

# DISCONTINUED OPERATIONS: IDENTIFICATION, PRESENTATION AND DISCLOSURE

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## Overview

Financial statements present a historical view of an entity's financial position, operations and cash flows. Many financial statement users are interested in using the historical statements as a basis to forecast future results. When an entity disposes of part of its operations, separately presenting assets and liabilities or recasting financial information to show the ongoing entity separate from the part disposed of or to be disposed of is often more meaningful to users of the financial statements. This publication provides an overview of the discontinued operations guidance in Subtopic 205-20, *Presentation of Financial Statements – Discontinued Operations*, of the Financial Accounting Standards Board's Accounting Standards Codification, including the presentation and disclosure requirements.

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## 1 Introduction

Financial statements present a historical view of an entity's financial position, operations and cash flows. Many financial statement users are interested in using the statements as a basis to forecast future results. A lender is interested in historical cash flows for purposes of forecasting future cash flows and a borrower's ability to repay a loan. A potential investor uses the historical information to evaluate a potential investee's ability to provide a sufficient return on investment. A shareholder uses the historical information to make decisions about whether to sell or hold its investment.

When an entity disposes of part of its operations, recasting financial information to show the ongoing entity separate from the part disposed of is often more meaningful to users of the financial statements. In some situations, when an entity plans to dispose of part of its operations, a similar recasting of financial information is beneficial.

This publication provides an overview of the discontinued operations guidance in Subtopic 205-20, *Presentation of Financial Statements – Discontinued Operations*, of the Financial Accounting Standards Board's Accounting Standards Codification (ASC), as well as an appendix that provides a tabular presentation of the related disclosure requirements.

The current discontinued operations guidance has been effective for approximately ten years and applies to both public business entities (PBEs) and non-PBEs, including not-for-profit entities and joint ventures formed after January 1, 2025. However, the guidance does not apply to oil and gas properties for which the full-cost method is used for accounting purposes.

## 2 Discontinued operations guidance

The types of disposals or planned disposals that must be evaluated for discontinued operations treatment are those involving:

- A component or group of components of an entity that is disposed of or is classified as held for sale
- A business or nonprofit activity that, on acquisition or upon formation of a joint venture, is classified as held for sale

If an equity method investment meets the definition of a component of an entity, its disposal or planned disposal must also be evaluated for discontinued operations treatment. The factors involved in determining whether the disposal or planned disposal of a component or group of components of an entity represents a discontinued operation are different from the factors involved in determining whether the disposal or planned disposal of an acquired business or nonprofit activity that, on acquisition, is classified as held for sale represents a discontinued operation. The factors considered in each regard are discussed in detail in each of the sections that follow and are summarized in a flowchart in [Section 2.5](#).

Expected future losses of the discontinued operation are not accrued upon its classification as a discontinued operation. These losses are recognized in the future as they are incurred.

### 2.1 Component or a group of components of an entity

A component or a group of components of an entity is treated as a discontinued operation when both of the following are true:

- The component or group of components either:
  - Meets the held for sale criteria in ASC 205-20-45-1E
  - Has been disposed of by sale
  - Has been disposed of other than by sale
- Disposing of the component or group of components represents a strategic shift that has or is expected to have a major effect on the entity's operations and financial results

Based on the definition of a component of an entity in the Master Glossary of the ASC, a disposal or planned disposal is considered a component of an entity when it has “operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.” Units of account used elsewhere in the ASC that may represent a component of an entity, depending on the facts and circumstances, include a reportable segment, an operating segment, a reporting unit, a subsidiary and an asset group. However, if the assets and liabilities to be disposed of do not meet the definition of a “component,” they cannot be reported as discontinued operations.

A component has cash inflows and outflows that can be clearly distinguished from the rest of the entity. However, based on the definition of “component,” it is not required to be a separate legal entity. When determining whether the cash flows are “clearly distinguishable,” consider the following:

- **Is financial information available for the component?** The information does not need to be generated or reviewed by management on a regular basis, but it does need to be available using a reasonable level of effort.
- **Are there significant shared costs?** While the compilation of a component’s financial information may include allocating costs or expenses, if a significant percentage of the component’s expenses are shared with other components, this may indicate that the cash flows of the component are not clearly distinguishable from the rest of the entity.

An entity disposing of all or almost all of its operations would not meet the definition of a component as the operations are not clearly distinguished from the rest of the entity. As a result, we believe this activity would not be reported as a discontinued operation.

## 2.2 Held-for-sale criteria

As noted in [Section 2](#), the types of disposals or planned disposals that must be evaluated for discontinued operations treatment are those involving a component, group of components, business, nonprofit activity, or joint venture upon its formation (collectively, the “entity to be sold”) that have been sold or disposed of or are classified as held for sale prior to the disposal or sale date. The entity to be sold is classified as held for sale if the criteria in ASC 205-20-45-1E are met as of the balance sheet date. If the criteria are met after the balance sheet date, but prior to the date the financial statements are issued or available to be issued, the entity to be sold should not be classified as held for sale as of the balance sheet date. However, an entity should disclose the facts and circumstances of the expected sale as well as the expected method and timing of the expected sale (ASC 205-20-50-1a).

An entity should ensure that supporting documentation accompanies the held-for-sale analysis and conclusions; that documentation should be maintained and updated as facts and circumstances evolve.



### ASC 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.

### **2.2.1 Commitment to sell**

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

We believe the commitment to a plan to sell requires formal approval by those with the proper authority within the entity. The plan should be specific and include the entity to be sold; it should not be an exploratory exercise. If Board or shareholder approval is required, we believe that approval must be obtained, unless deemed to be perfunctory. For example, if Board members who already approved the plan own a majority of the shares, shareholder approval becomes a perfunctory process. The approval also needs to have occurred, not be probable of occurring.

### **2.2.2 Available for immediate sale**

*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.)*

For the entity to be sold to be available for immediate sale in its present condition, only customary sales terms can exist (e.g., the time it would generally take to vacate a building when a company is moving). Per ASC 360-10-55-38(b), if an entity is constructing a new office building and will only vacate its existing space upon completion of construction of the new building, then the existing building is not deemed available for immediate sale. Additional examples can be found in ASC 360-10-55-37 through 55-42.

### **2.2.3 Actively seeking a buyer**

*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.*

The entity must also be actively seeking a buyer. This process may entail hiring a third party to assist in the identification of a buyer or an active marketing program for the sale of the entity to be sold. A specific buyer does not have to be identified or confirmed.

### **2.2.4 Sale to be completed within one year**

*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.)*

The sale is probable if it is “likely to occur” and expected to be completed within one year. The term “probable” is generally interpreted in practice to represent a greater than 70% likelihood that an event will occur. However, events or circumstances beyond an entity’s control may extend the period required to complete the sale of the entity to be sold beyond one year. An exception to the one-year requirement should apply in the following situations (ASC 205-20-45-1G and ASC 360-10-45-11):

- At the date an entity commits to a plan to sell the 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, actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained and a firm purchase commitment is probable within one year. For example, an entity in the utility industry commits to a plan to sell the entity to be sold that represents a significant portion of its regulated operations and the sale will require regulatory approval.
- An entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of the entity to be sold previously classified as held for sale that will extend the period required to complete the sale, actions necessary to respond to the conditions have been or will be timely initiated, and a favorable resolution of the delaying factors is expected. For example, after a firm purchase commitment is obtained, a buyer's inspection of the property identifies environmental damage not previously known to exist.
- During the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, the entity to be sold previously classified as held for sale is not sold by the end of that period, during the initial one-year period the entity initiated actions necessary to respond to the change in circumstances, the entity to be sold is being actively marketed at a price that is reasonable given the change in circumstances and the criteria in ASC 205-20-45-1E are met. For example, when market conditions deteriorate and, as a result, the entity reduces the price.

This criterion is not met if there is uncertainty about the disposal method (e.g., the entity to be sold may be disposed of through a lease or spinoff of the entity to be sold instead of through a sale).

#### **2.2.5 Reasonable sales price**

*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.*

If the sales price is reasonable as compared to the fair value of the entity to be sold, then the entity to be sold is deemed available for immediate sale. A sales price that is in excess of fair value is not deemed to indicate that the entity to be sold is available to be sold immediately, as such a price is not attractive to potential buyers. A high sales price may indicate management's intention is exploratory in nature rather than a firm commitment to sell.

#### **2.2.6 No significant changes**

*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.*

An entity can look to its history with similar transactions to support whether it expects significant changes to its plan to sell the entity to be sold. If the entity does not have a history of similar transactions, it should consider the facts and circumstances of the transaction to determine if this criterion is met.

### **2.3 Identifying a strategic shift**

Determining whether the component or a group of components of an entity disposed of or classified as held for sale represents a strategic shift requires a significant amount of judgment. Neither "strategic shift" nor "major effect" is defined in ASC 205-20. However, ASC 205-20-55 includes five examples that illustrate the application of the strategic shift concept to specific fact patterns, which provides some context around what constitutes a strategic shift that has a major effect on the entity's operations and financial results. Strategic shifts that would have a major effect on the entity's operations and financial results were represented by disposals or planned disposals of:

- A product line representing 15% of the entity's revenues

- Operations in a geographical area representing 20% of the entity's total assets
- Stores in malls representing 15% of the entity's total net income

It is important to note that these examples do not provide bright lines for what should be considered a major effect on the entity's operations and financial results. Judgment must be exercised in each set of facts and circumstances to determine whether a disposal or planned disposal represents a strategic shift and whether that strategic shift has a major effect on the entity's operations and financial results. An entity should ensure it has sufficient supporting documentation for its strategic shift and major effect analysis.

While the strategic shift and major effects concepts do not preclude the existence of ongoing cash flows and significant continuing involvement with a discontinued operation, care should still be exercised in assessing whether the existence of any ongoing cash flows or significant continuing involvement is indicative that a strategic shift has not occurred.



**Example 2-1: Strategic shift analysis – manufacturer of consumer goods (ASC 205-20-55-84 through 55-86)**

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.

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.

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 2-2: Strategic shift analysis – food manufacturer (derived from ASC 205-20-55-87 through 55-89)**

Food Maker (FM) manufactures and sells food products that are grouped into five major geographical areas (A through E). Each major geographical area accounts for 20% of FM's assets and includes several major brands (Brands G through P). Each major brand represents 10% of FM's revenues. Assume that each geographical area and each brand represents a component of FM. Growth in Area A is slower than in the other four major geographical areas of FM's operations. As a result, FM decides to sell its operations in Area A. In addition, sales of Brand H products in Area C are lagging behind those in the other four major geographical areas of FM's operations. As a result, FM decides to discontinue the manufacture and sale of Brand H products in Area C. Sales of Brand H products in Area C represent 10% of total Brand H product sales and 1% of FM's total sales.

The questions that arise in this example are whether selling the operations in Area A and discontinuing the manufacture and sale of Brand H products in Area C represent strategic shifts that will have a major effect on FM's operations and financial results. Based on the limited information provided, FM's sale of its operations in Area A likely represents a strategic shift that will have a major effect on FM's operations and financial results and should be reported in discontinued operations. In contrast, FM

discontinuing the manufacture and sale of Brand H products in Area C likely does not represent a strategic shift that will have a major effect on FM's operations and financial results.



**Example 2-3: Strategic shift analysis – retailer (ASC 205-20-55-90 through 55-92)**

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.

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.

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 2-4: Strategic shift analysis – equity method investment (ASC 205-20-55-94 through 55-96)**

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.

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.

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 2-5: Strategic shift analysis – manufacturer of sporting equipment (ASC 205-20-55-97 through 55-101)**

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.

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.

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.

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.

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.

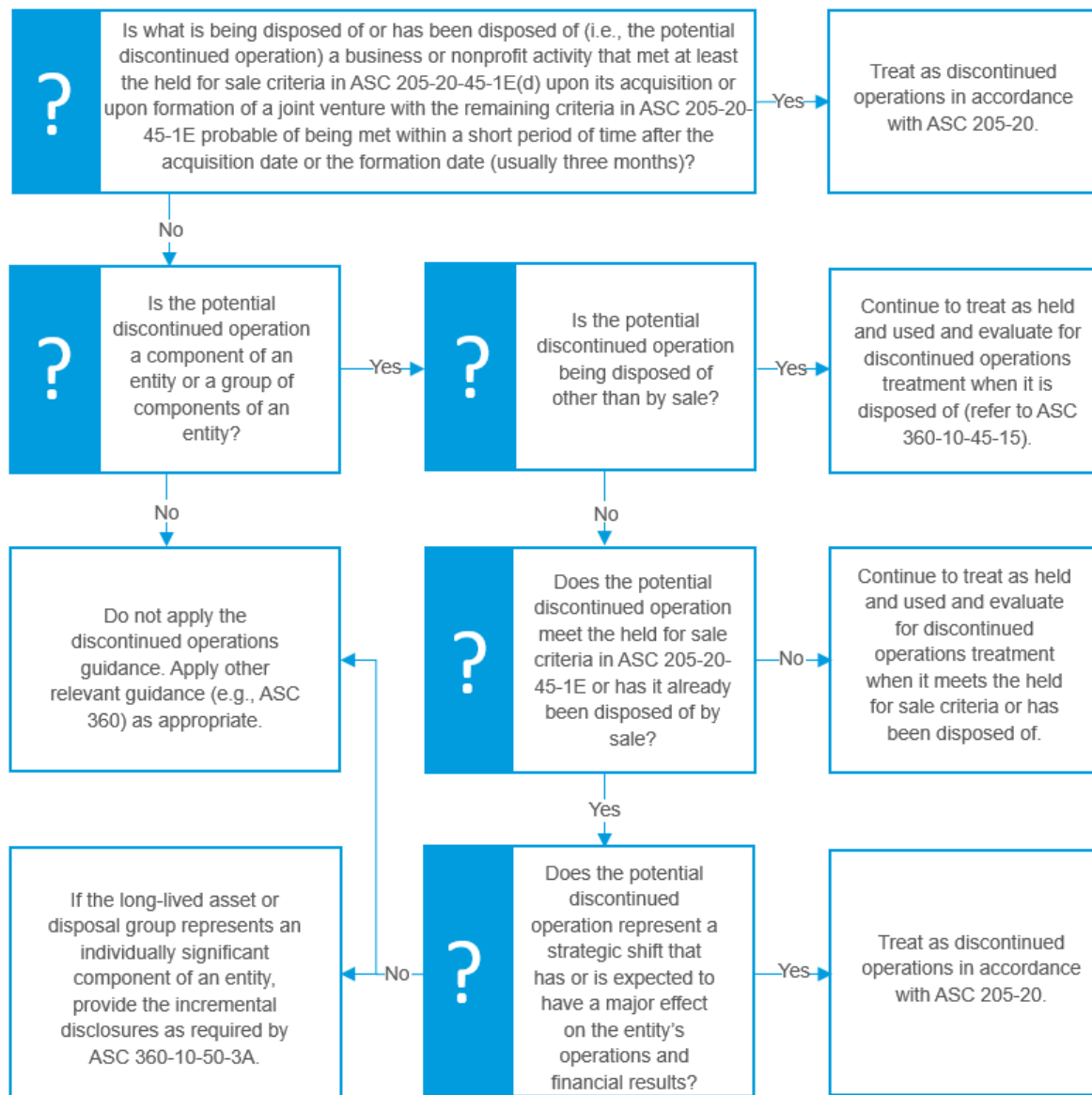
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## **2.4 Business or nonprofit activity that, on acquisition or upon formation of a joint venture, is classified as held for sale**

If an entity acquires a business or nonprofit activity that meets the held for sale criteria in ASC 205-20-45-1E on acquisition or upon formation of a joint venture, it is considered a discontinued operation. The disposal or planned disposal of the business or nonprofit activity does not have to represent a strategic shift.

The held for sale criterion in ASC 205-20-45-1E(d) must be met on the acquisition date or the formation date for an acquired business or nonprofit activity to be considered a discontinued operation, provided that any of the remaining criteria not met on the acquisition date are probable of being met within a short period of time (usually three months) following the acquisition date or the formation date. This clarification is consistent with the preexisting and corresponding guidance in ASC 360-10-45-12.

## 2.5 Flowchart: Identifying discontinued operations



## 3 Recognition, measurement and impairment considerations

### 3.1 Initial recognition and measurement

A component or group of components of an entity that meets the held-for-sale criteria is measured at the lower of its carrying amount or fair value less cost to sell. Fair value is determined using the guidance in ASC 820, *Fair Value Measurement*. That is, quoted prices in an active market establish the most reliable basis on which to determine fair value. If market prices are unavailable, an estimate of fair value must be made. If the asset is newly acquired, the carrying amount of the asset should be established based on its fair value less cost to sell at the acquisition date.

The "cost to sell" includes the incremental direct costs to transact the sale of the asset, such as broker commissions, legal fees, title transfer fees and closing costs that must be incurred before legal title can be transferred. Costs that generally do not qualify as selling costs include insurance, security services, utility expenses, and other costs of protecting or maintaining the assets.

If the fair value of the assets to be disposed of is measured by a current market value or by the current selling price of similar assets, the fair value and the related costs to sell should not be discounted. If, however, the fair value was determined by discounting future cash flows and the sale is expected to occur after one year (see [Section 2.2.4](#)), the cost to sell should also be discounted.

Long-lived assets should not be depreciated or amortized while the entity to be sold is classified as held for sale. This is true even if the asset is generating revenue. Interest and other expenses attributable to the liabilities of the entity to be sold classified as held for sale should continue to be accrued, but expected future losses of the held-for-sale entity to be sold should not be accrued. Those losses should be recognized as they are incurred in future periods.

According to the guidance in ASC 205-20-45-3C, if the carrying value is greater than the fair value less costs to sell, an entity will recognize a loss upon classification as held for sale if those criteria are met (see [Section 2.2](#)).



#### **ASC 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.

#### **ASC 360-10-35-37**

This guidance addresses the accounting for expected disposal losses for long-lived assets and asset groups that are classified as held for sale but have not yet been sold.

#### **ASC 360-10-35-38**

Costs to sell are the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. Those costs include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. Those costs exclude expected future losses associated with the operations of a long-lived asset (disposal group) while it is classified as held for sale. Expected future operating losses that marketplace participants would not similarly consider in their estimates of the fair value less cost to sell of a long-lived asset (disposal group) classified as held for sale shall not be indirectly recognized as part of an expected loss on the sale by reducing the carrying amount of the asset (disposal group) to an amount less than its current fair value less

cost to sell. If the sale is expected to occur beyond one year as permitted in limited situations by paragraph 360-10-45-11, the cost to sell shall be discounted.

**ASC 360-10-35-40**

A loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell. A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write-down to fair value less cost to sell). The loss or gain shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group.

**ASC 360-10-35-43**

A long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date. A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.

### 3.2 Impairment considerations

The carrying amounts of any assets that are not covered by ASC 360-10, including goodwill, that are included in the component or group of components of an entity classified as held for sale should be adjusted in accordance with other applicable generally accepted accounting principles prior to measuring the fair value less cost to sell of the disposal group. The following RSM publications address impairment testing considerations for these assets:

- [Snapshot - Accounting for the impairment of goodwill and other long-lived assets](#)
- [Qualitative impairment assessment of indefinite-lived intangible assets](#)
- [Goodwill alternatives for private companies and not-for-profits](#)
- [Goodwill impairment testing when carrying amount is trending downward](#)
- [Simplifying the test for goodwill impairment](#)

A loss recognized for the entity to be sold classified as held for sale should reduce only the carrying amounts of the long-lived assets of the group.

### 3.3 Subsequent measurement

The fair value less cost to sell is required to be evaluated each period for long-lived assets held for sale. Any subsequent decreases in fair value less cost to sell are recorded as additional losses in those periods. A gain may be recognized for increases in fair value less cost to sell, but any gain is limited to the total amount of cumulative losses previously recorded subsequent to initial recognition.



**ASC 360-10-35-40**

A loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell. A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write-down to fair value less cost to sell). The loss or gain shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group.

### 3.4 Goodwill

When determining the assets to be sold, consideration should be given to whether goodwill balances should also be included in the component or the disposal group that meets the held-for-sale criteria. ASC 350-20-40-1 through 40-7 provide guidance for allocating goodwill to a disposal group and requires goodwill to be allocated to that disposal group when it consists of an entire reporting unit. If the disposal group comprises only part of a reporting unit, goodwill should be allocated to the disposal group only if it constitutes a business. The allocation should be made on a relative fair value basis. If the disposal group operated independently and was not integrated into the reporting unit, the goodwill did not contribute to the overall operations of the reporting unit. Consequently, the entire goodwill balance may remain with the disposal group, eliminating the need for allocation.

The guidance in ASC 350-20-40-8 and 40-9 apply when an entity elects the Private Company Council alternative for amortizing goodwill and the component or disposal group is considered a business. Any associated goodwill should be allocated to the component or disposal group using “a reasonable and rational approach.” The ASC does not define what constitutes “a reasonable and rational approach,” but we believe an allocation based on relative fair value would be appropriate. Allocations based on other metrics may also be appropriate based on facts and circumstances.



#### **ASC 360-10-35-39**

The carrying amounts of any assets that are not covered by this Subtopic, including goodwill, that are included in a disposal group classified as held for sale shall be adjusted in accordance with other applicable GAAP prior to measuring the fair value less cost to sell of the disposal group. Paragraphs 350-20-40-1 through 40-7 provide guidance for allocating goodwill to a lower-level asset group to be disposed of that is part of a reporting unit and that constitutes a business. Goodwill is not included in a lower-level asset group to be disposed of that is part of a reporting unit if it does not constitute a business.

#### **ASC 350-20-40-1**

When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

#### **ASC 350-20-40-2**

When a portion of a reporting unit that constitutes a business (see Section 805-10-55) or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal.

#### **ASC 350-20-40-3**

The amount of goodwill to be included in that carrying amount shall be based on the relative fair values of the business or nonprofit activity to be disposed of and the portion of the reporting unit that will be retained. For example, if a reporting unit with a fair value of \$400 is selling a business or nonprofit activity for \$100 and the fair value of the reporting unit excluding the business or nonprofit activity being sold is \$300, 25 percent of the goodwill residing in the reporting unit would be included in the carrying amount of the business or nonprofit activity to be sold.

#### **ASC 350-20-40-4**

However, if the business or nonprofit activity to be disposed of was never integrated into the reporting unit after its acquisition and thus the benefits of the acquired goodwill were never realized by the rest of the reporting unit, the current carrying amount of that acquired goodwill shall be included in the carrying amount of the business or nonprofit activity to be disposed of.

**ASC 350-20-40-5**

That situation might occur when the acquired business or nonprofit activity is operated as a standalone entity or when the business or nonprofit activity is to be disposed of shortly after it is acquired.

**ASC 350-20-40-6**

Situations in which the acquired business or nonprofit activity is operated as a standalone entity are expected to be infrequent because some amount of integration generally occurs after an acquisition.

**ASC 350-20-40-7**

When only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment in accordance with paragraphs 350-20-35-3A through 35-13 using its adjusted carrying amount.

**ASC 350-20-40-8**

The following guidance for goodwill applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for amortizing goodwill.

**ASC 350-20-40-9**

When a portion of an entity (or a reporting unit) that constitutes a business or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal. An entity shall use a reasonable and rational approach to determine the amount of goodwill associated with the business or nonprofit activity to be disposed of.

### 3.5 Cancels plans to sell

If the entity decides to no longer dispose of the component or group of components classified as held for sale or if at any time the criteria specified in ASC 205-20-45-1E are no longer met, the held-for-sale classification would no longer be appropriate. The component or group of components to be sold should then be reclassified as held and used and accounted for according to the guidance in ASC 360-10-35-44.



**ASC 360-10-35-44**

If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used. A long-lived asset that is reclassified shall be measured individually at the lower of the following:

- a. Its carrying amount before the asset (disposal group) was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset (disposal group) been continuously classified as held and used
- b. Its fair value at the date of the subsequent decision not to sell.

**ASC 360-10-35-45**

If an entity removes an individual asset or liability from a disposal group previously classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the criteria in paragraph 360-10-45-9 are met. Otherwise, the remaining long-lived assets of the group shall be measured individually at the lower of their carrying amounts or fair values less cost to sell at that date.

A long-lived asset reclassified as held and used should be measured at the lower of its fair value on the date when the decision not to sell is made or its carrying amount as held and used at the date of the original sale decision, adjusted for any depreciation and amortization that would have been recognized if the asset had remained continuously classified as held and used. Any required adjustment to the carrying amount of such an asset should be reported within income from continuing operations in the period during which the decision not to sell was reached.

## 4 Presentation

Application of the guidance on how to present discontinued operations is first applied upon the earlier of the disposition of the discontinued operation or its meeting the held for sale criteria (See [Section 2.2](#)). Presentation requirements for discontinued operations on the income statement, balance sheet and cash flow statement are discussed in the sections that follow.

### 4.1 Income statement

For purposes of this discussion, the income statement also includes the statement of activities for a not-for-profit entity.

For all periods presented on the income statement, the results of discontinued operations, net of tax, should be separately presented from the results of continuing operations. The results of discontinued operations should include any gain or loss recognized when the discontinued operation is classified as held for sale or when it is actually disposed. Recognition and measurement of the gain or loss is determined using other applicable guidance in the ASC (e.g., the impairment recognition guidance related to assets held for sale in ASC 360-10-35) (see [Section 3](#)). For presentation purposes, the income tax effects of discontinued operations can either be shown as a separate line item or parenthetically. In addition, if any gain or loss related to the disposal of a discontinued operation, or any loss related to when it was classified as held for sale, is not separately presented on the income statement itself, it must be disclosed in the notes accompanying the financial statements.

Following is an example of how discontinued operations may be presented in the income statement of a calendar-year-end entity when the disposal of a component of the entity is considered a discontinued operation in 20X5:

	Year ending December 31 (amounts in millions)	
	20X5	20X4
Income from continuing operations before income taxes	\$ 1,100	\$ 1,000
Income taxes	(385)	(350)
Income from continuing operations	715	650
Income (loss) from discontinued operations (net of income tax benefit of \$14 in 20X5 and income tax expense of \$35 in 20X4)	(26)	65
Net income	\$ 689	\$ 715

A few notes about this example:

- Instead of presenting income taxes parenthetically on the income statement, the entity may show the pretax income (loss) from discontinued operations and the income tax expense (benefit) on separate lines with a subtotal for the net amount of income (loss) from discontinued operations.
- If the entity recognized a gain or loss upon the disposal of the discontinued operation in 20X5, it would need to disclose the amount of that gain or loss in the notes accompanying the financial statements because it did not separately present the gain or loss on the face of the income statement (neither parenthetically nor as a separate line).

- Even though the component was not classified as held for sale or disposed of until 20X5, its results of operations for all prior periods presented (20X4) must be reclassified from income from continuing operations to income (loss) from discontinued operations.
- If the entity adjusts an amount presented in discontinued operations in a subsequent period (e.g., it receives contingent proceeds or payments related to the sale of the discontinued operation), this adjustment should be presented in discontinued operations in that subsequent period. For example, assume that the entity received an additional \$1 million in 20X6 from the buyer related to its sale of the discontinued operation based on the resolution of a contingency. In that situation, the \$1 million of income (net of taxes) would be presented in discontinued operations in 20X6.

## 4.2 Balance sheet

The carrying amounts of the current and noncurrent assets and liabilities of a discontinued operation must be presented separately for each balance sheet date prior to the disposal of the discontinued operation. This is the case even if the discontinued operation did not meet the held-for-sale criteria prior to its disposal. This is a presentation matter and should not otherwise affect when an entity applies the recognition and measurement guidance in other applicable sections of the ASC (e.g., the recognition and measurement guidance included in ASC 360-10-35-43 related to the impairment testing of assets held for sale). For example, consider a situation in which an entity with a calendar year end disposes of a discontinued operation in 20X5 that did not meet the held-for-sale criteria prior to its disposal. If the entity presents a 20X4 balance sheet for comparative purposes, the discontinued operation's current and noncurrent assets and liabilities would be presented separately in the 20X4 balance sheet. However, the entity would not retroactively apply the recognition and measurement guidance in ASC 360-10-35-43 to 20X4.

When a discontinued operation is classified as held for sale in the current period, an entity is required to provide, for all periods presented, the discontinued operation's major classes of assets and liabilities, either on the balance sheet itself or in the notes accompanying the financial statements. For this purpose, a loss recognized in accordance with ASC 360-10-35-43 upon classifying the discontinued operation as held for sale should be allocated to the discontinued operation's major classes of assets and liabilities in the current period. This loss, as well as any gain or loss recognized on the disposal of a discontinued operation in the current period, should not be allocated to the discontinued operation's major classes of assets and liabilities in prior periods. If an entity chooses to present the discontinued operation's major classes of assets and liabilities in the notes accompanying the financial statements, it must also provide a reconciliation of those amounts to the discontinued operation's total current and noncurrent assets and liabilities presented on the balance sheet itself (see [Example 5-1](#)). ASC 205-20 does not define major classes of assets and liabilities. However, in an illustrative disclosure, major classes of assets and liabilities presented included cash; trade receivables; inventories; property, plant and equipment; trade payables; and short-term borrowings. The facts and circumstances should be analyzed in specific situations and judgment applied when identifying what should be considered a discontinued operation's major classes of assets and liabilities.

### 4.2.1 Intercompany receivables and intercompany payables

Intercompany receivables and payables are eliminated in consolidation. However, if such balances will continue following the sale of the component, we believe an entity can elect to include such intercompany receivables and payables in their presentation of major classes of assets and liabilities in the notes accompanying the financial statements.

## 4.3 Cash flow statement presentation

For a discontinued operation that is a component or group of components of an entity, but that is not an equity method investment, an entity must present on the face of the cash flow statement or disclose in the notes accompanying the financial statements either:

- Operating and investing cash flows for all periods presented

- Depreciation, amortization, capital expenditures, and significant operating and investing noncash items for all periods presented

## 5 Disclosures

There are numerous disclosure requirements that apply to discontinued operations. The nature and extent of these disclosures depend on several factors, including:

- Whether the discontinued operation represents a component or group of components of an entity, or a business or nonprofit activity that, on acquisition or upon formation of a joint venture, is classified as held for sale
- Whether the discontinued operation is made up of an equity method investment
- Whether there has been a change in the plan of sale
- Whether adjustments to amounts previously recorded as discontinued operations were made
- Whether the entity retains significant continuing involvement in the discontinued operation after its disposal

In addition, there are disclosure requirements in ASC 360-10-50-3A applicable to an individually significant component of an entity that has either been disposed of or is classified as held for sale, but that does not qualify for discontinued operations treatment (see the second table in [Appendix A](#) for the detailed requirements).

The examples below illustrate the reconciliations required to be disclosed in ASC 205-20-50-5C(a) and 50-5C(b).



### ASC 205-20-50-5C(a) and 50-5C(b)

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<sup>[1]</sup>:

- 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).

<sup>1</sup> ASU 2025-11 clarifies that the disclosures required under ASC 205-20-50-5C should be provided in interim and annual reporting periods. Refer to the ASU for effective date and transition requirements.

All of these disclosure requirements are included in [Appendix A](#).



**Example 5-1: Reconciliation of the carrying amounts of major classes of assets and liabilities of discontinued operations to total assets and liabilities classified as held for sale (ASC 205-20-55-102)**

The table in this illustration provides one example of how to disclose the reconciliation required by paragraph 205-20-50-5C(a).

<b>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</b>		
<b>(in thousands of currency units)</b>		
	<b>20X4</b>	<b>20X3</b>
Carrying amounts of major classes of assets included as part of discontinued operations		
Cash	\$XX	\$XX
Trade receivables	XX	XX
Inventories	XX	XX
Property, plant, and equipment	XX	XX
Other classes of assets that are not major	XX	XX
Total major classes of assets of the discontinued operation	XX	XX
Other assets included in the disposal group classified as held for sale	XX	XX
Total assets of the disposal group classified as held for sale in the statement of financial position	\$XX	\$XX
Carrying amounts of major classes of liabilities included as part of discontinued operations		
Trade payables	\$XX	\$XX
Short-term borrowings	XX	XX
Other classes of liabilities that are not major	XX	XX
Total major classes of liabilities of the discontinued operation	XX	XX
Other liabilities included in the disposal group classified as held for sale	XX	XX
Total liabilities of the disposal group classified as held for sale in the statement of financial position	\$XX	\$XX



**Example 5-2: Reconciliation of the major classes of line items constituting pretax profit or loss of discontinued operations to after-tax profit or loss reported in discontinued operations (ASC 205-20-55-103)**

The table in this illustration provides one example of how to disclose the reconciliation required by paragraph 205-20-50-5C(b).

<b>Reconciliation of the Major Classes of 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</b>		
<b>(in thousands of currency units)</b>		
	<b>20X4</b>	<b>20X3</b>
Major classes of line items constituting pretax profit (loss) of discontinued operations		
Revenue	\$XX	\$XX
Cost of sales	(XX)	(XX)
Selling, general, and administrative expenses	(XX)	(XX)
Interest expense	(XX)	(XX)
Other income and expense items that are not major	(XX)	(XX)
Pretax profit or loss of discontinued operations related to major classes of pretax profit (loss)	XX	XX
Pretax gain or loss on the disposal of the discontinued operation	XX	
Total pretax gain or loss on discontinued operations	XX	XX
Income tax expense or benefit	XX	XX
Total profit or loss on discontinued operations that is presented in the statement where net income is presented	\$XX	\$XX



## Appendix A: Disclosure requirements applicable to discontinued operations and disposals of individually significant components that are not discontinued operations

There are numerous disclosure requirements that apply to discontinued operations. The nature and extent of the required disclosures depends on several factors. All of the disclosures required by ASC 205-20-50 are included in the first table in this appendix. In addition to providing the actual disclosure requirements, the table also highlights the circumstances under which each disclosure must be provided. The second table includes the disclosure requirements applicable to an individually significant component of an entity that has either been disposed of or is classified as held for sale, but that does not qualify for discontinued operations treatment. The issuance of ASU 2025-11, *Interim Reporting (Topic 270): Narrow-Scope Improvements*, clarifies that the disclosures required under these paragraphs should be provided in interim and annual reporting periods. Refer to the ASU for effective date and transition requirements.

### Disclosure requirements applicable to discontinued operations

Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p><b>ASC 205-20-50-1</b> 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:</p> <ul style="list-style-type: none"> <li>a. A description of both of the following:                             <ul style="list-style-type: none"> <li>1. The facts and circumstances leading to the disposal or expected disposal</li> <li>2. The expected manner and timing of that disposal.</li> </ul> </li> <li>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.</li> <li>c. Subparagraph superseded by Accounting Standards Update No. 2014-08</li> <li>d. If applicable, the segment(s) in which the discontinued operation is reported under Topic 280 on segment reporting.</li> </ul>	All
<p><b>ASC 205-20-50-3</b> 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.</p>	All discontinued operations for which there has been a change in the plan of sale



Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p><b>ASC 205-20-50-3A</b> 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).</p>	<p>All discontinued operations for which there has been an adjustment to a previously reported amount</p>
<p><b>ASC 205-20-50-4A</b> 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).</p>	<p>All discontinued operations in which the entity retains significant continuing involvement after the disposal date</p>
<p><b>ASC 205-20-50-4B</b> 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:</p> <ol style="list-style-type: none"> <li>a. A description of the nature of the activities that give rise to the continuing involvement.</li> <li>b. The period of time during which the involvement is expected to continue.</li> <li>c. For all periods presented, both of the following: <ol style="list-style-type: none"> <li>1. The amount of any cash inflows or outflows from or to the discontinued operation after the disposal transaction</li> <li>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.</li> </ol> </li> <li>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-</li> </ol>	<p>All discontinued operations in which the entity retains significant continuing involvement after the disposal date</p>



Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p>profit entity). The disclosure shall include all of the following until the discontinued operation is no longer reported separately in discontinued operations:</p> <ol style="list-style-type: none"> <li>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</li> <li>2. The entity's ownership interest in the discontinued operation before the disposal transaction</li> <li>3. The entity's ownership interest in the investee after the disposal transaction</li> <li>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.</li> </ol>	
<p><b>ASC 205-20-50-5A</b> 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.</p>	<p>Only discontinued operations that are a component or group of components of an entity or an equity method investment (Note 2)</p>
<p><b>ASC 205-20-50-5B</b> 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:</p> <ol style="list-style-type: none"> <li>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).</li> <li>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</li> </ol>	<p>Only discontinued operations that are a component or group of components of an entity, but that are not an equity method investment (Note 2)</p>



Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p>presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).</p> <p>c. Either of the following:</p> <ol style="list-style-type: none"> <li>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)</li> <li>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).</li> </ol> <p>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).</p> <p>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.</p>	
<p><b>ASC 205-20-50-5C</b> 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:</p> <p>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:</p> <ol style="list-style-type: none"> <li>1. The amounts disclosed in paragraph 205-20-50-5B(e)</li> <li>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</li> </ol>	<p>Only discontinued operations that are a component or group of components of an entity, but that are not an equity method investment (Note 2)</p>



Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p>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).</p> <p>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:</p> <ol style="list-style-type: none"> <li>1. The amounts disclosed in paragraph 205-20-50-5B(a) and (b)</li> <li>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).</li> </ol>	
<p><b>ASC 205-20-50-5D</b> 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.</p>	<p>Only discontinued operations that are a component or group of components of an entity, but that are not an equity method investment (Note 2)</p>
<p><b>ASC 205-20-50-7</b> 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).</p>	<p>Only discontinued operations in which the component of an entity is an equity method investment (Note 2)</p>

**Note 1:** For purposes of this table, all discontinued operations include those that are: (a) a component of an entity or a group of components in an entity (which could be an equity method investment) that meet the criteria to be classified as held for sale or that have already been disposed of and (b) a business or nonprofit activity classified as held for sale when it is acquired or upon formation of a joint venture.

**Note 2:** These disclosure requirements are not applicable to a discontinued operation made up of a business or nonprofit activity that meets the held for sale criteria on the acquisition date or the formation date.



**Disclosure requirements applicable to an individually significant component of an entity that has either been disposed of or is classified as held for sale, but that does not qualify for discontinued operations treatment**

Disclosure requirements	Applicability
<p><b>ASC 360-10-50-3A</b> 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).</p> <p>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:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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).</li> </ol>	<p>PBEs only</p>
<p>b. For all other entities, both of the following:</p> <ol style="list-style-type: none"> <li>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</li> </ol>	<p>Non-PBEs only</p>



Disclosure requirements	Applicability
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.	

## Appendix B: Definitions

Several terms with specific meaning are used throughout this paper. Those terms and the corresponding definitions from the Master Glossary of the Codification are provided in the following table.

Term	Definition
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	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. [See also 805-10-55-3A]
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.
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.
Entity to be Sold	A component, group of components, a business, nonprofit activity, or a joint venture upon its formation that has been disposed of or is a planned disposal that is being evaluated for discontinued operations treatment. See <a href="#">Section 2.2</a> .
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: <ol style="list-style-type: none"> <li>a. It specifies all significant terms, including the price and timing of the transaction.</li> <li>b. It includes a disincentive for nonperformance that is sufficiently large to make performance probable.</li> </ol>
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

Term	Definition
	<p>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.</p>
Nonprofit Activity	<p>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.</p>
Not-for-Profit Entity	<p>An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:</p> <ul style="list-style-type: none"> <li>a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return</li> <li>b. Operating purposes other than to provide goods or services at a profit</li> <li>c. Absence of ownership interests like those of business entities.</li> </ul> <p>Entities that clearly fall outside this definition include the following:</p> <ul style="list-style-type: none"> <li>a. All investor-owned entities</li> <li>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.</li> </ul>
Operating Segment	<p>A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.</p>
Probable	<p>The future event or events are likely to occur.</p>
Public Business Entity	<p>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.</p> <ul style="list-style-type: none"> <li>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).</li> </ul>



Term	Definition
	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ul> <p>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.</p>
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).



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