



# Financial Reporting Insights

## 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 predict the future. 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. This paper is designed to assist entities with identifying when they need to present a disposal of assets as a discontinued operation. The paper 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, as well as the presentation and disclosure requirements.

## Table of Contents

<b>1. Introduction .....</b>	<b>3</b>
<b>2. Discontinued operations guidance .....</b>	<b>3</b>
2.1 Component or a group of components of an entity .....	3
2.2 Business or nonprofit activity that, on acquisition or upon formation of a joint venture, is classified as held for sale.....	4
2.3 Flowchart: Identifying discontinued operations .....	5
<b>3. Presentation.....</b>	<b>6</b>
3.1 Income statement .....	6
3.2 Balance sheet .....	7
3.3 Cash flow statement presentation .....	7
<b>4. Disclosures .....</b>	<b>7</b>
<b>Appendix A: Disclosure requirements applicable to discontinued operations and disposals of     individually significant components that are not discontinued operations.....</b>	<b>9</b>
<b>Appendix B: Definitions .....</b>	<b>15</b>

## 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 predict the future. A lender is interested in historical cash flows for purposes of predicting 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 current 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 paper 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.

## 2. Discontinued operations guidance

In general, the discontinued operations guidance 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 model does not apply to oil and gas properties for which the full-cost method is used for accounting purposes.

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 and presented in a flowchart in the sections that follow.

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 or 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.

Determining whether the disposal or planned disposal of a component or a group of components of an entity represents a strategic shift requires a significant amount of judgment to be exercised. 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.

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 – 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.

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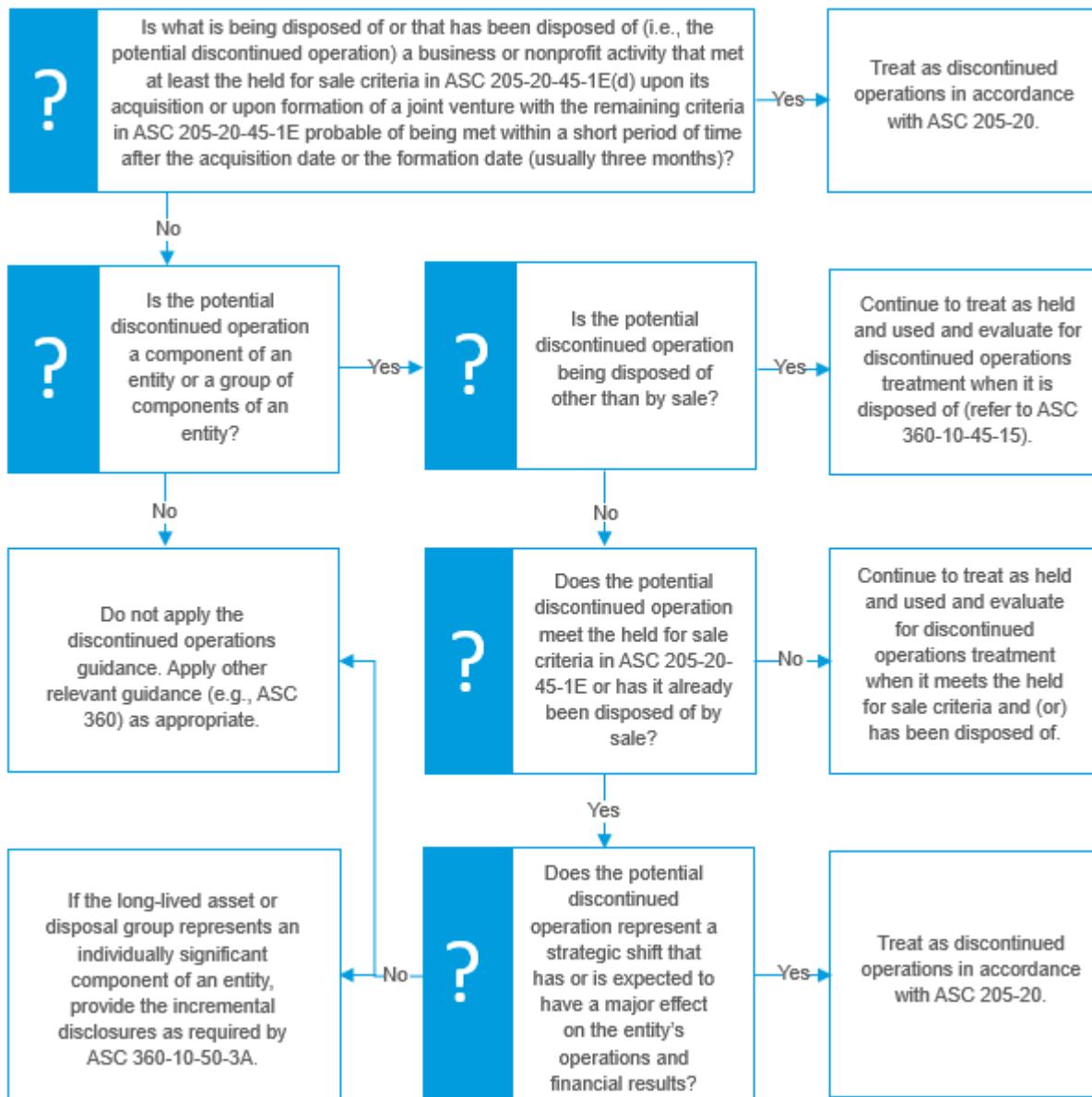
## **2.2 Business or nonprofit activity that, on acquisition or upon formation of a joint venture, is classified as held for sale**

If an entity acquires a business or nonprofit activity and the business or nonprofit activity 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.

### 2.3 Flowchart: Identifying discontinued operations



### 3. 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 specified in ASC 205-20-45-1E. Presentation requirements for discontinued operations on the income statement, balance sheet and cash flow statement are discussed in the sections that follow.

#### 3.1 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 of. 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). 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), such 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.

### 3.2 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. 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.

### 3.3 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

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

## 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.

### 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> <ol style="list-style-type: none"> <li>A description of both of the following:             <ol 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> </ol> </li> <li>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>Subparagraph superseded by Accounting Standards Update No. 2014-08</li> <li>If applicable, the segment(s) in which the discontinued operation is reported under Topic 280 on segment reporting.</li> </ol>	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 <i>change in the plan of sale</i>

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 <i>adjustment to a previously reported amount</i></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 <i>significant continuing involvement</i> 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 data-bbox="204 1121 910 1184">A description of the nature of the activities that give rise to the continuing involvement.</li> <li data-bbox="204 1195 910 1258">The period of time during which the involvement is expected to continue.</li> <li data-bbox="204 1269 910 1332">For all periods presented, both of the following:             <ol style="list-style-type: none"> <li data-bbox="252 1343 910 1427">The amount of any cash inflows or outflows from or to the discontinued operation after the disposal transaction</li> <li data-bbox="252 1438 910 1586">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 data-bbox="204 1596 910 1905">For a discontinued operation in which an entity retains an equity method investment after the disposal (the investee), information that enables users of financial statements to compare the financial performance of the entity from period to period assuming that the entity held the same equity method investment in all periods presented in the statement where net income is reported (or statement of activities for a not-for-profit entity). The disclosure shall include all of</li> </ol>	<p>All discontinued operations in which the entity retains <i>significant continuing involvement</i> after the disposal date</p>

Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p>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>	Only discontinued operations that are a component or group of components of an entity or an equity method investment (Note 2)
<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 presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).</li> </ol>	Only discontinued operations that are a component or group of components of an entity, but that are not an equity method investment (Note 2)



Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<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 liabilities that are not part of the discontinued operation, an entity shall present those assets and</li> </ol>	Only discontinued operations that are a component or group of components of an entity, but that are not an equity method investment (Note 2)

Disclosure requirements	Applicable to all discontinued operations or only certain discontinued operations (Note 1)?
<p>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>	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><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>	Only discontinued operations in which the component of an entity is an equity method investment (Note 2)

**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**

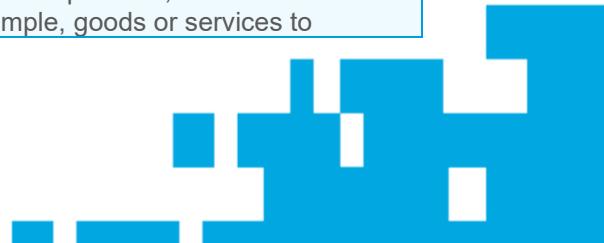
Disclosure requirements	Applicability
<p><b>ASC 360-10-50-3A</b> In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant component of an entity that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a discontinued operation (see</p>	PBEs only

Disclosure requirements	Applicability
<p>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>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> <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.</li> </ol>	Non-PBEs only

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



Term	Definition
	beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity.
Not-for-Profit Entity	<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	A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.
Probable	The future event or events are likely to occur.
Public Business Entity	<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> <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</li> </ul>

Term	Definition
	<p>example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.</p> <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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