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On the Radar

Impairments and Disposals of Long-Lived Assets and Discontinued Operations

The convergence of various macroeconomic and geopolitical factors has created a volatile and uncertain environment in which a business's ability to forecast results and make decisions can be difficult. Factors that have contributed to such challenges include interest rate changes, inflation, and a tight labor market, which together have contributed to bank failures or downgrades, businesses' struggles to raise capital, companies' announcements of layoffs, broader restructuring plans, and changes in customer behavior. Further, the ways in which people are living and working in the post-pandemic environment have significantly affected real estate demands and preferences.

How these factors affect cash flow and fair value estimates used in impairment analyses should be considered. As businesses evolve in response to these conditions, preparers may also need to make determinations pertaining to (1) assets held for sale and (2) reporting discontinued operations. Even as entities evolve in times of relative stability, they must consider the reporting for impairments and disposals.

Long-lived assets within the scope of ASC 360-10 are accounted for and tested for impairment differently depending on the entity's intent regarding 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 when a triggering event occurs by performing a two-step recoverability test. In the two-step recoverability test, the carrying amount of an asset group is first compared with its undiscounted cash flows to determine whether an asset is recoverable. If the held-and-used asset group is determined not to be recoverable, the asset group is written down to fair value. By contrast, long-lived assets that the entity intends to sell are tested for impairment upon classification as held for sale and in each subsequent reporting period by comparing their carrying amount with their fair value less costs to sell.

The flowchart below summarizes how long-lived assets are accounted for and presented on the basis of the entity's intent regarding the assets.

Accounting and Reporting for Long-Lived Assets

Entity's intent regarding the assets	Assets the entity intends to use	Assets the entity intends to dispose of by sale	Assets the entity intends to dispose of other than by sale
Classification	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
Grouping assets and liabilities	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)	Long-lived assets are grouped with other assets and liabilities that will be disposed of together in a single transaction (disposal group)	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)
Timing of impairment testing	Tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable ("triggering event")	Tested for impairment upon classification as held for sale and in each subsequent reporting period until sold	Tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable ("triggering event")
Recoverability testing	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	N/A	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
Measurement	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	Recognize an impairment loss for any initial or subsequent write-down of the asset (disposal group) to its fair value less cost to sell	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
Reversal of impairments	Impairment charges for assets classified as held and used cannot be reversed	While classified as held for sale, reversals of impairments are permitted for increases in fair value less cost to sell but not in excess of the cumulative loss previously recognized. If held-for-sale criteria are no longer met (an entity decides not to sell), measure the disposal group at the lower of (1) its carrying amount before it was classified as held for sale or (2) its fair value as of the date the entity decides not to sell.	Impairment charges for assets classified as held and used cannot be reversed
Presentation and disclosure	Assets continue to be presented in their balance sheet line items	Determine whether the disposal meets the criteria for discontinued-operations reporting upon classification as held for sale	Determine whether the disposal meets the criteria for discontinued-operations reporting upon disposal
	If an impairment loss is recognized, disclose information required by ASC 360-10	If no, apply the presentation and disclosure requirements for disposals that are not reported as discontinued operations If yes, apply the scope, presentation, and disclosure requirements for discontinued operations in ASC 205-20	If no, apply the presentation and disclosure requirements for disposals that are not reported as discontinued operations If yes, apply the scope, presentation, and disclosure requirements for discontinued operations in ASC 205-20
	If an SEC registrant, consider the reporting requirements applicable to SEC registrants		

Long-Lived Assets Classified as Held and Used

Long-lived assets that are classified as held and used are tested for recoverability upon the occurrence of a triggering event, which is an event or change in circumstance that indicates that their carrying amount may not be recoverable. When performing a recoverability test, an entity groups long-lived assets with other assets and, possibly, liabilities at the lowest level for which the entity can identify cash flows that are largely independent of the cash flows of other assets and liabilities. Such a grouping is called an asset group.

An asset group is not recoverable if its carrying amount is in excess of the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. When an asset group is not recoverable, the next step is to measure an impairment loss as the amount by which the carrying amount of the asset group exceeds its fair value.

Long-Lived Assets to Be Disposed of by Sale

An entity may decide to sell one or more of its long-lived assets. Long-lived assets are grouped with the other assets and liabilities the entity intends to sell. Such a grouping is called a disposal group. Once all of the held-for-sale classification criteria are met, an entity classifies the disposal group as held for sale, stops depreciating or amortizing the long-lived assets, and measures the disposal group 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 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 disposal group is sold. Therefore, the carrying amount of the 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 the disposal group not previously recognized is recognized on the date of sale.

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

An entity may also 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.

Presentation and Disclosure Requirements for Long-Lived Assets That Are Classified as Held for Sale or Have Been Disposed Of

Once long-lived assets have been classified as held for sale or have been disposed of, an entity must determine how to present the disposition in its financial statements. The entity must first assess whether the disposition meets the criteria for discontinued-operations reporting. The purpose of reporting discontinued operations separately from continuing operations is to provide stakeholders with information about assessing the effects of a disposal on an entity's ongoing operations. The operations of a disposal group may be presented as a discontinued operation only if (1) the disposed-of assets (and liabilities) represent a component of an entity, (2) the assets (and liabilities) meet the held-for-sale classification criteria or have been disposed of, and (3) 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 disposals qualify for discontinued-operations reporting.

The disclosure requirements differ depending on whether a disposal (1) meets the criteria for discontinued-operations reporting, (2) does not meet the criteria for discontinued-operations reporting but is (or includes) an individually significant component of the entity, or (3) does not meet the criteria for discontinued-operations reporting and is not (or does not include) an individually significant component of the entity. Entities will need to use judgment in interpreting the meaning of the term "individually significant," since this term is not defined. The table below summarizes the disclosure requirements.

If the disposition:	
Meets the criteria for discontinued-operations reporting	The results of operations are reclassified to discontinued operations in the statement of operations, retrospectively, for all periods presented. In addition, the assets and liabilities of the disposal group are presented separately on the face of the balance sheet **both** in the current period (if held for sale) and in all prior periods.
Does not meet the criteria for discontinued-operations reporting but **is an individually significant component**	No reclassification of results of operations in the statement of operations. The assets and liabilities of the disposal group are separately presented on the face of the balance sheet **only** in the initial period in which the group 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. Entities must disclose information required by ASC 360-10-50-3A about pretax profit or loss if the disposal group includes an individually significant component 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.
Does not meet the criteria for discontinued-operations reporting and **is not an individually significant component**	Same presentation and disclosure requirements as for individually significant components except that the entity is not required to disclose information about pretax profit or loss in accordance with ASC 360-10-50-3A.

Considerations for SEC Registrants

For disposals reported as discontinued operations, 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).

Deloitte's Roadmap *Impairments and Disposals of Long-Lived Assets and Discontinued Operations* 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.

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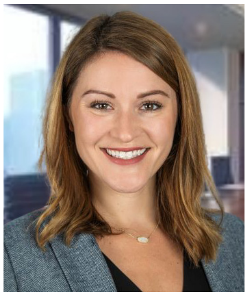

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