

Notice for Recipients of This Proposed FASB Staff Position

This proposed FASB Staff Position (FSP) would amend the definition of a discontinued operation. It would thus establish when the income effects of a component of an entity would be reported in the discontinued operations section of the income statement under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This proposed FSP also would amend the disclosure requirements of Statement 144 for all components of an entity that either have been disposed of or are classified as held for sale regardless of whether a component of an entity is reported in the income statement as a discontinued operation or within continuing operations.

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP. Respondents need not comment on all of the issues presented and are encouraged to comment on additional issues as well. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not. Comments are most helpful if they identify the issues to which they relate and clearly explain the reasons for the positions taken. Those who disagree with provisions of this proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

The Board requests that constituents provide comments on the following:

1. The proposed FSP would amend the definition of a discontinued operation so that a discontinued operation is a component of an entity that is (a) an operating segment (as that term is defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*) and either has been disposed of or is classified as held for sale or (b) a business (as that term is defined in FASB Statement No. 141 [revised 2007], *Business Combinations*) or a nonprofit activity¹ that meets the criteria to be classified as held for sale on acquisition. Do you agree with the proposed definition of a discontinued operation? Why or why not? If not, what definition would you propose and why?

¹A *nonprofit activity* is defined as 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 organization's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit organization, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity. A nonprofit activity often is, but need not be, a separate legal entity.

2. Based on the proposed definition of a discontinued operation, an operating segment is the general level of aggregation for determining whether a component of an entity would be reported in the discontinued operation section of the income statement (or statement of activities for not-for-profit entities). The definition would no longer include certain subsidiaries and asset groups that do not meet the definition of an operating segment. Is it feasible for an entity that is not required to apply Statement 131 (that is, a nonpublic business entity and a not-for-profit entity) to determine whether the component of an entity meets the definition of an operating segment? Why or why not? If not, what definition would you propose for an entity that is not required to apply Statement 131 and why?
3. Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes would you propose and why?
4. Under the disclosure requirements, income tax expense or benefit does not have to be calculated and disclosed for components of an entity that are reported within continuing operations and that have been disposed of or are classified as held for sale. Do you agree or do you believe it would be beneficial to require income tax expense or benefit to be calculated and disclosed for discontinued components of an entity within continuing operations? If so, how would you calculate and disclose the income tax expense or benefit?
5. Do you agree with the disclosure exemptions for a business or a nonprofit activity that meets the criteria to be classified as held for sale on acquisition? Why or why not? If not, what changes would you propose and why?
6. Are the effective date and transition provisions sufficient for compiling the information needed? Why or why not? If not, what would you propose and why?

Responses must be received in writing by January 23, 2009. Earlier responses are encouraged. Interested parties should submit their comments by email to director@fasb.org, File Reference: Proposed FSP FAS 144-d. Those without email may send their comments to “Technical Director, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, File Reference: Proposed FSP FAS 144-d.” Responses should not be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB website and included as part of the project record with other project materials.

PROPOSED FASB STAFF POSITION

No. FAS 144-d

Title: Amending the Criteria for Reporting a Discontinued Operation

Comment Deadline: January 23, 2009

Objective

1. This FASB Staff Position (FSP) amends FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This FSP:
 - a. Defines when a component of an entity should be reported in the discontinued operations section of the income statement
 - b. Enhances the disclosure requirements of Statement 144 for all components of an entity that have been disposed of or are classified as held for sale regardless of whether a component of an entity is reported in the income statement as a discontinued operation or within continuing operations.
2. The intent of this FSP is to develop a definition of a discontinued operation and disclosure requirements for all components of an entity that have been disposed of or are classified as held for sale that are convergent with the definition and disclosure requirements of International Financial Reporting Standards (IFRSs).

Background

3. Currently, the definition of a discontinued operation in Statement 144 and in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are not convergent. Statement 144 defines a discontinued operation as a component of an entity that has been disposed of or is classified as held for sale provided that (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Statement 144 states that a component of an entity may be a reportable segment or an operating segment (as those terms are defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related*

Information), a reporting unit (as that term is defined in FASB Statement No. 142, *Goodwill and Other Intangible Assets*), a subsidiary, or an asset group (the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities). IFRS 5 defines a discontinued operation as a component of an entity that either has been disposed of or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

4. In their joint project on financial statement presentation, the FASB and the International Accounting Standards Board (IASB) (collectively, the Boards) decided to develop a common definition of a discontinued operation and require common disclosures for all components of an entity that have been disposed of or are classified as held for sale. The Boards noted that the financial statement presentation project should result in a converged and improved presentation of discontinued operations; however, the Boards acknowledge that there would be a lack of comparability until the definitions of a discontinued operation are converged.

5. Constituents have since asked the Boards to accelerate the issuance of guidance on discontinued operations separately from the joint financial statement presentation project. Accordingly, the Boards added a separate project to their agendas to develop a common definition of discontinued operations and common disclosure requirements for all components of an entity that have been disposed of or are classified as held for sale regardless of whether a component of an entity is reported in the income statement as a discontinued operation or within continuing operations.

6. As part of this joint project, on September 25, 2008, the IASB issued an Exposure Draft, *Discontinued Operations*, which proposes amendments to IFRS 5 identical to those proposed in this FSP.

All paragraphs in this FSP have equal authority. Paragraphs in bold set out the main principles.

FASB Staff Position

Scope

7. **This FSP provides guidance on the presentation and disclosures of all components of an entity that either have been disposed of or are classified as held for sale in accordance with Statement 144.** 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.

8. **This FSP applies to all entities (public and nonpublic business entities, and not-for-profit entities) regardless of whether an entity is within the scope of Statement 131.**

Other Presentation Matters—Definition of Discontinued Operations

9. **This FSP amends the definition of a discontinued operation. A discontinued operation is a component of an entity that is:**

- a. An *operating segment* (as that term is defined in Statement 131) and either has been disposed of or is classified as held for sale; or**
- b. A *business* (as that term is defined in FASB Statement No. 141 [revised 2007], *Business Combinations*) that meets the criteria to be classified as held for sale on acquisition.**

10. The criteria in paragraph 9 are the only criteria for determining when a component of an entity shall be reported as a discontinued operation in the income statement. Accordingly, the criteria in paragraph 42 of Statement 144 that (a) the operations and cash flows of the component has been (or will be) eliminated from the ongoing operations of the entity and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction will no longer be applicable criteria in determining when a component of an entity should be reported as a discontinued operation.

11. An entity that is not required to present segment information because it is not subject to the provisions of Statement 131 (for example, a nonpublic business entity or a not-for-profit entity) is nonetheless required to present discontinued operations based on the operating segment criterion in paragraph 9(a). That entity shall use the guidance in paragraphs 10–15 of Statement 131 to determine what its operating segments are for purposes of presenting discontinued operations in the income statement.

Disclosure

12. **For a component of an entity that either has been disposed of or is classified as held for sale, an entity shall provide financial information that will enable users of financial statements to assess the financial effect of that disposal on the entity.**

13. To meet that objective, in addition to the disclosures required by paragraphs 47 and 48 of Statement 144, as amended by this FSP (see paragraph B1(k)), an entity shall disclose in the notes or on the face of the financial statements the following for all components of an entity (except as provided in paragraph 14) in the period in which a component of an entity either has been disposed of or is classified as held for sale regardless of whether it is reported in the income statement as a discontinued operation or within continuing operations:

- a. The profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation, and amortization
- b. Whether the profit or loss in (a) is presented in continuing operations or in discontinued operations
- c. The major classes of cash flows (operating, investing, and financing)
- d. If applicable, the amount of pretax profit or loss reported as discontinued operations in the income statement
- e. If the component of an entity includes a noncontrolling interest, the profit or loss attributable to the parent.

14. A business that meets the criteria to be classified as held for sale on acquisition is exempt from the disclosure requirements of paragraph 13 and also from the disclosure requirements of paragraphs 68(h), 68(i), and 68(r) of Statement 141(R) and paragraphs 47(b) and 47(e) of Statement 144, as amended by this FSP. However, it shall disclose the following information as required in paragraph 47 of Statement 144:

- a. A description of the facts and circumstances leading to the expected disposal and the expected manner and timing of that disposal
 - b. If applicable, the segment in which the long-lived asset (disposal group) is reported under Statement 131.
15. If an entity discloses the major classes of assets and liabilities classified as held for sale in the notes to the financial statements (see paragraph 47(e) of Statement 144, as amended by this FSP), it shall reconcile the amounts of those assets and liabilities to total assets and total liabilities classified as held for sale that are presented separately on the face of the statement of financial position. In doing so, an entity may:
- a. Aggregate the assets and liabilities of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 14); and
 - b. Aggregate the assets and liabilities classified as held for sale (other than those in (a)) that are not disclosed separately because it did not consider them to be major.
16. If an entity discloses the profit or loss, together with major income and expense items constituting that profit or loss from discontinued operations in the notes to the financial statements (see paragraph 13(a)), it shall reconcile the profit or loss in the notes to the after-tax profit or loss from discontinued operations presented on the face of the income statement. In doing so, an entity may:
- a. Aggregate the profit or loss of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 14); and
 - b. Aggregate the income and expense items (other than those in (a)) that are not disclosed separately because it did not consider them to be major.

Application by Not-for-Profit Entities

17. Not-for-profit entities shall apply the provisions of this FSP with the following modifications:
- a. References to a business or businesses should be replaced with references to a nonprofit activity or nonprofit activities.¹

¹A *nonprofit activity* is defined as 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 organization's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit organization, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity. A nonprofit activity often is, but need not be, a separate legal entity.

- b. References to an income statement should be replaced with references to a statement of activities (or statement of changes in net assets or statement of operations).
- c. References to profit or loss should be replaced with references to changes in net assets.
- d. References to income from continuing operations before income taxes should be replaced with references to income from continuing operations.

Effective Date and Transition

18. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2009, and interim periods within those fiscal years. Earlier application is permitted.

19. This FSP shall be applied retrospectively to all periods presented.

The provisions of this FSP need not be applied to immaterial items.

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes the FASB's and IASB's considerations that Board members deemed significant in reaching the conclusions in this FSP. It includes reasons for accepting certain views and rejecting others.

Other Presentation Matters—Definition of Discontinued Operations

Operating Segment Criterion

A2. The Boards decided for the following reasons to use an operating segment as defined in Statement 131 and IFRS 8, *Operating Segments*, as the criterion for determining whether a component of an entity that has been disposed of or is classified as held for sale would be reported in the discontinued operation section of the income statement.

- a. Certain preparers of financial statements have argued that the definition of a discontinued operation in Statement 144 results in too many activities being classified as discontinued operations in the income statement. Some users of financial statements have indicated that a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations. Because the determination of operating segments is based on how the chief operating decision maker makes decisions about allocating resources and assessing performance, disposal of an operating segment would most likely indicate a strategic shift in an entity's operations.
- b. Statement 131 and IFRS 8 have a common definition of operating segments, and entities within the scope of Statement 131 and IFRS 8 are already required to determine their operating segments. Thus, using an operating segment criterion would simplify the determination of what should be reported as a discontinued operation in the income statement, thereby reducing the administrative burden and overall complexity associated with reporting a discontinued operation.
- c. The FASB removed the continuing involvement criterion in paragraph 42 of Statement 144 to reduce complexity and to converge the guidance in that Statement and that in IFRS 5, which does not include the continuing involvement criterion for determining when a component of an entity shall be

reported as a discontinued operation in the income statement. The FASB has observed that this criterion is difficult to apply and does not result in consistent application of Statement 144. The FASB Emerging Issues Task Force (EITF) had to issue guidance, Issue No. 03-13, “Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations,” to address this difficulty. While that guidance is helpful, the FASB believes some preparers continue to have difficulty in applying Issue 03-13 guidance to individual fact patterns.

A Business That Meets the Criteria to Be Classified as Held for Sale on Acquisition

A3. The Boards believe that the operating segment criterion is the general level of aggregation that meets the objective of reporting discontinued operations. However, for the following reasons, the Boards decided that the definition of a discontinued operation also should include a business (as that term is defined in Statement 141(R) and IFRS 3, *Business Combinations* [as revised in 2008]) that meets the criteria to be classified as held for sale on acquisition:

- a. The Boards believe it would be misleading to present profit or loss from businesses that meet the criteria to be classified as held for sale on acquisition in continuing operations because the operations of these businesses have not been, and will not be, integrated into the entity. For example, including these businesses in continuing operations would distort the historical trend of income from continuing operations of the entity because the profit or loss related to those businesses would be included in income from continuing operations of the current year but not for prior years (because they were not part of the consolidated group). The profit or loss will cease to affect income from continuing operations within a year based on the criteria required to be classified as held for sale in Statement 144 and IFRS 5. The Boards concluded that more decision-useful information about trends of income from continuing operations would be accomplished by reporting in the income statement the financial results of those businesses in discontinued operations.
- b. The Boards believe that a business is the appropriate level of aggregation to define the “held for sale on acquisition” criterion because a business adheres to the general principle to only include disposal activities that reflect a strategic shift in an entity’s business strategy. Also, because Statement 141(R) and revised IFRS 3 have a common definition of a business, using that term would provide a common definition of a discontinued operation without causing additional complexity.
- c. The Boards also considered whether to include a requirement that would limit businesses that meet the criteria to be classified as held for sale on acquisition to be reported as discontinued operations in the income statement only when the sale is required by law or regulation. This consideration was based on the view that this additional requirement would provide discipline over what

components are classified as discontinued operations in the income statement and thus would avoid abuse. However, the Boards decided not to include this requirement because they believe that the form of whether the disposal was imposed by law or regulation should not dictate the reporting of discontinued operations in the income statement.

Amounts Reported in Discontinued Operations

A4. Under Statement 131, amounts disclosed for operating segments are the amounts reported to the chief operating decision maker. Although the definition of a discontinued operation refers to operating segments, the amounts presented as discontinued operations in the income statement and related note disclosures should be based on the amounts presented on the face of the financial statements. Accordingly, amounts reported as discontinued operations in the income statement and included in the related disclosures might not reconcile to the segment information presented in accordance with Statement 131. The following two examples illustrate this:

- a. The amount reported as discontinued operations in the income statement is after-tax net income, whereas the profit or loss amount included in the segment disclosure is the measure of a segment's profit or loss reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance.
- b. Interest disclosed as discontinued operations in the income statement (see paragraph 13(a)) should be based on the allocation of interest in accordance with EITF Issue No. 87-24, "Allocation of Interest to Discontinued Operations." This amount might not reconcile to the interest included in the measure of segment profit or loss reported to the chief operating decision maker.

Disclosures

A5. The Boards believe the proposed definition of a discontinued operation will result in fewer components of an entity being reported as discontinued operations than previously reported. Therefore, the results of many discontinued components of an entity that were previously reported as discontinued operations on the face of the income statement will now be classified within continuing operations. The additional disclosure requirements should enable a user of the financial statements to obtain additional information for those components that were previously classified as discontinued operations.

A6. Income tax expense or benefit is excluded from the disclosure requirements because, if included, an additional income tax expense or benefit calculation would be required within continuing operations for all discontinued components of an entity that do not meet the definition of a discontinued operation. This income tax calculation would increase complexity and could affect the intraperiod tax allocation model in FASB Statement No. 109, *Accounting for Income Taxes*, and IAS 12, *Income Taxes*,² because discontinued components of an entity would be the only line item within continuing operations that would have a specific income tax expense or benefit calculation. The Boards believe the arbitrary nature of such a calculation diminishes the potential usefulness of the resulting tax information to users of financial statements.

Disclosure Exemptions—Businesses That Meet the Criteria to Be Classified as Held for Sale on Acquisition

A7. The Boards believe the purpose of the disclosures is to provide a user of the financial statements with the ability to analyze the changes and trends over reporting periods within the specific financial statement line items and categories. If a business meets the criteria to be classified as held for sale on acquisition, the business activity will only be reflected in the financial statements from the date of acquisition and not in prior periods because the entity did not consolidate the business at that time. Therefore, the Boards decided not to require certain disclosures for businesses that meet the criteria to be classified as held for sale on acquisition because those disclosures would provide minimal benefit to a user of the financial statements because there would be no comparative historical or forward-looking information for a user to perform trend analysis.

A8. The disclosure requirements of Statement 141(R) and revised IFRS 3 apply to all business combinations, including the acquisition of businesses that meet the criteria to be classified as held for sale on acquisition. The Boards noted that providing disclosure exemptions only for Statement 144 and IFRS 5 requirements would be insufficient because Statement 141(R) and revised IFRS 3 also require similar disclosures. For this

²IAS 12 has similar requirements for allocation but less detailed intraperiod tax allocation guidance than Statement 109.

reason, the Boards decided to amend those standards and provide similar disclosure exemptions.

Reconciliation of Amounts Presented in the Disclosures to the Amounts Presented in the Financial Statements

A9. The Boards noted the following two situations where the amounts required to be disclosed in the notes might not reconcile to the amounts presented on the face of the financial statements.

- a. Based on the disclosure exemption for businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 14), the after-tax profit or loss amounts and the asset and liability amounts for those businesses would not be required to be presented in the notes to the financial statements.
- b. The disclosures are required for major classes of assets and liabilities and major income and expense items. Accordingly, any item the entity has determined as not being major would not be presented in the notes to the financial statements.

A10. For the situations in paragraph A9, the Boards recognized that the amounts required to be disclosed in the notes might not reconcile to the amounts presented on the face of the financial statements in the following areas:

- a. The profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation, and amortization of discontinued operations presented in the notes to the financial statements, would not reconcile to after-tax profit or loss from discontinued operations presented in the income statement.
- b. Major classes of assets and liabilities classified as held for sale presented in the notes to the financial statements would not reconcile to total assets and total liabilities classified as held for sale presented separately in the statement of financial position.

A11. The Boards questioned whether the situations in paragraph A9 would cause confusion to users of financial statements who try to reconcile the amounts on their own. Accordingly, the Boards concluded that an entity should reconcile the amounts presented in the notes to the amounts presented on the face of the financial statements for the areas in paragraph A10 in order to provide more useful and complete information that improves the transparency of the information provided in the financial statements. The Boards noted that the information to present this reconciliation is readily available

because it would be the same information used for presentation on the face of the financial statements.

Effective Date and Transition

A12. The FASB believes that a retrospective application will maximize the consistency of information between reporting periods and enhance the usefulness of financial information for a user of the financial statements. A form of transition other than retrospective application could lead an entity to report discontinued operations under different sets of criteria and, therefore, distort the trend of earnings reported in discontinued operations depending on the period in which the component of an entity was designated as a discontinued operation.

A13. The FASB determined that the provisions of this FSP would be effective for financial statements issued for fiscal years beginning after December 15, 2009, and interim periods within those fiscal years with earlier application permitted. The FASB believes that this effective date will provide constituents with enough time to prepare for implementation. Earlier application could reduce the likelihood that constituents would classify a discontinued operation of an entity in discontinued operations in one period and then reclassify the same discontinued component of an entity out of discontinued operations once this FSP is effective.

Appendix B

AMENDMENTS TO STATEMENT 144 AND OTHER PRONOUNCEMENTS

Amendments to Statement 144

B1. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 25:

An impairment loss recognized for a long-lived asset (asset group) to be held and used shall be included in income from continuing operations before income taxes in the income statement ~~of a business enterprise and in income from continuing operations in the statement of activities of a not-for-profit organization~~. If a subtotal such as “income from operations” is presented, it shall include the amount of that loss.

b. Paragraph 26(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. Paragraph 33:

If the criteria in paragraph 30 are met after the balance sheet date but before issuance of the financial statements, a long-lived asset shall continue to be classified as held and used in those financial statements when issued.²⁰ The information required by paragraphs 47(a) and 47(e) shall be disclosed in the notes to the financial statements. If the asset (asset group) is tested for recoverability (on a held-and-used basis) as of the balance sheet date, the estimates of future cash flows used in that test shall consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of the future sale of the asset. That assessment made as of the balance sheet date shall not be revised for a decision to sell the asset after the balance sheet date.²¹ An impairment loss, if any, to be recognized shall be measured as the amount by which the carrying amount of the asset (asset group) exceeds its fair value at the balance sheet date.

d. Paragraph 41:

For purposes of this Statement, *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 (as those terms are defined in paragraph 10 of Statement 131), a reporting unit (as that term is defined in Statement 142), a subsidiary, or an asset group (as that term is defined in paragraph 4). A discontinued operation is a component of an entity that is:~~

- ~~a. An operating segment (as that term is defined in paragraph 10 of Statement 131) and either has been disposed of or is classified as held for sale; or~~
- ~~b. A business (as that term is defined in FASB Statement No. 141 [revised 2007], *Business Combinations*) that meets the criteria to be classified as held for sale on acquisition.~~

- e. Paragraph 41A is added as follows:

An entity that is not required to present segment information because it is not subject to the provisions of Statement 131 (for example, a nonpublic business entity or a not-for-profit entity) is nonetheless required to present discontinued operations based on the operating segment criterion in paragraph 41(a). That entity shall use the guidance in paragraphs 10–15 of Statement 131 to determine what its operating segments are for purposes of presenting discontinued operations.

- f. Paragraph 42:

~~The results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 if both of the following conditions are met: (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. (Examples 12–15 of Appendix A illustrate disposal activities that do or do not qualify for reporting as discontinued operations.)~~

- g. Paragraph 43, as amended:

In a period in which a component of an entity meets the definition of a discontinued operation, either has been disposed of or is classified as held for sale, the income statement of a business enterprise (or statement of activities of a not-for-profit organization) for current and prior periods shall report the results of operations of the discontinued operation component, including any gain or loss recognized in accordance with paragraph 37, in discontinued operations. The results of operations of a discontinued operation component classified as held for sale shall be reported in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items (if applicable). For example, the results of discontinued operations may be reported in the income statement of a business enterprise as follows:

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Income from continuing operations before income taxes	\$XXXX	
Income taxes	<u>XXX</u>	
Income from continuing operations ²⁴		\$XXXX
Discontinued operations (Note X)		
Loss from operations of discontinued Component X (including loss on disposal of \$XXX)		XXXX
Income tax benefit		<u>XXXX</u>
Loss on discontinued operations		<u>XXXX</u>
Net income		<u>\$XXXX</u>

A gain or loss recognized on the disposal shall be disclosed either on the face of the income statement or in the notes to the financial statements (paragraph 47(b)). If the discontinued operation is a business that meets the criteria to be classified as held for sale on acquisition, this disclosure is not required.

h. Paragraph 44:

Adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a discontinued operation~~component of an entity~~ in a prior period shall be classified separately in the current period in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which those types of adjustments may arise include the following:

- a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser
- b. The resolution of contingencies that arise from and that are directly related to the operations of the discontinued operation~~component~~ prior to its disposal, such as environmental and product warranty obligations retained by the seller
- c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction.²⁵

i. Paragraph 45, as amended:

A gain or loss recognized on the sale of a long-lived asset (disposal group) that is not a discontinued operation~~component of an entity~~ shall be included in income from continuing operations before income taxes in the income statement ~~of a business enterprise and in income from continuing operations in the statement of activities of a not for profit organization.~~ If a subtotal such as "income from operations" is presented, it shall include the amounts of those gains or losses.

j. Paragraph 46:

A long-lived asset classified as held for sale shall be presented separately in the statement of financial position. The assets and liabilities of a disposal group classified as held for sale shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either on the face of the statement of financial position or in the notes to financial statements (paragraph 47(e)). If the disposal group is a business that meets the criteria to be classified as held for sale on acquisition, disclosure of the major classes of assets and liabilities is not required.

k. Paragraph 47:

The following information shall be disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:

- a. A description of the facts and circumstances leading to the expected disposal ~~and, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group~~
- b. The gain or loss recognized in accordance with paragraph 37 and if not separately presented on the face of the income statement, the caption in the income statement ~~or the statement of activities that includes that gain or loss.~~ If the disposal group is a business that meets the criteria to be classified as held for sale on acquisition, this disclosure is not required.
- c. ~~If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations~~
- d. If applicable, the segment in which the long-lived asset (disposal group) is reported under Statement 131.
- 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. If the disposal group is a business that meets the criteria to be classified as held for sale on acquisition, this disclosure is not required. The amounts provided in the notes to the financial statements shall reconcile to total assets and total liabilities classified as held for sale that are presented separately on the face of the statement of financial position, respectively. In doing so, an entity may:
 - (1) Aggregate the assets and liabilities of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 47(e)); and
 - (2) Aggregate the assets and liabilities classified as held for sale (other than those in (1)) that are not disclosed separately because the entity did not consider them to be major.

l. Paragraphs 47A–47C are added as follows:

47A. In addition to the disclosure requirements in paragraph 47, the following information shall be disclosed in the notes or on the face of the financial statements in the period in which a component of an entity has either been disposed of or is classified as held for sale regardless of whether it is reported in

the income statement as a discontinued operation or within continuing operations:

- a. The profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation, and amortization
- b. Whether the profit or loss in (a) is presented in continuing operations or in discontinued operations
- c. The major classes of cash flows (operating, investing, and financing)
- d. If applicable, the amount of pretax profit or loss reported as discontinued operations in the income statement
- e. If the component of an entity includes a noncontrolling interest, the profit or loss attributable to the parent.

47B. The disclosure requirements in paragraph 47A are not required for businesses that meet the criteria to be classified as held for sale on acquisition.

47C. If an entity discloses the profit or loss, together with major income and expense items (paragraph 47A(a)) from discontinued operations in the notes to the financial statements, it shall reconcile the profit or loss in the notes to the after-tax profit or loss from discontinued operations presented on the face of the income statement. In doing so, an entity may:

- a. Aggregate the profit or loss of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 47B); and
- b. Aggregate the income and expense items (other than those in (a)) that are not disclosed separately because the entity did not consider them to be major.

m. Paragraph 48A and the heading preceding it are added as follows:

Application by Not-for-Profit Entities

Not-for-profit entities shall apply the provisions of this Statement with the following modifications:

- a. References to a business or businesses should be replaced with references to a nonprofit activity or nonprofit activities.^{25a}
- b. References to an income statement should be replaced with references to a statement of activities (statement of changes in net assets or statement of operations).
- c. References to profit or loss should be replaced with references to changes in net assets.
- d. References to income from continuing operations before income taxes should be replaced with references to income from continuing operations.

^{25a}A nonprofit activity is defined as 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 organization's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-

profit organization, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity. A nonprofit activity often is, but need not be, a separate legal entity.

- n. Paragraphs A24–A31 and the related headings:

~~Examples 12–15 Reporting Discontinued Operations~~

~~A24. The results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations if (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction (paragraph 42). Examples 12–15 illustrate disposal activities that do or do not qualify for reporting as discontinued operations.~~

~~Example 12~~

~~A25. An entity that manufactures and sells consumer products has several product groups, each with different product lines and brands. For that entity, a product group is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, each product group is a component of the entity.~~

~~A26. The entity has experienced losses associated with certain brands in its beauty care products group.~~

- ~~a. The entity decides to exit the beauty care business and commits to a plan to sell the product group with its operations. The product group is classified as held for sale at that date. The operations and cash flows of the product group will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the product group after it is sold. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the product group while it is classified as held for sale would be met.~~
- ~~b. The entity decides to remain in the beauty care business but will discontinue the brands with which the losses are associated. Because the brands are part of a larger cash flow generating product group and, in the aggregate, do not represent a group that on its own is a component of the entity, the conditions in paragraph 42 for reporting in discontinued operations the losses associated with the brands that are discontinued would not be met.~~

~~Example 13~~

~~A27. An entity that is a franchiser in the quick service restaurant business also operates company-owned restaurants. For that entity, an individual company-owned restaurant is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes,~~

~~from the rest of the entity. Therefore, each company owned restaurant is a component of the entity.~~

- ~~a. The entity has experienced losses on its company owned restaurants in one region. The entity decides to exit the quick-service restaurant business in that region and commits to a plan to sell the restaurants in that region. The restaurants are classified as held for sale at that date. The operations and cash flows of the restaurants in that region will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the restaurants after they are sold. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the restaurants while they are classified as held for sale would be met.~~
- ~~b. Based on its evaluation of the ownership mix of its system-wide restaurants in certain markets, the entity commits to a plan to sell its company-owned restaurants in one region to an existing franchisee. The restaurants are classified as held for sale at that date. Although each company-owned restaurant, on its own, is a component of the entity, through the franchise agreement, the entity will (1) receive franchise fees determined, in part, based on the future revenues of the restaurants and (2) have significant continuing involvement in the operations of the restaurants after they are sold. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the restaurants would not be met.~~

Example 14

~~A28. An entity that manufactures sporting goods has a bicycle division that designs, manufactures, markets, and distributes bicycles. For that entity, the bicycle division is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, the bicycle division is a component of the entity.~~

~~A29. The entity has experienced losses in its bicycle division resulting from an increase in manufacturing costs (principally labor costs).~~

- ~~a. The entity decides to exit the bicycle business and commits to a plan to sell the division with its operations. The bicycle division is classified as held for sale at that date. The operations and cash flows of the division will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the division after it is sold. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the division while it is classified as held for sale would be met.~~
- ~~b. The entity decides to remain in the bicycle business but will outsource the manufacturing operations and commits to a plan to sell the related manufacturing facility. The facility is classified as held for sale at that date. Because the manufacturing facility is part of a larger cash flow-generating group (the bicycle division), and on its own is not a component of the entity, the conditions in paragraph 42 for reporting in discontinued operations the~~

~~operations (losses) of the manufacturing facility would not be met. (Those conditions also would not be met if the manufacturing facility on its own was a component of the entity because the decision to outsource the manufacturing operations of the division will not eliminate the operations and cash flows of the division [and its bicycle business] from the ongoing operations of the entity.)~~

Example 15

~~A30. An entity owns and operates retail stores that sell household goods. For that entity, each store is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, each store is a component of the entity.~~

~~A31. To expand its retail store operations in one region, the entity decides to close two of its retail stores and open a new “superstore” in that region. The new superstore will continue to sell the household goods previously sold through the two retail stores as well as other related products not previously sold. Although each retail store on its own is a component of the entity, the operations and cash flows from the sale of household goods previously sold through the two retail stores in that region will not be eliminated from the ongoing operations of the entity. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the stores would not be met.~~

Amendment to Statement 95

B2. FASB Statement No. 95, *Statement of Cash Flows*, is amended as follows:

- a. Footnote 10 to paragraph 26:

~~Separate disclosure of cash flows pertaining to extraordinary items—or discontinued operations reflected in those categories is not required. The cash flow disclosure requirements pertaining to discontinued operations are prescribed in paragraph 47A of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. An enterprise that nevertheless chooses to report separately operating cash flows of discontinued operations shall do so consistently for all periods affected, which may include periods long after the sale or liquidation of the operation.~~

Amendment to Statement 141(R)

B3. FASB Statement No. 141(revised 2007), *Business Combinations*, is amended as follows:

- a. Paragraph 68A is added as follows:

Disclosures specified by paragraphs 68(h), 68(i), and 68(r) are not required for businesses that meet the criteria to be classified as held for sale on acquisition under Statement 144.

Amendments to Other Authoritative Literature

B4. This section addresses the effect of this FSP on authoritative accounting literature included in categories (b), (c), and (d) in the GAAP hierarchy discussed in FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.

- a. This FSP nullifies Emerging Issues Task Force (EITF) Issue No. 03-13, “Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations.”