, an entity would apply the held-for-sale criteria and discontinued-operations reporting guidance 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 the Background Information and Basis for Conclusions 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 — Long-Lived Assets Classified as Held and Used

2.1 Overview

ASC 360-10

35-15 There are unique requirements of accounting for the impairment or disposal of long-lived assets to be held and used or to be disposed of. Although this guidance deals with matters which may lead to the ultimate disposition of assets, it is included in this Subsection because it describes the measurement and classification of assets to be held and used and assets held for disposal before actual disposition and derecognition. See the Impairment or Disposal of Long-Lived Assets Subsection of Section 360-10-40 for a discussion of assets or asset groups for which disposition has taken place in an exchange or distribution to owners.

Long-lived assets within the scope of ASC 360-10 are accounted for and tested for impairment differently depending on the entity’s intent with regard to the assets. Long-lived assets classified as held and used are those that the entity intends to recover through use. Long-lived assets the entity intends to recover through sale are classified as held and used until the held-for-sale classification criteria are met (Chapter 3). Long-lived assets the entity intends to dispose of other than by sale are classified as held and used until they are disposed of (Chapter 4).

ASC 360-10 contains a specific framework for accounting for long-lived assets classified as held and used. Under ASC 360-10-35-21, long-lived assets that are classified as held and used “shall be tested for recoverability whenever events or changes in circumstances indicate that [their] carrying amount may not be recoverable.” In addition, ASC 360-10-35-23 states that such assets “shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.”

In accordance with ASC 360-10-35-17, a long-lived asset (asset group) is not recoverable if its carrying amount “exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group).” When a long-lived asset (asset group) is not recoverable, it is necessary to determine its fair value since “[a]n impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.”
2.2 When to Test a Long-Lived Asset (Asset Group) for Recoverability

ASC 360-10

When to Test a Long-Lived Asset for Recoverability

35-21 A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

a. A significant decrease in the market price of a long-lived asset (asset group)

b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition

c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator

d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)

e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)

f. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

ASC 360-10-35-21 requires that an entity test a long-lived asset (asset group) classified as held and used for impairment whenever “events or changes in circumstances indicate that its carrying amount might not be recoverable.” Such an event or change in circumstances is often referred to as a “triggering event.” The basis for this testing framework is described in paragraph B16 of the Background Information and Basis for Conclusions of FASB Statement 144, which states, in part:

The Board concluded . . . that management has the responsibility to consider whether an asset is impaired but that to test each asset each period would be too costly. Existing information and analyses developed for management review of the entity and its operations generally will be the principal evidence needed to determine when an impairment exists. Indicators of impairment, therefore, are useful examples of events or changes in circumstances that suggest that the recoverability of the carrying amount of an asset should be assessed.

Therefore, an entity is not required to perform recoverability tests annually or routinely as it is for certain other assets like goodwill or indefinite-lived intangible assets. However, an entity must routinely assess whether events or changes in circumstances indicate that long-lived assets may not be recoverable.

ASC 360-10-35-21 gives examples of events or changes in circumstances that may indicate that the carrying amount of a long-lived asset (group) may not be recoverable. These examples are not all-inclusive; entities will need to assess their specific facts and circumstances in determining whether there is a triggering event. Additional events or changes in circumstances that an entity should consider include:

- Evidence of a physical defect in an asset (asset group).
- A significant change in technology that renders an asset (asset group) obsolete or noncompetitive.
- Order cancellations or postponements from major customers, or both.
- A general economic downturn that is expected to have an impact on the entity.
The examples listed in ASC 360-10-35-21 include “a significant decrease in the market price of a long-lived asset (asset group).” Therefore, the existence of an appraisal or other independent valuation information that suggests that the fair value of a held-and-used asset (asset group) is below its carrying amount may be an indicator of impairment. However, the existence of such information does not, in and of itself, mean that an impairment loss must be recognized since a recoverability test must be performed on an undiscounted basis for the long-lived asset (asset group) before recognition of any impairment loss (see Section 2.4).

An entity may be considering selling a part of its business but may not yet meet the criteria to classify the related assets and liabilities as held for sale (see Section 3.3 for more information). ASC 360-10-35-21(f) indicates that management should test the long-lived assets (asset group) for recoverability if there is a “current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.” The threshold for “more likely than not” is considered to be greater than 50 percent but less than probable. Therefore, an entity may be required to test the long-lived assets it expects to sell for recoverability (i.e., on a held-and-used basis) before the assets meet the criteria to be classified as held for sale. The entity should also review depreciation estimates for an asset (asset group) when impairment indicators exist (see Section 2.7).

In some cases, an entity may identify an impairment indicator for a specific asset that is part of a larger asset group. If so, the entity should consider the significance of that individual asset in relation to the asset group as a whole. If the entity determines that the individual asset is insignificant to the asset group, it may decide that it does not need to perform a recoverability test for the asset group but should consider whether to revise the depreciation or amortization estimate for that asset. However, an entity should not recognize an asset that has no future benefit in its financial statements (see Section 2.8).

### 2.3 Grouping Long-Lived Assets Classified as Held and Used

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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<tbody>
<tr>
<td><strong>Grouping Long-Lived Assets Classified as Held and Used</strong></td>
</tr>
<tr>
<td>35-23 For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. However, an impairment loss, if any, that results from applying this Subtopic shall reduce only the carrying amount of a long-lived asset or assets of the group in accordance with paragraph 360-10-35-28.</td>
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Some long-lived assets may have largely independent cash flows and therefore should be tested for impairment individually. However, many long-lived assets are used in combination with other assets to generate combined cash flows in such a way that the cash flows of each asset in the group are not largely independent of the cash flows of other assets. In that case, entities must group assets together to test them for impairment. Such a grouping is called an asset group. The ASC master glossary defines an asset group as follows:

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.
**Connecting the Dots**

The term “asset group” is used throughout this publication to refer to the long-lived asset or group of assets, including one or more long lived assets and possibly liabilities, that is classified as held and used and is being tested for impairment.

An asset 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. (See Section 2.3.7 for information about the order in which impairment testing should be performed when an asset group includes long-lived assets that are not within the scope of ASC 360-10.)

An entity performing an impairment analysis should begin at the lowest level for which there are largely independent cash flows; this level would depend on the entity's specific facts and circumstances (e.g., an individual production line, real estate asset, plant, or retail store). Cash flows may be grouped at a higher level only if the entity determines that largely independent cash flows do not exist at a lower level. In determining the lowest level of identifiable cash flows for a long-lived asset or asset group, the entity may need to use significant judgment and should consider all relevant facts and circumstances. Such facts and circumstances may include the following:

- The interdependency of revenue-generating activities and the extent to which such assets must be operated together.
- The interdependence or interchangeability of assets and the extent to which such assets are operated together.
- The presence and extent of a shared-cost structure.
- The extent to which the company manages its business at various levels, such as a local, district, or regional management level.
- The company's distribution characteristics, such as regional distribution centers, local distributors, or individual plants.
- The extent to which purchases are made by an individual location or on a combined basis.

The degree to which the revenues of a group of assets depend on the revenue-generating activities of other assets may affect an entity's determination of an asset group. Interdependency of revenues can result from the way an entity is structured or from contractual requirements outside the entity's control. If the entity cannot suspend the revenue-generating activities of one group of assets because it would negatively affect the revenue-generating ability of another group of assets, a higher-level asset grouping may be justified.

ASC 360-10-55-35 and 55-36 contain an example illustrating a higher-level asset grouping that is based on the interdependence of revenues in such a way that assets must be operated together.
The degree to which an entity’s assets are interchangeable may also affect its determination of asset groups. In some situations, largely identifiable cash flows may not be associated with a specific asset group, in which case the entity may be justified in grouping assets at a higher level. For example, if the entity uses a fleet of interchangeable trucks, planes, or cargo ships to deliver goods, the asset group might be at the fleet level if cash flows of an individual asset cannot be identified. In contrast, if all of the entity's products are sold from a single warehouse, use of such a warehouse may not justify an entity-wide asset grouping but may represent a corporate asset. (See Section 2.3.1 for more information.)

A shared cost structure may affect an entity’s determination of its asset groups. Shared costs are costs incurred by the entity that cannot be identified or attributed to a specific asset group. If cash outflows from a group of assets result from significant shared operating costs (e.g., shared sales force, manufacturing, distribution, warehousing, research and development), it may be necessary to group assets at a higher level. The entity should ensure that the amount of shared costs is significant compared with its overall costs. For example, a shared marketing function alone without other significant shared costs would not be expected to justify a higher-level asset grouping. We do not believe that the existence of shared back-office costs alone (e.g., finance, payroll, IT systems) would support a higher-level asset grouping. Further, we think that shared operating costs should be distinguished from allocated direct costs, which are costs that can be directly associated with a specific asset group but may be recognized at the corporate level for administrative purposes. If allocated direct costs are related to a specific asset group even though such costs may not be allocated for internal reporting purposes, we believe that an entity should specifically allocate those costs to the asset group when evaluating the cash flows of that asset group. In addition, the entity should not consider those direct costs to be shared costs when determining whether a significant portion of the cash flows is interrelated.

Assets and liabilities are grouped under U.S. GAAP for different purposes, and the guidance on grouping assets varies. For example, ASC 350-20 requires entities to group assets (and liabilities) into a reporting unit when testing goodwill for impairment. The identification of an asset group for impairment under ASC 360-10 differs from the identification of a reporting unit under ASC 350-20. The determinations of a reporting unit and asset group must be based on the respective ASC requirements as well as on the entity’s specific facts and circumstances. An asset group is often at a lower level than a reporting unit but in some cases may be at the same level. However, we would not expect an asset group to be at a higher level than a reporting unit.
An entity should ensure that it appropriately documents the judgments it uses in determining asset groups. Asset-group determinations are subject to change on the basis of changes in facts and circumstances (see Section 2.3.8).

**Bridging the GAAP**

Under IAS 36, assets are tested at the individual asset level or, if it is not possible to estimate the recoverable amount of an individual asset, at the cash-generating unit (CGU) level. A CGU is the smallest group of assets generating cash inflows that are largely independent of the cash inflows from other assets. Under U.S. GAAP, the assessment of independent cash flows for an asset group is generally based on the net cash flows (i.e., cash inflows and outflows). Under IAS 36, however, the focus is exclusively on whether cash inflows are largely independent. While the resulting outcomes are often the same under the two sets of standards, the different requirements could lead to differences.

### 2.3.1 Entity-Wide Assets

**ASC 360-10**

- **35-24** In limited circumstances, a long-lived asset (for example, a corporate headquarters facility) may not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities and of other asset groups. In those circumstances, the asset group for that long-lived asset shall include all assets and liabilities of the entity.

- **35-25** In limited circumstances, an asset group will include all assets and liabilities of the entity. For example, the cost of operating assets such as corporate headquarters or centralized research facilities may be funded by revenue-producing activities at lower levels of the entity. Accordingly, in limited circumstances, the lowest level of identifiable cash flows that are largely independent of other asset groups may be the entity level. See Example 4 (paragraph 360-10-55-35).

Some long-lived assets may not have identifiable cash flows that are largely independent of the cash flows of the entity's other assets (and liabilities). ASC 360-10-35-25 states that “the cost of operating assets such as corporate headquarters or centralized research facilities may be funded by revenue-producing activities at lower levels of the entity.” Accordingly, in limited circumstances, such long-lived assets are evaluated for impairment on an entity-wide level because largely independent cash flows do not exist for the asset. In that case, the recoverability test estimates whether the entity, as a whole, will generate cash flows sufficient to recover the carrying amount of all of its assets.

An entity-wide asset is tested for recoverability after any required testing of lower-level asset groups is performed. Paragraph B46 of the Background Information and Basis for Conclusions of FASB Statement 144 describes the residual approach as one method that an entity may use to test an entity-wide asset for recoverability:

> The cash flows used in the recoverability test should be reduced by the carrying amounts of the entity’s other assets that are covered by this Statement to arrive at the cash flows expected to contribute to the recoverability of the asset being tested. Not-for-profit organizations should include unrestricted contributions to the organization as a whole that are a source of funds for the operation of the asset.
Therefore, under the residual approach, the entity compares (1) the carrying amount of the entity-wide asset with (2) the cash flows available to support the entity-wide asset calculated as the total undiscounted cash flows for the entire entity less the carrying amounts of the lower-level asset groups. If (1) is greater than (2), the entity would need to perform the second step of the recoverability test for the entity-wide asset.

### 2.3.2 Goodwill in Asset Groups

**ASC 360-10**

**Effect of Goodwill When Grouping**

**35-26** Goodwill shall be included in an asset group to be tested for impairment under this Subtopic only if the asset group is or includes a reporting unit. Goodwill shall not be included in a lower-level asset group that includes only part of a reporting unit. Estimates of future cash flows used to test that lower-level asset group for recoverability shall not be adjusted for the effect of excluding goodwill from the group. The term reporting unit is defined in Topic 350 as the same level as or one level below an operating segment. That Topic requires that goodwill be tested for impairment at the reporting unit level.

**35-27** Other than goodwill, the carrying amounts of any assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by this Subtopic that are included in an asset group shall be adjusted in accordance with other applicable generally accepted accounting principles (GAAP) before testing the asset group for recoverability. Paragraph 350-20-35-31 requires that goodwill be tested for impairment only after the carrying amounts of the other assets of the reporting unit, including the long-lived assets covered by this Subtopic, have been tested for impairment under other applicable accounting guidance.

**ASC 350-20**

**35-31** If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group would be performed before the goodwill impairment test. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

ASC 360-10-35-26 notes that goodwill is only included in an asset group “if the asset group is or includes a reporting unit.” If the asset group only includes part of a reporting unit, an entity would not include goodwill in the carrying amount of the asset group when testing it for impairment.

The guidance on including goodwill in an asset group that is classified as held and used when it is tested for recoverability differs from the guidance in ASC 350-20-40-1 through 40-6 on assigning goodwill to a disposal group that is classified as held for sale. Under ASC 350, goodwill must be assigned to a disposal group that meets the definition of a business in accordance with ASC 805-10. However, for asset groups that are classified as held and used, goodwill may not be included in an asset group if the assets are grouped below the reporting unit level, even if the asset group itself meets the definition of a business. (See Section 2.3.7 for more information about the order for impairment testing when assets are classified as held and used.)
2.3.3 Debt and Other Liabilities in Asset Groups

Debt related to the financing of long-lived assets should generally be excluded from the asset group when it is tested for recoverability. The entity's financing decisions should not affect the outcome of the recoverability test or the measurement of the fair value of an asset group. Therefore, the lowest level of identifiable cash flows will generally exclude principal and interest payments associated with debt because debt payments are often made at the corporate level or at a level above the asset group. Further, the cash flows associated with debt and interest payments are usually easy to identify and typically can be eliminated from the cash flows used to test the asset group for recoverability.

If debt is related to a specific asset or assets in the asset group, it may be appropriate to include debt in the asset group. If debt is included in the asset group, only the cash outflows related to principal payments should be included in the cash outflows used to test the asset group for recoverability. ASC 360-10-35-29 excludes interest charges that will be recognized as an expense when incurred from the recoverability test to ensure that two entities with essentially the same asset groups and cash flows do not have different results for their recoverability testing solely because of differences in their respective capital structures.

However, the inclusion or exclusion of debt and the related cash flows generally would not result in a different conclusion in the recoverability test. That is, debt with a carrying value of $500 will reduce the carrying amount of the asset group by $500 but would also have related, undiscounted cash outflows of $500.

We believe that the same concept should also be applied to liabilities other than debt. That is, operating liabilities are sometimes included in the asset group because they are viewed as being related to the assets in the group; however, nonoperating or financing liabilities are generally excluded from the carrying amount of the asset group. Regardless of whether a liability is included in or excluded from the asset group, the associated cash flows should be determined consistently. For example, pension obligations are often excluded from the carrying amount of the asset group. If so, in estimating the cash flows of the asset group, an entity should only include as an operating cash outflow the service cost component of the net periodic pension costs, since the other components would be considered similar to financing costs.

2.3.4 Right-of-Use Assets and Lease Liabilities in Asset Groups

ASC 360-10

<table>
<thead>
<tr>
<th>Pending Content (Transition Guidance: ASC 842-10-65-1)</th>
</tr>
</thead>
<tbody>
<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. Right-of-use assets of lessees</td>
</tr>
<tr>
<td>2. Long-lived assets of lessors subject to operating leases</td>
</tr>
</tbody>
</table>
A lessee must test an ROU asset for impairment in a manner consistent with its treatment of other long-lived assets.

### 2.3.4.1 Entity Is a Lessee in a Finance Lease

For the reasons described in Section 2.3.3, we believe that a lessee would generally exclude a finance lease liability from the carrying amount of the asset group since that liability is akin to debt. Because the finance lease obligation is excluded from the asset group that includes the finance lease ROU asset, the finance lease payments — both principal and interest — should not reduce the undiscounted expected future cash flows used to test the asset group for recoverability.

Therefore, when performing the recoverability test for an asset group that includes a finance lease ROU asset, a lessee would exclude both (1) the finance lease obligation from the carrying value of the asset group and (2) the related lease payments from the undiscounted expected future cash flows. This approach is consistent with how an entity performs the recoverability test for capital lease assets recognized in accordance with ASC 840.

Further, if the asset group fails to pass the first step of the impairment test, the lessee would also exclude the finance lease obligation from the determination of the fair value of the asset group in the second step.

### 2.3.4.2 Entity Is a Lessee in an Operating Lease

Two views have emerged regarding how a lessee should determine the carrying value of an asset group in performing the first step of the impairment test for its operating leases:

- **View 1** — Exclude the operating lease obligation from the carrying amount of the asset group. The basis for this view is that while the lease is classified as an operating lease, the arrangement is viewed as a financing transaction. Therefore, in a manner consistent with the treatment of the lease obligation for a finance lease, the operating lease obligation and related lease payments would be excluded from the first step of the impairment test. Accordingly, the operating lease payments (both principal and interest) would not reduce the undiscounted expected future cash flows used to test the asset group for recoverability.

- **View 2** — Include the operating lease obligation in the carrying amount of the asset group. Because the lease is classified as an operating lease, the related liability is not considered to be a financial liability. Therefore, the operating lease obligation would be included in the determination of the carrying amount of the asset group and the undiscounted expected future cash flows. Accordingly, the operating lease payments should be included as cash outflows in the determination of the undiscounted cash flows for the recoverability test.
In addition, since the total lease expense in an operating lease is presented as a single line item in the income statement, the lease payments include both an interest component and a principal component. As a result, questions have arisen regarding whether the cash outflows related to the operating lease obligation should include only the portion related to principal or that related to both principal and interest (i.e., the full payment). The FASB discussed this topic at its November 30, 2016, meeting. The Board generally agreed that lessees should exclude interest payments from calculations of the undiscounted cash flows in the first step of the impairment test. However, some Board members noted that a lessee's decision to include interest in its impairment analysis could be viewed as an accounting policy election.

Therefore, under View 2, a lessee can use one of the following two approaches:

- **View 2A** — Include only the principal component of lease payments as cash outflows in the undiscounted cash flows of the asset group. This view takes into account how the undiscounted cash flows of a typical financial liability would be determined, which would only include the principal component of the payments. Therefore, in a manner consistent with the guidance in ASC 360-10-35-29, a lessee would exclude the interest component of the lease payments from the asset group's undiscounted cash flows. This is consistent with the Board's view described above.

- **View 2B** — Include the total operating lease payments as cash outflows in the undiscounted cash flows of the asset group. According to this view, the lease liability is not considered to be akin to a financial liability; therefore, in a manner similar to the income statement presentation of operating lease expense as a single lease cost, total operating lease payments are included in the undiscounted cash flows of the asset group.

If a lessee is required to perform the second step of the impairment test because the asset group that includes an operating lease ROU asset fails to pass the first step, the lessee should apply the same approach (i.e., maintain consistency regarding the inclusion or exclusion of the lease liability) when calculating the fair value of the asset group in the second step as the approach it used to determine the carrying amount of the asset group in the first step. Therefore, if a lessee in an operating lease excluded the lease liability when performing the first step of the impairment test (i.e., View 1), the lessee should also exclude the lease liability when determining the fair value of the asset group in the second step of the impairment test. Alternatively, if the lessee included both the ROU asset and lease liability when performing the first step of the impairment test (i.e., View 2), the lessee should also include both the ROU asset and lease liability when determining the fair value of the asset group in the second step of the impairment test. Importantly, regardless of whether an entity applied View 2A or 2B above when performing the first step, the total lease payments should be used for the second step of the impairment test because the cash flows used to determine the asset group's fair value will be discounted.

If the ROU asset related to an operating lease is impaired, the lessee would amortize the remaining ROU asset in accordance with the subsequent-measurement guidance that applies to finance leases — typically, on a straight-line basis over the remaining lease term. Thus, the operating lease would no longer qualify for the straight-line treatment of total lease expense. However, in periods after the impairment, a lessee would continue to present the ROU asset reduction and interest accretion related to the lease liability as a single line item in the income statement.

See Deloitte’s *A Roadmap to Applying the New Leasing Standard* for more information about impairment testing ROU assets after an entity adopts ASC 842.
### 2.3.5 Deferred Taxes in Asset Groups

While ASC 360-10 does not specify whether an entity should use pretax or post-tax cash flows in its recoverability test, many entities perform the recoverability test on a pretax basis. When the entity performs the test by using pretax cash flows, deferred taxes should not be included in the carrying amount of the asset group. Alternatively, if the entity performs the test by using post-tax cash flows, the deferred taxes related to the asset group should be included in the carrying amount of the asset group. The inclusion or exclusion of deferred taxes and the related cash flows generally would not result in a different conclusion in the recoverability test. That is, a deferred tax liability with a carrying value of $200 will reduce the carrying amount of the asset group by $200 but would be expected to have related, undiscounted cash outflows of $200.

In certain instances, tax amounts are directly related to the assets in the asset group. For example, an entity may invest in projects that receive tax incentives in the form of tax credits (e.g., affordable housing projects, projects that produce energy or fuel from alternative, nonconventional sources). The tax aspects of the asset change the economics of the decision to invest in and operate the asset. In these instances, if the entity expects to use the tax credits in its return, it may include the incremental cash flows from the tax credits in the cash flow projection when assessing an asset's recoverability and measuring any impairment. Note that if the entity includes the tax aspects of a transaction in determining the cash flows, it must ensure that it is not recognizing the tax amounts twice in its cash flow determinations (i.e., recognizing the recovery of a deferred tax asset as well as tax credits that result if the transaction occurs).

### 2.3.6 Foreign Currency Translation in Asset Groups

<table>
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#### 45-13
An entity that has committed to a plan that will cause the cumulative translation adjustment for an equity method investment or a consolidated investment in a foreign entity to be reclassified to earnings shall include the cumulative translation adjustment as part of the carrying amount of the investment when evaluating that investment for impairment. The scope of this guidance includes an investment in a foreign entity that is either consolidated by the reporting entity or accounted for by the reporting entity using the equity method. This guidance does not address either of the following:

- Whether the cumulative translation adjustment shall be included in the carrying amount of the investment when assessing impairment for an investment in a foreign entity when the reporting entity does not plan to dispose of the investment (that is, the investment or related consolidated assets are held for use)
- Planned transactions involving foreign investments that, when consummated, will not cause a reclassification of some amount of the cumulative translation adjustment.

#### 45-14
In both cases, paragraph 830-30-40-1 is clear that no basis exists to include the cumulative translation adjustment in an impairment assessment if that assessment does not contemplate a planned sale or liquidation that will cause reclassification of some amount of the cumulative translation adjustment. (If the reclassification will be a partial amount of the cumulative translation adjustment, this guidance contemplates only the cumulative translation adjustment amount subject to reclassification pursuant to paragraphs 830-30-40-2 through 40-4.)

#### 45-15
An entity shall include the portion of the cumulative translation adjustment that represents a gain or loss from an effective hedge of the net investment in a foreign operation as part of the carrying amount of the investment when evaluating that investment for impairment.
As described in ASC 830-30-45-13, an entity does not reclassify a currency translation adjustment (CTA) balance from equity unless it has a clear plan to sell or liquidate the investment in a manner that would trigger the CTA release into earnings. Therefore, an entity should not include the CTA balance in the asset group when testing it for recoverability on a held-and-used basis.

While ASC 830-30-45-13 addresses foreign CTAs, we believe that it is appropriate to analogize to that guidance for all items of accumulated other comprehensive income (AOCI). (See Section 3.4.2 for more information about including AOCI in the disposal group when the assets are held for sale.)

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*.

### 2.3.7 Order of Impairment Testing When an Asset Group Is Held and Used

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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<tbody>
<tr>
<td><strong>35-27</strong> Other than goodwill, the carrying amounts of any assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by this Subtopic that are included in an asset group shall be adjusted in accordance with other applicable generally accepted accounting principles (GAAP) before testing the asset group for recoverability. Paragraph 350-20-35-31 requires that goodwill be tested for impairment only after the carrying amounts of the other assets of the reporting unit, including the long-lived assets covered by this Subtopic, have been tested for impairment under other applicable accounting guidance.</td>
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</table>

As indicated in Section 2.3, an asset 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. When assets other than long-lived assets are present within an asset group, an entity needs to follow a required order when testing the assets in the asset group for impairment. The following flowchart illustrates the order in which an entity is required to test assets for impairment when an asset group is classified as held and used:

1. **Test assets outside the scope of ASC 360-10 (other than goodwill) in accordance with applicable GAAP**
2. **Test the long-lived assets within the scope of ASC 360-10**
3. **Test goodwill in accordance with ASC 350-20 if it is assigned to the asset group**
This order ensures that the carrying amounts of any impaired assets are adjusted before the carrying amount of the asset group is determined. That is, it ensures that any impairments for assets that are tested for impairment individually or at smaller units of account (e.g., receivables, inventory, or indefinite-lived intangible assets) are recognized before assets that are tested by using a larger unit of account. Therefore, an entity should adjust the carrying amount of each asset, if necessary, before performing the next impairment test.

An entity would be expected to routinely assess for impairment, in accordance with applicable GAAP, the assets that would be tested first (i.e., the assets that are outside the scope of ASC 360-10 other than goodwill), regardless of whether a triggering event occurs for the asset group. The fact that these assets are part of an asset group does not change the process for testing them for impairment.

As described further in Section 2.3.2, goodwill is only included in an asset group “if the asset group is or includes a reporting unit” in accordance with ASC 350-20-35-31. However, even if goodwill is not assigned to an asset group, an entity should consider whether the existence of an impairment indicator for one or more of its asset groups may suggest that goodwill is also impaired.

The entity should keep in mind that the required order for testing long-lived assets and goodwill when an asset group is classified as held and used differs from that when a disposal group is classified as held for sale (see Section 3.5.1).

**Connecting the Dots**

The following is a list of assets that would be tested for impairment before the asset group is tested:

- Intangible assets not being amortized that are to be held and used (i.e., indefinite-lived intangible assets) (see ASC 350-30-35).
- Internal-use software (see ASC 350-40-35).
- Servicing assets (see ASC 860-50-35).
- Loans (see ASC 310-10-35).
- Debt securities accounted for at fair market value, other than a temporary decline in the value of financial instruments accounted for at fair market value (see ASC 320-10-35 after adoption of ASU 2016-01).
- Equity securities, not recorded at fair value, without readily determinable fair values (see ASC 321-10-35 after adoption of ASU 2016-01).
- Equity method investments (see ASC 323-10-35).
- Mortgage banking assets (see ASC 948-310-35).
- Deferred policy acquisition costs (see ASC 944-60-25).
- Deferred tax assets (see ASC 740-10-30).
- Unproved oil and gas properties (see ASC 932-360-35).
- Entertainment — broadcasters’ assets (see ASC 920-350-35).
- Entertainment — cable television intangible assets not depreciated (see ASC 922-350-35).
- Entertainment — films (see ASC 926-20-35).
- Entertainment — music (see ASC 928-340-35).
2.3.8 Changes in Asset-Group Determinations

Changes in asset-group determinations should be accounted for prospectively in a manner similar to changes in estimate. Changes in asset-group determinations might result when an entity undergoes a significant change in its operating or reporting structure, has a significant acquisition or disposition, or significantly changes the way in which it uses or deploys its assets.

2.4 Testing Long-Lived Assets for Recoverability

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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<tbody>
<tr>
<td><strong>Long-Lived Assets Classified as Held and Used</strong></td>
</tr>
<tr>
<td><strong>35-16</strong> This guidance addresses how long-lived assets or asset groups that are intended to be held and used in an entity's business shall be reviewed for impairment.</td>
</tr>
<tr>
<td><strong>35-17</strong> An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (see paragraph 360-10-35-33) or under development (see paragraph 360-10-35-34). An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.</td>
</tr>
<tr>
<td><strong>05-6</strong> This Subsection provides guidance that focuses on developing estimates of future cash flows used to test for recoverability, including the:</td>
</tr>
<tr>
<td>a. Cash flow estimation approach</td>
</tr>
<tr>
<td>b. Cash flow estimation period</td>
</tr>
<tr>
<td>c. Types of asset-related expenditures that should be considered in developing estimates of future cash flows.</td>
</tr>
</tbody>
</table>

An asset group is not recoverable if its carrying amount “exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group).” The process of determining whether an asset group is recoverable is generally referred to as the “recoverability test.”

When an asset group is not recoverable, it is necessary to determine its fair value since “an impairment loss shall be measured as the amount by which the carrying amount of the long-lived asset (asset group) exceeds its fair value.”

If the asset group is determined to be recoverable, no impairment loss is recognized even if the carrying value of the asset group exceeds its fair value. However, even if the asset group is determined to be recoverable, an entity should consider whether it should revise the depreciation or amortization estimates for the long-lived assets in the group (see Section 2.7).
2.4.1 Estimates of Future Cash Flows Used to Test Long-Lived Assets for Recoverability

ASC 360-10

35-29 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall include only the future cash flows (cash inflows less associated cash outflows) that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset (asset group). Those estimates shall exclude interest charges that will be recognized as an expense when incurred.

35-30 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity's own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others. However, if alternative courses of action to recover the carrying amount of a long-lived asset (asset group) are under consideration or if a range is estimated for the amount of possible future cash flows associated with the likely course of action, the likelihood of those possible outcomes shall be considered. A probability-weighted approach may be useful in considering the likelihood of those possible outcomes. See Example 2 (paragraph 360-10-55-23) for an illustration of this guidance.

ASC 360-10-35-29 states that “[e]stimates of future cash flows used to test the recoverability of [an asset group should] include only the future cash flows (cash inflows less associated cash outflows) that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the [asset group].”

Not all costs that are directly attributable to an asset group may be allocated to that group for internal reporting purposes. Certain costs directly associated with a specific asset group may be recognized at the corporate level for administrative purposes. For example, advertising expense for a fast-food chain may be identifiable with specific market areas or stores but may be invoiced in the aggregate and recognized at the corporate level. Accordingly, such advertising costs are directly attributable to the asset group and therefore should be included in the entity's cash flow projections. However, other expenses, such as corporate overhead, may not be directly attributable to a particular asset group (e.g., the CEO's salary or rent on the corporate headquarters building) and generally should be excluded from the entity's cash flow estimates.

Since the guidance in ASC 360-10 is relatively limited, an entity may find it challenging and may need to use judgment to identify which cash flows to include in or exclude from the recoverability test.

2.4.1.1 Estimates of Future Cash Flows Are Undiscounted and Based on the Entity's Expected Use of the Asset Group

The cash flows used in the recoverability test are undiscounted and based on the entity's own assumptions about its use and eventual disposition of the asset group. Therefore, the cash flows incorporate the entity's intent regarding how it plans to recover the value of the asset group rather than assessing how a market participant might use and eventually dispose of the asset group. Accordingly, the cash flow amount used in the recoverability test could differ from a fair value measurement by more than just discounting.
Entities are permitted to use either a probability-weighted or a best estimate cash flow approach to test long-lived assets for recoverability (see Section 2.4.3). For example, if the entity is considering alternative courses of action to recover an asset (e.g., either through sale or continued use), it may use a probability-weighted approach and weight the possible scenarios on the basis of its current expectations about the course of action it will take to recover the assets.

Further, the cash flows used in the recoverability test should only include cash flows associated with future expenditures (e.g., repairs and maintenance and replacements) necessary to maintain the existing service potential of the asset group (see Section 2.4.5 for more information).

2.4.1.2 Estimates of Future Cash Flows Arising From the Eventual Disposition of the Asset Group

ASC 360-10-35-29 indicates that in the development of cash flow estimates, the estimates of future cash flows should also include the cash flows that are expected to arise from the eventual disposition of the asset group. Therefore, the undiscounted cash flows should include any estimated sales proceeds from the sale of the asset group at the end of the cash flow estimation period.

The estimated sales proceeds represent the price the entity would expect to receive for the asset group on the basis of its existing service potential as of the assumed disposition date. The entity should use assumptions that would maximize the proceeds that would be received in selling the asset group. That is, in some cases, the asset group sold as a whole would be assumed to receive a greater return than the sale of the assets individually, or vice versa. In addition, an asset group that is a business may be assumed to receive higher proceeds than an asset group that is not a business. However, the entity must continue to use entity-specific assumptions for the recoverability test and should only assume proceeds on the basis of the existing service potential and the entity's use of the asset; such assumptions could differ from market-participant assumptions in some cases.

2.4.1.3 Estimates of Future Cash Flows Should Be Reasonable

ASC 360-10 does not place any specific limits on the growth assumptions used in the recoverability test. However, ASC 360-10-35-30 states that the assumptions used to develop cash flow estimates should be “reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others.” In addition, the entity should ensure that the projections are consistent with those used to test goodwill for impairment and to assess the recoverability of deferred tax assets and that they are in line with other data such as industry growth rates and trends. Thus, if an entity has a reasonable basis for assuming that prices or volumes will increase from current levels, it is appropriate for the entity to reflect such growth assumptions in the cash flow estimates.
In SAB Topic 5.CC, the SEC staff expresses its views on an entity’s judgments regarding the cash flows used in the recoverability test:

**SEC Staff Accounting Bulletins**

**SAB Topic 5.CC, Impairments** [Reproduced in ASC 360-10-S99-2]

**Question 3:** Has the staff expressed any views with respect to company-determined estimates of cash flows used for assessing and measuring impairment of assets under FASB ASC Topic 360?

**Interpretive Response:** In providing guidance on the development of cash flows for purposes of applying the provisions of that Topic, FASB ASC paragraph 360-10-35-30 indicates that “estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity’s own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others.”

The staff recognizes that various factors, including management’s judgments and assumptions about the business plans and strategies, affect the development of future cash flow projections for purposes of applying FASB ASC Topic 360. The staff, however, cautions registrants that the judgments and assumptions made for purposes of applying FASB ASC Topic 360 must be consistent with other financial statement calculations and disclosures and disclosures in MD&A. The staff also expects that forecasts made for purposes of applying FASB ASC Topic 360 be consistent with other forward-looking information prepared by the company, such as that used for internal budgets, incentive compensation plans, discussions with lenders or third parties, and/or reporting to management or the board of directors.

For example, the staff has reviewed a fact pattern where a registrant developed cash flow projections for purposes of applying the provisions of FASB ASC Topic 360 using one set of assumptions and utilized a second, more conservative set of assumptions for purposes of determining whether deferred tax valuation allowances were necessary when applying the provisions of FASB ASC Topic 740, Income Taxes. In this case, the staff objected to the use of inconsistent assumptions.

In addition to disclosure of key assumptions used in the development of cash flow projections, the staff also has required discussion in MD&A of the implications of assumptions. For example, do the projections indicate that a company is likely to violate debt covenants in the future? What are the ramifications to the cash flow projections used in the impairment analysis? If growth rates used in the impairment analysis are lower than those used by outside analysts, has the company had discussions with the analysts regarding their overly optimistic projections? Has the company appropriately informed the market and its shareholders of its reduced expectations for the future that are sufficient to cause an impairment charge? The staff believes that cash flow projections used in the impairment analysis must be both internally consistent with the company’s other projections and externally consistent with financial statement and other public disclosures.

An entity in bankruptcy may use projections from its reorganization plan to determine future cash flows provided that (1) the reorganization has been confirmed by the bankruptcy court or (2) management (following the advice of counsel) believes the reorganization will be approved by the bankruptcy court. The cash flow estimates the entity uses for recoverability testing may extend beyond the expected bankruptcy filing and emergence date provided that the entity can support the estimates upon emergence from bankruptcy. However, an entity should carefully consider the factors that led it to file for bankruptcy and should ensure that any forecasts beyond the emergence date are reasonable given the circumstances. In addition, the entity may want to use a probability-weighted approach to estimate cash flows (see Section 2.4.3), possibly factoring in a sale of the assets if the entity were not to obtain the needed financing or emerge from bankruptcy.
Connecting the Dots

ASC 930-360-35-1 and 35-2 provide specific guidance on estimating future cash flows (both undiscounted and discounted) to determine whether a mining entity’s value beyond proven and probable reserves is impaired:

**35-1** An entity shall include the cash flows associated with value beyond proven and probable reserves in estimates of future cash flows (both undiscounted and discounted) used for determining whether a mining asset is impaired under paragraphs 360-10-15-3 through 15-5. Estimated cash flows also shall include the estimated cash outflows required to develop and extract the value beyond proven and probable reserves.

**35-2** An entity shall consider the effects of anticipated fluctuations in the market price of minerals when estimating future cash flows (both undiscounted and discounted) used for determining whether a mining asset is impaired under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10. Estimates of those effects shall be consistent with estimates of a market participant. Generally, an entity shall consider all available information including current prices, historical averages, and forward pricing curves. Those marketplace assumptions typically shall be consistent with an entity’s operating plans and financial projections underlying other aspects of the impairment analysis (for example, amount and timing of production). It generally would be inappropriate for an entity to use a single factor, such as the current price or a historical average, as a surrogate for estimating future prices without considering other information that a market participant would consider.

### 2.4.1.4 Interest Charges

ASC 360-10-35-29 clarifies that the estimates of future cash flows should “exclude interest charges that will be recognized as an expense when incurred” to ensure that two entities with essentially the same assets (asset groups) and cash flows do not have different assessments of recoverability as a result of differences in their capital structures. Therefore, interest charges should not be included in the cash flows when the assets are in use (see Section 2.4.5) but capitalized interest should be included when assets are under development (see Section 2.4.6). (Also see Section 2.3.3 for a discussion of debt in asset groups.)

### 2.4.2 Cash Flow Estimates Based on Facts and Circumstances That Exist as of the Testing Date

Estimates of future cash flows used to test recoverability of an asset group should take into account the facts and circumstances that exist as of the testing date. For example, assume that an entity concludes that it has a triggering event as of its fiscal year-end and performs a recoverability test as of that date in the subsequent period. While performing the test and while having no intention of disposing of the asset group, the entity receives and accepts an unsolicited offer for the asset group. In performing the required recoverability test on a held-and-used basis, since the entity had no intention of disposing of the asset group as of the testing date, it should not assume that the asset group would be sold (or use a probability-weighted approach and include a sale as one of the scenarios) (see Section 2.4.3).
2.4.3 Probability-Weighted and Best-Estimate Cash Flow Approaches

Entities are permitted to use either a best-estimate approach or a probability-weighted approach to estimating future cash flows. ASC 360-10-35-30 states, in part:

However, if alternative courses of action to recover the carrying amount of a long-lived asset (asset group) are under consideration or if a range is estimated for the amount of possible future cash flows associated with the likely course of action, the likelihood of those possible outcomes shall be considered. A probability-weighted approach may be useful in considering the likelihood of those possible outcomes.

An entity often uses a best-estimate approach when (1) operations are stable and (2) the entity is not considering alternative courses of action to recover an asset. However, when the entity is considering alternatives, such as selling an asset group, or is encountering economic difficulties, an entity might more often use a probability-weighted approach. While an entity is not required to use a probability-weighted approach, if it chooses to use a best-estimate approach, it should ensure that the cash flows used in the recoverability test comply with ASC 360-10-35-30. Specifically, ASC 360-10-35-30 states that if alternative courses of action are under consideration, “the likelihood of those possible outcomes shall be considered.” An entity is not precluded from using different approaches for different asset groups if management is considering different alternatives for one asset group but not for others.

One of the impairment indicators in ASC 360-10-35-21 is “[a] current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.” Therefore, entities often perform a recoverability test because they are considering selling an asset group but have not yet met the held-for-sale classification criteria. ASC 360-10-55-23 through 55-29 contain an example illustrating the probability-weighted approach for developing estimates of future cash flows when an entity is considering selling an asset group.

<table>
<thead>
<tr>
<th>ASC 360-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Example 2: Probability-Weighted Cash Flows</strong></td>
</tr>
<tr>
<td><strong>55-23</strong> This Example illustrates the use of a probability-weighted approach for developing estimates of future cash flows used to test a long-lived asset for recoverability when alternative courses of action are under consideration (see paragraph 360-10-35-30). This Example has the following Cases:</td>
</tr>
<tr>
<td>a. Probability-weighted cash flows (Case A)</td>
</tr>
<tr>
<td>b. Expected cash flows technique (Case B).</td>
</tr>
<tr>
<td><strong>55-24</strong> Cases A and B share all of the following assumptions.</td>
</tr>
<tr>
<td><strong>55-25</strong> As of December 31, 20X2, a manufacturing facility with a carrying amount of $48 million is tested for recoverability. At that date, 2 courses of action to recover the carrying amount of the facility are under consideration — sell in 2 years or sell in 10 years (at the end of its remaining useful life).</td>
</tr>
<tr>
<td><strong>55-26</strong> The possible cash flows associated with each of those courses of action are $41 million and $48.7 million, respectively. They are developed based on entity-specific assumptions about future sales (volume and price) and costs in varying scenarios that consider the likelihood that existing customer relationships will continue, changes in economic (market) conditions, and other relevant factors.</td>
</tr>
</tbody>
</table>
ASC 360-10 (continued)

Case A: Probability-Weighted Cash Flows

55-27 The following table shows the possible cash flows associated with each of the courses of action — sell in 2 years or sell in 10 years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell in 2 years</td>
<td>$8</td>
<td>$30</td>
<td>$38</td>
<td>20%</td>
<td>$7.6</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>30</td>
<td>41</td>
<td>50</td>
<td>20.5</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>30</td>
<td>43</td>
<td>30</td>
<td>12.9</td>
</tr>
<tr>
<td>Sell in 10 years</td>
<td>36</td>
<td>1</td>
<td>37</td>
<td>20%</td>
<td>$41.0</td>
</tr>
<tr>
<td></td>
<td>48</td>
<td>1</td>
<td>49</td>
<td>50</td>
<td>24.5</td>
</tr>
<tr>
<td></td>
<td>55</td>
<td>1</td>
<td>56</td>
<td>30</td>
<td>16.8</td>
</tr>
</tbody>
</table>

55-28 As further indicated in the following table, there is a 60 percent probability that the facility will be sold in 2 years and a 40 percent probability that the facility will be sold in 10 years.

<table>
<thead>
<tr>
<th>Course of Action</th>
<th>Possible Cash Flows (Probability-Weighted) (in $ millions)</th>
<th>Probability Assessment (Course of Action)</th>
<th>Expected Cash Flows (Undiscounted) (in $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell in 2 years</td>
<td>$41.0</td>
<td>60%</td>
<td>$24.6</td>
</tr>
<tr>
<td>Sell in 10 years</td>
<td>48.7</td>
<td>40</td>
<td>19.5</td>
</tr>
</tbody>
</table>

Case B: Expected Cash Flows Technique

55-30 This Case illustrates the application of an expected present value technique to estimate the fair value of a long-lived asset in an impairment situation.
The following table shows by year the computation of the expected cash flows used in the measurement. They reflect the possible cash flows (probability-weighted) used to test the manufacturing facility for recoverability in Case A, adjusted for relevant marketplace assumptions, which increases the possible cash flows in total by approximately 15 percent.

<table>
<thead>
<tr>
<th>Year</th>
<th>Possible Cash Flows (Market) (in $ millions)</th>
<th>Probability Assessment</th>
<th>Expected Cash Flows (Undiscounted) (in $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$ 4.6</td>
<td>20%</td>
<td>$ 0.9</td>
</tr>
<tr>
<td></td>
<td>6.3</td>
<td>50</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>7.5</td>
<td>30</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 6.4</td>
</tr>
<tr>
<td>2</td>
<td>$ 4.6</td>
<td>20%</td>
<td>$ 0.9</td>
</tr>
<tr>
<td></td>
<td>6.3</td>
<td>50</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>7.5</td>
<td>30</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 6.4</td>
</tr>
<tr>
<td>3</td>
<td>$ 4.3</td>
<td>20%</td>
<td>$ 0.9</td>
</tr>
<tr>
<td></td>
<td>5.8</td>
<td>50</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>6.7</td>
<td>30</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.8</td>
</tr>
<tr>
<td>Year</td>
<td>Possible Cash Flows (Market) (in $ millions)</td>
<td>Probability Assessment</td>
<td>Expected Cash Flows (Undiscounted) (in $ millions)</td>
</tr>
<tr>
<td>------</td>
<td>------------------------------------------</td>
<td>------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>4</td>
<td>$ 4.3</td>
<td>20%</td>
<td>$ 0.9</td>
</tr>
<tr>
<td></td>
<td>5.8</td>
<td>50</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>6.7</td>
<td>30</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.8</td>
</tr>
<tr>
<td>5</td>
<td>$ 4.0</td>
<td>20%</td>
<td>$ 0.8</td>
</tr>
<tr>
<td></td>
<td>5.4</td>
<td>50</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>6.4</td>
<td>30</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.4</td>
</tr>
<tr>
<td>6</td>
<td>$ 4.0</td>
<td>20%</td>
<td>$ 0.8</td>
</tr>
<tr>
<td></td>
<td>5.4</td>
<td>50</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>6.4</td>
<td>30</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.4</td>
</tr>
<tr>
<td>7</td>
<td>$ 3.9</td>
<td>20%</td>
<td>$ 0.8</td>
</tr>
<tr>
<td></td>
<td>5.1</td>
<td>50</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>5.6</td>
<td>30</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.1</td>
</tr>
<tr>
<td>8</td>
<td>$ 3.9</td>
<td>20%</td>
<td>$ 0.8</td>
</tr>
<tr>
<td></td>
<td>5.1</td>
<td>50</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>5.6</td>
<td>30</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.1</td>
</tr>
<tr>
<td>9</td>
<td>$ 3.9</td>
<td>20%</td>
<td>$ 0.8</td>
</tr>
<tr>
<td></td>
<td>5.0</td>
<td>50</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>5.5</td>
<td>30</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 5.0</td>
</tr>
<tr>
<td>10</td>
<td>$ 4.9</td>
<td>20%</td>
<td>$ 1.0</td>
</tr>
<tr>
<td></td>
<td>6.0</td>
<td>50</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>6.5</td>
<td>30</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 6.0</td>
</tr>
</tbody>
</table>
The following table shows the computation of the expected present value; that is, the sum of the present values of the expected cash flows by year, each discounted at a risk-free interest rate determined from the yield curve for U.S. Treasury instruments. In this case, a market risk premium is included in the expected cash flows; that is, the cash flows are certainty equivalent cash flows. As shown, the expected present value is $42.3 million, which is less than the carrying amount of $48 million. In accordance with paragraph 360-10-35-17 the entity would recognize an impairment loss of $5.7 million.

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected Cash Flows (Undiscounted) (in $ millions)</th>
<th>Risk-Free Rate of Interest</th>
<th>Expected Present Value (in $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$ 6.4</td>
<td>5.0%</td>
<td>$ 6.1</td>
</tr>
<tr>
<td>2</td>
<td>6.4</td>
<td>5.1</td>
<td>5.8</td>
</tr>
<tr>
<td>3</td>
<td>5.8</td>
<td>5.2</td>
<td>5.0</td>
</tr>
<tr>
<td>4</td>
<td>5.8</td>
<td>5.4</td>
<td>4.7</td>
</tr>
<tr>
<td>5</td>
<td>5.4</td>
<td>5.6</td>
<td>4.1</td>
</tr>
<tr>
<td>6</td>
<td>5.4</td>
<td>5.8</td>
<td>3.9</td>
</tr>
<tr>
<td>7</td>
<td>5.1</td>
<td>6.0</td>
<td>3.4</td>
</tr>
<tr>
<td>8</td>
<td>5.1</td>
<td>6.2</td>
<td>3.2</td>
</tr>
<tr>
<td>9</td>
<td>5.0</td>
<td>6.4</td>
<td>2.9</td>
</tr>
<tr>
<td>10</td>
<td>6.0</td>
<td>6.6</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>$ 56.4</td>
<td></td>
<td>$ 42.3</td>
</tr>
</tbody>
</table>

### 2.4.4 Primary Asset and the Cash Flow Estimation Period

Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall be made for the remaining useful life of the asset (asset group) to the entity. The remaining useful life of an asset group shall be based on the remaining useful life of the primary asset of the group. For purposes of this Subtopic, the primary asset is the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity. The primary asset of an asset group therefore cannot be land or an intangible asset not being amortized.

Factors that an entity generally shall consider in determining whether a long-lived asset is the primary asset of an asset group include the following:

- Whether other assets of the group would have been acquired by the entity without the asset
- The level of investment that would be required to replace the asset
- The remaining useful life of the asset relative to other assets of the group. If the primary asset is not the asset of the group with the longest remaining useful life, estimates of future cash flows for the group shall assume the sale of the group at the end of the remaining useful life of the primary asset.
The period over which an entity should estimate cash flows when performing the recoverability test should correspond to the asset's remaining useful life to the entity. When long-lived assets with different remaining useful lives are grouped together to form an asset group, the cash flow estimation period for the group is based on the remaining useful life of the primary asset of the group to the entity.

The primary asset is "the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity." To prevent an entity from estimating cash flows over an unlimited period, the primary asset must be an asset with a finite useful life and therefore cannot be land, goodwill, an indefinite-lived intangible asset, or an internally generated intangible asset that has been expensed as incurred.

The primary asset is typically the asset in the asset group that has the longest remaining useful life to the entity, would require the highest level of investment to replace, and without which some or all of the other assets of the group might not have continuing service potential. The primary asset is not always the asset with the longest remaining useful life. ASC 360-10-35-32(c) states that if the primary asset is not the asset that has the longest remaining useful life, estimates of future cash flows for the group should be based on the assumption that the group will be sold “at the end of the remaining useful life of the primary asset.” In some cases, identifying the primary asset is relatively straightforward, but in other cases it may be challenging, especially when multiple long-lived assets appear crucial to generating the cash flows of the asset group. Entities will therefore need to apply judgment in such situations.

If the entity determines that it must change the depreciation or amortization period for one or more of its assets, it must use the revised useful life in developing its cash flow estimates. For example, if, concurrently with the triggering event, the entity determines that it must shorten the useful life of the primary asset from five years to three years, the undiscounted cash flows should be determined for the revised useful life of the primary asset, which would be three years. See Section 2.7 for more information.

### 2.4.5 Expenditures for Assets That Are in Use

| ASC 360-10-35-33 | Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is in use, including a long-lived asset (asset group) for which development is substantially complete, shall be based on the existing service potential of the asset (asset group) at the date it is tested. The service potential of a long-lived asset (asset group) encompasses its remaining useful life, cash-flow-generating capacity, and for tangible assets, physical output capacity. Those estimates shall include cash flows associated with future expenditures necessary to maintain the existing service potential of a long-lived asset (asset group), including those that replace the service potential of component parts of a long-lived asset (for example, the roof of a building) and component assets other than the primary asset of an asset group. Those estimates shall exclude cash flows associated with future capital expenditures that would increase the service potential of a long-lived asset (asset group). |
ASC 360-10 requires that the cash flows used in the recoverability test for an asset group that is in use (including an asset group for which development is substantially complete) be based on the existing service potential of an asset group as of the date on which it is tested.

Paragraph B29 of the Background Information and Basis for Conclusions of FASB Statement 144 states that “estimates of future cash flows used to test recoverability should include cash flows (including estimated salvage values) associated with asset-related expenditures that replace (a) component parts of a long-lived asset or (b) component assets (other than the primary asset) of an asset group, whether those expenditures would be recognized as an expense or capitalized in future periods.” However, paragraph B28 states that such estimates should exclude “the cash flows associated with asset-related expenditures that would enhance the existing service potential of a long-lived asset (asset group) that is in use.” Cash flow estimates should be based on the existing service potential of the asset group and therefore should include cash flows associated with future expenditures (e.g., repairs and maintenance and replacements) necessary to maintain the service potential of the asset group. Accordingly, if the entity's budgets and forecasts assume major capital improvements or expansion rather than maintenance and capital replacements, an entity should not use such budgets and forecasts as the basis for the cash flow estimate in assessing impairment.

Connecting the Dots
ASC 360-10 provides no guidance on determining at what point a long-lived asset (asset group) in development is “substantially complete.” We believe that, in such circumstances, an entity should look to the guidance in ASC 835-20-25-5, which states:

The capitalization period shall end when the asset is substantially complete and ready for its intended use. Consider the capitalization period that is appropriate in each of the following examples:

a. Some assets are completed in parts, and each part is capable of being used independently while work is continuing on other parts. An example is a condominium. For such assets, interest capitalization shall stop on each part when it is substantially complete and ready for use.

b. Some assets must be completed in their entirety before any part of the asset can be used. An example is a facility designed to manufacture products by sequential processes. For such assets, interest capitalization shall continue until the entire asset is substantially complete and ready for use.

c. Some assets cannot be used effectively until a separate facility has been completed. Examples are the oil wells drilled in Alaska before completion of the pipeline. For such assets, interest capitalization shall continue until the separate facility is substantially complete and ready for use.

ASC 835-20-26-6 also states that an asset may be considered substantially complete when the “completion of the asset is intentionally delayed.”

2.4.6 Expenditures for Assets That Are Under Development

<table>
<thead>
<tr>
<th>ASC 360-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-34 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is under development shall be based on the expected service potential of the asset (group) when development is substantially complete. Those estimates shall include cash flows associated with all future expenditures necessary to develop a long-lived asset (asset group), including interest payments that will be capitalized as part of the cost of the asset (asset group). Subtopic 835-20 requires the capitalization period to end when the asset is substantially complete and ready for its intended use.</td>
</tr>
</tbody>
</table>
Paragraph B31 of the Background Information and Basis for Conclusions of FASB in Statement 144 states, in part:

The Board observed that in contrast to a long-lived asset (asset group) that is in use, a long-lived asset (asset group) that is under development will not provide service potential until development is substantially complete. The Board decided that such an asset (asset group) should be tested for recoverability based on its expected service potential.

Therefore, ASC 360-10-35-35 requires that estimates of future cash flows used in the recoverability test include the cash flows (cash outflows and cash inflows) associated with all future asset-related expenditures necessary to develop the asset group, regardless of whether those expenditures would be recognized as an expense or capitalized in future periods.

While ASC 360-10-35-29 requires that cash flow estimates used in a recoverability test exclude interest payments that will be recognized as an expense when incurred, the cash flow estimates for asset groups under development should include interest payments that will be capitalized in accordance with ASC 835-20 as part of the cost of the assets in the group. Paragraph B32 of the Background Information and Basis for Conclusions of FASB Statement 144 states, in part:

The Board reasoned that for a long-lived asset (asset group) that is under development, there is no difference between interest payments and other asset-related expenditures that would be capitalized in future periods. Therefore, the Board decided that estimates of future cash flows used to test a long-lived asset (asset group) for recoverability should exclude only those interest payments that would be recognized as an expense when incurred.

Further, ASC 360-10-35-35 states that “If a long-lived asset that is under development is part of an asset group that is in use, estimates of future cash flows used to test the recoverability of that group shall include” future asset-related expenditures needed to (1) “substantially complete the asset that is under development” and (2) maintain the existing service potential of the other assets that are in use. ASC 360-10 includes an example illustrating this concept.
ASC 360-10 (continued)

55-34 An entity engaged in mining and selling phosphate estimates future cash flows from its commercially minable phosphate deposits in order to test the recoverability of the asset group that includes the mine and related long-lived assets (plant and equipment). Deposits from the mined rock must be processed in order to extract the phosphate. As the active mining area expands along the geological structure of the mine, a new processing plant is constructed near the production area. Depending on the size of the mine, extracting the minable deposits may require building numerous processing plants over the life of the mine. In testing the recoverability of the mine and related long-lived assets, the estimates of future cash flows from its commercially minable phosphate deposits would include cash flows associated with future expenditures necessary to build all of the required processing plants.

Example 2-1

Entity D designs, develops, and manufactures components for high-speed optical networks. The majority of D's customers are building communication infrastructures. In December 20X1, D purchased a plot of land in an industrial complex, intending to build a state-of-the-art production facility for D's integrated circuit and module products. Construction of the new facility began in March 20X2 and is expected to be completed by the end of August 20X2. In June 20X2, a number of D's customers announced plans to cut the level of capital expenditures related to their infrastructure buildout and D has received several order cancellations. As of June 30, 20X2, because of the significant change in business climate, D has determined that it is required to assess the recoverability of the new production facility in accordance with ASC 360-10-35-21(c).

ASC 360-10-35-34 requires that estimates of future cash flows for the partially completed production facility include all cash outflows associated with the completion of the facility, including any interest payments that would be capitalized as part of the facility. Therefore, D should include the remaining costs associated with completing the production facility in its estimates of future cash flows when assessing the asset group for recoverability. In addition, D will need to include any payments to maintain the existing service potential related to the facility once it is open for production. Entity D's estimates of future cash flows used to test the recoverability of the facility should be based on its expected useful life.

2.4.7 Certain Site Restoration and Environmental Exit Costs

ASC 360-10-55 provides detailed guidance on how an entity should treat site restoration and environmental exit costs when testing an asset group for recoverability. It lists indicators for when the cash flows for environmental exit costs would or would not be included in the cash flows used for recoverability testing.
ASC 360-10 (continued)

55-2 For certain assets covered by this Subtopic, costs for future site restoration or closure (environmental exit costs) may be incurred if the asset is sold, is abandoned, or ceases operations. Environmental exit costs within the scope of this Subsection include:
   a. Asset retirement costs recognized pursuant to Subtopic 410-20
   b. Asset retirement costs that have not been recognized because the obligation has not been incurred
   c. Certain environmental remediation costs that have not yet been recognized as a liability pursuant to Subtopic 410-30.

55-3 Pursuant to Subtopic 410-20, asset retirement costs may be incurred over more than one reporting period. For example, the liability for performing certain capping, closure, and postclosure activities in connection with operating a landfill is incurred as the landfill receives waste.

55-4 The related cash flows, if any, might not occur until the end of the asset's life if the asset ceases operations, or they might be deferred indefinitely as long as the asset is not sold or abandoned.

55-5 The issue is whether the cash flows associated with environmental exit costs that may be incurred if a long-lived asset is sold, is abandoned, or ceases operations should be included in the undiscounted expected future cash flows used to test a long-lived asset for recoverability under this Subtopic.

55-6 For environmental exit costs that have not been recognized as a liability for accounting purposes, whether those environmental exit costs shall be included in the undiscounted expected future cash flows used to test a long-lived asset for recoverability under this Subtopic depends on management's intent with respect to the asset. Pursuant to this Subtopic, if management's intent contemplates alternative courses of action to recover the carrying amount of the asset or if a range is estimated for the amount of possible future cash flows, the likelihood of those possible outcomes shall be considered. Examples of management's intent and the corresponding treatment of the environmental exit costs in this Subtopic's recoverability test are described below. (Environmental remediation costs discussed in certain of these cases refer to environmental remediation costs that have not yet been recognized as a liability pursuant to Subtopic 410-30.) This paragraph illustrates the guidance in paragraphs 360-10-35-29 through 35-35 on estimating future cash flows used to test a long-lived asset for recoverability.

Environmental Exit Costs That Shall Be Excluded From This Subtopic's Recoverability Test

55-7 The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. In all of the following situations, environmental exit costs would be excluded from this Subtopic's recoverability test.

Management Intends to Operate Asset, Future Cash Flows Exceed Carrying Amount, and No Expectation of Cash Outflow in Disposition

55-8 Management intends to operate the asset for at least the asset's remaining depreciable life, the sum of the undiscounted future cash flows expected from the asset's use during that period exceeds the asset's carrying amount including any associated goodwill, and management has no reason to believe that the asset's eventual disposition will result in a net cash outflow.

Management Expects to Operate Asset, Asset Generating Positive Cash Flows, Profitability Expected to Continue, and No Constraints on Economic Life

55-9 Management expects to operate the asset indefinitely and has the ability to do so, the asset is generating positive cash flows, management's best information indicates that the asset will continue to be profitable in the future, and there are no known constraints to the asset's economic life. This Subtopic's recoverability test shall include the future cash outflows for repairs, maintenance, and capital expenditures necessary to obtain the future cash inflows expected to be generated by the asset based on its existing service potential.
Chapter 2 — Long-Lived Assets Classified as Held and Used

ASC 360-10 (continued)

Asset Has Finite Life but Remediation Costs Only Incurred if Asset Sold or Abandoned

55-10 The asset has a finite economic life, but environmental remediation costs will only be incurred if the asset is sold or abandoned. At the end of the asset's life, management intends either to close the asset permanently because the costs of remediating the asset exceed the proceeds that likely would be received if the asset were sold or, alternatively, to idle the asset by reducing production to a minimal or nominal amount. (Although the environmental remediation costs are excluded from this Subtopic's recoverability test, the recoverability test shall incorporate the entity's own assumptions about its use of the asset. That is, the recoverability test shall consider the likelihood of the alternative courses of action [either closing or idling the asset] and the resulting cash flows associated with those alternative courses.)

Management Expects to Sell Asset and Remediation Costs Not Required

55-11 Management expects to sell the asset in the future, and the asset's sale will not require the environmental remediation costs to be incurred. (Although the environmental remediation costs are excluded from this Subtopic's recoverability test, the fair value of the asset is likely to be affected by the existence of those costs. The diminished fair value shall be considered in estimating the cash flows expected to arise from the eventual sale of the asset.)

Environmental Exit Costs That Shall Be Included in This Subtopic's Recoverability Test

55-12 The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. In all of the following situations, environmental exit costs would be included in this Subtopic's recoverability test.

Management Expects Remediation Costs to Be Incurred but Uncertainties Exist in Application of Laws

55-13 Management expects to take a future action related to the asset that may cause the environmental remediation costs to be incurred. However, uncertainties or inconsistencies exist in how the related laws or regulatory requirements are applied. Management estimates, based on the weight of the available evidence, a 60 percent chance that the remediation costs will not be incurred and a 40 percent chance that those costs will be incurred. Pursuant to this Subtopic, other situations may exist in which cash flows are estimated using a single set or best estimate of cash flows.

Useful Life Limited and Then Asset Disposition Required

55-14 The useful life of the asset is limited as a result of any of the following:

a. Actual or expected technological advances
b. Contractual provisions
c. Regulatory restrictions.

Also, when the asset's service potential has ended, management will be required to dispose of the asset under paragraph 360-10-55-16 or 360-10-55-17.

Continuing Losses May Require Asset Disposition

55-15 The asset has a current period cash flow loss from operations combined with a projection or forecast that anticipates continuing losses. Management expects the asset to achieve profitability in the future but uncertainty exists about management's ability to fund the future cash outflows up to the time that net cash inflows are expected from the asset's use. In the event of a forced liquidation, management would likely dispose of the asset under the following paragraph or paragraph 360-10-55-17.

Intent to Abandon or Close an Asset

55-16 Management intends to abandon or close the asset in the future, and the event of abandonment or closure will cause the environmental remediation costs to be incurred.
Future Sale Will Require Remediation Costs to Be Incurred

Management intends to sell the asset in the future, and the applicable laws, regulations, or interpretations thereof require that appropriate environmental remediation (not within the scope of Subtopic 410-20) occur in connection with the sale.

Management Expects to Operate Asset and Retirement Costs to Be Incurred Over Its Life

Management expects to operate the asset for the remainder of its useful life. Related asset retirement costs are incurred over the life of the asset (for example, the operation of a landfill). Estimated cash flows associated with the asset retirement costs yet to be incurred and recognized shall be included in this Subtopic’s recoverability test.

For more information about the accounting for environmental obligations, see Deloitte’s *A Roadmap to Accounting for Environmental Obligations and Asset Retirement Obligations*.

### 2.4.8 Assets Subject to Asset Retirement Obligations

The initial liability for an asset retirement obligation is recognized, and a corresponding amount is added to the carrying amount of the related long-lived asset. The liability is adjusted in each period to reflect the passage of time (i.e., accretion expense) and any changes in the estimated future cash flows underlying the initial fair value measurement.

ASC 360-10-35-18 requires that “the carrying amount of the asset being tested for impairment . . . include amounts of capitalized asset retirement costs.” However, the asset retirement obligation liability should be excluded from the asset group. Accordingly, the estimates of future cash outflows associated with the asset retirement obligation liability should also be excluded from the impairment test. In addition, ASC 360-10 requires that an adjustment (an increase) be made to the fair value of the asset group if that fair value takes into account the costs that will be incurred in retiring that asset.

For more information about the accounting for asset retirement obligations, see Deloitte’s *A Roadmap to Accounting for Environmental Obligations and Asset Retirement Obligations*. 
2.5 Measurement of an Impairment Loss

ASC 360-10 defines impairment as “the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.” When an entity determines that the carrying amount of the asset group is not recoverable because the undiscounted cash flows used in the recoverability test are less than its carrying amount, an impairment loss is measured as the amount by which the carrying amount exceeds fair value. An impairment loss is allocated to the long-lived assets within the scope of ASC 360-10 “on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort.”

**Bridging the GAAP**

Under IAS 36, if impairment indicators exist, an entity applies a one-step approach in calculating a CGU impairment. That is, the amount by which the carrying value of the asset or CGU exceeds the recoverable amount is recorded as an impairment loss. The recoverable amount for impairment (whether property, plant, and equipment (PP&E); intangibles; or goodwill) is defined as the greater of:

- The asset's or CGU's fair value less costs to sell.
- The sum of future discounted cash flows, including the disposal value (also referred to as the value in use).

2.5.1 Determining the Fair Value of an Asset Group

The fair value of an asset group and the individual assets is measured in accordance with ASC 820, which establishes a framework for measuring fair value and requires disclosures about fair value measurements. Below is a brief overview of the principles of ASC 820. For detailed information about measuring fair value, see Deloitte’s *A Roadmap to Fair Value Measurements and Disclosures (Including the Fair Value Option).*
2.5.1.1 Exit Price

ASC 820-10-20 defines fair value as the “price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” Thus, a fair value measurement is an “exit price.” The exit price for an asset or liability conceptually differs from its transaction price, which is an entry price. While an exit price and an entry price could be the same in many situations, a transaction price cannot be presumed to represent the fair value of an asset or liability.

2.5.1.2 Unit of Valuation Versus Unit of Account

The unit of valuation is the grouping of assets, liabilities, or equity instruments for fair value measurement purposes. ASC 820 provides guidance on determining the unit of valuation. The unit of valuation (also referred to as the “valuation premise”) for nonfinancial assets is the asset's highest and best use. The highest and best use of an asset might provide maximum value through its use either (1) in combination with other assets or other assets and liabilities or (2) on a stand-alone basis.

The unit of account represents the level of aggregation or disaggregation of individual assets, liabilities, or equity instruments for recognition in the financial statements and is generally determined on the basis of the guidance in the Codification topics. Under ASC 360-10, the unit of account for impairment testing is the asset group (or the disposal group when assets are held for sale). However, the asset group is not the unit of account for recognition purposes when the assets are held and used (but is the unit of account when the disposal group is held for sale). Rather, each of the individual long-lived assets represents a single unit of account. Therefore, in accordance with ASC 360-10-35-28, an entity must allocate the difference between the fair value of the asset group and the carrying amount of the asset group (i.e., the amount of impairment) to individual long-lived assets within the asset group. This allocation is required even if the unit of valuation for fair value measurement purposes is the asset group.

While the unit of account may differ conceptually from the unit of valuation, the unit of account for testing the impairment of the asset group generally will be the same as the unit of valuation. If the entity determines that the unit of valuation should differ from the asset group (i.e., the highest and best use of an asset group would be to group it together with other assets and, possibly, liabilities), it should reconsider whether it has properly identified its asset groups.

2.5.1.3 Highest and Best Use

When determining the fair value of an asset group, an entity must consider the highest and best use of the nonfinancial asset(s) from a market-participant perspective. ASC 820-10-35-10C states that the “highest and best use is determined from the perspective of market participants, even if the reporting entity intends a different use,” but clarifies that “a reporting entity's current use of a nonfinancial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.”
2.5.1.4 **Market Participants**

To meet the fair value measurement objective in ASC 820, an entity must develop assumptions that market participants would use to determine the price of an asset, liability, or equity instrument in an orderly transaction as of the measurement date. ASC 820 defines the term “market participants” as follows:

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms.

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

c. They are able to enter into a transaction for the asset or liability.

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

2.5.1.5 **Principal (or Most Advantageous) Market**

Underlying the fair value measurement objective in ASC 820 is the concept of an entity transacting in the principal market for the asset or liability (or equity instrument), or in the absence of a principal market, the most advantageous market. ASC master glossary defines the principal market as the “market with the greatest volume and level of activity for the asset or liability” and the most advantageous market as the “market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transportation costs.” The determination of the principal (or most advantageous) market for an asset, liability, or equity instrument can affect the fair value measurement since the exit price may differ from market to market. The concept of the most advantageous market is relevant only if there is no principal market for the asset, liability, or equity instrument subject to the fair value measurement.

2.5.1.6 **Valuation Techniques**

An entity measures fair value on the basis of one or more of the three valuation approaches outlined in ASC 820-10-35-24A: (1) the market approach, (2) the income approach, or (3) the cost approach. Further, ASC 820-10-35-24 notes that the entity selects one or more techniques “that are appropriate in the circumstances and for which sufficient data are available” to maximize the use of observable inputs while minimizing the use of unobservable inputs. If multiple techniques are used, the entity should evaluate the resultant range and should select a point within the range that is most representative of fair value.

2.5.2 **Assets Subject to Nonrecourse Debt**

Long-lived assets may include property subject to nonrecourse debt. The fair value of the property should be determined without regard to the nonrecourse provisions. If the carrying amount of the property that reverts back to the lender is less than the amount of nonrecourse debt extinguished, a gain would be recognized on extinguishment. Paragraph B34 of the Background Information and Basis for Conclusions of FASB Statement 144 describes the Board's rationale for requiring such recognition:

The recognition of an impairment loss and the recognition of a gain on the extinguishment of debt are separate events, and each event should be recognized in the period in which it occurs. The Board believes that the recognition of an impairment loss should be based on the measurement of the asset at its fair value and that the existence of nonrecourse debt should not influence that measurement.
2.5.3 Allocating an Impairment Loss to the Assets in the Asset Group

ASC 360-10

35-28 An impairment loss for an asset group shall reduce only the carrying amounts of a long-lived asset or assets of the group. The loss shall be allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. See Example 1 (paragraph 360-10-55-20) for an illustration of this guidance.

If the carrying amount of the asset group exceeds its fair value, an impairment loss is recognized. If the impairment loss is related to an individual long-lived asset, the asset should be reduced to its fair value. If the impairment loss is determined for an asset group, the amount by which the carrying amount exceeds fair value must be allocated to the long-lived assets within the scope of ASC 360-10 “on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort.” Therefore, the impairment loss should not be allocated to goodwill, indefinite-lived intangibles, or other assets that are not within the scope of ASC 360-10, even if those assets are included in the asset group being tested for recoverability. In addition, entities should not reduce the carrying amount of an individual asset below its fair value whenever the fair value is determinable without undue cost and effort. We believe that since FASB Statement 144 was issued, entities have become more comfortable with fair value measurements and that the fair value of most assets therefore should be determinable without undue cost and effort.

If an entity determines that the fair value of one or more of the long-lived assets in the asset group would exceed its adjusted amount if the impairment were allocated to it, the entity should increase the adjusted carrying value for that asset (or assets) to its fair value and allocate that excess to the other long-lived assets in the group.

An outcome in which an entity cannot recognize the entire impairment loss because it would result in recognition of one or more long-lived assets below fair value is not expected. Accordingly, when such an outcome might be initially indicated, we believe that the entity should revisit (1) the determination of the fair value of the asset group, (2) the determination of the fair value of the individual assets within the group when the impairment loss is allocated, and (3) whether any other assets within the asset group that are not within the scope of ASC 360-10 are impaired in accordance with ASC 360-10-35-27 (see Section 2.3.7).

An entity must use the pro rata allocation approach prescribed by ASC 360 for allocating an impairment loss. That is, the entity cannot pick the long-lived assets to which it will allocate an impairment loss while not allocating the loss to other assets. In some cases, the allocation approach could cause the adjusted carrying amount of an asset to exceed the individual asset’s fair value. An entity is not permitted to write that asset down to its individual fair value and increase the carrying amounts of other long-lived assets in the group.
Example 1 from ASC 360-10-55-20 through 55-22 illustrates the allocation of an impairment loss to the long-lived assets within an asset group:

**ASC 360-10**

**Example 1: Allocation of Impairment Loss**

**55-20** This Example illustrates the allocation of an impairment loss to the long-lived assets of an asset group (see paragraph 360-10-35-28).

**55-21** An entity owns a manufacturing facility that together with other assets is tested for recoverability as a group. In addition to long-lived assets (Assets A–D), the asset group includes inventory measured using first-in, first-out (FIFO), which is reported at the lower of cost and net realizable value in accordance with Topic 330, and other current assets and liabilities that are not covered by this Subtopic. The $2.75 million aggregate carrying amount of the asset group is not recoverable and exceeds its fair value by $600,000. In accordance with paragraph 360-10-35-28, the impairment loss of $600,000 would be allocated as shown below to the long-lived assets of the group.

<table>
<thead>
<tr>
<th>Asset Group</th>
<th>Carrying Amount (in $ 000s)</th>
<th>Pro Rata Allocation Factor</th>
<th>Allocation of Impairment (Loss) (in $ 000s)</th>
<th>Adjusted Carrying Amount (in $ 000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$400</td>
<td>-</td>
<td>$-</td>
<td>$400</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(150)</td>
<td>-</td>
<td>-</td>
<td>(150)</td>
</tr>
<tr>
<td>Long-lived assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset A</td>
<td>590</td>
<td>24%</td>
<td>(144)</td>
<td>446</td>
</tr>
<tr>
<td>Asset B</td>
<td>780</td>
<td>31</td>
<td>(186)</td>
<td>594</td>
</tr>
<tr>
<td>Asset C</td>
<td>950</td>
<td>38</td>
<td>(228)</td>
<td>722</td>
</tr>
<tr>
<td>Asset D</td>
<td>180</td>
<td>7</td>
<td>(42)</td>
<td>138</td>
</tr>
<tr>
<td>Subtotal — long-lived assets</td>
<td>2,500</td>
<td>100</td>
<td>(600)</td>
<td>1,900</td>
</tr>
<tr>
<td>Total</td>
<td>$2,750</td>
<td>100%</td>
<td>$ (600)</td>
<td>$2,150</td>
</tr>
</tbody>
</table>
ASC 360-10 (continued)

55-22 If the fair value of an individual long-lived asset of an asset group is determinable without undue cost and effort and exceeds the adjusted carrying amount of that asset after an impairment loss is allocated initially, the excess impairment loss initially allocated to that asset would be reallocated to the other long-lived assets of the group. For example, if the fair value of Asset C is $822,000, the excess impairment loss of $100,000 initially allocated to that asset (based on its adjusted carrying amount of $722,000) would be reallocated as shown below to the other long-lived assets of the group on a pro rata basis using the relative adjusted carrying amounts of those assets.

<table>
<thead>
<tr>
<th>Long-Lived Asset Group</th>
<th>Adjusted Carrying Amount (in $ 000s)</th>
<th>Pro Rata Allocation Factor</th>
<th>Reallocation of Excess Impairment Loss (in $ 000s)</th>
<th>Adjusted Carrying Amount After Reallocation (in $ 000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset A</td>
<td>$ 446</td>
<td>38%</td>
<td>$(38)</td>
<td>$ 408</td>
</tr>
<tr>
<td>Asset B</td>
<td>594</td>
<td>50</td>
<td>(50)</td>
<td>544</td>
</tr>
<tr>
<td>Asset D</td>
<td>138</td>
<td>12</td>
<td>(12)</td>
<td>126</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,178</td>
<td>100%</td>
<td>(100)</td>
<td>1,078</td>
</tr>
<tr>
<td>Asset C</td>
<td>722</td>
<td>100%</td>
<td>100</td>
<td>822</td>
</tr>
<tr>
<td>Total — long-lived assets</td>
<td>$ 1,900</td>
<td></td>
<td>$</td>
<td>$ 1,900</td>
</tr>
</tbody>
</table>

2.6 Adjusted Carrying Amount Becomes New Cost Basis

ASC 360-10

35-20 If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis. For a depreciable long-lived asset, the new cost basis shall be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited.

When an impairment loss is recognized, it is recognized as an adjustment to the cost basis of the asset. Entities may not reverse impairment losses on assets classified as held and used even if the value of the assets subsequently increases.

While the term “new cost basis” is not defined, we believe that it suggests that any previously recognized accumulated depreciation or amortization should be eliminated against the carrying amount of the asset when an impairment loss is recognized for the asset. This is supported by paragraph B34 of the Background Information and Basis for Conclusions of FASB Statement 144, which states that “a decision to continue to use the impaired asset is equivalent to a new asset purchase decision, and a new basis of fair value is appropriate.” Therefore, the new cost basis of an asset is its cost basis just before the recognition of the impairment loss less (1) the accumulated depreciation or amortization to date and (2) the impairment loss allocated to the asset.
Example 2-2

Entity A has an asset with an original cost of $250 and accumulated depreciation of $50. A recognizes an impairment loss of $25 for the asset. The new cost basis of the asset after A recognizes the impairment less is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Immediately Before Impairment</th>
<th>Impairment Loss</th>
<th>Reversal of Accumulated Depreciation</th>
<th>Immediately After Impairment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost basis</td>
<td>$ 250</td>
<td>$ (25)</td>
<td>$ (50)</td>
<td>$ 175</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(50)</td>
<td>—</td>
<td>50</td>
<td>—</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>$ 200</td>
<td>$ (25)</td>
<td>—</td>
<td>$ 175</td>
</tr>
</tbody>
</table>

However, in the absence of specific guidance, diversity with regard to eliminating the previously recognized accumulated depreciation or amortization may exist.

Future depreciation or amortization of the asset is estimated according to its new cost basis (less salvage value) and remaining useful life. Future accumulated depreciation or amortization equals the depreciation or amortization expense that will be recognized after the impairment.

However, for entities that are subject to cost-based regulation and apply ASC 980, original historical cost is a key measure for determining regulated rates that may be charged. Accordingly, rate-regulated enterprises may be directed by their regulators to retain original historical cost for an impaired asset and to charge the impairment loss directly to accumulated depreciation. SEC Regulation S-X, Rule 5-02(13)(b), states:

Tangible and intangible utility plant[s] of a public utility company shall be segregated so as to show separately the original cost, plant acquisition adjustments, and plant adjustments, as required by the system of accounts prescribed by the applicable regulatory authorities. This rule shall not be applicable in respect to companies which are not required to make such a classification.

Moreover, abandonments and disallowances of plant costs accounted for under ASC 980-360 are outside the scope of ASC 360-10. Entities that recognize impairment losses on assets subject to cost-based regulation should consider consulting with their independent auditors.

**Bridging the GAAP**

If an impairment loss has been recognized for an asset other than goodwill (or a CGU), IAS 36 requires that an entity reevaluate the recoverable amount of the asset (CGU) to determine whether an impairment loss recognized in a prior period no longer exists. If the recoverable amount of an asset (CGU) has increased since the impairment loss was recognized, the entity is required to increase the value of the asset (CGU) to its current recoverable amount. Therefore, the previously recognized impairment charge would be reversed to profit or loss.
2.7 Depreciation and Amortization Estimates

**ASC 360-10**

35-22 When a long-lived asset (asset group) is tested for recoverability, it also may be necessary to review depreciation estimates and method as required by Topic 250 or the amortization period as required by Topic 350. Paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 address the accounting for changes in estimates, including changes in the method of depreciation, amortization, and depletion. Paragraphs 350-30-35-1 through 35-5 address the determination of the useful life of an intangible asset. Any revision to the remaining useful life of a long-lived asset resulting from that review also shall be considered in developing estimates of future cash flows used to test the asset (asset group) for recoverability (see paragraphs 360-10-35-31 through 35-32). However, any change in the accounting method for the asset resulting from that review shall be made only after applying this Subtopic.

Entities should continually assess whether, as a result of changes in facts or circumstances, they need to reassess the method with which, or period over which, assets are being depreciated or amortized. The presence of an impairment indicator may signal a reduction in the estimated useful life of an asset even if no impairment is recognized.

If the entity changes its depreciation or amortization estimates, it should use the revised estimates for the undiscounted cash flow projections in conjunction with testing the asset for recoverability. For example, an entity may determine that because of obsolescence, the useful life of the primary asset (see Section 2.4.4) is three years rather than five years. In such a scenario, the entity would revise its depreciation estimates for the asset and consider whether the asset must be tested for recoverability as a result of a triggering event. If so, the cash flow projections used in the recoverability test should be for three years. If the asset continues to have service potential, it should not be written off.

In SAB Topic 5.CC, the SEC staff provided guidance on revising depreciation estimates for an asset to be abandoned:

**SEC Staff Accounting Bulletins**

**SAB Topic 5.CC, Impairments** [Reproduced in ASC 360-10-S99-2]

Standards for recognizing and measuring impairment of the carrying amount of long-lived assets including certain identifiable intangibles to be held and used in operations are found in FASB ASC Topic 360, Property, Plant, and Equipment. Standards for recognizing and measuring impairment of the carrying amount of goodwill and identifiable intangible assets that are not currently being amortized are found in FASB ASC Topic 350, Intangibles — Goodwill and Other.

Facts: Company X has mainframe computers that are to be abandoned in six to nine months as replacement computers are put in place. The mainframe computers were placed in service in January 20X0 and were being depreciated on a straight-line basis over seven years. No salvage value had been projected at the end of seven years and the original cost of the computers was $8,400. The board of directors, with the appropriate authority, approved the abandonment of the computers in March 20X3 when the computers had a remaining carrying value of $4,600. No proceeds are expected upon abandonment. Abandonment cannot occur prior to the receipt and installation of replacement computers, which is expected prior to the end of 20X3. Management had begun reevaluating its mainframe computer capabilities in January 20X2 and had included in its 20X3 capital expenditures budget an estimated amount for new mainframe computers. The 20X3 capital expenditures budget had been prepared by management in August 20X2, had been discussed with the company's board of directors in September 20X2 and was formally approved by the board of directors in March 20X3. Management had also begun soliciting bids for new mainframe computers beginning in the fall of 20X2. The mainframe computers, when grouped with assets at the lowest level of identifiable cash flows, were not impaired on a "held and used" basis throughout this time period. Management had not adjusted the original estimated useful life of the computers (seven years) since 20X0.
Chapter 2 — Long-Lived Assets Classified as Held and Used

SEC Staff Accounting Bulletins (continued)

Question 1: Company X proposes to recognize an impairment charge under FASB ASC Topic 360 for the carrying value of the mainframe computers of $4,600 in March 20X3. Does Company X meet the requirements in FASB ASC Topic 360 to classify the mainframe computer assets as “to be abandoned?”

Interpretive Response: No. FASB ASC paragraph 360-10-35-47 provides that “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 FASB ASC Topic 250, Accounting Changes and Error Corrections, to reflect the use of the asset over its shortened useful life.”

Question 2: Would the staff accept an adjustment to write down the carrying value of the computers to reflect a “normalized depreciation” rate for the period from March 20X3 through actual abandonment (e.g., December 20X3)? Normalized depreciation would represent the amount of depreciation otherwise expected to be recognized during that period without adjustment of the asset's useful life, or $1,000 ($100/month for ten months) in the example fact pattern.

Interpretive Response: No. The mainframe computers would be viewed as “held and used” at March 20X3 under the fact pattern described. There is no basis under FASB ASC Topic 360 to write down an asset to an amount that would subsequently result in a “normalized depreciation” charge through the disposal date, whether disposal is to be by sale, abandonment, or other means. FASB ASC paragraph 360-10-35-43 requires the asset to be valued at the lower of carrying amount or fair value less cost to sell in order to be classified as “held for sale.” For assets that are classified as “held and used” under FASB ASC Topic 360, an assessment must first be made as to whether the asset (asset group) is impaired. FASB ASC paragraph 360-10-35-17 indicates that an impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). The staff would object to a write down of long-lived assets to a “normalized depreciation” value as representing an acceptable alternative to the approaches required in FASB ASC Topic 360.

The staff also believes that registrants must continually evaluate the appropriateness of useful lives assigned to long-lived assets, including identifiable intangible assets and goodwill. In the above fact pattern, management had contemplates removal of the mainframe computers beginning in January 20X2 and, more formally, in August 20X2 as part of compiling the 20X3 capital expenditures budget. At those times, at a minimum, management should have reevaluated the original useful life assigned to the computers to determine whether a seven year amortization period remained appropriate given the company's current facts and circumstances, including ongoing technological changes in the market place. This reevaluation process should have continued at the time of the September 20X2 board of directors' meeting to discuss capital expenditure plans and, further, as the company pursued mainframe computer bids. Given the contemporaneous evidence that management's best estimate during much of 20X2 was that the current mainframe computers would be removed from service in 20X3, the depreciable life of the computers should have been adjusted prior to 20X3 to reflect this new estimate. The staff does not view the recognition of an impairment charge to be an acceptable substitute for choosing the appropriate initial amortization or depreciation period or subsequently adjusting this period as company or industry conditions change. The staff's view applies also to selection of, and changes to, estimated residual values. Consequently, the staff may challenge impairment charges for which the timely evaluation of useful life and residual value cannot be demonstrated.

An entity must also disclose information about its depreciation policies in accordance with ASC 360-10-50-1, which states:

Because of the significant effects on financial position and results of operations of the depreciation method or methods used, all of the following disclosures shall be made in the financial statements or in notes thereto:

a. Depreciation expense for the period

b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date
2.8 Assets That Provide No Future Benefit

An entity may determine that a specific asset within a larger asset group has no future benefit (e.g., when the asset is destroyed [as opposed to damaged], becomes obsolete, or is lost). Even if the asset group is determined to be recoverable as a whole, the entity would need to write off an asset that has no future benefit.

Example 2-3

Entity A provides ground delivery services to its customers through a fleet of trucks. Entity A has appropriately determined that its ground delivery business represents a “lowest level” for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. One truck in its delivery fleet has been destroyed in an accident. Entity A can continue to provide ground delivery services at the same level by using the remaining trucks in its fleet in such a way that the destroyed truck is not expected to be replaced. Although A expects no adverse change in expected cash flows as a result of the loss of the truck, A must write off the asset that was destroyed.

An entity often maintains insurance to mitigate losses in the event of property damage or casualty losses. Even if the asset is insured, the entity would recognize a loss to write off the damaged asset and separately recognize any recovery. The recognized loss to write off an asset and any associated recovery proceeds (through insurance proceeds or other sources of recovery) is treated as two separate events and therefore two separate units of account. The principle underlying this separation is derived from the involuntary conversion guidance codified in ASC 610-30-25-2.

2.9 Presentation of an Impairment Loss

ASC 360-10 provides guidance on presentation of an impairment loss. An entity must present an impairment loss recognized for a long-lived asset (asset group) in income from continuing operations. If, instead of income before income taxes, the entity presents a similar subtotal, such as income from operations or operating income, it should include the impairment loss. The entity may present an impairment loss as a separate line item in income from continuing operations to meet the disclosure requirement in ASC 360-10-50-2.

Connecting the Dots

As described in ASC 360-10-35-4, depreciation is a “system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the [asset] in a systematic and rational manner. It is a process of allocation, not of valuation.” As a result, impairment losses should not be recognized in depreciation or amortization expense.
Chapter 2 — Long-Lived Assets Classified as Held and Used

ASC 360-10-40-3A through 3C describe the guidance an entity should apply to derecognize an asset (asset group) that represents a (1) nonfinancial asset or (2) business:

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

40-3B An entity shall account for the derecognition of a subsidiary or group of assets that is either a business or nonprofit activity in accordance with the derecognition guidance in Subtopic 810-10.

40-3C If an entity transfers a nonfinancial asset in accordance with paragraph 360-10-40-3A, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all the criteria in paragraph 606-10-25-1. Until all the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:
   a. Report the nonfinancial asset in its financial statements
   b. Recognize depreciation expense as a period cost unless the assets have been classified as held for sale in accordance with paragraphs 360-10-45-9 through 45-10
   c. Apply the impairment guidance in Section 360-10-35.

For additional guidance on accounting for a sale of nonfinancial assets, see Deloitte’s A Roadmap to Applying the New Revenue Recognition Standard.

2.10 Disclosures Related to Recognition of an Impairment Loss

In the period in which an entity recognizes an impairment loss, it should disclose the information required by ASC 360-10-50-2.

### ASC 360-10

**Impairment of Long-Lived Assets Classified as Held and Used**

50-2 All of the following information shall be disclosed in the notes to financial statements that include the period in which an impairment loss is recognized:

a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment
b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss
c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)
d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280.
2.11 Early-Warning Disclosures When Future Impairments Are Reasonably Possible

ASC 360-10 does not specifically require entities to provide “early-warning” disclosures when it is reasonably possible that an impairment may be recognized in the near future (e.g., when expected future cash flows on an undiscounted basis exceed the asset by only a small amount or when partial impairments are recognized). As described in paragraph B57 of the Background Information and Basis for Conclusions of FASB Statement 144, the Board decided that entities did not need to provide any specific disclosures in such cases because the disclosure requirements in ASC 275-10 related to risks and uncertainties associated with the use of estimates in the preparation of the entity’s financial statements would be relevant.

ASC 275-10

Certain Significant Estimates

50-6 This Subtopic requires discussion of estimates when, based on known information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), it is reasonably possible that the estimate will change in the near term and the effect of the change will be material. The estimate of the effect of a change in a condition, situation, or set of circumstances that existed at the date of the financial statements shall be disclosed and the evaluation shall be based on known information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25).

50-7 Various Topics require disclosures about uncertainties addressed by those Topics. In particular, Subtopic 450-20 specifies disclosures to be made about contingencies that exist at the date of the financial statements. In addition to disclosures required by Topic 450 and other accounting Topics, this Subtopic requires disclosures regarding estimates used in the determination of the carrying amounts of assets or liabilities or in disclosure of gain or loss contingencies, as described below.

50-8 Disclosure regarding an estimate shall be made when known information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that both of the following criteria are met:

a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

b. The effect of the change would be material to the financial statements.

ASC 360-10 also includes an example illustrating how an entity might disclose information about a potential impairment.

ASC 360-10

Example 12: Specialized Equipment — Potential Impairment

55-50 Offshore Industries is a manufacturer of offshore drilling rigs and platforms. The entity’s manufacturing process requires significant specialized equipment, which it currently owns. As a result of a decline in the price of oil, the demand for its products and services has fallen dramatically in the past two years, resulting in a significant underutilization of its manufacturing capacity.
The entity depreciates its investments in specialized equipment based on its original estimate of the remaining useful lives of the equipment using the units-of-production method, since it believes that the exhaustion of usefulness of these specialized assets relates more to their use than to the passage of time. The entity reevaluates these estimates in light of current conditions in accordance with generally accepted accounting principles (GAAP). The entity also monitors the policies of its major competitors and is aware that several have reported large write-downs of similar assets. Nevertheless, while the entity believes that it is at least reasonably possible that its estimate that it will recover the carrying amount of those assets from future operations will change during the next year, it believes it is more likely that conditions in the industry will improve and that no write-down for impairment will be necessary.

The entity would make the following disclosure:

Offshore's policy is to depreciate specialized manufacturing equipment (with a net book value of $25 million at December 31, 19X7) over its remaining useful life using the units-of-production method and to evaluate the remaining life and recoverability of such equipment in light of current conditions. [Given the excess capacity in the industry,] it is reasonably possible that the entity's estimate that it will recover the carrying amount of this equipment from future operations will change in the near term.

Regarding the preceding illustrative disclosure, if the information in the first sentence is already disclosed elsewhere in the notes, it need not be repeated. Also, the bracketed material in the second sentence represents an example of voluntary disclosure that is encouraged by paragraph 275-10-50-9.

In this Example, the entity acknowledges that the carrying amount of the specialized assets is subject to significant uncertainty based on current conditions. The uncertainty relates to the measurement of the specialized assets at the date of the financial statements, and the entity's disclosure makes clear that it is at least reasonably possible that the carrying amount will change in the near term.

SEC Considerations

SEC Regulation S-K, Item 303(a)(3)(ii), requires registrants to discuss in MD&A a known uncertainty — specifically, to disclose the potential for a material impairment charge — in light of potential impairment triggers. In addition, the SEC staff has stated that it expects consistency between assumptions and estimates used to estimate expected future cash flows for impairment analyses and MD&A. For example, the SEC would challenge a registrant that uses pessimistic assumptions in estimating expected future cash flows to support an impairment write-down while describing an optimistic outlook for operations in MD&A. MD&A disclosures should be consistent with management’s support for expected future cash flows for testing impairment under ASC 360-10. See Section 8.8 for more information about required impairment disclosures for SEC registrants.
Chapter 3 — Long-Lived Assets to Be Sold

3.1 Overview

An asset (disposal group) is classified as held for sale once all of the criteria in ASC 360-10-45-9 through 45-11 are met. The entity recognizes a loss, if necessary, to adjust the asset's (disposal group's) carrying amount to its fair value less cost to sell in the period in which the held-for-sale criteria are met. The carrying amount of the asset (disposal group) is adjusted in each reporting period for subsequent increases or decreases in its fair value less cost to sell, except that the adjusted carrying amount cannot exceed the carrying amount of the asset (disposal group) at the time it was initially classified as held for sale. Any gain or loss from the sale of the asset (disposal group) that was not previously recognized is recognized on the date of sale. Long-lived assets are not depreciated or amortized while they are classified as held for sale.

3.2 Grouping Assets to Be Sold

Assets may be sold individually or as part of a group of assets (and possibly liabilities). 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 that will be transferred to the buyer. Examples of such liabilities include environmental obligations, asset retirement obligations, and mortgage obligations.

Further, certain operations to be sold may qualify for discontinued-operations reporting even if the assets associated with those operations do not contain long-lived assets that are within the scope of ASC 360-10 (e.g., an equity method investment). For that reason, 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.
Connecting the Dots

For simplicity, the term “disposal group” is used throughout this publication to refer to an asset, a group of assets (and possibly liabilities), or a component of an entity that is classified as held for sale by the entity.

3.3 Held-for-Sale Criteria

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

360-10-45-9 (205-20-45-1E) A long-lived asset (disposal group) to be sold (component of an entity or a group of components of an entity, or a business or nonprofit activity (the entity to be sold)), shall be classified as held for sale in the period in which all of the following criteria are met:

a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group) (entity to be sold).

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.)

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.

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.

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.

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.

The sections below address the criteria for reporting a disposal group as held for sale. Because the held-for-sale criteria in ASC 360-10-45-9 and ASC 205-20-45-1E are the same, the discussion of the criteria in these sections applies to both disposal groups under ASC 360-10-45-9 and components of an entity under ASC 205-20-45-1E.

3.3.1 Management, Having the Authority to Approve the Action, Commits to a Plan

To demonstrate that it is committed to a plan to sell, an entity should ensure that the plan is 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 to sell.
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 approval from shareholders is required and shareholders 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.

Because this criterion is related to an evaluation of the entity's commitment to a plan to sell, the criterion in ASC 360-10-45-9(a) (ASC 205-20-45-1E(a)) may be met even if the entity is awaiting third-party approval to sell the disposal group (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 3.3.4) to determine whether the sale is probable.

### 3.3.2 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 criterion in ASC 360-10-45-9(b) (ASC 205-20-45-1E(b)) 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 criterion in ASC 360-10-45-9(b) (ASC 205-20-45-1E(b)) 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 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).

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

- a. The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date would transfer to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.

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

#### Example 7: Intent to Sell Acquired Real Estate Foreclosure

55-41 This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with paragraph 360-10-45-9(b).
55-42 An entity acquires through foreclosure a real estate property that it intends to sell. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would not be met:

a. The entity does not intend to transfer the property to a buyer until after it completes renovations to increase its sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the renovations are completed.

b. After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not continue to be met. The property would be reclassified as held and used in accordance with paragraph 360-10-45-7.

3.3.3 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). 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.

3.3.4 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 be completed. 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 the same or 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. This criterion should also be considered in conjunction with criterion (e) (see Section 3.3.5) because the price at which the disposal group is being marketed is expected to affect the probability 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:

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

**ASC 360-10**

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)**

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 disposal group 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**

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

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

**Example 10: Environmental Damage Identified During Buyer’s Inspection**

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

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).

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.

3.3.5 Actively Marketed at a Reasonable Price

The price at which the disposal group is being marketed indicates whether management is committed to selling it and the likelihood that a sale will be completed. A market price that is reasonable compared with the disposal group's fair value indicates that it is available for immediate sale, whereas a market price in excess of fair value indicates that it is not available for immediate sale or that it is not probable that the sale will occur.

3.3.6 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 3.3.1, 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 unlikely. 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.
3.4 Including Specific Items in a Disposal Group

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

3.4.1 Goodwill

**ASC 350-20**

40-1 When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

40-2 When a portion of a reporting unit that constitutes a business (see Section 805-10-55) or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal.

40-3 The amount of goodwill to be included in that carrying amount shall be based on the relative fair values of the business or nonprofit activity to be disposed of and the portion of the reporting unit that will be retained. For example, if a reporting unit with a fair value of $400 is selling a business or nonprofit activity for $100 and the fair value of the reporting unit excluding the business or nonprofit activity being sold is $300, 25 percent of the goodwill residing in the reporting unit would be included in the carrying amount of the business or nonprofit activity to be sold.

40-4 However, if the business or nonprofit activity to be disposed of was never integrated into the reporting unit after its acquisition and thus the benefits of the acquired goodwill were never realized by the rest of the reporting unit, the current carrying amount of that acquired goodwill shall be included in the carrying amount of the business or nonprofit activity to be disposed of.

40-5 That situation might occur when the acquired business or nonprofit activity is operated as a standalone entity or when the business or nonprofit activity is to be disposed of shortly after it is acquired.

40-6 Situations in which the acquired business or nonprofit activity is operated as a standalone entity are expected to be infrequent because some amount of integration generally occurs after an acquisition.

40-7 When only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment in accordance with paragraphs 350-20-35-3A through 35-19 using its adjusted carrying amount.

**Pending Content (Transition Guidance: ASC 350-20-65-3)**

40-7 When only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment in accordance with paragraphs 350-20-35-3A through 35-13 using its adjusted carrying amount.

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 (see Section 2.3.2). 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 derecognized when a business is disposed of or when goodwill is impaired. 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 7.2). 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.

In addition, see Section 7.4.1 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*.

**Example 3-3**

**Assigning Goodwill to a Disposal Group**

Company A acquires Company B in a business combination. Company A retains B as a separate subsidiary, and B elects to apply pushdown accounting in its separate financial statements. Company A recognizes goodwill of $200 from the acquisition of B in its consolidated financial statements. In applying pushdown accounting, B recognizes $200 of goodwill in its separate financial statements. Company A determines that B represents a separate reporting unit in accordance with ASC 350-20.

On the basis of the expected synergies from the acquisition of B, A assigns $150 of the $200 of recognized goodwill to B and $50 to Subsidiary X, a different reporting unit of A. For purposes of A’s consolidated financial statements, when A tests its B reporting unit for impairment, it will test goodwill of $150, which was the amount assigned to the B reporting unit. ASC 350-20 also requires that subsidiaries that issue separate financial statements test goodwill at the subsidiary level by using the subsidiary’s reporting units. Subsidiary B will test the goodwill of $200 recognized in its separate financial statements. Any impairment loss recognized in B’s separate financial statements would not necessarily result in an impairment loss in A’s consolidated financial statements, but it may represent a triggering event for A.

If A were to dispose of B in its entirety, A would only include the $150 of assigned goodwill in determining the gain or loss on the disposal of B. To appropriately account for the gain or loss on disposal in its consolidated financial statements, A would therefore need to make an adjustment at the consolidated level to exclude $50 of goodwill assigned to X from the disposed assets. Just as if A were to dispose of X in its entirety, A would include the assigned goodwill amount of $50 in calculating the gain or loss on the disposal. To appropriately account for the gain or loss on disposal, A would therefore need to make an adjustment at the consolidated level to include the $50 of goodwill assigned to X with X’s disposed assets.
3.4.2 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 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 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 AOCI. See Section 2.3.6 for more information about situations in which an asset group does not yet meet the criteria to be classified as held for sale. 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 andTranslations.

3.5 Measuring the Carrying Value of a Disposal Group Upon Classification as Held for Sale

<table>
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<tr>
<th>ASC 360-10</th>
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<tbody>
<tr>
<td><strong>Long-Lived Assets Classified as Held for Sale</strong></td>
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<tr>
<td>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.</td>
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</table>
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.

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

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.

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 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.

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 3.5.1). 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.
3.5.1 Order of Impairment Testing When a Disposal Group Is Held for Sale

ASC 360-10

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

As indicated in Section 3.2, 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. When assets other than long-lived assets are present within a disposal group, it is necessary for an entity to follow a required order for testing the assets within the disposal group when recognizing the disposal group at the lower of its carrying amount or fair value less cost to sell. The following flowchart illustrates the required order of impairment testing when assets are classified as held for sale:

1. Test assets outside the scope of ASC 360-10 (other than goodwill) in accordance with applicable GAAP
2. Test goodwill in accordance with ASC 350-20
3. Test the disposal group

This order ensures that the carrying amounts of any assets that are impaired are adjusted before the carrying amount of the disposal group is determined. The assets that are outside the scope of ASC 360-10 (other than goodwill) are expected to be routinely assessed for impairment in accordance with applicable GAAP even before they are classified as held for sale. However, in performing this step, an entity must consider whether it would be required to recognize an impairment as a result of any changes in facts or circumstances. The process for testing assets for impairment does not change when such assets are included in a disposal group; however, expectations about the amount to be obtained as part of the sale transaction for the disposal group may serve as additional evidence of an asset’s value.

If the disposal group is itself a reporting unit, the goodwill of the reporting unit is assigned to the disposal group in accordance with ASC 350-20-40-1. In such cases, the entity should consider whether a triggering event has occurred that requires the entity to test the reporting unit’s goodwill for impairment in between annual testing dates. Any impairment is recognized as it normally would be under ASC 350-20.
Chapter 3 — Long-Lived Assets to Be Sold

Under ASC 350-20-40-2, if the disposal group is a portion of a reporting unit that meets the definition of a business, any goodwill associated with that business must be assigned to the disposal group. ASC 350-20-40-3 through 40-6 provide guidance on determining the amount to include in the disposal group, but the amount is generally determined on a relative fair value basis. Because the goodwill has been taken out of the larger reporting unit and the disposal group may be a smaller unit of account, an entity should assess whether there is an indicator that goodwill assigned to the disposal group is impaired. That is, once assigned to a disposal group, the goodwill effectively becomes its own reporting unit and is assessed for impairment. Any impairment is recognized as it normally would be under ASC 350-20. ASC 350-20-40-7 also requires that the entity consider whether the goodwill remaining in the portion of the reporting unit to be retained is impaired.

After completing the above assessments, the entity then compares the carrying amount of the disposal group with its fair value less costs to sell and recognizes an impairment for the excess. At this point, the disposal group is the unit of account. As discussed further in Section 3.5, the entity would not write down or impair individual assets in the disposal group; rather, the entity would recognize a valuation allowance to adjust the carrying amount of the disposal group to its fair value less costs to sell.

The entity should keep in mind that the order for testing when a disposal group is classified as held for sale differs for long-lived assets and goodwill when an asset group is classified as held and used (see Section 2.3.7).

3.5.2 Measuring the Fair Value of a Disposal Group

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 3-4

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.

Company T should evaluate whether the evidence of fair value provided by the agreement to sell reached after the balance sheet date is indicative of conditions that existed as of the balance sheet date. If T concludes that the agreed-upon sales price constitutes additional evidence of the asset's fair value as of the balance sheet date, T should reflect that fair value in assessing fair value less cost to sell as of the balance sheet date.

See Section 2.5.1 for an overview of the principles of ASC 820. For more detailed information about measuring fair value, see Deloitte's A Roadmap to Fair Value Measurements and Disclosures (Including the Fair Value Option).
3.5.3 Costs to Sell

**ASC 360-10**

**Measurement of Expected Disposal Loss or Gain**

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 the lower of its carrying amount or fair value less costs to sell may result in the recognition of costs to sell in the entity’s statement of operations before such costs would have otherwise been incurred. For example, assume that an entity expects to sell a disposal group with a $10 carrying amount for $9 to be received from the buyer while incurring $1 to sell in the form of professional services to be received in the future to facilitate the disposal. In this example, the entity would record a $2 loss upon classifying the disposal group as held for sale and would recognize the $2 as a valuation allowance or contra asset (see Section 3.5). When the costs to sell are paid, the payment would reduce the valuation allowance or contra asset, thereby increasing the carrying amount of the disposal group in such a way that the carrying amount would equal the expected amount to be received from the buyer at the time of sale. If, however, the entity expects to recognize a gain from the sale of the disposal group, any costs to sell should be expensed as incurred.

3.5.4 Loss That Exceeds the Carrying Amount of Long-Lived Assets Within 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 the Background Information and Basis for Conclusions of FASB Statement 144 stated, in part:

> [The 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.

### 3.5.5 Newly Acquired Long-Lived Assets

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<th>ASC 360-10</th>
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<tbody>
<tr>
<td>Newly Acquired Asset Classified as Held for Sale</td>
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**45-12** A long-lived asset (disposal group) that is newly acquired and that will be sold rather than held and used shall be classified as held for sale at the acquisition date only if the one-year requirement in paragraph 360-10-45-9(d) is met (except as permitted by the preceding paragraph) and any other criteria in paragraph 360-10-45-9 that are not met at that date are probable of being met within a short period following the acquisition (usually within three months).

At the time an entity acquires a business or a group of assets, it may expect to sell some of the long-lived assets rather than using them in its operations. Entities should classify a newly acquired disposal group as held for sale as of the acquisition date, and measure it 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 5.6 for information about discontinued-operations reporting related to a newly acquired business or nonprofit activity.

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

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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.

The fair value less costs to sell of a 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 3-5**

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.

### 3.6.1 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.”

In addition, because ROU assets are within the scope of ASC 360-10, we believe that the guidance in ASC 360-10-35-43 applies to ROU assets included in a disposal group. Therefore, entities should cease amortization of any ROU assets once the disposal group meets the held-for-sale criteria, just as they would for any other asset within the scope of ASC 360-10.
3.7 Long-Lived Assets to Be Disposed of in Exchange for Noncash Assets in a Transaction Accounted for at Fair Value

Sometimes a disposal group is to be disposed of in exchange for an asset or assets other than cash. If the disposal group is to be exchanged in a transaction accounted for at fair value, we believe that it should be classified as held for sale once the classification criteria are met. That is, regardless of whether the form of the consideration received is cash or noncash assets, such an exchange would represent a sale of the disposal group. The following are examples of exchange transactions accounted for at fair value:

- Contributions of long-lived assets to an entity in exchange for a noncontrolling investment in that entity (e.g., an equity method investment or a joint venture investment).
- A nonmonetary exchange that does not meet any of the conditions in ASC 845-10-30-3 and is therefore measured at fair value. (See Section 4.3 for information on situations in which the nonmonetary exchange meets any of those conditions and must be accounted for at its carrying amount.)

See Section 3.8 below for information about the guidance an entity should apply in recognizing a gain or loss upon the sale of a disposal group.

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

<table>
<thead>
<tr>
<th>ASC 360-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pending Content (Transition Guidance: ASC 842-10-65-1)</strong></td>
</tr>
<tr>
<td><strong>40-3A</strong> An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset and an asset subject to a lease, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a contract with a customer shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pending Content (Transition Guidance: ASC 606-10-65-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>40-3B</strong> An entity shall account for the derecognition of a subsidiary or group of assets that is either a business or nonprofit activity in accordance with the derecognition guidance in Subtopic 810-10.</td>
</tr>
</tbody>
</table>

**40-3C** If an entity transfers a nonfinancial asset in accordance with paragraph 360-10-40-3A, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all the criteria in paragraph 606-10-25-1. Until all the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

- a. Report the nonfinancial asset in its financial statements
- b. Recognize depreciation expense as a period cost unless the assets have been classified as held for sale in accordance with paragraphs 360-10-45-9 through 45-10
- c. Apply the impairment guidance in Section 360-10-35.
ASC 360-10 (continued)

Recognition of Gain or Loss From Sale

**40-5** A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized at the date of sale.

Pending Content (Transition Guidance: ASC 606-10-65-1)

**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).

ASC 360-10-40-5 specifies that an entity recognizes any previously unrecognized gain or loss from the sale of the disposal group when derecognizing the assets, liabilities, and AOCI in accordance with applicable GAAP. The following decision tree from ASC 610-20 depicts the process for determining which guidance an entity should apply when derecognizing a disposal group, depending on the nature of the assets or the transaction.
**ASC 610-20 (Pending Content [Transition Guidance: ASC 606-10-65-1])**

15-10 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.

![Decision Tree Diagram]

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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.
3.9 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:

a. Its carrying amount before the asset (disposal group) was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset (disposal group) been continuously classified as held and used

b. Its fair value at the date of the subsequent decision not to sell.

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

**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 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.”

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 determined to be part of 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 3-6**

Company C has a wholly owned subsidiary, Subsidiary D. Subsidiary D represents a component of C. Company C plans to dispose of D in its entirety 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. Company C must reassess whether D's remaining net assets and operations continue to meet the criteria for classification as held for sale and, if so, whether the criteria for reporting as a discontinued operation continue to be met.

**3.10 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 consider providing the disclosures in ASC 205-20-50-3 (see Section 7.7.1) about its change in plan. See Section 3.9 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” (see Section 2.4.2).
Chapter 4 — Long-Lived Assets to Be Disposed of Other Than by Sale

4.1 Overview

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.

A long-lived asset or (group of assets) may be disposed of in ways other than by sale, such as by abandonment, in an exchange measured on the basis of the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spin-off. Assets to be disposed of other than by sale should continue to be classified as held and used until they are disposed of. Upon disposal, entities must assess whether the disposed-of assets qualify for discontinued-operations reporting. If not, the entity should apply the presentation and disclosure requirements in ASC 360-10 (see Chapter 6). If so, the entity should apply the presentation and disclosure requirements in ASC 205-20 (see Chapter 7).

Because assets to be disposed of other than by sale are classified as held and used until they are disposed of, 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 group is abandoned or otherwise disposed of even if the disposal would otherwise qualify for discontinued-operations reporting.

4.2 Assets to Be Abandoned

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).

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.
ASC 360-10 (continued)

Long-Lived Asset Temporarily Idled

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

ASC 360-10-35-47 states that “a long-lived asset to be abandoned is disposed of when it ceases to be used.” Therefore, an 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.) For example, manufacturing equipment an entity expects to cease using after fulfilling a backlog of orders is not considered abandoned while the entity is still using it. 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 4-1

Classifying a Component to Be Abandoned

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, and has determined that its abandonment will represent a strategic shift that has (or will have) a major effect on M's operations and financial results. According to the plan of abandonment, E would cease accepting new business as of December 31, 20X6. Company M expects that E will be able to complete production of all remaining orders by March 15, 20X7.

Because M’s plan is to abandon E (rather than sell E), E’s assets and liabilities will remain classified as held and used and E’s operations cannot be presented in discontinued operations until abandonment occurs. Because E will be fulfilling remaining orders until March 15, 20X7, 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 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. Company M may also need to test E’s assets for recoverability because 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).

An entity that intends to abandon an asset group before the end of its previously estimated useful life should revise its depreciation estimates in accordance with the guidance on changes in estimate in ASC 250-20 to reflect the use of the asset group over its shortened useful life and a salvage value consistent with the decision to abandon. A decision to abandon an asset group is also an indicator of impairment. Therefore, the entity should also consider whether the asset group is recoverable by assessing it for impairment on a held-and-used basis.

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.”
4.3 A Nonmonetary Exchange Measured on the Basis of the Recorded Amount of the Assets Relinquished

In general, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and an entity must recognize a gain or loss on the exchange. However, if the nonmonetary exchange meets any of the following criteria in ASC 845-10-30-3, a nonmonetary exchange must be recognized on the basis of the recorded amount of the nonmonetary asset given up.

<table>
<thead>
<tr>
<th>ASC 845-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-3 A nonmonetary exchange shall be measured based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value as discussed in paragraph 360-10-40-4) of the nonmonetary asset(s) relinquished, and not on the fair values of the exchanged assets, if any of the following conditions apply:</td>
</tr>
<tr>
<td>a. The fair value of neither the asset(s) received nor the asset(s) relinquished is determinable within reasonable limits.</td>
</tr>
<tr>
<td>b. The transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange.</td>
</tr>
<tr>
<td>c. The transaction lacks commercial substance (see [ASC 845-10-30-4]).</td>
</tr>
</tbody>
</table>

Further, ASC 360-10-45-15 requires that the asset or assets being exchanged be accounted for as held and used until the exchange occurs. A decision to engage in a nonmonetary exchange does not, in and of itself, indicate that the asset being exchanged is not recoverable. However, an entity should consider its specific facts and circumstances in determining whether the exchange represents an indicator of impairment. If so, the asset or assets should be tested for impairment on a held-and-used basis.

4.4 Assets to Be Distributed to Owners in a Spin-Off

<table>
<thead>
<tr>
<th>ASC 360-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Lived Assets to Be Exchanged or to Be Distributed to Owners in a Spinoff</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
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 spun-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.”

ASC 845-10

Nonreciprocal Transfers With Owners

30-10 Accounting for the distribution of nonmonetary assets to owners of an entity in a spinoff or other form of reorganization or liquidation or in a plan that is in substance the rescission of a prior business combination shall be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) (see paragraph 360-10-40-4) of the nonmonetary assets distributed. Subtopic 505-60 provides additional guidance on the distribution of nonmonetary assets that constitute a business to owners of an entity in transactions commonly referred to as spinoffs. A pro rata distribution to owners of an entity of shares of a subsidiary or other investee entity that has been or is being consolidated or that has been or is being accounted for under the equity method is to be considered to be equivalent to a spinoff. Other nonreciprocal transfers of nonmonetary assets to owners shall be accounted for at fair value if the fair value of the nonmonetary asset distributed is objectively measurable and would be clearly realizable to the distributing entity in an outright sale at or near the time of the distribution.

The assets being distributed to owners in a spin-off (i.e., the spinnee) must remain classified as held and used until the spin-off occurs. However, because a plan to dispose of assets before the end of their previously estimated useful life may be an indicator of impairment, an entity would be expected to consider whether the long-lived assets of the spinnee are impaired on a held-and-used basis. Because a spin-off is a nonreciprocal transfer (i.e., no consideration is received in exchange), ASC 360-10-40-4 provides specific guidance on testing the recoverability of the spinnee and states that “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.”

Connecting the Dots

ASC 505-60-25-8 addresses whether a spin-off should be accounted for in accordance with its legal form (a “forward spin”) or as a “reverse spin” when the substance of the transactions differs from its legal form. There is a rebuttable presumption that a spin-off should be accounted for on the basis of its legal form (i.e., the legal spinnor is also the accounting spinnor). However, ASC 505-60-25-8 provides several indicators for an entity to consider when deciding whether the presumption to account for the transaction on the basis of its legal form should be overcome. No one factor should be considered determinative, so when the indicators are mixed, the entity will need to use judgment to determine which entity is the accounting spinnee.

ASC 360-10-40-4 requires that an impairment loss be recognized if the fair value of the spinnee exceeds its carrying amount as of the date of the spin-off. After recognizing any impairment, the spinnor should derecognize the assets and liabilities of the spinnee on the date of the spin-off at their carrying amounts in the spinnor’s financial statements.

Bridging the GAAP

Under IFRS 5, a long-lived asset to be distributed to owners is measured at fair value less costs to sell in a manner similar to assets held for sale.
Questions have arisen about situations in which a spinnor disposes of a business in a spin-off before an initial public offering of the spinnor. In such cases, the spinnor should reflect the disposal as either (1) a disposal to which discontinued-operations reporting may or may not apply or, in limited circumstances, (2) a change in the reporting entity. If the disposal is reflected as a change in the reporting entity, the spinnee’s operations would be removed from the spinnor’s financial statements as if the spinnor never held the business. SAB Topic 5.Z.7 provides the SEC staff’s views on this topic.

SEC Staff Accounting Bulletins

SAB Topic 5.Z.7, Accounting for the Spin-Off of a Subsidiary [Reproduced in ASC 505-60-S99-1]

Facts: A Company disposes of a business through the distribution of a subsidiary’s stock to the Company’s shareholders on a pro rata basis in a transaction that is referred to as a spin-off.

Question: May the Company elect to characterize the spin-off transaction as resulting in a change in the reporting entity and restate its historical financial statements as if the Company never had an investment in the subsidiary, in the manner specified by FASB ASC Topic 250, Accounting Changes and Error Corrections?

Interpretive Response: Not ordinarily. If the Company was required to file periodic reports under the Exchange Act within one year prior to the spin-off, the staff believes the Company should reflect the disposition in conformity with FASB ASC Topic 360. This presentation most fairly and completely depicts for investors the effects of the previous and current organization of the Company. However, in limited circumstances involving the initial registration of a company under the Exchange Act or Securities Act, the staff has not objected to financial statements that retroactively reflect the reorganization of the business as a change in the reporting entity if the spin-off transaction occurs prior to effectiveness of the registration statement. This presentation may be acceptable in an initial registration if the Company and the subsidiary are in dissimilar businesses, have been managed and financed historically as if they were autonomous, have no more than incidental common facilities and costs, will be operated and financed autonomously after the spin-off, and will not have material financial commitments, guarantees, or contingent liabilities to each other after the spin-off. This exception to the prohibition against retroactive omission of the subsidiary is intended for companies that have not distributed widely financial statements that include the spun-off subsidiary. Also, dissimilarity contemplates substantially greater differences in the nature of the businesses than those that would ordinarily distinguish reportable segments as defined by FASB ASC paragraph 280-10-50-10 (Segment Reporting Topic).

All requirements in SAB Topic 5.Z.7 must be met for the spinnor to reflect the transaction as a change in the reporting entity. Depending on the extent of judgment an entity needs to use in applying SAB Topic 5.Z.7, as well as the significance of the judgment applied to the spinnor’s financial statements, an entity contemplating an initial public offering may consider consulting with the SEC staff on a prefiling basis.

If the spinnor presents a spin-off as a disposal, it must also assess whether the spin-off should be presented as a discontinued operation. Because the spinnee must be classified as held and used until the spin-off occurs, even if the spinnee is expected to meet the discontinued-operations reporting criteria, the spinnor cannot present the spinnee’s operations, including the direct costs of the spin-off, in discontinued operations until the shares are distributed to the owners.
Example 4-2

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.
Chapter 5 — Discontinued Operations

5.1 Overview
The reporting of discontinued operations separately from continuing operations is meant to provide stakeholders with information on assessing the effects of a disposal on an entity's ongoing operations. The operations of a disposal group may only be presented as a discontinued operation once the assets (and liabilities) meet the criteria to be classified as held for sale, have been sold, or have been otherwise disposed of (e.g., abandonment) and only if the disposal represents a strategic shift that has or will have a major effect on an entity's operations and financial results. Therefore, not all disposal transactions qualify for discontinued-operations reporting. If the assets (and liabilities) of the discontinued operation are classified as held for sale (rather than having been disposed of), they are measured at the lower of their carrying amount or fair value less costs to sell like other assets that are classified as held for sale under ASC 360-10.

5.2 Criteria for Reporting a Discontinued Operation

<table>
<thead>
<tr>
<th>ASC 205-20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What Is a Discontinued Operation?</strong></td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

**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).
The operations related to a disposal of assets (and liabilities) are reported in discontinued operations in the statement of operations if all of the following criteria are met:

- The disposed assets (and liabilities) together represent a component of an entity (or a group of components of an entity) (see Section 5.2.1).
- The component (or group of components) (1) meets the criteria to be classified as held for sale (see Chapter 3), (2) has been sold, or (3) has been disposed of other than by sale (see Chapter 4).
- The disposal of the component “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results” (see Section 5.2.2).

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 5.6 for further discussion.)

### 5.2.1 Component of an Entity

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.

**Connecting the Dots**

A discontinued operation may represent one or more components of an entity. For convenience, the term “component” is used throughout this publication.

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 can be at a lower level than an asset group. Further, 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 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 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.

### Example 5-1

**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 5-2

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.

5.2.2 Strategic Shift That Has (or Will Have) a Major Effect
To report a discontinued operation, the disposal must represent “a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.” 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, the examples from ASC 205-20-55 indicate 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 6). According to the examples, the disposal only has to have a major effect on one metric (i.e., revenue, net income, or assets), not necessarily all three.

In addition, ASC 205-20 does not state which metrics must be considered. ASC 205-20 does not preclude consideration of the impact on other metrics such as operating cash flows or EBITDA 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 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, such as impairments.

In prepared remarks at the 2015 AICPA Conference on Current SEC and PCAOB Developments, Barry Kanczuker, 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 deterministic 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 often 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 has been provided publicly (e.g., via the entity's Web site, earnings releases, or MD&A) in assessing whether a disposal represents a strategic shift.

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 the Background Information and Basis for Conclusions 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:

<table>
<thead>
<tr>
<th>ASC 205-20</th>
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</thead>
<tbody>
<tr>
<td><strong>Example 1: Consumer Products Manufacturer</strong></td>
</tr>
<tr>
<td><strong>55-84</strong> 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.</td>
</tr>
<tr>
<td><strong>55-85</strong> 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.</td>
</tr>
<tr>
<td><strong>55-86</strong> 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.</td>
</tr>
<tr>
<td><strong>Example 2: Processed and Packaged Goods Manufacturer</strong></td>
</tr>
<tr>
<td><strong>55-87</strong> 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.</td>
</tr>
</tbody>
</table>
55-88 The entity has experienced slower growth in its operations located in the Americas, which accounts for 20 percent of the entity's total assets. Therefore, the entity decides to shift its strategy of selling food products in that geographical area and focus its resources on manufacturing and marketing food products in its other four higher growth geographical areas. As a result, the entity decides to sell its operations in the Americas.

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

Example 3: General Merchandise Retailer

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

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

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

Example 4: Oil and Gas Entity

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

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

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

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

A component of an entity may be as low a level as an asset group (see Section 2.3). 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.

5.4 Normally Occurring Disposals

Entities in certain industries (e.g., real estate, private equity, or retail) may frequently enter into disposal transactions that may be quantitatively major. If the dispositions are part of the entity’s ongoing strategy, it is likely that they would not represent a strategic shift for the entity. The determination of whether a normally occurring disposal is a strategic shift will be based on the entity’s specific facts and circumstances.

Example 5-3

**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 a property, identifying the property sold on the basis of its assessment of whether the sale would provide it with a specified rate of return. Regardless of whether the sale has or will have a major effect on A’s operations and financial results (e.g., reduced rental income and maintenance costs), the sale would most likely 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.

If, however, the property sold represented A’s only such property of a particular class or in a particular jurisdiction, the sale might represent a strategic shift if A plans to exit entirely that class of property or jurisdiction.
5.5 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 7.7.3 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:

<table>
<thead>
<tr>
<th>ASC 205-20</th>
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<tbody>
<tr>
<td><strong>Example 5: Sports Equipment Manufacturer</strong></td>
</tr>
<tr>
<td><strong>55-97</strong> 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.</td>
</tr>
<tr>
<td><strong>55-98</strong> 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.</td>
</tr>
<tr>
<td><strong>55-99</strong> 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.</td>
</tr>
<tr>
<td><strong>55-100</strong> 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.</td>
</tr>
<tr>
<td><strong>55-101</strong> 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.</td>
</tr>
</tbody>
</table>
5.6 A Business or Nonprofit Activity Classified as Held for Sale Upon Acquisition

ASC 205-20

<table>
<thead>
<tr>
<th>A Discontinued Operation Comprising a Business or Nonprofit Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
</tr>
</tbody>
</table>

A business or nonprofit activity that meets the held-for-sale classification criteria on acquisition (see Section 3.5.5) 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 7.10 for a description of the related disclosure requirements, which are more limited than those for other types of disposals.

5.7 Consideration of Subsequent Events for Assessing Discontinued-Operations Presentation

ASU 2014-08 (codified in ASC 205-20) deleted the previous guidance, under which the evaluation of whether a disposal qualified for discontinued-operations presentation took into account events that occurred after the balance sheet date but before the financial statements are issued or are available to be issued. This previous guidance was inconsistent with the guidance in ASC 360-10-45-13, which indicates that the evaluation of whether a component meets the held-for-sale criteria is performed as of the balance sheet date (see Section 3.10). Therefore, entities should determine whether the held-for-sale criteria and the discontinued-operations reporting criteria are met as of the balance sheet date. Those determinations are not affected by events that occur after the balance sheet date but before the financial statements are issued or are available to be issued.

Under ASC 205-20-50-3, in the period in which an entity changes 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.” We believe that if the entity decides not to sell a component after the balance sheet date but before the financial statements are issued or are available to be issued, the entity should consider providing the disclosures required by ASC 205-20-50-3 (see Section 7.7.1) about its change in plan.
Chapter 6 — Presentation and Disclosure Requirements for Disposals That Are Not Reported as Discontinued Operations

6.1 Overview

For disposal groups that are classified as held for sale but that do not meet the criteria for discontinued-operations reporting, an entity must separately present the assets and liabilities of the disposal group on the face of the balance sheet only in the initial period in which they are classified as held for sale. The presentation and disclosure requirements for a disposal group that is classified as held for sale, or that has been disposed of but does not qualify for discontinued-operations reporting, differ depending on whether the disposal is an individually significant component of an entity. Because the term “individually significant” is not defined, entities will need to apply judgment in interpreting this term.

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

For 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.

### 6.3 Income Statement Presentation for Disposals That Are Not Discontinued Operations

<table>
<thead>
<tr>
<th><strong>ASC 360-10</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>45-5 A gain or loss recognized on the sale of a long-lived asset (disposal group) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.</td>
</tr>
</tbody>
</table>

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<tr>
<th><strong>Pending Content (Transition Guidance: ASC 606-10-65-1)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>45-5 A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (disposal group) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.</td>
</tr>
</tbody>
</table>

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.

See Deloitte’s *A Roadmap to Accounting for Business Combinations* for more information about determining whether a disposal group meets the definition of a business.

### 6.3.1 Income Statement Presentation for Real Estate Investment Trusts

As part of its disclosure update and simplification technical release (DUTR), the SEC issued a [final rule](https://www.sec.gov/rules/final/2018/33-10505.htm) 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 6.3 and Deloitte's August 28, 2018, Heads Up for more information.

6.4 Disclosures for Disposals That Are Not Discontinued Operations

ASC 360-10-50-3 requires the following disclosures for disposals that do not meet the criteria for discontinued-operations reporting only in the period in which the component is classified as held for sale or disposed of.

<table>
<thead>
<tr>
<th>ASC 360-10</th>
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</thead>
<tbody>
<tr>
<td>50-3 For any period in which a long-lived asset (disposal group) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:</td>
</tr>
<tr>
<td>a. A description of the facts and circumstances leading to the disposal or the expected disposal.</td>
</tr>
<tr>
<td>b. The expected manner and timing of that disposal.</td>
</tr>
<tr>
<td>c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.</td>
</tr>
</tbody>
</table>
6.5 Disclosures for Individually Significant Assets (Disposal Groups) That Are Not Discontinued Operations

Entities must disclose information about pretax profit or loss if a long-lived asset (disposal group) includes an individually significant component that either has been disposed of or is classified as held for sale and does not qualify for discontinued-operations reporting. 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.
6.6 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. A description of the facts and circumstances leading to the disposal or 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 statement of activities), the caption in the statement where net income is reported (or statement of activities) 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 the disposal group classified as held for sale.
- f. 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

A

No

No

B
Chapter 6 — 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 and for all prior periods that are presented in the statement where net income is reported (or statement of activities) 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 and for all prior periods that are presented in the statement where net income is reported (or statement of activities).

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.
Chapter 7 — Presentation and Disclosure Requirements for Disposals That Are Reported as Discontinued Operations

7.1 Overview

If the criteria for discontinued-operations reporting are met, the results of operations of the component that is classified as held for sale or that has been sold or otherwise disposed of, including any gain or loss recognized, should be reclassified to discontinued operations in the statement of operations, retrospectively, for all periods presented. In addition, the assets and liabilities of the disposal group must be presented separately on the face of the balance sheet both in the current period (if held for sale) and in prior periods.

7.2 Balance Sheet Presentation of Discontinued Operations

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 7.8.1).

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 7-1**

**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>
<th>As of December 31, 20X8</th>
<th>As of December 31, 20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 65,000</td>
<td>$ 55,000</td>
<td></td>
</tr>
<tr>
<td>Receivables, net of allowances of $15,000 as of December 31, 20X8, and $12,000 as of December 31, 20X7</td>
<td>85,000</td>
<td>82,000</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>75,000</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>55,000</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>25,000</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td><em>Current assets held for sale</em></td>
<td><strong>220,000</strong></td>
<td><strong>80,000</strong></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>525,000</td>
<td>357,000</td>
<td></td>
</tr>
<tr>
<td>PP&amp;E, net</td>
<td>650,000</td>
<td>610,000</td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>60,000</td>
<td>55,000</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>85,000</td>
<td>85,000</td>
<td></td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>75,000</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>80,000</td>
<td>65,000</td>
<td></td>
</tr>
<tr>
<td>Noncurrent assets held for sale</td>
<td><strong>—</strong></td>
<td><strong>148,000</strong></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td><strong>$ 1,475,000</strong></td>
<td><strong>$ 1,400,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
Example 7-1 (continued)

<table>
<thead>
<tr>
<th>Liabilities and shareholders’ equity:</th>
<th>As of December 31, 20X8</th>
<th>As of December 31, 20X7</th>
</tr>
</thead>
<tbody>
<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
- AOCI (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 7-7 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.
7.3 Income Statement Presentation of Discontinued Operations

<table>
<thead>
<tr>
<th>ASC 205-20</th>
</tr>
</thead>
</table>

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

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

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

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

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

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 7-2 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 3.5 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 7-2**

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

This example is a continuation of Example 7-1 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>For the 12 Months Ended</th>
<th>December 31, 20X8</th>
<th>December 31, 20X7</th>
<th>December 31, 20X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$1,000,000</td>
<td>$ 850,000</td>
<td>$ 700,000</td>
<td></td>
</tr>
<tr>
<td>Costs of sales</td>
<td>(650,000)</td>
<td>(552,500)</td>
<td>(455,000)</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>350,000</td>
<td>297,500</td>
<td>245,000</td>
<td></td>
</tr>
<tr>
<td>Selling, general, and administrative expenses</td>
<td>(250,000)</td>
<td>(212,500)</td>
<td>(175,000)</td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>100,000</td>
<td>85,000</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Other income (loss)</td>
<td>10,000</td>
<td>(5,000)</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>110,000</td>
<td>80,000</td>
<td>77,000</td>
<td></td>
</tr>
<tr>
<td>Income tax provision</td>
<td>(38,500)</td>
<td>(28,000)</td>
<td>(26,950)</td>
<td></td>
</tr>
<tr>
<td>Net income from continuing operations</td>
<td>71,500</td>
<td>52,000</td>
<td>50,050</td>
<td></td>
</tr>
<tr>
<td>Loss from discontinued operations, net of tax*</td>
<td>(15,500)</td>
<td>(8,450)</td>
<td>(9,750)</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 56,000</td>
<td>$ 43,550</td>
<td>$ 40,300</td>
<td></td>
</tr>
</tbody>
</table>

*Earnings per common share:*

- Earnings from continuing operations per common share — basic: $0.72, $0.52, $0.50
- Earnings from continuing operations per common share — diluted: $0.57, $0.42, $0.40
- Loss from discontinued operations per common share — basic: $0.16, $0.08, $0.10
- Loss from discontinued operations per common share — diluted: $0.12, $0.07, $0.08
- Earnings per common share — basic: $0.56, $0.44, $0.40
- Earnings per common share — diluted: $0.45, $0.35, $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 7-8 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.
7.4 Presentation of Income Statement Items in Discontinued Operations

7.4.1 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, respectively. Such charges might include impairments related to PP&E, 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 3.4.1). Because ASC 350 requires disclosure of cumulative goodwill impairment amounts, it is necessary to reasonably measure cumulative goodwill impairments, if any, related to businesses disposed to eliminate such amounts from this ongoing disclosure.

7.4.2 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 7.7.2 for related disclosure requirements for adjustments to amounts previously reported.

7.4.2.1 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.

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.

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.
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\textsuperscript{57} 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,\textsuperscript{58} 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.

\textsuperscript{57} Item 303 of Regulation S-K.
\textsuperscript{58} Registrants also should consider the disclosure requirements of FASB ASC Topic 460.

Example 7-3

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.

7.4.2.2 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.
7.4.3 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.

**7.4.4 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 7-4

**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.

Connecting the Dots

ASC 420-10-599-1 contains the following guidance on presentation of restructuring changes in discontinued operations:

> The following is the text of SAB Topic 5.P.3, Income Statement Presentation of Restructuring Charges.

**Facts:** Restructuring charges often do not relate to a separate component of the entity, and, as such, they would not qualify for presentation as losses on the disposal of a discontinued operation.

Therefore, only restructuring changes that are directly related to the component (or components) to be disposed of may be included in discontinued operations.

### 7.4.5 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 7-5

**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.

### 7.4.6 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 7-6

**Presentation of Intercompany Sales Related to a Discontinued Operation**

Company A is a paper manufacturing company and owns a distribution business, Subsidiary 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 A's 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.

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 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.

### 7.4.7 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.

### 7.4.8 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.

### 7.4.9 Income Taxes

See Deloitte's [A Roadmap to Accounting for Income Taxes](#) for more information regarding income tax related to discontinued operations.
7.5 Overview of Disclosures About 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 Section 7.11 for a flowchart that provides an overview of the disclosures required for discontinued operations.

7.6 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.

ASC 205-20

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.
7.7 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. These disclosures must be provided for all discontinued operations to which these events or circumstances apply.

7.7.1 Changes to a Plan of Sale

ASC 205-20-50-3

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 3.9 for a discussion of the accounting for changes to a plan to sell.

7.7.2 Adjustments to Amounts Previously Reported

ASC 205-20-50-3A

The nature and amount of adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a 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.”

ASC 205-20-50-3A requires disclosure of the nature and amount of such adjustments. See Section 7.4.2 for presentation requirements and examples of adjustments to amounts previously reported.

7.7.3 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 5.5 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.

7.8 Disclosures for a Discontinued Operation That Was Not an Equity Method Investment Before Its Disposal

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 7.9 for the disclosure requirements for an equity method investment that qualifies as a discontinued operation.
Chapter 7 — Presentation and Disclosure Requirements for Disposals That Are Reported as Discontinued Operations

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.

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

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

b. For the periods in which the results of operations of the discontinued operation are reported in the statement where net income is reported (or statement of activities for a not-for-profit entity), a reconciliation of both of the following:
   1. The amounts disclosed in paragraph 205-20-50-5B(a) and (b)
   2. The after-tax profit or loss from discontinued operations presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) (see paragraph 205-20-55-103 for an Example).

50-5D For purposes of the reconciliation in paragraph 205-20-50-5C(a) or (b), an entity may aggregate the amounts that are not considered major and present them as one line item in the reconciliation.
7.8.1 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 7.2), 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>
</table>

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

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20X4</td>
</tr>
<tr>
<td>Carrying amounts of major classes of assets included as part of discontinued operations</td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Trade receivables</td>
</tr>
<tr>
<td>Inventories</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
</tr>
<tr>
<td>Other classes of assets that are not major</td>
</tr>
<tr>
<td>Total major classes of assets of the discontinued operations</td>
</tr>
<tr>
<td>Other assets included in the disposal group classified as held for sale</td>
</tr>
<tr>
<td>Total assets of the disposal group classified as held for sale in the statement of financial position</td>
</tr>
<tr>
<td>Carrying amounts of major classes of liabilities included as part of discontinued operations</td>
</tr>
<tr>
<td>Trade payables</td>
</tr>
<tr>
<td>Short-term borrowings</td>
</tr>
<tr>
<td>Other classes of liabilities that are not major</td>
</tr>
<tr>
<td>Total major classes of liabilities of the discontinued operation</td>
</tr>
<tr>
<td>Other liabilities included in the disposal group classified as held for sale</td>
</tr>
<tr>
<td>Total liabilities of the disposal group classified as held for sale in the statement of financial position</td>
</tr>
</tbody>
</table>
The following illustration is a continuation of Examples 7-1 and 7-2 and demonstrates how an entity might disclose the reconciliations required by ASC 205-20-50-SC(a).

Example 7-7

Illustration of the Disclosure Requirements in ASC 205-20-50-SC(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 |
| PP&E | 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.

7.8.2 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):

| Reconciliation of the Major Classes of Line Items Constituting Pretax Profit (Loss) of Discontinued Operations That Are Disclosed in the Notes to Financial Statements to the After-Tax Profit or Loss of Discontinued Operations That Are Presented in the Statement Where Net Income Is Presented (in thousands of currency units) |
|---|---|---|
| **20X4** | **20X3** |
| **Major classes of line items constituting pretax profit (loss) of discontinued operations** | | |
| Revenue | $ XX | $ XX |
| Cost of sales | (XX) | (XX) |
| Selling, general, and administrative expenses | (XX) | (XX) |
| Interest expense | (XX) | (XX) |
| Other income and expense items that are not major | (XX) | (XX) |
| Pretax profit or loss of discontinued operations related to major classes of pretax profit (loss) | XX | XX |
| Pretax gain or loss on the disposal of the discontinued operation | XX | XX |
| Total pretax gain or loss on discontinued operations | XX | XX |
| Income tax expense or benefit | XX | XX |
| Total profit or loss on discontinued operations that is presented in the statement where net income is presented | $ XX | $ XX |

The following illustration is a continuation of Examples 7-1 and 7-2 and demonstrates how an entity might disclose the reconciliations required by ASC 205-20-50-5C(b).
Example 7-8

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 (Loss) of Discontinued Operations That Are Presented in the Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the 12 Months Ended December 31, 20X8</td>
</tr>
<tr>
<td>Major line items constituting pretax loss from discontinued operations:</td>
</tr>
<tr>
<td>Net sales</td>
</tr>
<tr>
<td>Costs of sales</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
</tr>
<tr>
<td>Operating income (loss)</td>
</tr>
<tr>
<td>Other income (loss)</td>
</tr>
<tr>
<td>Total pretax loss from discontinued operations</td>
</tr>
<tr>
<td>Loss from classification to held for sale</td>
</tr>
<tr>
<td>Income tax benefit</td>
</tr>
<tr>
<td>Total loss from discontinued operations</td>
</tr>
</tbody>
</table>

7.8.3 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: . . .

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.
7.9 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.

7.10 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.
7.11 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
      - B
    - Yes
      - Did the entity have continuing involvement?
        - No
          - A
        - 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).
Disclose information about an entity’s significant continuing involvement with a discontinued operation after the disposal date. The disclosures are required until the results of operations of the discontinued operation in which an entity retains significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported (or statement of activities). Disclose the following for each discontinued operation in which the entity retains significant continuing involvement after the disposal date (see paragraphs 205-20-50-4A through 50-4B):

A

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?

B
ASC 205-20 (continued)

205-20-45-1B through 45-1C

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

Yes

No

Disclose the summarized information about the assets, liabilities, and results of operations of the investee if that information was disclosed in financial reporting periods before the disposal in accordance with paragraph 323-10-50-3(c) (see paragraph 205-20-50-7).

To the extent not presented on the face of the financial statements as part of discontinued operations, disclose all of the following in the notes to financial statements for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported (or statement of activities) or for the period in which the discontinued operation is classified as held for sale and all prior periods presented in the statement of financial position (as applicable) (see paragraph 205-20-50-5B):

a. The pretax profit or loss (or change in net assets) of the discontinued operation.

b. The major classes of line items constituting the pretax profit or loss (or change in net assets) of the discontinued operation.

c. Either the total operating and investing cash flows of the 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.
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):

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:

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.

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), 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).
### 7.12 Restatement of Prior Periods Because of the Disposal of Part of an Operating Segment

<table>
<thead>
<tr>
<th><strong>ASC 280-10</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>55-7</strong> 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.</td>
</tr>
<tr>
<td><strong>55-19</strong> 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.</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th><strong>Example 7-9</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
8.1 Overview

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), 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,\textsuperscript{1} 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 specific circumstances.

8.2 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,\textsuperscript{2} selected financial data, and selected quarterly financial data\textsuperscript{3}) should also be updated to reflect the retrospective adjustments. Because registrants must generally 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 8.3 for circumstances in which this requirement may be accelerated.

\textsuperscript{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.

\textsuperscript{2} See Sections 9100 and 9830 of the SEC’s Financial Reporting Manual (FRM) for guidance on MD&A in registration statements.

\textsuperscript{3} See Section 4420 of the FRM and SEC 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.

Further, Question 2 of SAB Topic 5.Z.5 provides interpretive guidance on disclosures that the staff would expect “regarding discontinued operations prior to the disposal date and with respect to risks retained subsequent to the disposal date.” Question 2 further states:

MD&A [footnote omitted] 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 . . . [footnote omitted] 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.

Similarly, for dispositions that do not qualify as discontinued operations, certain disclosures within the Exchange Act reports must be provided outside the financial statements. SEC Regulation S-K, Item 301, requires registrants to provide a summary of selected financial data for at least the most recent “five fiscal years . . . (or for the life of the registrant and its predecessors, if less).” In accordance with instructions from Item 301, registrants must disclose in a note to the table of selected financial data, or in a cross-referenced discussion, any material dispositions that might affect comparability among the years. Registrants are also generally subject to SEC Regulation S-K, Item 302, and must provide supplementary selected quarterly financial data for each full quarter of the two most recent fiscal years in their annual reports on Form 10-K. According to the instructions to Item 302, registrants should describe the effect of any discontinued operations and unusual or infrequently occurring items (such as material dispositions) in relation to the quarterly information presented. SEC Regulation S-K, Item 303, and paragraph 9220.2 of the FRM require registrants to describe in MD&A any unusual or infrequent events or transactions that materially affected the amount of reported income from continuing operations and, in each case, indicate the extent to which income was affected. Such a description would include any material disposal transactions for the periods covered, even if those transactions did not meet the discontinued-operations criteria in ASC 205-20.
Changing Lanes

On January 30, 2020, the SEC issued a proposed rule that would modernize and simplify MD&A as well as certain financial disclosure requirements in SEC Regulation S-K. Specifically, the proposal would:

- Amend certain aspects of Regulation S-K, Item 303, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” including disclosures related to capital resources, results of operations, off-balance-sheet arrangements, the contractual obligations table, and interim-period disclosures.

For more information about this proposed rule, see Deloitte's February 10, 2020, Heads Up.

8.3 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 stock splits, changes in segment presentation under ASC 280, and certain accounting changes resulting from the adoption of a newly issued standard.

For dispositions that do not qualify as discontinued operations, reporting considerations highlighted in Section 8.2 that apply to MD&A, selected financial data, and selected quarterly financial data will also generally apply to registration statements.

8.3.1 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 8.5.

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 is generally 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 the registration statement being filed. If the

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4 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.
5 See the highlights of the June 23, 2009, CAQ SEC Regulations Committee joint meeting with the SEC staff.
recasted 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 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 the filing of the Form 10-Q that reports the discontinued operation but before or simultaneously with the filing of the new registration statement. Item 5 can also be used to provide such recasted annual information in the Form 10-Q that reports the discontinued operation.

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 permitted) 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 8.5.

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6 See footnote 5.
8.3.2 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, with respect to a Form S-8, 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.”

8.3.3 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 in or incorporated into 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 8.3.1.
8.3.4 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 8.3.1. 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, which are discussed above in Section 8.3.3.

8.4 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 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, a registrant must also consider the Form 8-K reporting obligations when it 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-of 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 1.5 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)).
If the disposed-of 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 the existing SEC Regulation S-X, Rule 1-02(w).

**SEC Considerations**

On May 20, 2020, the SEC issued a final rule that amends the financial statement requirements for acquisitions and dispositions of businesses, including real estate operations, and related pro forma financial information. As noted in the final rule, the amendments “are intended to improve for investors the financial information about acquired or disposed businesses, facilitate more timely access to capital, and reduce the complexity and costs to prepare the disclosure.” Among other changes, the final rule modifies the significance tests and improves the disclosure requirements for (1) acquired or to be acquired businesses, (2) real estate operations, and (3) pro forma financial information.

Before adoption of the amendments, Article 11 required registrants to provide pro forma financial information about the disposition or probable disposition of a business when it exceeded the 10 percent significance level on the basis of any of the three significance tests currently in Rule 1-02(w). The amendments raise the significance threshold from 10 percent to 20 percent and align the investment and income tests with the revised tests for an acquisition. However, note that although the amendments increase the significance threshold for the disposal of a business to 20 percent, they do not modify such requirements for the acquisition or disposition of a significant amount of assets that do not constitute a business in accordance with Article 11. Form 8-K, Item 2.01, continues to require disclosure, including pro forma financial information, of asset acquisitions and dispositions for which the significance exceeds 10 percent. The determination of whether an asset or a business is being disposed of becomes important under the new rule, given that the thresholds related to the disposition test for an asset differ from those for a business.

The amendments also change the denominator of the investment test so that the aggregate worldwide market value of common equity of the registrant (when available), instead of the registrant’s total assets, is used when available. This change marks a difference from the existing investment test, as interpreted in paragraph 2130.2 of the FRM, which was used to compare (1) the greater of the carrying value of the disposed-of business or the fair value of consideration received with (2) the registrant’s total assets. The amendments also change the income test so that the lower measure of significance is used on the basis of (1) income from continuing operations before taxes or (2) revenue. The existing rule only has the income component.

Further, the amendments modify the criteria for pro forma adjustments by replacing current requirements with two categories of required adjustments that depict (1) only the accounting for the transaction (referred to as transaction accounting adjustments) and (2) the registrant as a stand-alone entity (referred to as autonomous entity adjustments). In addition, the final rule gives management the option to disclose, in the form of a reconciliation in the notes to the pro forma financial information, synergies and “dis-synergies” (referred to as management’s adjustments) if certain conditions are met.
The final rule must be adopted for fiscal years beginning after December 31, 2020; however, early application is permitted. For more information about the final rule, see Deloitte’s June 2, 2020, Heads Up.

If the disposed-of 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) in Instruction 4 of Form 8-K, Item 2.01, under the May 2020 final rule, the disposition of a business is significant if any of the results of the three significance tests in Rule 1-02(w) (i.e., the asset, income [both the income component and the revenue component], or investment test), exceed 20 percent. The most recent annual financial statements before the disposition of both the registrant and the business being disposed of should be used for the asset and income tests. Registrants are not required to provide the historical financial statements of the disposed-of business in the Form 8-K. However, as noted above, the registrant should use a 10 percent significance threshold and existing significant tests (for both asset and business dispositions) before adopting the new rule. For additional guidance on dispositions of a business under the existing guidance, see Section 2100 of the FRM.

In addition to the requirement to disclose — under Form 8-K, Item 2.01 — the date of completion of the transaction, a brief 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 8.5). 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.
8.4.1 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.

8.5 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*

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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.
Considerations for Business Combinations. Further, as highlighted above, see Deloitte’s June 2, 2020, Heads Up for more information about the new guidance on the revised criteria for pro forma adjustments under Article 11.

8.5.1 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 for the disposition 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 already present B’s operations as a discontinued operation in its Form 10-K, A is not required to provide pro forma income statements in the Form 8-K.

8.5.2 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 in the current year 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 8.4, 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.

### 8.6 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).

#### 8.6.1 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 (under the revised rules described above) is based on a measure of income and revenue (after intercompany eliminations) from continuing operations, the reporting of a discontinued operation could affect the results of the significance test. As noted above, if the revised rules are not early adopted in 2020, the registrant should use the existing significance tests before adopting the new rule (i.e., at the 10 percent level and without the revenue component for the income test).

As discussed in Section 8.3, 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.”
8.6.2 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 by performing the tests in SEC Regulation S-X, Rule 1-02(w) (i.e., the asset, income, or investment test), to determine whether they must provide the investee's (1) financial statements, (2) summarized financial information, or (3) both. Because the calculation for the income test under the new rules described above is based on a measure of income and revenue (after intercompany eliminations) from continuing operations, the reporting of a discontinued operation could affect the results of the significance test. As noted above, if the revised rules are not early adopted in 2020, the registrant should use existing significant tests before adopting the new rule (i.e., without the revenue component while performing the income test).

In addition, note that the significance tests outlined in Rule 1-02(w) are used throughout the SEC's disclosure requirements and regulations. The investment test under the new rules based on the aggregate worldwide market value applies only when a registrant is evaluating business acquisitions and dispositions for significance. However, in all other cases for which the investment test is required, total assets are used instead of the aggregate worldwide market value. Therefore, registrants will use total assets when evaluating equity method investments for significance in accordance with SEC Regulation S-X, Rules 3-09, 4-08(g), and 10-01(b)(1). Accordingly, the investment test under the existing and new rules remains unchanged in relation to equity method investments.

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 for discontinued operations, 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.
8.6.3 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.

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.”

SEC Considerations

On March 2, 2020, the SEC issued a final rule that amends the disclosure requirements related to Rule 3-10. The final rule replaces the existing requirement to provide condensed consolidating financial information in the registrant's financial statements with a requirement to provide alternative financial disclosures (which include summarized financial information of the parent and any issuers and guarantors, as well as other qualitative disclosures) in either the registrant's MD&A or its financial statements. It also reduces the periods for which summarized financial information is required to the most recent (1) annual period and (2) year-to-date interim period. The summarized financial information is generally presented on a combined basis (unless separate disclosure is required for certain guarantors and issuers in certain circumstances). The final rule is generally effective for filings on or after January 4, 2021; however, early application is permitted. See Deloitte's March 10, 2020, Heads Up for more information.

13 See SEC Regulation S-X, Rule 3-10(i), and Section 2515 of the FRM for more information.
After adoption of the new rule, similar considerations outlined in the options above related to the effect of retrospective changes on prior-period information will apply to such summarized financial information presented under the new rules as well.

8.7 “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 under U.S. GAAP), 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. See Sections 3.8 and 5.6.6.1 of Deloitte’s A Roadmap to Initial Public Offerings for further discussion of “to-be-issued” auditor’s reports.

Specifically in relation to discontinued operations, the highlights of the June 25, 2014, CAQ SEC Regulations Committee joint meeting with the SEC staff discuss the following:

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 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 that they meet the requirements noted above.

8.8 Impairment Disclosures

Registrants often record impairments in connection with probable or actual disposal transactions when an asset group is classified as held for sale, a discontinued operation, or otherwise. In certain situations, SEC rules and regulations require registrants to provide disclosures related to such impairments in their filings (e.g., periodic or interim reports, registration statements). The SEC staff also expects registrants to provide appropriate disclosures before incurring a material impairment charge as well as about the specific events and circumstances that led to the charge in the period of impairment. Through its filing review process, the SEC staff may ask questions about the timing of impairment testing when assets are classified as held for sale or are disposed of. For example, the staff may ask whether assets that the registrant expects to sell or dispose of were tested for impairment in prior periods.
8.8.1 Form 8-K Reporting Obligations for Material Impairment

Registrants must report a material impairment on a Form 8-K. Item 2.06 of Form 8-K requires a registrant to report a material impairment if it concludes that a material charge for impairment to one or more of its assets is required under GAAP. Item 2.06 states that the following information must be disclosed in the Form 8-K:

   (a) the date of the conclusion that a material charge is required and a description of the impaired asset or assets and the facts and circumstances leading to the conclusion that the charge for impairment is required;

   (b) the registrant’s estimate of the amount or range of amounts of the impairment charge; and

   (c) the registrant’s estimate of the amount or range of amounts of the impairment charge that will result in future cash expenditures, provided, however, that if the registrant determines that at the time of filing it is unable in good faith to make a determination of an estimate required by paragraphs (b) or (c) of this Item 2.06, no disclosure of such estimate shall be required; provided further, however, that in any such event, the registrant shall file an amended report on Form 8-K under this Item 2.06 within four business days after it makes a determination of such an estimate or range of estimates.

In accordance with the instructions to Item 2.06, a registrant is not required to file a Form 8-K under Item 2.06 if the conclusion is reached in connection with (1) the preparation, review, or audit of financial statements that must be included in the next periodic Exchange Act report; (2) the periodic report is filed on a timely basis; and (3) this conclusion is disclosed in the report. Further, as noted in Section 110, Item 2.06, if an impairment conclusion is reached at a time that coincides with, but is not in connection with, the preparation, review, or audit of financial statements required to be included in the next periodic Exchange Act report, an Item 2.06 Form 8-K is not required if the aforementioned conditions within the instructions to Item 2.06 are satisfied.

8.8.2 Early-Warning Disclosures

SEC Regulation S-K, Item 303(a)(3)(ii), requires registrants to discuss in MD&A a known uncertainty — specifically, to disclose the potential for a material impairment charge — in light of potential impairment triggers (i.e., whether the registrant should have provided early-warning disclosures about the possibility of an impairment charge in future periods to help financial statement users understand these risks and how they could potentially affect the financial statements). For example, in the real estate industry, the SEC staff continues to request early-warning disclosures about tenant difficulties that alert investors to the underlying conditions and risks that a registrant faces before a material charge or decline in performance is reported. In addition, the staff may use hindsight, after an impairment or charge is reported (e.g., a material goodwill impairment charge), to inquire why the registrant did not include any early-warning disclosures in prior periods leading up to the reporting of such impairment. Such disclosures alert investors to the underlying conditions and risks that the company faces before a material charge or decline in performance is reported.
The SEC staff expects a registrant that has recorded, or is at risk for recording, impairment charges to disclose the following:

- The adequacy and frequency of the registrant’s asset impairment tests, including the date of its most recent test.
- The factors or indicators (or both) used by management to evaluate whether the carrying value of other long-lived assets may not be recoverable.
- The methods and assumptions used in impairment tests, including how assumptions compare with recent operating performance, the amount of uncertainty associated with the assumptions, and the sensitivity of the estimate of the fair value of the assets to changes in the assumptions.
- The registrant’s conclusions regarding its asset groupings.
- The timing of the impairment, especially if events that could result in an impairment had occurred in periods before the registrant recorded the impairment.
- The types of events that could result in impairments.
- In the critical accounting policies section of MD&A, the registrant’s process for assessing impairments.
- The facts and circumstances that led to the impairments. A registrant should also consider disclosing in MD&A risks and uncertainties associated with the recoverability of assets in the periods before an impairment charge is recorded. For example, even if an impairment charge is not required, a reassessment of the useful life over which depreciation or amortization is being recognized may be appropriate.

See Section 2.11 of Deloitte’s A Roadmap to SEC Comment Letter Considerations, Including Industry Insights for further details. In addition, see Section 9510 of the FRM for discussion of goodwill impairment disclosures expected by the SEC staff.
### Asset Group
An asset group is the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

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

**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:

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

Entities that clearly fall outside this definition include the following:

- All investor-owned entities
- 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.

- 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).
- 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.
- 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.
- 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.
- It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity’s filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.
**Reporting Unit**
The level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (also known as a component).

**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 — Titles of Standards and Other Literature

### FASB Literature

#### ASC Topics

- **ASC 205**, Presentation of Financial Statements
- **ASC 225**, Income Statement
- **ASC 275**, Risks and Uncertainties
- **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 740**, Income Taxes
- **ASC 805**, Business Combinations
- **ASC 810**, Consolidation
- **ASC 815**, Derivatives and Hedging
- **ASC 820**, Fair Value Measurement
- **ASC 830**, Foreign Currency Matters
- **ASC 835**, Interest
- **ASC 840**, Leases
ASC 842, Leases
ASC 845, Nonmonetary Transactions
ASC 855, Subsequent Events
ASC 860, Transfers and Servicing
ASC 920, Entertainment — Broadcasters
ASC 922, Entertainment — Cable Television
ASC 926, Entertainment — Films
ASC 928, Entertainment — Music
ASC 930, Extractive Activities — Mining
ASC 932, Extractive Activities — Oil and Gas
ASC 944, Financial Services — Insurance
ASC 948, Financial Services — Mortgage Banking
ASC 980, Regulated Operations
ASC 985, Software

ASUs
ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

IFRS Literature
IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
IAS 36, Impairment of Assets

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 Rules
No. 33-10532, Disclosure Update and Simplification
No. 33-10762, Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities
No. 33-10786, Amendments to Financial Disclosures About Acquired and Disposed Businesses

Form 8-K
Item 1.01, “Entry Into a Material Definitive Agreement”
Item 2.01, “Completion of Acquisition or Disposition of Assets”
Item 2.06, “Material Impairments”
Item 9.01, “Financial Statements and Exhibits”

Proposed Rule
No. 33-10750, Management’s Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information

Regulation S-K
Item 301, “Selected Financial Data”
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 3-15, “Special Provisions as to Real Estate Investment Trusts”
Rule 4-08, “General Notes to Financial Statements”
Rule 5-02, “Balance Sheets”
Article 11, “Pro Forma Financial Information”
Rule 11-01, “Presentation Requirements”

Appendix B — Titles of Standards and Other Literature
SAB Topics
No. 5.CC, “Impairments”
No. 5.P.3, “Income Statement Presentation of Restructuring Charges”
No. 5.Z.5, “Classification and Disclosure of Contingencies Relating to Discontinued Operations”
No. 5.Z.7, “Accounting for the Spin-off of a Subsidiary”

Securities Act of 1933
Rule 144A, “Private Resales of Securities to Institutions”

Superseded Literature
AICPA Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions

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

FASB Statements
No. 5, Accounting for Contingencies
No. 52, Foreign Currency Translation
No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets
## Appendix C — Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<tr>
<td>AOCI</td>
<td>accumulated other comprehensive income</td>
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<td>APB</td>
<td>Accounting Principles Board</td>
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<td>AR</td>
<td>accounts receivable</td>
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<tr>
<td>ASC</td>
<td>FASB Accounting Standards Codification</td>
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<tr>
<td>ASU</td>
<td>FASB Accounting Standards Update</td>
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<tr>
<td>BC</td>
<td>Basis for Conclusions</td>
</tr>
<tr>
<td>C&amp;DI</td>
<td>SEC's Compliance and Disclosure Interpretation</td>
</tr>
<tr>
<td>CAQ</td>
<td>Center for Audit Quality</td>
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<tr>
<td>CEO</td>
<td>chief executive officer</td>
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<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
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<td>CGU</td>
<td>cash-generating unit</td>
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<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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<tr>
<td>EITF</td>
<td>Emerging Issues Task Force</td>
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<thead>
<tr>
<th>Abbreviation</th>
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<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>FCC</td>
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<td>FTC</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>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
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<tr>
<td>PP&amp;E</td>
<td>property, plant, and equipment</td>
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<tr>
<td>REIT</td>
<td>real estate investment trust</td>
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<tr>
<td>ROU</td>
<td>right of use</td>
</tr>
<tr>
<td>SAB</td>
<td>SEC Staff Accounting Bulletin</td>
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<td>SEC</td>
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<td>SFAS</td>
<td>Statement of Financial Accounting Standards</td>
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Appendix D — Changes Made in the 2020 Edition of This Publication

The tables below summarize the substantive changes made since issuance of the 2019 edition of this Roadmap.

### New Content

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Description</th>
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<tbody>
<tr>
<td>1.2</td>
<td>Overview of the Accounting and Reporting for Long-Lived Assets and Discontinued Operations</td>
<td>Section added to provide an overview of the accounting and reporting for long-lived assets that the entity intends to (1) use in its operations, (2) sell, and (3) dispose of other than by sale.</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Long-Lived Assets to Be Held and Used</td>
<td>Chapter added to describe the guidance on testing long-lived assets for impairment.</td>
</tr>
<tr>
<td>3.2</td>
<td>Grouping Assets to Be Sold</td>
<td>Section added to discuss the guidance on grouping assets to be sold. Remainder of chapter was renumbered.</td>
</tr>
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<td>3.7</td>
<td>Long-Lived Assets to Be Disposed of in Exchange for Noncash Assets in a Transaction Accounted for at Fair Value</td>
<td>Section added to clarify the classification of a disposal group to be disposed of in exchange for noncash assets.</td>
</tr>
<tr>
<td>4.3</td>
<td>A Nonmonetary Exchange Measured on the Basis of the Recorded Amount of the Assets Relinquished</td>
<td>Guidance added to clarify the accounting for assets to be exchanged in a nonmonetary transaction measured on the basis of the recorded amount of the assets relinquished.</td>
</tr>
<tr>
<td>8.8</td>
<td>Impairment Disclosures</td>
<td>Section added to describe disclosures that SEC registrants must provide about impairments.</td>
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### Amended or Deleted Content

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<th>Title</th>
<th>Description</th>
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<tr>
<td>Chapter 1</td>
<td>Overview and Scope</td>
<td>Discussion expanded for long-lived asset impairment testing.</td>
</tr>
<tr>
<td>3.5.1</td>
<td>Order of Impairment Testing When a Disposal Group Is Held for Sale</td>
<td>Added flowchart and revised discussion to clarify the order of testing assets for impairment when they are classified as held for sale.</td>
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<tr>
<td>3.6.1</td>
<td>Depreciation and Amortization</td>
<td>Added discussion related to ceasing amortization of ROU assets when they are classified as held for sale.</td>
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<td>3.8</td>
<td>Recognition of a Gain or Loss Upon Sale of the Disposal Group</td>
<td>Revised to clarify the applicable guidance on recognizing a gain or loss upon sale of a disposal group.</td>
</tr>
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<td>3.9</td>
<td>Classification of Long-Lived Assets to Be Disposed of in Exchange for a Noncontrolling Interest in Those Assets</td>
<td>Section deleted and guidance incorporated into Section 3.7.</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Long-Lived Assets to Be Disposed of Other Than by Sale</td>
<td>Section moved from Chapter 3 and renumbered.</td>
</tr>
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<td>4.4</td>
<td>Assets to Be Distributed to Owners in a Spin-Off</td>
<td>Revised to clarify the accounting for assets to be distributed to owners in a spin-off.</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Discontinued Operations</td>
<td>Renumbered from Chapter 4 and introduction added.</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>Presentation and Disclosure Requirements for Disposals That Are Not Reported as Discontinued Operations</td>
<td>Renumbered from Chapter 7 and introduction added.</td>
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<tr>
<td>Chapter 7</td>
<td>Presentation and Disclosure Requirements for Disposals That Are Reported as Discontinued Operations</td>
<td>Renumbered from Chapter 5 and introduction added.</td>
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