Financial reporting developments

A comprehensive guide

Discontinued operations

Revised March 2025

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To our clients and other friends

Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements — Discontinued Operations*, provides guidance on the presentation and disclosure of discontinued operations, including criteria for determining when the presentation of discontinued operations is appropriate. Separate reporting of discontinued operations is important in providing users of financial statements the information necessary to determine the effects of a disposal transaction on the ongoing operations of an entity.

This publication is designed to assist professionals in understanding the accounting for discontinued operations. The publication reflects our current understanding of this guidance based on our experience with financial statement preparers and related discussions with the staffs of the Financial Accounting Standards Board (FASB or Board) and the Securities and Exchange Commission (SEC).

This publication has been updated to provide further clarifications and enhancements to our interpretive guidance. Refer to Appendix E for a summary of substantive updates to this publication.

We hope this publication will help you understand and apply the accounting for discontinued operations. EY professionals are prepared to assist you in your understanding and are ready to discuss your concerns and questions.

Ernst + Young LLP

March 2025

Contents

Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or Board) Accounting Standards Codification (Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

This publication has been carefully prepared, but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decisions.

1 Overview and scope

This publication addresses the reporting and presentation requirements for discontinued operations.

1.1 Overview (updated April 2024)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Overall

Overview and Background

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.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

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 or upon formation of a **joint venture**, is classified as held for sale.

205-10-05-3A

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.

Presentation of Financial Statements — Discontinued Operations

Overview and Background

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**.

Reporting discontinued operations separately from continuing operations is intended to provide investors, creditors and others with information to help assess the effects of disposal transactions on the ongoing operations of an entity.

A discontinued operation includes either:

- A component of an entity or group of components (see section 2.1, *Criterion 1: component of an entity*) that has been disposed of by sale, disposed of other than by sale or is classified as held for sale (see section 2.2, *Criterion 2: held-for-sale criteria*), if the disposal represents a strategic shift that has or will have a major effect on an entity's operations and financial results (see section 2.3, *Criterion 3: strategic shift that has (or will have) a major effect ("strategic shift")*)
- A newly acquired business or nonprofit activity that on acquisition met the held-for-sale criteria (see section 2.5, *Newly acquired businesses and nonprofit activities*)

The assets and liabilities of a discontinued operation held for sale are to be measured in the same manner as other disposal groups that are held for sale (i.e., lower of the disposal group's carrying amount or fair value less cost to sell, as discussed in our Financial reporting developments (FRD) publication, ***Impairment or disposal of long-lived assets***). All initial or subsequent adjustments to the carrying amount of the discontinued operation as a result of such measurement, so long as the component continues to meet the requirements of a discontinued operation, should be classified in discontinued operations. Additionally, future operating losses for a discontinued operation are not recognized before they occur, even if a gain is expected on disposal.

The disclosure guidance in ASC 360-10, *Property, Plant, and Equipment — Overall*, applies when a disposal group includes an individually significant component of an entity that either has been disposed of or is classified as held for sale and does not meet the criteria to be reported as a discontinued operation. Refer to section 3.5.4, *Disclosures for individually significant disposals that do not qualify for reporting as a discontinued operation*, and section 4.5 of our FRD, ***Impairment or disposal of long-lived assets***, for details. Also, refer to sections 19.4.7 and 23.3.5 of our FRD, ***Consolidation***, for guidance on presentation and disclosure, respectively, for an entity that disposes of a subsidiary or a group of assets in the scope of ASC 810-10-40-3A that is not a discontinued operation.

Standard setting

In August 2023, the FASB issued ASU 2023-05, *Business Combinations — Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, requiring certain joint ventures, upon formation, to apply a new basis of accounting. The amendments are effective for all joint ventures formed on or after 1 January 2025, with early adoption permitted. Joint ventures formed before the effective date have the option to apply the guidance retrospectively, while those formed after the effective date are required to apply the guidance prospectively.

The ASU specifically amends ASC 205-10-05-3(b) and makes other related amendments throughout ASC 205-20, denoting that a business or nonprofit activity that, on acquisition or upon formation of a joint venture, meets the criteria to be classified as held for sale is a discontinued operation.

1.2 Scope

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Overall

Scope and Scope Exceptions

205-10-15-1

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

205-10-15-2

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

Presentation of Financial Statements — Discontinued Operations

Scope and Scope Exceptions

205-20-15-1

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.

205-20-15-2

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.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

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 or upon formation of a **joint venture**, is classified as held for sale.

205-20-15-3

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).

2 Criteria for reporting discontinued operations

A disposal transaction qualifies for reporting as a discontinued operation if all of the following criteria are met:

> **Criterion 1:** Disposal group is a component of an entity (or group of components) — refer to section 2.1, *Criterion 1: component of an entity*
>
> **Criterion 2:** Component of an entity (or group of components) meets the held-for-sale criteria, is disposed of by sale, or is disposed of other than by sale (e.g., abandonment) — refer to section 2.2, *Criterion 2: held-for-sale criteria*
>
> **Criterion 3:** Disposal of the component of an entity (or group of components) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results — refer to section 2.3, *Criterion 3: strategic shift that has (or will have) a major effect ("strategic shift")*

Also, a newly acquired business or nonprofit activity that, on acquisition or upon formation of a joint venture, is classified as held for sale qualifies for reporting as a discontinued operation (refer to section 2.5, *Newly acquired businesses and nonprofit activities or formation of a joint venture*). A component of an entity (or group of components) or a business or nonprofit activity or joint venture are collectively referred to as the entity to be sold. Refer to section 1.1, *Overview*, for further information on the impact and effective date of pending content related to ASU 2023-05 on joint ventures.

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-1A

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

205-20-45-1B

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).

205-20-45-1D

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).

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

A business or nonprofit activity that, on acquisition or upon formation of a **joint venture**, 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 or the formation date if the other criteria in paragraph **205-20-45-1E** are probable of being met within a short period following the acquisition date or the formation date (usually within three months).

Property, Plant and Equipment — Overall

Other Presentation Matters

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

360-10-45-13

If the criteria in paragraph 360-10-45-9 are met after the balance sheet date but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), a long-lived asset shall continue to be classified as held and used in those financial statements when issued or when available to be issued. In addition, information required by paragraph 205-20-50-1(a) shall be disclosed in the notes to financial statements. […]

Presentation of Financial Statements — Discontinued Operations

Disclosures

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. […]

An entity determines whether a disposal transaction qualifies for reporting as a discontinued operation at the balance sheet date. Circumstances or events that occur after the balance sheet date (e.g., a component or group of components meets the held-for-sale criteria or is disposed of after the balance sheet date), but before the financial statements are issued or available to be issued, are not considered in that assessment. However, in these cases, entities should consider the disclosure requirements in ASC 855, *Subsequent Events*, and ASC 360-10-45-13. Refer to Accounting Manual S3, *Subsequent events*, including question 21 for further information.

2.1 Criterion 1: component of an entity

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Master Glossary

Component of an Entity

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

A component of an entity is defined as comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Hence, the legal form of the discontinued component (e.g., subsidiary, division, investee) is not important. Because the operations and cash flows of the component should be clearly distinguished, the financial information should be available or obtainable. Financial information would be considered obtainable even if effort, including analysis, and allocation of expenses would be required to produce such information. The significance of allocation would be considered in evaluating whether a component exists.

Given the definition of a component of an entity does not include any bright lines, judgment in determining whether a disposal group constitutes a component of an entity likely will be needed.

The following is an example of the judgment used in determining whether a disposal group constitutes a component of an entity.

Illustration 2-1: Component of an entity

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.

The entity has experienced losses associated with certain brands in its beauty care products group. 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 (i.e., the cash flows of the disposed brands cannot be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity), the disposed brands do not represent a group that on its own is a component of the entity.

Question 2-1 **If an entity retains certain assets associated with a disposal group (e.g., working capital, information technology (IT) systems, intangible assets), could the remaining assets to be disposed (or disposed of) meet the definition of a component?**

Possibly. While the assets retained by the entity are not part of the disposal group, if the remaining assets to be disposed (or disposed of) comprise operations and cash flows that can be clearly distinguished from the rest of the entity, the remaining operations would meet the definition of a component in ASC 205-20-20.

2.1.1 Measurement of a component of an entity

The assets and liabilities of a component of an entity that are held for sale are to be measured in the same manner as other asset groups that are held for sale as prescribed by ASC 360-10-35-43 (i.e., the lower of its carrying amount or fair value less cost to sell). However, in accordance with ASC 360-10-35-39, the carrying amount of any assets not covered by ASC 360, including goodwill, that are included in the disposal group classified as held for sale is adjusted in accordance with other applicable GAAP before measuring the fair value less cost to sell of the disposal group. All initial or subsequent adjustments to the carrying amount of a component as a result of such measurement should be classified in discontinued operations, if the component (or group of components) otherwise meets the definition of a discontinued operation (refer to our FRD, ***Impairment or disposal of long-lived assets***, for further details on measurement of disposal groups classified as held for sale).

Entities are not permitted to accrue future operating losses for a discontinued operation as of the measurement date. Instead, operating losses are to be recorded, in all cases, in the period in which they occur — even in instances in which a gain is expected on disposal. Operating losses of a discontinued operation are also included in discontinued operations.

The guidance in ASC 205-20 provides that if a component of an entity that otherwise meets the definition of a discontinued operation is being reclassified from held for sale to held and used, the component's operations should be reclassified from discontinued operations to continuing operations. See section 2.6, *Changes to a plan of sale*, for further details.

2.2 Criterion 2: held-for-sale criteria

Before evaluating whether a planned disposal of a component or group of components qualifies for reporting as a discontinued operation, the component or group of components must first meet the criteria for classification as held for sale at the balance sheet date (ASC 205-20-45-1E).

A component (or group of components) qualifying as a discontinued operation that is being disposed of other than by sale (e.g., abandonment, distribution to owners in a spin-off) should be considered held and used until the date of abandonment, exchange or distribution. Refer to section 2.2.1, *Disposed of by sale or other than by sale,* for further discussion.

The criteria in ASC 205-20-45-1E mirror the held-for-sale criteria included in ASC 360-10-45-9. These criteria are incorporated into ASC 205-20 to allow for the classification as held for sale for transactions involving assets that are not in the scope of guidance for long-lived assets classified as held for sale (ASC 360-10), such as equity method investments. However, the components to be disposed of must qualify as a discontinued operation to be classified as held for sale under the guidance in ASC 205-20; otherwise, the guidance in ASC 360-10 or elsewhere would apply.

For example, assume an entity decides to sell an equity method investment. If the held-for-sale criteria are met AND the disposal represents a strategic shift that has (or will have) a major effect on operations and financial results, the investment would be reflected as held for sale in the statement of financial position and the results of operations of the investee would be reflected as a discontinued operation in the statement where net income is presented. On the other hand, if the investment meets the held-for-sale criteria but does not represent a strategic shift that has (or will have) a major effect on operations and financial results, the investment would not be classified as held for sale in the statement of financial position under ASC 205-20.

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-1E

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

a. Management, having the authority to approve the action, commits to a plan to sell the entity to be sold.

b. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such entities to be sold. (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-42], which illustrate when that criterion would be met.)

c. An active program to locate a buyer or buyers and other actions required to complete the plan to sell the entity to be sold have been initiated.

d. The sale of the entity to be sold is **probable**, and transfer of the entity to be sold is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 205-20-45-1G. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.)

e. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which an entity to be sold is being marketed is indicative of whether the entity currently has the intent and ability to sell the entity to be sold. A market price that is reasonable in relation to fair value indicates that the entity to be sold is available for immediate sale, whereas a market price in excess of fair value indicates that the entity to be sold is not available for immediate sale.

f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The following is a detailed description of each held-for-sale criterion, each of which must be met for an entity to be sold to be classified as held for sale:

a. Management, having the authority to approve the action, commits to a plan to sell the entity to be sold.

The FASB did not provide further clarification as to what it meant by a plan to sell. To support the classification as held for sale, it is recommended that such a plan be documented. Entities also should make sure that there is a commitment to a plan to sell rather than a plan to commit. That is, if management with adequate authority instructs its personnel to merely explore or assess the feasibility of selling the entity to be sold, a plan of sale has not been committed to.

In determining whether management that commits to a plan to sell has the proper level of authority, we believe that if an entity's policies require board of directors' approval, or management elects to seek board of directors' approval, the appropriate level of authority needed to commit the entity would be that of the board of directors. If board of directors' approval is neither required nor sought, the appropriate level of authority that can approve the disposal would be at a level below the board of directors (e.g., chief executive officer).

Even if it is probable or virtually guaranteed that management with the authority to approve a plan to sell will commit to a plan to sell, entities should not classify an entity to be sold as held for sale until that plan has been approved.

Questions often arise as to whether a plan of sale that requires shareholder approval can be considered approved before shareholders approve it. We believe that, if an entity either elects or is required to obtain shareholder approval to dispose of a business or nonprofit activity, the appropriate level of authority needed to commit the entity to the plan of disposal would be that of the shareholders, so an entity in this case should not classify an entity to be sold as held for sale until shareholder approval is obtained.

Questions also arise about whether a plan to sell a component (or group of components) of an entity that is in bankruptcy proceedings needs to be approved by the bankruptcy court or the creditors, as applicable, to be considered committed to by those with authority to approve. Because management or the board may not have the requisite authority to commit to such a plan after filing for bankruptcy, we generally believe the appropriate level of authority needed to commit the entity to the plan of disposal would be that of the bankruptcy court or the creditors, as applicable. An entity in this case generally should not classify an entity to be sold as held for sale until the plan is approved by the bankruptcy court or creditors, as applicable. See our FRD, ***Bankruptcies, liquidations and quasi-reorganizations***, for additional guidance.

b. *The entity to be sold is available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such entities to be sold.*

An entity to be sold is available for immediate sale if an entity currently has both the intent and ability to transfer the entity to be sold to a buyer in its present condition. Therefore, if a seller imposes a delay in the transfer of the entity to be sold, it is possible that it is not available for immediate sale. As a result, a careful review of the reasons for the delay should be made.

The above criterion does not restrict an entity to be sold from being classified as held for sale while it is being used. If an entity to be sold is available for immediate sale, the remaining use of the entity to be sold is incidental to its recovery because its carrying amount will be recovered principally through a sale. The FASB indicated in the Basis for Conclusions (B72) of Statement 144, that the above criterion does not require a binding agreement for a future sale as the FASB concluded that requiring such an agreement would unduly delay when an entity to be sold could be classified as held for sale.

Neither ASC 205-20 nor ASC 360-10 define or provide further clarification of the terms usual or customary. However, by stating that the sale be "subject only to terms that are usual and customary *for sales of such entities to be sold* [emphasis added]," the criterion suggests that the entity who intends to sell the entity to be sold should determine whether its terms are comparable with those of other entities that sell similar components of an entity, or businesses or nonprofit activities. Therefore, the terms may not be considered usual and customary even though a particular entity has an established history of offering the same terms on the sales of its entities to be sold.

The guidance in ASC 205-20-45-1E(b) references Examples 5-7 from ASC 360-10-55, included below. These examples illustrate situations in which a long-lived asset (disposal group) is both available and not available for immediate sale. These examples can be analogized to entities to be sold for determining whether they qualify for reporting as a discontinued operation.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Example 5: Plan to Sell Headquarters Building

360-10-55-38

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

360-10-55-40

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

360-10-55-42

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.

c. ***An active program to locate a buyer and other actions required to complete the plan to sell have been initiated.***

Because ASC 205-20 and ASC 360-10 do not provide further clarification regarding this criterion, entities are afforded some latitude in determining what constitutes an "active program to locate a buyer." Such actions as hiring a sales agent or deploying internal staff to market the entity to be sold may demonstrate that the entity is engaged in an active program to locate a buyer.

d. ***The sale of the entity to be sold is probable and the transfer of the entity to be sold is expected to qualify for recognition as a completed sale within one year, with several exceptions.***

The meaning of the term probable as used in the criterion above is consistent with the meaning in ASC 450-20-20 and refers to a future sale that is likely to occur.

This criterion is particularly subjective, as it will require the entity to ascertain the likelihood of the sale. To assess the probability, it may require the entity to have or acquire knowledge of the market in which the entity is being sold, consider its past sales experience and/or consider sales by others of entities with similar characteristics and terms. Additionally, this criterion interacts with criterion e. below, in that a probability assessment may include considering the reasonableness of the sales price in relation to its fair value.

The following example included in ASC 360-10-55-43 and referenced in ASC 205-20-45-1E(d) demonstrates when this criterion is not met:

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

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

360-10-55-43

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

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

The holding period in which an entity to be sold is to be classified as held for sale is limited to one year. The FASB indicated in the Basis for Conclusions (B73) of Statement 144, that a one-year period was reasonable and consistent with the guidance in Accounting Principles Board (APB) 30 that stated, "In the usual circumstance, it would be expected that the plan of disposal would be carried out within a period of one year from the measurement date."

To address situations in which a plan of disposal cannot be carried out within one year from the measurement date as a result of conditions beyond an entity's control, the standard provides the following exception.

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-1G

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

a. If at the date that an entity commits to a plan to sell an entity to be sold, the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the entity to be sold that will extend the period required to complete the sale and both of the following conditions are met:

   1. Actions necessary to respond to those conditions cannot be initiated until after a **firm purchase commitment** is obtained.

   2. A firm purchase commitment is probable within one year. (See Example 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 an entity to be sold previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:

   1. Actions necessary to respond to the conditions have been or will be timely initiated.

   2. A favorable resolution of the delaying factors is expected. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)

c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, an entity to be sold previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:

   1. During the initial one-year period, the entity initiated actions necessary to respond to the change in circumstances.

   2. The entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances.

   3. The criteria in paragraph 205-20-45-1E are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

A delay in the period required to complete a sale should not preclude an entity to be sold from being classified as held for sale if the delay is caused by events or circumstances beyond an entity's control and there is sufficient evidence that the entity remains committed to a qualifying plan to sell the entity. Exceptions to the one-year requirement, as described above, are permitted. ASC 205-20-45-1G references examples from ASC 360-10-55 that highlight these exceptions as presented below. Although these examples are included in ASC 360-10, they are intended to provide guidance under ASC 205-20 in evaluating whether the held-for-sale criterion are met.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Example 9: Regulatory Approval of Sale Required

360-10-55-44

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.

360-10-55-45

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

360-10-55-46

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.

360-10-55-47

An entity commits to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to remediate the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to remediate the damage, and satisfactory remediation of the damage is probable. In that situation, the conditions in paragraph 360-10-45-11(b) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

Example 11: Deterioration of Market Conditions

360-10-55-48

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

360-10-55-49

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

a. During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraph 360-10-45-9 are met. In that situation, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

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

e. ***The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value.***

This criterion seeks to demonstrate whether an entity currently has the intent to sell an entity to be sold. The price at which an entity to be sold is being marketed is indicative of whether the entity currently has the intent and ability to sell the entity to be sold. A market price that is reasonable in relation to its fair value indicates that the entity to be sold is available for immediate sale, whereas a market price in excess of fair value indicates that the entity to be sold is not available for immediate sale as the entity may be "testing the waters" to see what, if any, interest there is in the market to buy the entity to be sold.

Because the sales price must be reasonable in relation to its fair value, if an entity has established a price that is significantly greater than fair value and will sell if anyone will offer that price, the entity to be sold would not qualify as held for sale.

In addition, entities should determine whether the entity to be sold is being actively marketed. For example, if the entity intends to market the entity to be sold through a broker but has not actively begun searching for a broker, the entity to be sold is not being actively marketed.

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.***

ASC 205-20 and ASC 360-10 do not specify what type of actions would indicate that significant changes will be made to a plan or that a plan will be withdrawn. We believe that if the entity to be sold is available for sale and meets the other held-for-sale criteria, it is likely that this criterion will be met. However, before concluding this criterion is met, an entity should consider whether it has a history of making significant changes to the plan of sale or has a history of withdrawing sales of similar entities to be sold.

The intent of this criterion is to prevent entities that routinely withdraw from plans to sell from reclassifying and remeasuring their entities to be sold from held for sale to held and used. Further, this criterion ensures that entities have a sufficiently robust plan of sale at the commitment date; otherwise, one may conclude that significant changes to the plan are likely to occur because the plan is not well-developed.

2.2.1 Disposed of by sale or other than by sale

A component of an entity (or group of components) that has been disposed of by sale or other than by sale that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results qualifies for reporting as a discontinued operation.

A component (or group of components) qualifying as a discontinued operation that is being disposed of other than by sale (e.g., abandonment, distribution to owners in a spin-off) should be considered held and used until the date of abandonment, exchange or distribution. As a result, if a disposal other than by sale meets all of the criteria to be recorded as a discontinued operation, it cannot be recorded as a discontinued operation until disposal other than by sale has occurred.

For further guidance on disposals other than by sale, refer to section 3, *Long-lived assets to be disposed of other than by sale*, of our FRD, ***Impairment or disposal of long-lived assets***.

2.3 Criterion 3: strategic shift that has (or will have) a major effect ("strategic shift") (updated April 2024)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-1C

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).

To qualify for reporting as a discontinued operation, a component (or group of components) that is disposed of or is classified as held for sale must represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A strategic shift could include the disposal of (1) a major line of business, (2) a major geographical area, (3) a major equity method investment or (4) other major parts of an entity. Determining whether a disposal is a strategic shift requires an evaluation of all facts and circumstances, including financial metrics relevant to entity's financial statement users. Furthermore, reporting entities that prepare subsidiary financial statements should independently assess whether the criteria for presenting discontinued operations are met for each reporting entity in the consolidated group. The conclusion on whether a disposal would meet the criteria to be a strategic shift that has (or will have) a major effect on an entity's operations and financial results may differ based on each individual reporting entity's operations and financial results.

We believe disposals that qualify as a strategic shift generally involve exiting a major line of business, substantively different than the entity's remaining lines of business, and/or a major geographic area. Therefore, and consistent with the remarks from the SEC staff (refer below), we also believe the extent and prominence of an entity's historical communications with investors regarding the importance of such assets to be disposed (or disposed of) to the entity's operations and strategy is relevant when evaluating whether a disposal meets the criteria to be a strategic shift.

For purposes of evaluating if there has been a strategic shift, the FASB did not provide any bright-lines or otherwise define the term "major." We believe major to be a quantitatively high threshold given the disclosure requirement added to ASC 360-10 related to the disposal of an individually significant component of an entity that does not qualify for presentation as a discontinued operation (see section 3.5.4, *Disclosures for individually significant disposals that do not qualify for reporting as a discontinued operation*). Further, we believe that a significant gain or loss on sale is not, by itself, determinative of whether the component (or group of components) being disposed of represents a strategic shift that has or will have a major effect on an entity's operations and financial results. However, understanding the reason for a significant gain or loss on sale may be a qualitative factor in making the determination.

In remarks at the 2015 AICPA National Conference on Current SEC and PCAOB developments,[1] a member of the SEC staff commented that the quantitative factors in ASC 205-20's examples of disposals that represent discontinued operations (refer to section 2.4, *Illustrations*) are illustrative and do not establish thresholds by which to determine whether a disposal represents a strategic shift that has a major effect on an entity's operations and financial results. The comments also highlight that judgment is required to determine which financial results should be considered in making such an evaluation. The staff person noted that entities should consider financial metrics that are prominently presented in the financial statements (e.g., revenue, total assets and net income) and metrics communicated to investors. In this regard, the staff provided the following example and perspective excerpted from the speech:

> *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.*

The staff member also noted that the effect of the disposal should be considered relative to an entity's current, historical and forecasted results. When assessing qualitative significance, entities should consider the prominence of discussion of the disposed component within periodic filings (e.g., earnings releases, discussion in Management's Discussion & Analysis (MD&A)). Finally, the staff observed that a disposal with a less significant financial impact on an entity would need stronger qualitative evidence to support classification of the component as a discontinued operation.

Also, refer to section 3.5.4, *Disclosures for individually significant disposals that do not qualify for reporting as a discontinued operation*, for disclosure requirements for disposals that, while material to the financial statement users, do not rise to the level of being a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

2.4 Illustrations

The examples in this section (from ASC 205-20) illustrate disposal activities that do or do not qualify for reporting as discontinued operations based on the criteria set forth in ASC 205-20-45-1A through 45-1C.

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Implementation Guidance and Illustrations

205-20-55-83

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

[1] https://www.sec.gov/news/speech/remarks-at-2015-aicpa-conference-kanczuker.html.

Example 1: Consumer Products Manufacturer

205-20-55-84

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

205-20-55-85

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

205-20-55-86

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

Example 2: Processed and Packaged Goods Manufacturer

205-20-55-87

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

205-20-55-88

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.

205-20-55-89

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

205-20-55-90

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.

205-20-55-91

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.

205-20-55-92

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

205-20-55-93

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.

205-20-55-94

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.

205-20-55-95

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.

205-20-55-96

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

Example 5: Sports Equipment Manufacturer

205-20-55-97

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

205-20-55-98

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

205-20-55-99

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

205-20-55-100

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

205-20-55-101

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

2.5 Newly acquired businesses and nonprofit activities or formation of a joint venture

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-1A

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

205-20-45-1D

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).

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

A business or nonprofit activity that, on acquisition or upon formation of a **joint venture**, 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 or the formation date if the other criteria in paragraph 205-20-45-1E are probable of being met within a short period following the acquisition date or the formation date (usually within three months).

205-20-45-1E

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

a. Management, having the authority to approve the action, commits to a plan to sell the entity to be sold.

b. The entity to be sold is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such entities to be sold. (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-42], which illustrate when that criterion would be met.)

c. An active program to locate a buyer or buyers and other actions required to complete the plan to sell the entity to be sold have been initiated.

d. The sale of the entity to be sold is probable, and transfer of the entity to be sold is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 205-20-45-1G. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.)

e. The entity to be sold is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which an entity to be sold is being marketed is indicative of whether the entity currently has the intent and ability to sell the entity to be sold. A market price that is reasonable in relation to fair value indicates that the entity to be sold is available for immediate sale, whereas a market price in excess of fair value indicates that the entity to be sold is not available for immediate sale.

f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Master Glossary

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

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.

Business Combinations — Overall

Implementation Guidance and Illustrations

805-10-55-3A

A business is 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. To be considered a business, an integrated set must meet the requirements in paragraphs 805-10-55-4 through 55-6 and 805-10-55-8 through 55-9.

Businesses or nonprofit activities acquired in connection with a business combination, or upon formation of a joint venture, that meet the criteria to be accounted for as held for sale at the acquisition date or the formation date are reported as discontinued operations. The FASB indicated in the Background Information and Basis for Conclusions (BC 24) of Accounting Standards Update (ASU) 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, that if an entity classifies a business as held for sale on acquisition it does not have to meet the strategic shift requirement because those businesses would never have been considered part of the entity's continuing operations. Refer to section 1.1, *Overview*, for further information on the impact and effective date of pending content related to ASU 2023-05 on joint ventures.

2.5.1 Held-for-sale criteria for a newly acquired business or nonprofit activity or upon formation of a joint venture

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-1D

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).

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

A business or nonprofit activity that, on acquisition or upon formation of a **joint venture**, 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 or the formation date if the other criteria in paragraph 205-20-45-1E are probable of being met within a short period following the acquisition date or the formation date (usually within three months).

A business or nonprofit activity that on acquisition or upon formation of a joint venture meets the criteria to be classified as held for sale is also a discontinued operation (refer to section 2.2, *Criterion 2: held-for-sale criteria*, for further details on the criteria for classification of held for sale).

To have a business or nonprofit activity at the acquisition date or at the formation date of a joint venture classified as held for sale, we would expect that entities have begun formulating a plan to sell the business or nonprofit activity as of the acquisition date, or as of the formation date, and that they would deem it probable that the held-for-sale criteria will be met within three months. Refer to section 1.1, *Overview*, for further information on the impact and effective date of pending content related to ASU 2023-05 on joint ventures. If a business or nonprofit activity has been newly acquired in a business combination, or upon formation of a joint venture, and has met all of the held-for-sale criteria, it should be measured at its fair value less cost to sell and not at the *lower* of its carrying amount or fair value less cost to sell. This is due to the fact that the business or nonprofit activity, on acquisition or upon formation of a joint venture, would generally be measured at fair value. Similar to other disposals that qualify as a discontinued operation, expected operating losses of a business or nonprofit activity acquired or upon formation of a joint venture should be recognized in the statement of operations as incurred.

2.6 Changes to a plan of sale (updated March 2025)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

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.

Disclosure

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.

If an entity subsequently decides not to sell a discontinued operation that is classified as held for sale, or if a disposal group no longer meets the held-for-sale criteria (except as permitted by ASC 205-20-45-1G — see section 2.2, *Criterion 2: held-for-sale criteria*, for further discussion), the disposal group would be reclassified as held and used in the period in which the held-for-sale criteria are no longer met.

Each long-lived asset of a discontinued operation that is reclassified from held for sale to held and used should be measured individually at the lower of either its:

- Carrying amount before the discontinued operation was classified as held for sale, adjusted for any depreciation (amortization) expense or impairment losses that would have been recognized had the asset (group) been continuously classified as held and used
- Fair value at the date of the subsequent decision not to sell.

Assets and liabilities of a disposal group not included in the scope of ASC 360-10 will not be adjusted as a result of the change to a plan of sale, because their carrying values are not adjusted upon measuring the fair value less cost to sell of the disposal group.

The effect of any required adjustment would be reflected in income from continuing operations at the date of the decision not to sell and/or the period in which the held-for-sale criteria are no longer met. One interesting result of applying the change to a plan of sale provision is that if a held for sale long-lived asset (disposal group) is measured at its fair value less costs to sell and then remeasured to its fair value because of a change to a plan of sale (presuming the fair value is less than the original carrying amount less depreciation), there will be an immediate write-up in the carrying value of the long-lived asset (group) reflected in income as a result of the elimination of the costs to sell from the measurement of the long-lived asset (group).

When a change to a plan of sale occurs, 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 for all periods presented. In addition, if no longer classified as held for sale, the entity to be sold will no longer qualify as a discontinued operation and the historical results of operations will be reclassified to continuing operations. The entity should also provide the required disclosures in accordance with ASC 205-20-50-3.

The evaluation of whether a planned disposal meets the criteria for classification as held for sale requires that all the criteria be met as of the balance sheet date (i.e., the evaluation is not affected by events that occur after the balance sheet date but before the financial statements are issued or available to be issued). Refer to ASC 360-10-45-13.

2.7 A single disposal plan involving multiple components disposed of over time

A single disposal plan may involve the disposal of multiple components in separate transactions. If the disposals are planned to occur in different reporting periods, an entity will need to determine when or if to present the components as discontinued operations. That determination could be complicated by the fact that some components may already have been disposed of, some may meet the held-for-sale criteria and some may not yet meet the held-for-sale criteria at the end of a reporting period.

We believe that when a single disposal plan includes multiple components, presentation as discontinued operations may be appropriate only when the components subject to the single disposal plan are disposed of or classified as held for sale in the aggregate meet the strategic shift criterion for reporting discontinued operations. At that time, the components that are part of the single disposal plan but have not yet been disposed of and do not meet the held-for-sale criteria should continue to be presented in continuing operations. When the components that are part of the single disposal plan but did not previously qualify to be presented as discontinued operations because they were not disposed of or did not meet the held-for-sale criteria are subsequently disposed of or meet the held-for-sale criteria, they may be presented as part of discontinued operations.

Illustration 2-2: Presenting components as discontinued operations if a plan involves the disposal of multiple components over time

Entity A is a calendar-year entity with quarterly reporting requirements. On 1 February 20X2, its Board of Directors approved a single plan to sell a reportable segment. The reportable segment consists of three separate components (A, B and C).

The single board-approved plan contemplates the disposal of each component separately, and the plan is expected to be completed over the next 12 months.

In the aggregate, the single plan to dispose of the reportable segment would represent a strategic shift that has or will have a major effect on Entity A's operations and financial results.

However, the disposal of any individual component (A, B or C) would not qualify as a strategic shift that has or will have a major effect on Entity A's operations and financial results, but the disposal of components A and B collectively would meet the criteria to be a strategic shift.

Each component meets the criteria to be classified as held for sale as of the following dates:

- Component A: as of 31 March 20X2
- Component B: as of 30 June 20X2
- Component C: as of 30 September 20X2

Analysis

For the 31 March 20X2 reporting period, all three components continue to be presented as part of continuing operations. While Component A meets the held-for-sale criteria, its disposal individually would not represent a strategic shift, and therefore, all three components are presented in continuing operations.

For the 30 June 20X2 reporting period, we believe Components A and B could be presented as discontinued operations. This is the date that the disposal group includes a component (or components) that either have been disposed of or meet the held-for-sale criteria and in the aggregate represent a strategic shift that has or will have a major effect on the entity's operations and financial results. Since Component C is neither disposed of nor does it meet the held-for-sale criteria, it will continue to be presented as part of continuing operations.

For the 30 September 20X2 reporting period, all three components of the single disposal group either have been disposed of or meet the held-for-sale criteria and in the aggregate represent a strategic shift that has or will have a major effect on the entity's operations and financial results. Thus, all three components (A, B and C) are presented in discontinued operations.

3 Reporting and disclosure

3.1 Reporting discontinued operations (updated March 2025)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-3

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.

205-20-45-3A

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

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

205-20-45-3B

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)).

205-20-45-3C

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

205-20-45-10

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

205-20-45-11

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.

The illustration in ASC 205-20-45-3A above is a single year presentation only. Current and prior periods should report the results of operations of the component in discontinued operations when comparative income statements are presented. Expenses that are expected to continue in the ongoing entity after the disposal date should be reported within continuing operations and generally should not be allocated to discontinued operations.

Although the income tax benefit in the example above is shown as a separate line item, entities also could display discontinued operations net of tax, with the tax benefit stated parenthetically.

In the period that a discontinued operation meets the criteria to be classified as held for sale, and for all prior periods presented, the assets and liabilities of the discontinued operation should be presented separately in the asset and liabilities sections, respectively, in the statement of financial position. The chart below illustrates this presentation, as well as the presentation for when a discontinued operation is disposed of by sale (including when a discontinued operation met the criteria to be held for sale and is disposed of in the same period) or disposed of other than by sale.

	Assets and liabilities of the discontinued operations are presented separately in the statement of financial position (ASC 205-20-45-10)	
As of the end of the reporting period, the disposal group:	**Current period**	**All prior periods presented**
Meets the criteria to be held for sale but is not yet disposed of (see also Illustration 3-1 below)	✓	✓
Has been disposed of by sale or other than by sale (e.g., abandonment, spin-off)	N/A	✓

The following illustration provides one example of how to present the results of operations of a discontinued operation on the face of the statement where net income is presented and the related assets and liabilities classified as held for sale in the statement of financial position. Refer to section 3.1.2, *Earnings per share*, for additional considerations on the presentation of basic and diluted per-share amounts.

Illustration 3-1: Reporting discontinued operations on the face of the statement where net income is presented

A general merchandise retailer operates 1,000 retail stores throughout the US. The entity divides its stores into five major geographic regions — the Northwest, Southwest, Midwest, Northeast and Southeast — that each have 200 stores. Each geographic region comprises a major part of the entity's operations and financial results. Each retail store is a component of the entity.

In November 20X4, the entity commits to a plan to sell the 200 stores in its Southwest region. These 200 stores account for approximately 25% of the company's total assets. The disposal is expected to occur in 20X5.

The planned disposal of the 200 stores meets the criteria to be classified as an asset held for sale at 31 December 20X4, and the entity recorded a $3,000 loss on the classification as held for sale as of 31 December 20X4. Also, because the disposal of 200 stores represents a strategic shift (e.g., disposal of a major geographical area) that will have a major effect on the entity's operations and financial results, the disposal qualifies for presentation as a discontinued operation. The entity presents the discontinued operation in its consolidated statements of income as follows:

Consolidated Statements of Income

	Year Ended 31 December		
	20X4	20X3	20X2
Income from continuing operations, before tax	$ 320,000	$ 300,000	$ 270,000
Income taxes	(80,000)	(75,000)	(67,500)
Income from continuing operations	240,000	225,000	202,500
Discontinued operations (Note X)			
Loss from operations of discontinued stores	(37,000)	(35,000)	(31,000)
Loss on classification as held for sale [(1)]	(3,000)	–	–
Income tax benefit[(2)]	10,000	8,750	7,750
Loss on discontinued operations	(30,000)	(26,250)	(23,250)
Net income	$ 210,000	$ 198,750	$ 179,250

(1) A gain or loss recognized on the disposal (or loss recognized on classification as held for sale) must be presented separately on the face of the statement where net income is reported or disclosed in the notes to the financial statements.

(2) Follows the application of ASC 740-20, *Income Taxes — Intraperiod Tax Allocation*. Refer to section 15, *Intraperiod tax allocation*, of our FRD, ***Income taxes***, for additional guidance.

The company includes the assets and liabilities of the discontinued operation in its statements of financial position as follows:

Consolidated Statements of Financial Position

	31 December	
	20X4	20X3
Current assets held for sale	$ 1,450	$ 380
Long-term assets held for sale	–	1,100
Current liabilities held for sale	980	250
Long-term liabilities held for sale	–	700

ASC 205-20 does not address the current and long-term classification of assets and liabilities held for sale. We believe the assets and liabilities to be sold should be classified as current or long-term, depending on the anticipated disposal date. Generally, classification as a current asset or liability is appropriate if it is probable that the sale will occur, proceeds will be collected within one year and the proceeds are not expected to be used in the near future for the liquidation of long-term debts. However, for prior periods the current and long-term classification of those assets and liabilities should not change because they did not meet the held-for-sale criteria in the prior period.

A gain or loss recognized on the disposal (or loss recognized on classification of held for sale) should be included in discontinued operations before income taxes in the income statement. The gain or loss should be presented separately on the face of the income statement or disclosed in the notes to the financial statements.

ASC 205-20 does not address the presentation of discontinued operations in the statement of cash flows. Refer to section 2.5.2, *Cash flows from discontinued operations*, of our FRD, ***Statement of cash flows***, for further discussion.

3.1.1 Intercompany transactions that occur before disposal

Because intercompany transactions are generally eliminated in consolidation, questions have arisen about how a consolidated entity should present purchase and sale transactions with a component that meets the criteria to be reported as a discontinued operation but hasn't yet been disposed of if those transactions will continue after the disposal. In this situation, we believe the consolidated entity may be able to present in continuing operations the intercompany revenue or cost of sales of the components that will remain in the consolidated group. These transactions would have otherwise been eliminated in consolidation. The discontinued operations line item would include the effect of the intercompany revenue or costs of sales attributed to the component that will be disposed of, so there is no impact on consolidated net income.

However, we believe this presentation is only appropriate for intercompany transactions that resulted in sales to third parties that occurred in the period. Intercompany sales and purchases that did not result in sales to third parties would continue to be eliminated in consolidation. That's because the effect of increasing both revenue and the cost of sales for transactions between components cannot result in revenue greater than what the consolidated entity would have reported if it eliminated the intercompany transactions.

This presentation would make the reporting of the continuing operations consistent with the consolidated entity's reporting after the disposal. Since the consolidated group will continue to transact with the component after its disposal, the consolidated group will continue to record the revenue and costs associated with sales or purchases it makes to the former consolidated component.

The following example illustrates this presentation.

Illustration 3-2: Presentation of intercompany purchases and sales that occur before disposal

Entity A has two subsidiaries: Subsidiary B and Subsidiary C. For the year ended 31 December 20X2, Subsidiary B manufactured products for $15 and sold them to Subsidiary C for $20. Subsidiary C then sold all of these products to third-party customers for $35.*

Entity A would normally eliminate the intercompany revenue, cost of sales and gross profit of Subsidiary B and Subsidiary C in its consolidated income statement as follows:

			Intercompany eliminations		Consolidated
	Subsidiary B	Subsidiary C	Debit	Credit	Entity A
Revenue	$20	$35	$20		$35
Cost of sales	($15)	($20)		$20	($15)
Gross profit	$5	$15			$20

But on 1 November 20X2, the Board of Directors of Entity A approved a plan to sell Subsidiary C, and Entity A concluded that the operations of Subsidiary C should be presented as discontinued operations in its consolidated financial statements for the year ended 31 December 20X2. Under the plan, Subsidiary C will be sold in early 20X3.

After the sale of Subsidiary C, both Subsidiary B and the former Subsidiary C will continue to operate their businesses in the same manner. That is, Subsidiary B will continue manufacturing products and selling them to former Subsidiary C. Former Subsidiary C will continue purchasing products from Subsidiary B and selling them to third-party customers. However, since Subsidiary C will no longer be consolidated after its disposal, revenue and cost of sales for sales attributed to Subsidiary C will not be eliminated.

Entity A can present the pre-disposal intercompany transactions that resulted in sales to third-party customers before the disposal in its consolidated income statement for the year ended 31 December 20X2 as follows:

Consolidated income statement of Entity A for the year ended 31 December 20X2

	Year ended 31 December 20X2
Revenue	$20
Cost of sales	($15)
Gross profit	$5
Income from continuing operations**	$5
Income from discontinued operations	$15
Net income	$ 20

Entity A would present revenue from continuing operations of $20, cost of sales of $15 and gross profit of $5. The $15 of net income earned by Subsidiary C from its sales to third-party customers would be reported as income from discontinued operations. Therefore, continuing operations would capture the transactions that occurred in the period and will continue after Subsidiary C is disposed of.

In accordance with ASC 205-20-50-5B(b), Entity A must disclose the major classes of line items constituting the pretax profit or loss of the discontinued operation in the notes to the financial statements to the extent that this information is not presented separately on the income statement. Regardless of where this information is disclosed, we believe that the sum of revenue from continuing operations and revenue from discontinued operations should not exceed the total consolidated revenue ($35) without reconciliation.

* *For simplicity, this example assumes there are no transactions in the year ended 31 December 20X2 that did not result in sales to third-party customers. The effect of such intercompany sales and purchases, if present, would continue to be eliminated in consolidation.*

** *This example assumes there is no other income or expense from continuing operations.*

3.1.2 Earnings per share

Entities that report discontinued operations must present basic and diluted per-share amounts for that line item either on the face of the statement of operations or in the notes to the financial statements in accordance with ASC 260-10-45-3. Given the emphasis placed on earnings per share information by financial statement users, we recommend that such information be presented on the face of the statement of operations. Refer to our FRD, ***Earnings per share***, for considerations on the calculation of basic and diluted per-share amounts.

3.1.3 An enacted change in tax laws or rates

ASC 740-10-45-15 requires that the effects of tax law and tax rate changes be reflected as a component of tax expense from continuing operations. Thus, the effects of tax rate changes on deferred taxes related to prior period items reported as discontinued operations would be reflected in continuing operations in the period of change. Refer to section 8.6, *Change in tax law or rates related to items not recognized in continuing operations,* of our FRD, ***Income taxes***, for further discussion.

3.1.4 Exit or disposal cost obligations

Costs associated with an exit or disposal activity (includes, but is not limited to, a restructuring) involving a discontinued operation should be included within the results of discontinued operations in accordance with ASC 420-10-45-2. However, restructuring charges often do not relate to a separate component of the entity, and, as such, those costs are not presented in discontinued operations (ASC 420-10-S99-1). Refer to our FRD, ***Exit or disposal cost obligations***, for further discussion.

3.1.5 Postretirement settlements and curtailments

As part of the disposal of a component of an entity, there may be either (1) a termination of some employees' services earlier than expected or (2) a transfer of a benefit obligation to the purchaser (i.e., the purchaser assumes the benefit obligation for specific employees). Whether a settlement and/or a curtailment occur depends on the facts and circumstances. ASC 715-30 provides that any gain or loss from a settlement or curtailment that is directly related to a disposal of a component of an entity that meets the criteria for reporting discontinued operations in ASC 205-20 is presented within discontinued operations. Refer to section 8.3.4 of our FRD, ***Postretirement Benefits***, for further discussion.

3.1.6 Transition services agreement

In certain transition service agreements, the seller agrees to continue to provide certain services (e.g., accounting, human resources, IT) for a period of time after disposal. When a disposed component is presented as a discontinued operation, we believe the income and expenses that relate to the transition services should be presented in continuing operations (i.e., not presented in discontinued operations). We believe the income recognized for the transition services generally should be recorded in other income, unless such services are part of the entity's recurring revenue-generating activities. We also believe the costs to provide the transition services should generally be presented within the expense category they were recorded in prior to disposal.

3.2 Adjustments to amounts previously reported in discontinued operations (updated April 2024)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

205-20-45-4

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

205-20-45-5

Examples of circumstances in which those types of adjustments may arise include the following:

a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser

b. The resolution of contingencies that arise from and that are directly related to the operations of the discontinued operation before its disposal, such as environmental and product warranty obligations retained by the seller

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

Disclosure

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).

Adjustments to amounts previously reported in discontinued operations in a prior period (e.g., 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) should be classified separately in the current period discontinued operations. An entity should also provide the required disclosures regarding the nature and amount of such adjustments in accordance with ASC 205-20-50-3A.

3.2.1 Classification and disclosure of contingencies relating to discontinued operations

In Staff Accounting Bulletin (SAB) Topic 5.Z.5, the SEC staff provides the following guidance regarding the classification and disclosure of contingencies relating to discontinued operations. This SAB Topic was not updated to reflect the guidance included in ASU 2014-08. However, we believe that it continues to provide relevant guidance regarding the classification and disclosure of contingencies relating to discontinued operations.

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

SEC Materials

SAB Topic 5.Z.5, Classification and Disclosure of Contingencies Relating to Discontinued Operations

205-20-S99-2

The following is the text of SAB Topic 5.Z.5, Classification and Disclosure of Contingencies Relating to Discontinued Operations.

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. FN56 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.

> FN56 Registrants are reminded that FASB ASC Topic 460, Guarantees requires recognition and disclosure of certain guarantees which may impose accounting and disclosure requirements in addition to those discussed in this SAB Topic.

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

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

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

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

FN57 Item 303 of Regulation S-K.

FN58 Registrants also should consider the disclosure requirements of FASB ASC Topic 460.

3.3 Allocation of interest and overhead to discontinued operations

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Other Presentation Matters

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.

205-20-45-7

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.

205-20-45-8

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.

205-20-45-9

General corporate overhead shall not be allocated to discontinued operations.

Interest on debt that is to be assumed by a buyer and interest on debt that is required to be repaid as a result of a disposal transaction are allocated to discontinued operations. We believe that amortization of discounts, premiums and debt issuance costs related to debt that is to be assumed by a buyer, and debt that is required to be repaid as a result of a disposal transaction may also be allocated to discontinued operations. We also believe that prepayment penalties and gains or losses from the extinguishment of debt that is to be assumed by a buyer and debt that is required to be repaid as a result of a disposal transaction may also be allocated to discontinued operations.

Other consolidated interest expense that is not directly attributable to or related to other operations of the entity may be allocated between discontinued and continuing operations, but allocation is not required. The decision to allocate interest that is not directly attributable to a discontinued operation is an accounting policy election that should be applied consistently to all discontinued operations. If the policy election is applied, other consolidated interest expense that is not directly attributable to or related to other operations is generally allocated using the following ratio:

$$\frac{\begin{array}{c}\textbf{Net assets to be sold or discontinued}\\ - \\ \textbf{Debt that is required to be paid as a result of the disposal}\end{array}}{\begin{array}{c}\textbf{Consolidated net assets}\\ + \\ \textbf{Consolidated debt}\\ - \\ \textbf{Debt of the discontinued operation that will be assumed by buyer}\\ - \\ \textbf{Debt that is required to be paid as a result of the disposal transaction}\\ - \\ \textbf{Debt that can be directly attributed to other operations of the entity}\end{array}}$$

This allocation assumes a uniform ratio of consolidated debt to equity for all operations (i.e., both the continuing and discontinued operations). If using this ratio to allocate other consolidated interest expense does not provide meaningful results (e.g., because an entity's operations do not have a uniform ratio of consolidated debt to equity), an entity may allocate interest expense based on debt that can be identified as specifically attributable to those operations.

The following example illustrates how to allocate other consolidated interest expense that is not directly attributable to or related to other operations of the entity.

Illustration 3-3: Allocation of interest expense that is not directly attributable to or related to other operations of the entity

On 1 November 20X2, the Board of Directors of Entity A approved a plan to sell Component B and concluded that operations of this component should be reported as discontinued operations in its consolidated financial statements for the year ended 31 December 20X2. Entity A has an existing accounting policy to allocate to discontinued operations interest expense on debt that is not directly attributable to or related to other operations of the entity.

On 31 December 20X2, Entity A reported $800,000 of consolidated debt comprising:

- $150,000 that is to be assumed by the buyer
- $100,000 that is required to be paid as a result of the disposal transaction (as required by Entity A's debt covenants)
- $200,000 that is directly attributable to or related to other operations of the entity
- $350,000 that is not attributable to any specific operations

For the year ended 31 December 20X2, Entity A recorded $40,000 of interest expense comprising:

- $12,000 that is directly attributable to discontinued operations (i.e., interest expense on debt to be assumed by the buyer or debt that is required to be paid as a result of the disposal transaction)
- $13,000 related to debt that is directly attributable to other operations
- $15,000 that is not attributable to or related to any other operations of the entity

Summary of other financial data on 31 December 20X2:

Entity A (consolidated, including Component B):

	Assets:	$ 2,700,000
	Liabilities other than debt:	$ 300,000

Component B:

	Assets:	$ 800,000
	Liabilities other than debt:	$ 100,000

Analysis:

Step 1 — Calculate the numerator:

	Net assets to be discontinued	$ 550,000*
–	Debt that is required to be paid as a result of the disposal transaction	(100,000)
		$ 450,000

* Component B assets of $800,000 less sum of Component B liabilities other than debt ($100,000) and debt to be assumed by the buyer ($150,000).

Step 2 — Calculate the denominator:

	Consolidated net assets	$ 1,600,000**
+	Consolidated debt	800,000
–	Debt that will be assumed by buyer	(150,000)
–	Debt required to be paid as a result of the disposal transaction	(100,000)
–	Debt that can be directly attributed to other operations of the entity	(200,000)
		$1,950,000

** Entity A assets of $2,700,000 less sum of Entity A liabilities other than debt ($300,000) and consolidated debt ($800,000).

Step 3 — Calculate interest expense allocated to discontinued operations:

Interest allocation ratio (results calculated in Step 1 divided by the results calculated in Step 2):	$450,000 / $1,950,000 = 23%
Interest expense that is not attributable to or related to any other operations of the entity:	$15,000
Interest expense allocated to discontinued operations:	$15,000 x 23% = $3,450

Step 4 — Calculate total interest expense to be reported in discontinued operations:

Interest expense directly attributable to discontinued operations:	$12,000
Interest expense allocated to discontinued operations:	$3,450
Total interest expense to be reported in discontinued operations:	$12,000 + $3,450 = $15,450

The SEC staff indicated that it expects entities to disclose their accounting policy regarding the allocation of interest, as noted below:

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

SEC Materials

205-20-S99-3

The following is the text of SEC Observer Comment: Allocation of Interest to Discontinued Operations.

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.

3.4 Recognition of outside basis differences of subsidiaries classified as held for sale or disposed of

The guidance in ASC 740-30-25-9 through 25-10 states that the tax benefit for the excess of the tax basis over the financial reporting basis (or the tax liability when the financial reporting basis exceeds the tax basis of a foreign subsidiary in accordance with ASC 740-30-25-18) of an investment in a subsidiary (outside basis difference) should be recognized when it is apparent that the temporary differences will reverse in the foreseeable future. When a subsidiary is classified as held for sale (or disposed of if not held for sale prior to disposal), the foreseeable future criterion is met, presuming the sale would cause the related basis difference to reverse. See section 14.5, *Limitations on deferred tax assets for outside basis difference of foreign and domestic subsidiaries, corporate joint ventures and investees*, of our FRD, ***Income taxes***, for further details.

3.5 Disclosure (updated March 2025)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Overview and Background

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).

The required disclosures for a discontinued operation, as prescribed by ASC 205-20, are dependent on the type of entity to be sold (e.g., a component or group of components of an entity, a business or nonprofit activity that meets all held-for-sale criteria at the date of acquisition, or an equity method investment). ASC 205-20-55-82 includes a flowchart that provides an overview of the disclosures required for a discontinued operation (refer to Appendix D for additional details).

For entities that issue interim financial information (e.g., an SEC registrant), there may be cases in which a disposal is recognized in the fourth quarter of the entity's fiscal year. ASC 270-10-50-2 requires entities that issue interim financial information, but do not issue a separate fourth quarter report or disclose the results for that quarter in its annual report, to disclose disposals of components of the entity and unusual or infrequently occurring items recognized in the fourth quarter, as well as the aggregate effect of year-end adjustments that are material to the results of that quarter in the annual report in a note to the annual financial statements.

When there are one or more retrospective changes to the statements of comprehensive income for any of the quarters within the two most recent fiscal years that individually or in the aggregate are material (e.g., a discontinued operation), Item 302(a) of Regulation S-K requires SEC registrants (that are not mutual life insurance companies, smaller reporting companies or foreign private issuers) to provide an explanation of the reasons for such material changes and disclose, for each affected quarterly period and the fourth quarter in the affected year, summarized financial information related to the statements of comprehensive income (as specified in Rule 1-02(bb)(ii) of Regulation S-X) and earnings per share reflecting such changes. If required by Item 302(a) of Regulation S-K, selected quarterly financial data is to be disclosed outside the financial statements as supplementary information or in an unaudited note to the financial statements in annual shareholders' reports and in Form 10-K filings. If the disclosure of quarterly financial data pursuant to Item 302(a) of Regulation S-K is required, it must be reviewed by the independent auditor.

When there has been a material retrospective change affecting comprehensive income, the Item 302(a) of Regulation S-K required disclosure includes some, but not all, of the disclosures required by ASC 270. If a registrant elects to include the selected quarterly financial data in an unaudited note to the financial statements, the registrant may combine the disclosure requirements of ASC 270 and Item 302(a) in a single footnote. Refer to section 5.2 of our SEC Financial Reporting Series publication, ***SEC quarterly reports — Form 10-Q***, and section 4.4.1 of our SEC Financial Reporting Series publication, ***SEC annual reports — Form 10-K***, for further discussion.

3.5.1 Disclosures required for all types of discontinued operations

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Disclosure

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.

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.

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).

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).

205-20-50-4B

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.

ASC 205-20 does not provide guidance on reporting discontinued operations for prior periods when an entity has continuing involvement following the date of disposal. However, based on the requirement in ASC 205-20-50-4B to disclose the amounts of cash flow to or from the discontinued operation after the disposal and the revenues and expenses in continuing operations that were eliminated in consolidation before the disposal (if any), we believe that the amounts reported as discontinued operations should reflect the activities of the disposed component in prior periods without consideration of amounts that will continue after the disposal has occurred.

3.5.2 Disclosures required for a discontinued operation (excluding equity method investments)

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Disclosure

205-20-50-5A

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

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.

205-20-50-5C

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).

205-20-50-5D

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.

Using the same fact pattern included in Illustration 3-1, the following table demonstrates the presentation in the notes to the financial statements of the reconciliation of the major assets and liabilities of a discontinued operation to the amounts reported in the statement of financial position (ASC 205-20-50-5C(a)). This table is similar to the example included in ASC 205-20-55-102.

Illustration 3-4: Major assets and liabilities of a discontinued operation and the reconciliation to the amounts reported in the statement of financial position

Reconciliation of the Carrying Amounts of Major Classes of Assets and Liabilities of the Discontinued Operation That Are Disclosed in the Notes to Financial Statements to Total Assets and Liabilities of the Disposal Group Classified as held for sale That Are Presented Separately in the Statement of Financial Position

	31 December 20X4	31 December 20X3
Carrying amounts of major classes of assets included as part of discontinued operations		
Cash	$ 400	$ 250
Trade receivables	420	100
Inventories	60	30
Property, plant, and equipment	3,480	950
Other assets	90	150
Loss recognized on classification as held for sale	(3,000)	-
Total assets of the disposal group classified as held for sale in the statement of financial position	$ 1,450	$ 1,480*

Carrying amounts of major classes of liabilities included as part of discontinued operations		
Trade payables	$ 200	$ 140
Short-term borrowings	110	110
Long-term borrowings	390	500
Other liabilities	280	200
Total liabilities of the disposal group classified as held for sale in the statement of financial position	$ 980	$ 950*

* Amounts in the comparative period will be classified as current and long-term in the statement of financial position.

Using the same fact pattern included in Illustration 3-1, the following illustration demonstrates the required reconciliation of the major components of pretax profit or loss of a discontinued operation to the amounts reported in the statement where net income is presented (ASC 205-20-50-5C(b)). This table is similar to the example included in ASC 205-20-55-103.

Illustration 3-5: Major components of pretax profit or loss and a reconciliation to the amounts reported in the statement where net income is presented

Reconciliation of the Major Line Items Constituting Pretax Profit (Loss) of Discontinued Operations That Are Disclosed in the Notes to Financial Statements to the After-Tax Profit or Loss of Discontinued Operations That Are Presented in the Statement Where Net Income is Presented

	Year Ended 31 December		
	20X4	20X3	20X2
Major line items constituting pretax profit (loss) of discontinued operations			
Revenue	$ 450,000	$ 420,000	$ 400,000
Cost of sales	(350,000)	(330,000)	(320,000)
Selling, general, and administrative expenses	(100,000)	(90,000)	(78,000)
Interest expense	(30,000)	(28,000)	(27,000)
Other [(1)]	(7,000)	(7,000)	(6,000)
Pretax loss of discontinued operations	(37,000)	(35,000)	(31,000)
Pretax loss on classification as held for sale	(3,000)	-	-
Total pretax loss on discontinued operations	(40,000)	(35,000)	(31,000)
Income tax benefit	10,000	8,750	7,750
Loss on discontinued operations	$ (30,000)	$ (26,250)	$ (23,250)

[(1)] An entity may aggregate amounts that are not considered major and present them as one line item in the reconciliation.

3.5.3 Disclosures required for a discontinued operation comprising an equity method investment

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Disclosure

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).

The standard distinguishes the requirement to disclose summarized financial information for equity method investments presented as discontinued operations from other discontinued operations because the information is not required to be disclosed by ASC 323-10-50-3(c) unless the investments in common stock of corporate joint ventures or other investments accounted for under the equity method are, in the aggregate, material in relation to the financial position or results of operations of an investor. The Board concluded that if the information had been provided in periods before disposal for an equity method investee presented as a discontinued operation, 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 to enable financial statement users to understand the impact of the disposal on the entity. For more guidance on the disclosure requirements in ASC 323-10, see section 8.3 of our FRD, ***Equity method investments and joint ventures***.

3.5.4 Disclosures for individually significant disposals that do not qualify for reporting as a discontinued operation

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Disclosure

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.

ASC 360-10 requires disclosures for the disposal of individually significant components that do not qualify for presentation as discontinued operations and that have either been disposed of or are classified as held for sale. The guidance does not define individually significant disposals. Therefore, companies will be required to apply judgment in making this determination. Refer to section 4.5 of our FRD, ***Impairment or disposal of long-lived assets***, for further details on disclosure requirements for a disposal group that is not a discontinued operation.

For public business entities and not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed or quoted on an exchange or an over-the-counter market, these disclosures are required for the period in which the individually significant component is disposed of or is classified as held for sale and for all periods presented in the statement where net income is presented (or statement of activities for a not-for-profit entity). For other entities, these disclosures are required only for the period in which the component is disposed of or is classified as held for sale.

See sections 19.4.7 and 23.3.5 of our FRD, ***Consolidation***, for guidance on presentation and disclosure, respectively, for an entity that disposes of a subsidiary or a group of assets in the scope of ASC 810-10-40-3A that is not a discontinued operation.

3.6 Entities that file for bankruptcy

Entities that file for bankruptcy may be subject to specific considerations relating to the presentation of discontinued operations. See section 3.4.1 of our FRD, ***Bankruptcies, liquidations and quasi-reorganizations***, for additional guidance.

3.7 Segment reporting

Excerpt from Accounting Standards Codification

Segment Reporting — Overall

Implementation Guidance and Illustrations

Operating Segments — Discontinued Operations

280-10-55-7

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

Pending Content:

Transition Date: *(P) December 16, 2023; (N) December 16, 2023* | **Transition Guidance:** 280-10-65-1

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 recast previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.

280-10-55-19

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

Pending Content:

Transition Date: *(P) December 16, 2023; (N) December 16, 2023* | **Transition Guidance:** 280-10-65-1

Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be recast. 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 periods. 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.

If a component of an entity that meets the criteria to be presented as a discontinued operation is also a reportable segment, an entity is not required to also disclose the information required by ASC 280 for that reportable segment. Further, segment information for periods prior to the measurement date of a discontinued operation previously disclosed as a reportable segment is not required to be recast.

If the discontinued operation is part of a reportable segment but not the entire reportable segment, the reportable segment would not include the discontinued operation in the disclosure of segment information for the period in which the component is presented as a discontinued operation. Further, segment information for periods prior to the measurement date of a discontinued operation that is part of a reportable segment is required to be recast to reflect the discontinued operation presentation.

Refer to section 2.2, *Discontinued operations,* of our FRD, ***Segment reporting***, for further discussion.

3.8 Presentation of discontinued operations in predecessor financial statements (updated March 2025)

When an SEC registrant is a successor to a predecessor entity, the SEC staff expects predecessor financial statements to be presented because the absence of such financial statements would exclude a significant part of the past operating performance and thereby limit the ability of users of the financial statements to evaluate the historical operating results of the registrant's present business.

Even though the successor entity is considered a new reporting entity for accounting purposes, the SEC staff has stated that when a disposal accounted for as a discontinued operation is reflected in the successor's financial statements, the predecessor financial statements are required to be retrospectively reclassified to reflect the impact of the successor's discontinued operations. The SEC staff believes that this will achieve comparability for all fiscal periods presented, which is an important and useful factor for readers to assess trend information in financial statements. However, as indicated in Section 13210.2 of the SEC staff Financial Reporting Manual (updated on 31 March 2010), registrants should contact the SEC staff if unusual facts and circumstances might impede the company's ability to reclassify predecessor fiscal periods. In SEC Regulations Committee Meeting Minutes from 26 September 2017 and 23 March 2017, the SEC staff also stated that the guidance in Section 13210.2 of the SEC staff Financial Reporting Manual is limited to discontinued operations and does not extend to other accounting changes by a successor entity.

A Abbreviations used in this publication

Abbreviation	FASB Accounting Standards Codification
ASC 205-10	FASB ASC Subtopic 205-10, *Presentation of Financial Statements — Overall*
ASC 205-20	FASB ASC Subtopic 205-20, *Presentation of Financial Statements — Discontinued Operations*
ASC 260	FASB ASC Topic 260, *Earnings Per Share*
ASC 270	FASB ASC Topic 270, *Interim Reporting*
ASC 280	FASB ASC Topic 280, *Segment Reporting*
ASC 323-10	FASB ASC Subtopic 323-10, *Investments — Equity Method and Joint Ventures — Overall*
ASC 360	FASB ASC Topic 360, *Property, Plant, and Equipment*
ASC 360-10	FASB ASC Subtopic 360-10, *Property, Plant, and Equipment — Overall*
ASC 420	FASB ASC Topic 420, *Exit or Disposal Cost Obligations*
ASC 450-20	FASB ASC Subtopic 450-20, *Contingencies — Loss Contingencies*
ASC 715-30	FASB ASC Subtopic 715-30, *Compensation-Retirement Benefits-Defined Benefit Plans — Pension*
ASC 740	FASB ASC Topic 740, *Income Taxes*
ASC 805-10	FASB ASC Subtopic 805-10, *Business Combinations — Overall*
ASC 810	FASB ASC Topic 810, *Consolidation*
ASC 855	FASB ASC Topic 855, *Subsequent Events*
ASU 2014-08	FASB Accounting Standards Update No. 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*
ASU 2023-05	FASB Accounting Standards Update No. 2023-05, *Business Combinations — Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*

Abbreviation	Other authoritative standards
SAB Topic 5.Z.5	SEC Staff Accounting Bulletin Topic 5.Z.5, *Classification and Disclosure of Contingencies Relating to Discontinued Operations*
Item 302	SEC Regulation S-K Item 302, *Supplementary financial information*
Rule 1-02	SEC Regulation S-X Rule 1-02, *Definitions of terms used in Regulation S-X*

Abbreviation	Non-authoritative standards
Statement 144	FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
APB 30	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*

B Glossary

Excerpt from Accounting Standards Codification

Presentation of Financial Statements — Discontinued Operations

Glossary

205-20-20

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

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

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**.

Corporate Joint Venture

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

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.

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a **business** or a for-profit business entity.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Operating Segment

A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.

Probable

The future event or events are likely to occur.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, **securities** that are traded, listed, or quoted on an exchange or an over-the-counter market.

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

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Reporting Unit

The level of reporting at which goodwill is tested for impairment. A reporting unit is an **operating segment** or one level below an operating segment (also known as a component).

Security

A share participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Settlement of a Pension or Postretirement Benefit Obligation

A transaction that is an irrevocable action, relieves the employer (or the plan) of primary responsibility for a pension or postretirement benefit obligation, and eliminates significant risks related to the obligation and the assets used to effect the settlement.

C

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ASC Reference	Section	
205-10-05-3	1.1	Overview
205-10-05-3A	1.1	Overview
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205-20-45-1E	2.5	Newly acquired businesses and nonprofit activities
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205-20-45-3	3.1	Reporting discontinued operations
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205-20-45-3C	3.1	Reporting discontinued operations
205-20-45-4	3.2	Adjustments to amounts previously reported in discontinued operations
205-20-45-5	3.2	Adjustments to amounts previously reported in discontinued operations
205-20-45-6	3.3	Allocation of interest and overhead to discontinued operations
205-20-45-7	3.3	Allocation of interest and overhead to discontinued operations

ASC Reference	Section	
205-20-55-100	2.4	Illustrations
205-20-55-101	2.4	Illustrations
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205-20-55-103	3.5.2	Disclosures required for a discontinued operation (excluding equity method investments)
205-20-S99-2	3.2.1	Classification and disclosure of contingencies relating to discontinued operations
205-20-S99-3	3.3	Allocation of interest and overhead to discontinued operations
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360-10-35-43	2.1.1	Measurement of a component of an entity
360-10-45-9	2.2	Criterion 2: held-for-sale criteria
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360-10-55-40	2.2	Criterion 2: held-for-sale criteria
360-10-55-42	2.2	Criterion 2: held-for-sale criteria
360-10-55-43	2.2	Criterion 2: held-for-sale criteria
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360-10-55-48	2.2	Criterion 2: held-for-sale criteria
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420-10-S99-1	3.1.4	Exit or disposal cost obligations
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740-10-45-15	3.1.3	An enacted change in tax laws or rates
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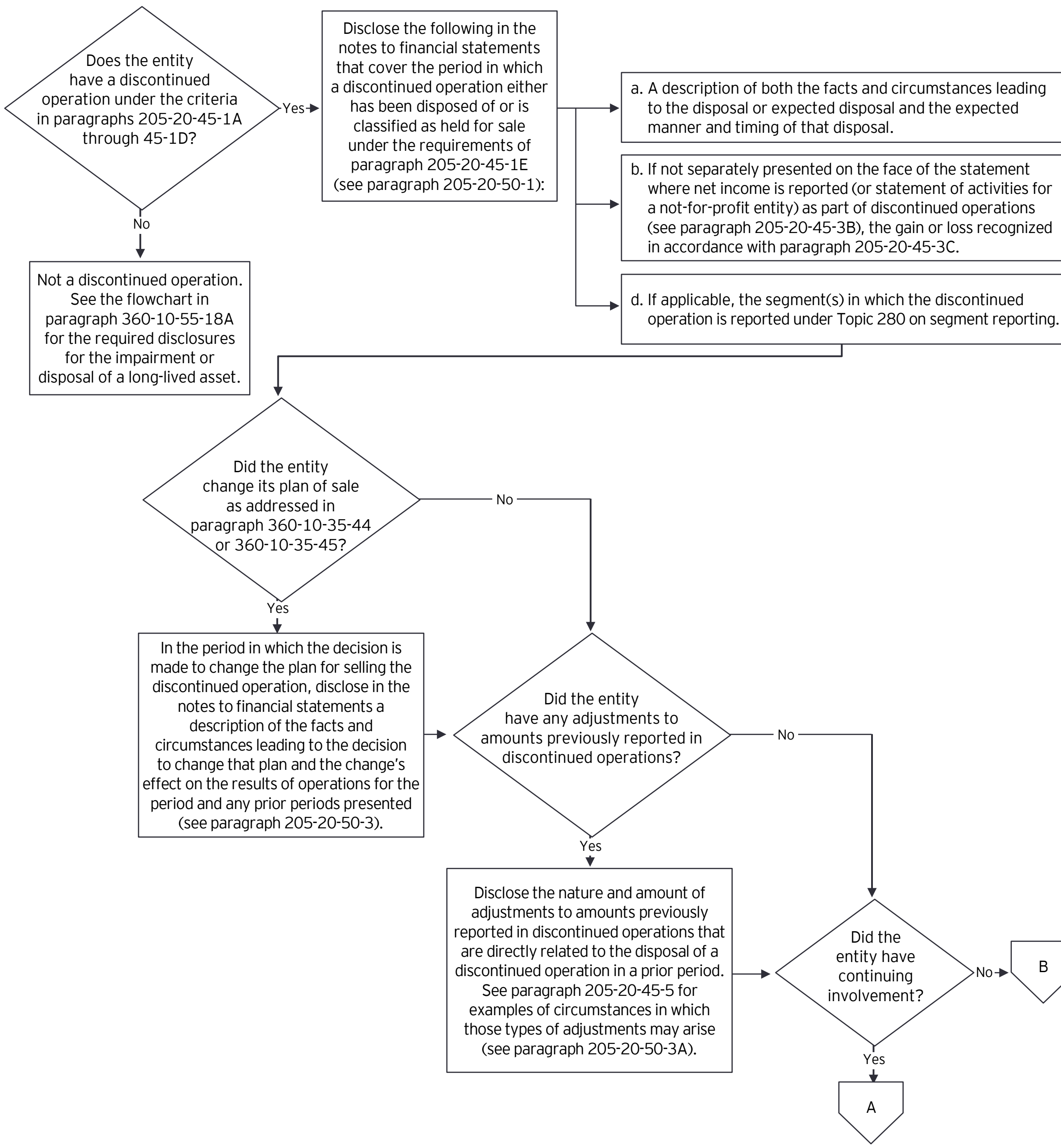
810-10-40-3A	1.1	Overview
810-10-40-3A	3.5.4	Disclosures for individually significant disposals that do not qualify for reporting as a discontinued operation

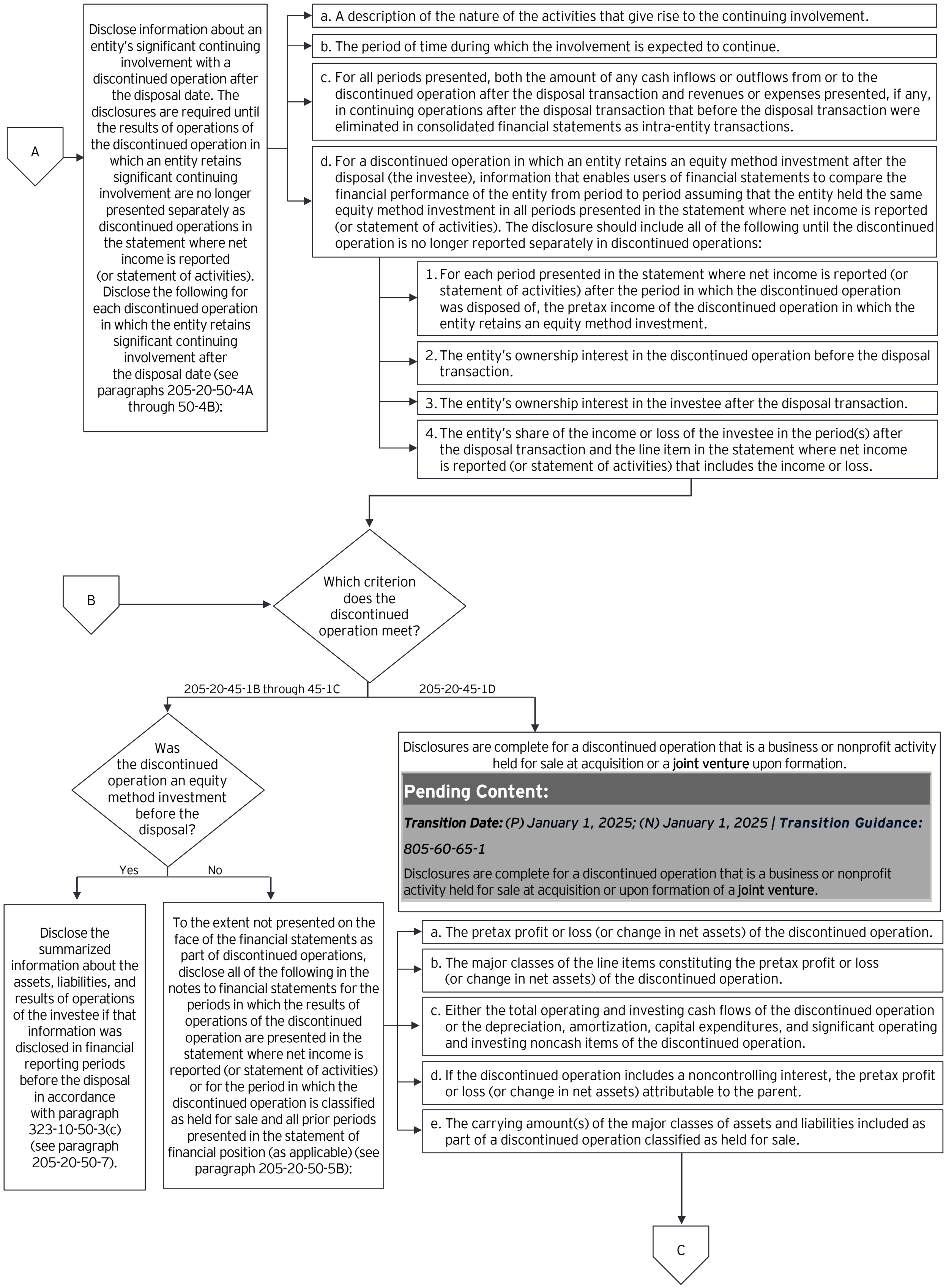
D

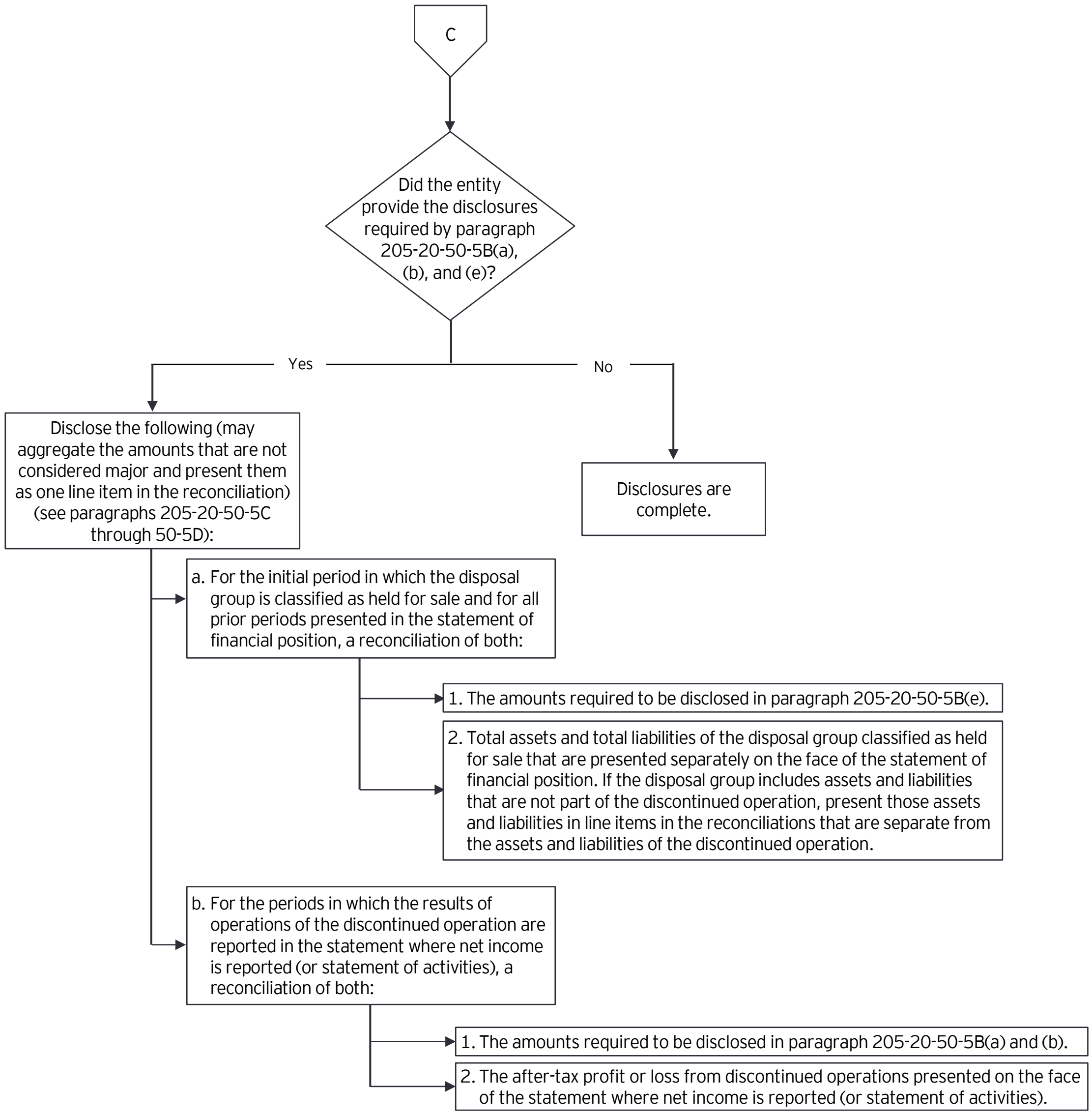
Required disclosures for a discontinued operation — flowchart

The following flowchart is included in ASC 205-20's implementation guidance (ASC 205-20-55-82) and provides an overview of the disclosures required for discontinued operations. Refer to section 1.1, *Overview*, for further information on the impact and effective date of pending content related to ASU 2023-05 on joint ventures.

Required disclosures for a discontinued operation




A
Disclose information about an entity's significant continuing involvement with a discontinued operation after the disposal date. The disclosures are required until the results of operations of the discontinued operation in which an entity retains significant continuing involvement are no longer presented separately as discontinued operations in the statement where net income is reported (or statement of activities). Disclose the following for each discontinued operation in which the entity retains significant continuing involvement after the disposal date (see paragraphs 205-20-50-4A through 50-4B):
a. A description of the nature of the activities that give rise to the continuing involvement.
b. The period of time during which the involvement is expected to continue.
c. For all periods presented, both the amount of any cash inflows or outflows from or to the discontinued operation after the disposal transaction and revenues or expenses presented, if any, in continuing operations after the disposal transaction that before the disposal transaction were eliminated in consolidated financial statements as intra-entity transactions.
d. For a discontinued operation in which an entity retains an equity method investment after the disposal (the investee), information that enables users of financial statements to compare the financial performance of the entity from period to period assuming that the entity held the same equity method investment in all periods presented in the statement where net income is reported (or statement of activities). The disclosure should include all of the following until the discontinued operation is no longer reported separately in discontinued operations:
1. For each period presented in the statement where net income is reported (or statement of activities) after the period in which the discontinued operation was disposed of, the pretax income of the discontinued operation in which the entity retains an equity method investment.
2. The entity's ownership interest in the discontinued operation before the disposal transaction.
3. The entity's ownership interest in the investee after the disposal transaction.
4. The entity's share of the income or loss of the investee in the period(s) after the disposal transaction and the line item in the statement where net income is reported (or statement of activities) that includes the income or loss.
B
Which criterion does the discontinued operation meet?
205-20-45-1B through 45-1C
205-20-45-1D
Was the discontinued operation an equity method investment before the disposal?
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):
Disclosures are complete for a discontinued operation that is a business or nonprofit activity held for sale at acquisition or a joint venture upon formation.
Pending Content:
Transition Date: (P) January 1, 2025; (N) January 1, 2025 | Transition Guidance: 805-60-65-1
Disclosures are complete for a discontinued operation that is a business or nonprofit activity held for sale at acquisition or upon formation of a joint venture.
a. The pretax profit or loss (or change in net assets) of the discontinued operation.
b. The major classes of the line items constituting the pretax profit or loss (or change in net assets) of the discontinued operation.
c. Either the total operating and investing cash flows of the discontinued operation or the depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discontinued operation.
d. If the discontinued operation includes a noncontrolling interest, the pretax profit or loss (or change in net assets) attributable to the parent.
e. The carrying amount(s) of the major classes of assets and liabilities included as part of a discontinued operation classified as held for sale.
C


C
Did the entity provide the disclosures required by paragraph 205-20-50-5B(a), (b), and (e)?
Yes
No
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):
Disclosures are complete.
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).

E Summary of important changes

The following highlights the topics for which substantive updates have been made in recent editions of this publication. Other non-substantive or clarifying changes are not listed.

Section 1: Overview and scope

- Section 1.1 was updated to reflect pending content related to the issuance of ASU 2023-05. (April 2024)

Section 2: Criteria for reporting discontinued operations

- Section 2.3 was updated to highlight that conclusions reached on whether a disposal group meets the criteria to be presented as a discontinued operation may differ between a reporting entity and its consolidated subsidiary (with its own financial reporting). (April 2024)
- Section 2.6 was updated to further clarify how a long-lived asset of a discontinued operation that is reclassified from held for sale to held and used should be measured. (March 2025)

Section 3: Reporting and disclosure

- Section 3.1 was updated with a chart reflecting which period(s) assets and liabilities of a discontinued operation are presented separately in the statement of financial position (April 2024) and was updated to clarify guidance on the current and long-term classification of assets and liabilities held for sale. (March 2025)
- Section 3.2 was updated to remove guidance on the presentation of discontinued operations before ASU 2014-08, given these amendments are now effective for all entities. (April 2024)
- Section 3.5 was updated to include guidance on the Regulation S-K requirements when there has been a material retrospective change affecting comprehensive income. (March 2025)
- Section 3.8 was updated to include a statement made by the SEC staff related to presentation considerations of a discontinued operations in a predecessor's financial statements. (March 2025)

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