Accounting Standard (AS) 24*

(issued 2002)

Discontinuing Operations

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective, the Preface to the Statements of Accounting Standards[1] and the 'Applicability of Accounting Standards to Various Entities (see Appendix 1 to this Compendium).]*

This Accounting Standard is not mandatory for Micro and Small sized enterprises (Level IV and Level III non-company entities), as defined in Appendix 1 to this Compendium 'Applicability of Accounting Standards to Various Entities.

Objective

The objective of this Standard is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations.

Scope

1. This Standard applies to all discontinuing operations of an enterprise.

2. The requirements related to cash flow statement contained in this Standard are applicable where an enterprise prepares and presents a cash flow statement.

Definitions

Discontinuing Operation

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* The Standard was earlier notified as part of Companies (Accounting Standards) Rules, 2006, under Companies Act, 1956. The Standard has been notified as part of Companies (Accounting Standards) Rules, 2021, under Companies Act, 2013.

[1] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which Accounting Standards are intended to apply only to items which are material.

3. A <u>discontinuing operation</u> is a component of an enterprise:

(a) that the enterprise, pursuant to a single plan, is:

(i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or

(ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or

(iii) terminating through abandonment; and

(b) that represents a separate major line of business or geographical area of operations; and

(c) that can be distinguished operationally and for financial reporting purposes.

4. Under criterion (a) of the definition (paragraph 3 (a)), a discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.

5. If an enterprise sells a component substantially in its entirety, the result can be a net gain or net loss. For such a discontinuance, a binding sale agreement is entered into on a specific date, although the actual transfer of possession and control of the discontinuing operation may occur at a later date. Also, payments to the seller may occur at the time of the agreement, at the time of the transfer, or over an extended future period.

6. Instead of disposing of a component substantially in its entirety, an enterprise may discontinue and dispose of the component by selling its assets and settling its liabilities piecemeal (individually or in small groups). For piecemeal disposals, while the overall result may be a net gain or a net loss, the sale of an individual asset or settlement of an individual liability may have the opposite effect. Moreover, there is no specific date at which an overall binding sale agreement is entered into. Rather, the sales of assets and settlements of liabilities may occur over a period of months or perhaps even longer. Thus, disposal of a component may be in progress at the end of a financial reporting period. To qualify as a discontinuing operation, the disposal

must be pursuant to a single co-ordinated plan.

7. An enterprise may terminate an operation by abandonment without substantial sales of assets. An abandoned operation would be a discontinuing operation if it satisfies the criteria in the definition. However, changing the scope of an operation or the manner in which it is conducted is not an abandonment because that operation, although changed, is continuing.

8. Business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations as that term is defined in paragraph 3 of this Standard, they can occur in connection with a discontinuing operation.

9. Examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

(a) gradual or evolutionary phasing out of a product line or class of service;

(b) discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(c) shifting of some production or marketing activities for a particular line of business from one location to another; and

(d) closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

10. A reportable business segment or geographical segment as defined in Accounting Standard (AS) 17, *Segment Reporting*, would normally satisfy criterion (b) of the definition of a discontinuing operation (paragraph 3), that is, it would represent a separate major line of business or geographical area of operations. A part of such a segment may also satisfy criterion (b) of the definition. For an enterprise that operates in a single business or geographical segment and therefore does not report segment information, a major product or

service line may also satisfy the criteria of the definition.

11. A component can be distinguished operationally and for financial reporting purposes - criterion (c) of the definition of a discontinuing operation (paragraph 3) - if all the following conditions are met:

(a) the operating assets and liabilities of the component can be directly attributed to it;

(b) its revenue can be directly attributed to it;

(c) at least a majority of its operating expenses can be directly attributed to it.

12. Assets, liabilities, revenue, and expenses are directly attributable to a component if they would be eliminated when the component is sold, abandoned or otherwise disposed of. If debt is attributable to a component, the related interest and other financing costs are similarly attributed to it.

13. Discontinuing operations, as defined in this Standard are expected to occur relatively infrequently. All infrequently occurring events do not necessarily qualify as discontinuing operations. Infrequently occurring events that do not qualify as discontinuing operations may result in items of income or expense that require separate disclosure pursuant to Accounting Standard (AS) 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies,* because their size, nature, or incidence make them relevant to explain the performance of the enterprise for the period.

14. The fact that a disposal of a component of an enterprise is classified as a discontinuing operation under this Standard does not, in itself, bring into question the enterprise's ability to continue as a going concern.

Initial Disclosure Event

15. With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(b) the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.

16. A detailed, formal plan for the discontinuance normally includes:

(a) identification of the major assets to be disposed of;

(b) the expected method of disposal;

(c) the period expected to be required for completion of the disposal;

(d) the principal locations affected;

(e) the location, function, and approximate number of employees who will be compensated for terminating their services; and

(f) the estimated proceeds or salvage to be realised by disposal.

17. An enterprise's board of directors or similar governing body is considered to have made the announcement of a detailed, formal plan for discontinuance, if it has announced the main features of the plan to those affected by it, such as, lenders, stock exchanges, creditors, trade unions, etc., in a sufficiently specific manner so as to make the enterprise demonstrably committed to the discontinuance.

Recognition and Measurement

18. An enterprise should apply the principles of recognition and measurement that are set out in other Accounting Standards for the purpose of deciding as to when and how to recognise and measure the changes in assets and liabilities and the revenue, expenses, gains, losses and cash flows relating to a discontinuing operation.

19. This Standard does not establish any recognition and measurement principles. Rather, it requires that an enterprise follow recognition and measurement principles established in other Accounting Standards, e.g., Accounting Standard (AS) 4, *Contingencies and Events Occurring After the*

Balance Sheet Date[2] and Accounting Standard (AS) 28, *Impairment of Assets*.

Presentation and Disclosure

Initial Disclosure

20. An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 15) occurs:

(a) a description of the discontinuing operation(s);

(b) the business or geographical segment(s) in which it is reported as per AS 17, Segment Reporting;

(c) the date and nature of the initial disclosure event;

(d) the date or period in which the discontinuance is expected to be completed if known or determinable;

(e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

(f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

(g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense[3] related thereto; and

(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation

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[2] All paragraphs of AS 4 that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government. For example, the impairment of financial assets such as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by AS 4.

[3] As defined in Accounting Standard (AS) 22, *Accounting for Taxes on Income*.

during the current financial reporting period.

21. For the purpose of presentation and disclosures required by this Standard, the items of assets, liabilities, revenues, expenses, gains, losses, and cash flows can be attributed to a discontinuing operation only if they will be disposed of, settled, reduced, or eliminated when the discontinuance is completed. To the extent that such items continue after completion of the discontinuance, they are not allocated to the discontinuing operation. For example, salary of the continuing staff of a discontinuing operation.

22. If an initial disclosure event occurs between the balance sheet date and the date on which the financial statements for that period are approved by the board of directors in the case of a company or by the corresponding approving authority in the case of any other enterprise, disclosures as required by Accounting Standard (AS) 4, *Contingencies and Events Occurring After the Balance Sheet Date*, are made.

Other Disclosures

23. When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur:

(a) for any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or loss; and

(b) the net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

24. The asset disposals, liability settlements, and binding sale agreements referred to in the preceding paragraph may occur concurrently with the initial disclosure event, or in the period in which the initial disclosure event occurs, or

in a later period.

25. If some of the assets attributable to a discontinuing operation have actually been sold or are the subject of one or more binding sale agreements entered into between the balance sheet date and the date on which the financial statements are approved by the board of directors in case of a company or by the corresponding approving authority in the case of any other enterprise, the disclosures required by Accounting Standard (AS) 4, *Contingencies and Events Occurring After the Balance Sheet Date* are made.

Updating the Disclosures

26. In addition to the disclosures in paragraphs 20 and 23, an enterprise should include, in its financial statements, for periods subsequent to the one in which the initial disclosure event occurs, a description of any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled and the events causing those changes.

27. Examples of events and activities that would be disclosed include the nature and terms of binding sale agreements for the assets, a demerger or spin-off by issuing equity shares of the new company to the enterprise's shareholders, and legal or regulatory approvals.

28. The disclosures required by paragraphs 20, 23 and 26 should continue in financial statements for periods up to and including the period in which the discontinuance is completed. A discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received.

29. If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefor and its effect should be disclosed.

30. For the purpose of applying paragraph 29, disclosure of the effect includes reversal of any prior impairment loss (see AS 28 *Impairment of Assets*), or provision that was recognised with respect to the discontinuing operation.

Separate Disclosure for Each Discontinuing Operation

31. Any disclosures required by this Standard should be presented separately for each discontinuing operation.

Presentation of the Required Disclosures

32. The disclosures required by paragraphs 20, 23, 26, 28, 29 and 31 should be presented in the notes to the financial statements except the following which should be shown on the face of the statement of profit and loss:

(a) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto (paragraph 20 (g)); and

(b) the amount of the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation (paragraph 23 (a)).

Illustrative Presentation and Disclosures

33. Illustration 1 attached to the Standard illustrates the presentation and disclosures required by this Standard.

Restatement of Prior Periods

34. Comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event should be restated to segregate assets, liabilities, revenue, expenses, and cash flows of continuing and discontinuing operations in a manner similar to that required by paragraphs 20, 23, 26, 28, 29, 31 and 32.

35. Illustration 2 attached to this Standard illustrates application of paragraph 34.

Disclosure in Interim Financial Reports

36. Disclosures in an interim financial report in respect of a discontinuing operation should be made in accordance with AS 25,

Interim Financial Reporting, including:

(a) ***any significant activities or events since the end of the most recent annual reporting period relating to a discontinuing operation; and***

(b) ***any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled.***

Illustration 1

Illustrative Disclosures

This illustration does not form part of the Accounting Standard. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

Facts

- Delta Company has three segments, Food Division, Beverage Division and Clothing Division.

- Clothing Division, is deemed inconsistent with the long-term strategy of the Company. Management has decided, therefore, to dispose of the Clothing Division.

- On 15 November 20X1, the Board of Directors of Delta Company approved a detailed, formal plan for disposal of Clothing Division, and an announcement was made. On that date, the carrying amount of lakhs minus liabilities of Rs. 15 lakhs).

- The recoverable amount of the assets carried at Rs. 105 lakhs was estimated to be Rs. 85 lakhs and the Company had concluded that a pre-tax impairment loss of Rs. 20 lakhs should be recognised.

- At 31 December 20XI, the carrying amount of the Clothing Division's net assets was Rs. 70 lakhs (assets of Rs. 85 lakhs minus liabilities of Rs. 15 lakhs). There was no further impairment of assets between 15 November 20X1 and 31 December 20X1 when the financial statements were prepared.

- On 30 September 20X2, the carrying amount of the net assets of the Clothing Division continued to be Rs. 70 lakhs. On that day, Delta Company signed a legally binding contract to sell the Clothing Division.

- The sale is expected to be completed by 31 January 20X3. The recoverable amount of the net assets is Rs. 60 lakhs. Based on that amount, an additional impairment loss of Rs. 10 lakhs is recognised.

- In addition, prior to 31 January 20X3, the sale contract obliges Delta Company to terminate employment of certain employees of the Clothing Division, which would result in termination cost of Rs. 30 lakhs, to be paid by 30 June 20X3. A liability and related expense in this regard is also recognised.

- The Company continued to operate the Clothing Division throughout 20X2.

- At 31 December 20X2, the carrying amount of the Clothing Division's net assets is Rs. 45 lakhs, consisting of assets of Rs. 80 lakhs minus liabilities of Rs. 35 lakhs (including provision for expected termination cost of Rs. 30 lakhs).

- Delta Company prepares its financial statements annually as of 31 December. It does not prepare a cash flow statement.

- Other figures in the following financial statements are assumed to illustrate the presentation and disclosures required by the Standard.

1. Financial Statements for 20X1

1.1 Statement of Profit and Loss for 20X1

The Statement of Profit and Loss of Delta Company for the year 20X1 can be presented as follows:

(Amount in Rs. Lakhs)

		20X1		20X0
Turnover		140		150
Operating expenses		(92)		(105)
Impairment loss		(20)		(---)
Pre-tax profit from operating activities		28		45
Interest expense		(15)		(20)
Profit before tax		13		25
Profit from continuing operations before tax (see Note 5)	15		12	
Income tax expense	(7)		(6)	
Profit from continuing operations after tax		8		6
Profit (loss) from discontinuing operations before tax (see Note 5)	(2)		13	
Income tax expense	1		(7)	
Profit (loss) from discontinuing operations after tax		(1)		6
Profit from operating activities after tax		**7**		**12**

1.2 Note to Financial Statements for 20X1

The following is Note 5 to Delta Company's financial statements:

On 15 November 20XI, the Board of Directors announced a plan to dispose of Company's Clothing Division, which is also a separate segment as per AS 17, *Segment Reporting*. The disposal is consistent with the Company's long-term strategy to focus its activities in the areas of food and beverage manufacture and distribution, and to divest unrelated activities. The Company is actively seeking a buyer for the Clothing Division and hopes to complete the sale by the end of 20X2. At 31 December 20XI, the carrying amount of the assets of the Clothing Division was Rs. 85 lakhs (previous year Rs. 120 lakhs) and its liabilities were Rs. 15 lakhs (previous year Rs. 20 lakhs). The following statement shows the revenue and expenses of continuing and discontinuing operations:

(Amount in Rs. Lakhs)

	Continuing Operations (Food and Beverage Divisions)		**Discontinuing Operation (Clothing Division)**		**Total**	
	20X1	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**
Turnover	90	80	50	70	140	150
Operating Expenses	(65)	(60)	(27)	(45)	(92)	(105)
Impairment Loss	(—)	(—)	(20)	(---)	(20)	(---)
Pre-tax profit from operating activities	25	20	3	25	28	45
Interest expense	(10)	(8)	(5)	(12)	(15)	(20)
Profit (loss) before tax	15	12	(2)	13	13	25
Income tax expense	(7)	(6)	1	(7)	(6)	(13)
Profit (loss) from operating activities after tax	8	6	(1)	6	7	12

2. Financial Statements for 20X2

2.1 Statement of Profit and Loss for 20X2

The Statement of Profit and Loss of Delta Company for the year 20X2 can be presented as follows:

(Amount in Rs. Lakhs)

		20X2		20X1
Turnover		140		140
Operating expenses		(90)		(92)
Impairment loss		(10)		(20)
Provision for employee termination benefits		(30)		–
Pre-tax profit from operating activities		10		28
Interest expense		(25)		(15)
Profit (loss) before tax		(15)		13
Profit from continuing operations before tax (see Note 5)	20		15	
Income tax expense	(6)		(7)	
Profit from continuing operations after tax		14		8
Loss from discontinuing operations before tax (see Note 5)	(35)		(2)	
Income tax expens	10		1	
Loss from discontinuing operations after tax		(25)		(1)
Profit (loss) from operating activities after tax		**(11)**		**7**

2.2 Note to Financial Statements for 20X2

The following is Note 5 to Delta Company's financial statements:

On 15 November 20XI, the Board of Directors had announced a plan to dispose of Company's Clothing Division, which is also a separate segment as per AS

17, *Segment Reporting*. The disposal is consistent with the Company's long-term strategy to focus its activities in the areas of food and beverage manufacture and distribution, and to divest unrelated activities. On 30 September 20X2, the Company signed a contract to sell the Clothing Division to Z Corporation for Rs. 60 lakhs.

Clothing Division's assets are written down by Rs. 10 lakhs (previous year Rs. 20 lakhs) before income tax saving of Rs. 3 lakhs (previous year Rs. 6 lakhs) to their recoverable amount.

The Company has recognised provision for termination benefits of Rs. 30 lakhs (previous year Rs. nil) before income tax saving of Rs. 9 lakhs (previous year Rs. nil) to be paid by 30 June 20X3 to certain employees of the Clothing Division whose jobs will be terminated as a result of the sale.

At 31 December 20X2, the carrying amount of assets of the Clothing Division was Rs. 80 lakhs (previous year Rs. 85 lakhs) and its liabilities were Rs. 35 lakhs (previous year Rs. 15 lakhs), including the provision for expected termination cost of Rs. 30 lakhs (previous year Rs. nil). The process of selling the Clothing Division is likely to be completed by 31 January 20X3.

The following statement shows the revenue and expenses of continuing and discontinuing operations:

	Continuing Operations (Food and Beverage Divisions)		**Discontinuing Operation (Clothing Division)**		**Total**	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Turnover	100	90	40	50	140	140
Operating Expenses	(60)	(65)	(30)	(27)	(90)	(92)
Impairment Loss	....		(10)	(20)	(10)	(20)
Provision for employee termination	....		(30)	....	(30)	....
Pre-tax profit (loss)						

from operating activities	40	25	(30)	3	10	28
Interest expense	(20)	(10)	(5)	(5)	(25)	(15)
Profit (loss) before tax	20	15	(35)	(2)	(15)	13
Income tax expense	(6)	(7)	10	1	4	(6)
Profit (loss) from operating activities after tax	14	8	(25)	(1)	(11)	7

3. Financial Statements for 20X3

The financial statements for 20X3, would disclose information related to discontinued operations in a manner similar to that for 20X2 including the fact of completion of discontinuance.

Illustration 2

Classification of Prior Period Operations

This illustration does not form part of the Accounting Standard. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

Facts

1. Paragraph 34 requires that comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event be restated to segregate assets, liabilities, revenue, expenses, and cash flows of continuing and discontinuing operations in a manner similar to that required by paragraphs 20, 23, 26, 28, 29, 31 and 32.

2. Consider following facts:

   (a) Operations A, B, C, and D were all continuing in years 1 and 2;

   (b) Operation D is approved and announced for disposal in year 3 but actually disposed of in year 4;

   (c) Operation B is discontinued in year 4 (approved and announced for disposal and actually disposed of) and operation E is acquired; and

   (d) Operation F is acquired in year 5.

3. The following table illustrates the classification of continuing and discontinuing operations in years 3 to 5:

FINANCIAL STATEMENTS FOR YEAR 3 (Approved and Published early in Year 4)			
Year 2 Comparatives		**Year 3**	
Continuing	Discontinuing	Continuing	Discontinuing
A		A	
B		B	
C		C	
	D		D

FINANCIAL STATEMENTS FOR YEAR 4 (Approved and Published early in Year 5)			
Year 3 Comparatives		**Year 4**	
Continuing	Discontinuing	Continuing	Discontinuing
A		A	
	B		B
C		C	
	D		D
		E	

FINANCIAL STATEMENTS FOR YEAR 5 (Approved and Published early in Year 6)			
Year 4 Comparatives		**Year 5**	
Continuing	Discontinuing	Continuing	Discontinuing
A		A	
	B		
C		C	
	D		
E		E	
		F	

4. If, for whatever reason, five-year comparative financial statements were prepared in year 5, the classification of continuing and discontinuing operations would be as follows:

FINANCIAL STATEMENTS FOR YEAR 5									
Year 1 Comparatives		**Year 2 Comparatives**		**Year 3 Comparatives**		**Year 4 Comparatives**		**Year 5**	
Cont.	Disc.	Cont.	Disc.	Cont.	Disc.	Cont.	Disc.	Cont.	Disc.
A		A		A		A		A	
	B		B		B		B		
C		C		C		C		C	
	D		D		D		D		
						E		E	
								F	