U.S. GAAP vs. IFRS: Long-lived assets held for sale and discontinued operations

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared a series of comparisons dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for long-lived assets held for sale and discontinued operations.

The guidance related to long-lived assets held for sale in U.S. GAAP is included in the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*, and the guidance related to discontinued operations is included in ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*. In IFRS, the guidance related to noncurrent assets held for sale and discontinued operations is included in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

Comparison

The significant differences between U.S. GAAP and IFRS related to long-lived assets held for sale and discontinued operations are summarized in the following table.

	U.S. GAAP	IFRS
Long-lived assets held for sale		
Relevant guidance	ASC 360	IFRS 5
Applicability	Not applicable to goodwill, servicing assets, certain financial instruments, deferred policy acquisition costs, deferred tax assets, long-lived assets to be distributed to owners and unproved oil and gas properties accounted for using the successful efforts method, unless those assets are part of a held-for-sale disposal group.	Applicable to all noncurrent assets and disposal groups.
Shareholder approval	If shareholder approval is required for a plan of sale, and the approval is substantive, management is not considered to have the authority to commit the entity to a plan to sell.	If shareholder approval is required for a plan of sale, management must consider the approval as part of its determination of whether the sale is highly probable.
Discontinued operations		
Relevant guidance	ASC 205-20	IFRS 5
Unit of account	The unit of account is a component, which may be an operating segment, a reporting unit, a subsidiary or an asset group, depending on the facts and circumstances.	The unit of account is a component, which comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component will have been a cash-generating unit or a group of cash-generating units when it was held for use.
Definition	A discontinued operation is defined as either of the following: • A component of an entity that: (a) has been disposed of, meets the criteria to be classified as held for sale or has been abandoned or spun-off and (b) represents a strategic shift that has (or will	A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale or for distribution to owners, and that meets any of the following criteria: • It represents a separate major line of business or

	U.S. GAAP	IFRS
	have) a major effect on an entity's operations and financial results. • A business or nonprofit activity that on acquisition meets the criteria to be classified as held for sale.	geographical area of operations. • It is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. It is a subsidiary acquired exclusively with a plan to resell.
Precluded assets	Oil and gas properties accounted for using the full cost method are precluded from designation as a discontinued operation.	There are no assets that are precluded from designation as a discontinued operation.
Cash flow information	An entity is required to present (either in the financial statements or the notes) net cash flows attributable to the operating, investing, and financing activities of discontinued operations.	An entity is not required to disclose or present the separate cash flows related to discontinued operations. An entity may choose to separately report those cash flows, but if it does so, it must separately display operating, investing and financing cash flows (i.e., one aggregate amount of cash flows may not be separately reported).
Measurement	There is a requirement to allocate to a discontinued operation interest on debt that is to be assumed by a buyer and interest on debt that is required to be repaid as a result of the disposal transaction. The allocation to discontinued operations of other interest is permitted, but not required.	There is no guidance on allocating interest to discontinued operations.
Newly acquired subsidiaries	No disclosure exemptions exist for a disposal group that is a newly acquired subsidiary classified as held for sale on acquisition.	An entity is not required to present an analysis of the amounts presented in the statement of profit or loss and other comprehensive income and cash flow information if the disposal group is a newly

	U.S. GAAP	IFRS
		acquired subsidiary classified as held for sale on acquisition.

These are the significant differences between U.S. GAAP and IFRS related to long-lived assets held for sale and discontinued operations. Refer to ASC 360 and 205-20 and IFRS 5 for all of the specific requirements applicable to long-lived assets held for sale and discontinued operations. In addition, refer to our U.S. GAAP vs. IFRS comparisons series for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

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U.S. GAAP vs. IFRS: Long-lived assets held for sale and discontinued operations resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.