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BDO **FLASH** REPORT
FASB

▶SUBJECT

FASB ISSUES ASU ON DISCONTINUED OPERATIONS

▶SUMMARY

On April 10, 2014, the FASB issued ASU 2014-08.[1] It changes the criteria for reporting discontinued operations, which includes a component of an entity or a group of components of an entity, a business, or nonprofit activity. The amendments are intended to simplify U.S. GAAP and are expected to result in fewer transactions being reported as discontinued operations. The ASU is available here.

▶SCOPE, EFFECTIVE DATE AND TRANSITION

The amendments apply to a component of an entity that either is disposed of or meets the held for sale criteria in Topic 205. They also apply to a business or nonprofit activity that, on acquisition, meets the held for sale criteria. The ASU is effective for public business entities and certain not-for-profit entities for annual periods beginning on or after December 15, 2014, and interim periods within those years. The amendments are effective for all other entities for annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015.

Entities should not apply the amendments to a component of an entity (or a business or nonprofit activity) that is classified as held for sale before the effective date even if it is disposed of after the effective date. That is, the ASU must be adopted prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been previously reported in the financial statements.

[1] *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

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MAIN PROVISIONS

The revised definition of a discontinued operation includes those disposals of components of an entity[2] or a group of components of an entity representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results (a "discop"). Examples of a strategic shift could include a disposal of a major geographical area, a major line of business, a major equity method investment,[3] or other major parts of an entity. As such, judgment may be required to identify when a strategic shift with a major effect occurs. The ASU eliminates the current requirement in U.S. GAAP to assess continuing cash flows and continuing involvement with the disposal group.

The revised definition also includes a business[4] or nonprofit activity[5] that, on acquisition, meets the criteria to be classified as held for sale. The FASB reached this conclusion because the target company was never considered part of an entity's continuing operations.

A disposal meeting the new definition is required to be reported in discops when the component of an entity or group of components of an entity meets the held for sale criteria, is actually disposed of by sale, or is disposed of through means other than a sale (e.g., by abandonment or in a distribution to owners in a spinoff).

Presentation: The amendments require an entity to present the assets and liabilities of a disposal group that includes a discop separately in the asset and liability sections of the balance sheet, for both current and prior periods. The ASU does not change the presentation guidance for the income statement.

Disclosures: The ASU requires additional disclosures about discops, including:

1. 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 discop for all periods presented.

2. Either of the following: i) the total operating and investing cash flows of the discop for all periods presented, or ii) the depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discop for all periods presented.

3. If the discop 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 all periods presented.

4. A reconciliation of carrying amounts of major classes of assets and liabilities of the discop classified as held for sale to total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the balance sheet for the initial period in which the disposal group is classified as held for sale and for all prior periods presented.

5. A reconciliation of 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 discop to the after-tax profit or loss of the discop that is presented on the income statement (or statement of activities for a not-for-profit entity) for all periods presented.

The ASU requires entities to provide additional disclosures about a disposal of an individually significant component of an entity that does not qualify for discops presentation, including pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the component and specifically the pretax profit or loss attributable to the parent where the

[2] 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.

[3] Under previous U.S. GAAP, equity method investments were excluded from the scope of discontinued operations.

[4] 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.

[5] 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 entity.

component includes a noncontrolling interest. The ASU also adds new disclosures in Topic 360 addressing any long-lived asset (disposal group) that has been disposed of or is classified as held for sale.

The ASU expands the disclosures about an entity's significant continuing involvement with a discop. This includes the amount of any cash flows to or from the discop following its disposal and information about a discop in which an entity retains an equity method investment after the disposal transaction. In addition, entities must disclose the revenues or expenses that are included in continuing operations after the disposal that were previously eliminated in the consolidated statements prior to the disposal.