

ACC 300 · SESSION 7

Discontinued operations

Classify a disposal, measure the result, and present it in the financial statements.



Classify disposals and unusual items

🎯 Learning objective 2.2a

ANALYZE ●●●●○○

Classify disposals and unusual items within the income statement.

Classify a disposal with the three conditions, and distinguish it from an unusual or infrequent item in continuing operations.

Present discontinued operations

© Learning objective 2.2b

APPLY ●●●○○○

Present the financial-statement effects of discontinued operations.

Use supplied amounts to present discontinued operations on the income statement and balance sheet.



Why separate only some disposals?

The continuing-operations subtotal should describe the business that remains.

If the threshold is too high

Result: A major business that is leaving stays mixed with the business that remains.

Meaning: The continuing subtotal becomes a poor starting point for evaluating future performance.

If the threshold is too low

Result: Routine asset sales, site closures, and weak operations can move below continuing operations.

Meaning: The remaining subtotal can look artificially strong.

The reporting objective

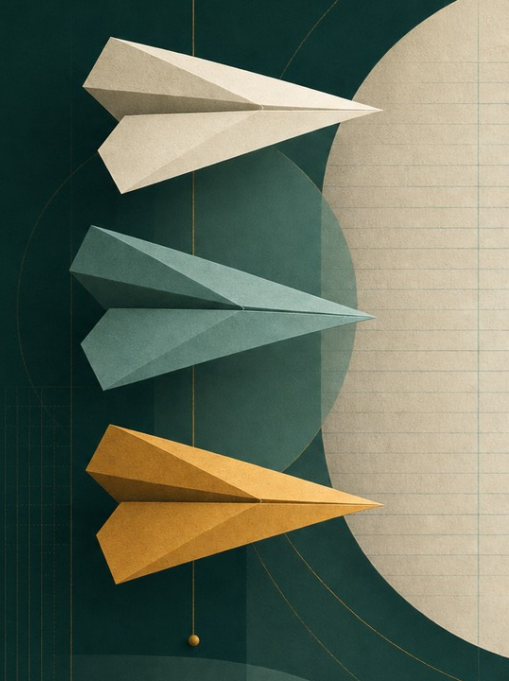
Separate a major business that is leaving.

Keep ordinary consequences of managing the remaining business in continuing operations.

PART 1 · CLASSIFICATION

Does the disposal qualify?

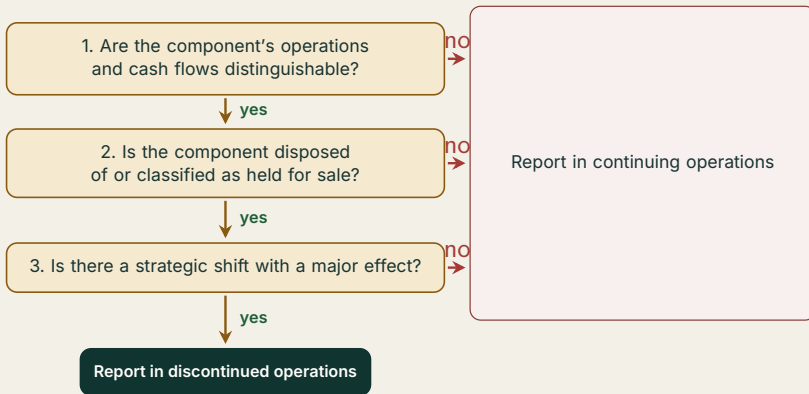
Apply the three discontinued-operation conditions in order.





Three discontinued-operation conditions

Apply the conditions in order and stop at the first no answer.



ASC 205-20-45-1B, 45-1C, and 45-1E



Identify a distinguishable component

Evaluate both operations and reporting records.

OPERATING EVIDENCE

Separate products or services, customers, employees, facilities, or management information may distinguish how the activity operates.

REPORTING EVIDENCE

The records must allow the component's operations and cash flows to be distinguished from the rest of the entity. Separate results may support that conclusion.

Q Why the boundary matters

Removing visible revenue while leaving shared costs and cash flows behind would distort both sections. The records must support a complete economic carve-out; a management label or separate legal entity does not prove one.

ASC 205-20-20, definition of a component of an entity



Evidence builds toward a component conclusion

Read from limited evidence to evidence of both operations and cash flows.

1. LABEL ONLY

Calling an activity a division does not establish a component.



2. REVENUE ONLY

Separate revenue identifies some activity, but costs and cash flows may remain mixed.



3. COMBINED EVIDENCE

Dedicated operations and reconciled records can distinguish both operations and cash flows.



Determine the component's disposal status

After identifying a component, determine whether its disposal is complete or still planned.

COMPLETED

The disposal has occurred. Continue to the strategic-shift judgment.

PLANNED: SIX MET

Classify the component as held for sale. Continue to the strategic-shift judgment.

PLANNED: ONE FAILS

Do not classify it as held for sale. Keep the entire component in continuing operations.

Why a plan alone is insufficient

All six criteria must support sale as the expected recovery path before the planned sale changes classification.

ASC 205-20-45-1B and 45-1E



Planned sale: all six criteria

Use these criteria only after identifying a component whose sale is not complete.

1. COMMITMENT

Management with authority commits to a plan to sell.

2. READINESS

The component is available for immediate sale in its present condition.

3. EXECUTION

An active program to locate a buyer has begun.

4. TIMING

The sale is probable within one year, subject to limited exceptions.

5. REALISTIC PRICE

Actively market the component at a price reasonable compared with current fair value.

6. STABILITY

A major change to the plan or its withdrawal is unlikely.

ASC 205-20-45-1E



Assess the strategic shift and its effect

The disposal must change a major part of the entity and have a major effect.

WHAT LEAVES THE COMPANY?

- A major product or service line
- A major customer group or market
- A major geographical area
- Another major part of the entity

HOW IMPORTANT IS THE EXIT?

- Effect on operations
- Effect on financial results
- Evidence about products, customers, geography, capacity, and scale

Why both judgments are required

A major effect without a strategic exit can still be an ordinary cost of managing the continuing business. Compare the business before and after; no percentage is a cutoff.

ASC 205-20-45-1B and 45-1C

? Which fact best supports a component conclusion?

? iClicker · Question 1 of 5

A company plans to sell one business operation. Which fact most directly supports that it is a component?

- ☐ A Management calls it a division.
- ☐ B Its records distinguish the operation's activities and cash flows.
- ☐ C The expected sale price exceeds carrying amount.
- ☐ D The sale is expected within one year.

✓ The records distinguish operations and cash flows

Which fact most directly supports that the activity is a component?

✓ iClicker · Answer 1 of 5

- A** Management calls it a division. A label does not establish distinguishable operations and cash flows.
- B** Its records distinguish the activity's operations and cash flows.
Those records provide the operating and reporting evidence required for a component conclusion.
- C** The expected sale price exceeds carrying amount. That fact concerns measurement, not the component boundary.
- D** The sale is expected within one year. That fact belongs to the held-for-sale analysis.



Classify the hardware-line sale

5 minutes · Decide whether each condition is met and cite the controlling fact.

BUSINESS

Granite Harbor continues to manufacture and sell cabinets.

HARDWARE LINE

A separate plant and workforce made hinges, pulls, and drawer slides for outside customers.

RECORDS

Monthly profit-and-loss and cash-flow schedules for the line reconciled to the general ledger.

DISPOSAL

Granite Harbor sold the entire line on October 31, 2025, and stopped making hardware.

SCALE

The line produced \$29.5 million of the company's \$147.5 million in sales.

Conditions 1 and 2 are satisfied

The facts establish a component and a completed disposal.

1. COMPONENT? YES

The separate plant, workforce, customers, and reconciled schedules distinguish the line's operations and cash flows.

2. DISPOSAL STATUS? YES

The October 31 sale was completed. The held-for-sale criteria are not needed for this completed disposal.

→ Next question

Does removing the hardware line represent a strategic shift that has or will have a major effect on Granite Harbor?



Condition 3 is satisfied

The sale removes a major line and has a major operating and financial effect.

STRATEGIC SHIFT

Before the sale, Granite Harbor made cabinets and hardware. After the sale, it continues its cabinet lines but has no hardware operations.

MAJOR EFFECT

The sale removes the hardware plant, workforce, products, and outside customers. The line produced 20% of company sales.

✓ Classification

All three conditions are met. Report the hardware-line results in discontinued operations. The 20% figure supports the conclusion; it is not a GAAP cutoff.

? Where does the showroom result belong?

Independent Granite Harbor scenario

? iClicker · Question 2 of 5

Granite Harbor closes one regional showroom and sells its equipment. The showroom has separate staff and records, but the company continues selling the same cabinets through five other showrooms. Where does the showroom's result belong?

- ☐ A Continuing operations because the disposal does not represent a strategic shift with a major effect.
- ☐ B Continuing operations because a completed disposal never qualifies.
- ☐ C Discontinued operations because the showroom has separate records.
- ☐ D Discontinued operations because the equipment was sold.

✓ The showroom remains in continuing operations

The third condition fails.

COMPONENT

Yes. Separate staff and records distinguish the showroom's operations and cash flows.

DISPOSAL STATUS

Yes. Granite Harbor closed the showroom and sold its equipment.

STRATEGIC SHIFT WITH A MAJOR EFFECT

No. Granite Harbor continues selling the same cabinets through five other showrooms.

✓ Classification

Report the entire showroom result in continuing operations.

PART 2 · MEASUREMENT AND PRESENTATION

Where does the amount appear?

Combine the component's operating and disposal results, use the supplied tax allocation, and present the result in the financial statements.



Combine operating and disposal results

Both amounts arise from owning and exiting the same component.

OPERATING RESULT

Include: The component's operating income or loss through the earlier of the disposal date or reporting date.

Why: These results arose while the company still owned the component.

DISPOSAL RESULT

Include: A completed-sale gain or loss, or a held-for-sale write-down.

Why: This amount captures the economic effect of the exit.

Signed operating result + signed disposal result = pretax discontinued-operation result

ASC 205-20-45-3A



Keep tax with the category that generated it

Then use the supplied financial-statement allocation.

CONTINUING ITEM

Presentation: Report the item before tax.

Tax location: Keep its tax effect in the continuing-operations tax line.

DISCONTINUED OPERATION

Presentation: Report the component's result net of tax.

Tax location: Apply the supplied tax expense or benefit to that component.

⌘ Why discontinued operations is net of tax

The company allocates the tax effect between continuing operations and discontinued operations, so the after-tax sections add directly to net income. Pretax financial-reporting income is not necessarily taxable income; use only the supplied tax amount.

ASC 740-20-45-2

Measure the hardware-line result

5 minutes · Calculate the pretax and net-of-tax loss, then place it in the income statement.

Your task

The hardware line incurred a \$1.25 million operating loss through October 31, with a supplied \$250,000 tax benefit. Granite Harbor also recognized a \$2.5 million loss on the completed sale, with a supplied \$500,000 tax benefit. Treat income and gains as positive amounts and losses as negative amounts. Calculate the pretax and net-of-tax loss, then show how the result fits into the income statement.

Use the classification result

The earlier analysis established that the hardware line qualifies as a discontinued operation. Use that result to measure and present the loss.

Calculate Granite Harbor's net loss

US dollars

GRANITE HARBOR MANUFACTURING Hardware-Line Loss US dollars

Operating loss through October 31	(1,250,000)
Loss on sale	(2,500,000)
Pretax loss	(3,750,000)
Income tax benefits	750,000
Net loss from discontinued operations	(3,000,000)

Read the calculation in two stages

First combine the \$1.25 million operating loss and \$2.5 million sale loss to get the \$3.75 million pretax loss. Then the supplied \$750,000 tax benefit reduces that loss to \$3 million.

? What amount appears in discontinued operations?

? iClicker · Question 3 of 5

A qualifying disposal has a \$600,000 pretax loss and a supplied \$150,000 tax benefit. What net loss is reported in discontinued operations?

A \$150,000

B \$450,000

C \$600,000

D \$750,000

✓ The net loss is \$450,000

What amount appears in discontinued operations?

✓ iClicker · Answer 3 of 5

- A \$150,000. This is the supplied tax benefit, not the net loss.
- B \$450,000**
The \$150,000 tax benefit reduces the \$600,000 pretax loss: \$600,000 minus \$150,000 equals \$450,000.
- C \$600,000. This is the pretax loss; discontinued operations is presented net of the allocated tax effect.
- D \$750,000. A tax benefit reduces a loss; it is not added to the pretax loss.



Income statement placement

Granite Harbor · Year ended December 31, 2025 · US dollars

GRANITE HARBOR MANUFACTURING
Income Statement (excerpt)
Year Ended December 31, 2025 · US dollars

Income before income taxes	25,000,000
Income tax expense on continuing operations	(5,000,000)
Income from continuing operations	20,000,000
Loss from operating the hardware line, net of \$250,000 tax benefit	(1,000,000)
Loss on sale of hardware line, net of \$500,000 tax benefit	(2,000,000)
Loss from discontinued operations, net of tax	(3,000,000)
Net income	17,000,000

ASC 205-20-45-3A



Recast the 2024 presentation

Granite Harbor changes how it presents 2024 in its 2025 comparative statements.

2024 presentation · US dollars

Income from continuing operations

Income from discontinued operations, net of tax*

Net income

As reported

18,000,000

—

18,000,000

Recast

16,000,000

2,000,000

18,000,000

*The prior lesson supplied the \$2 million 2024 hardware-line income.

Why recast the prior column?

Both years must use the same boundary for the continuing business. Otherwise, 2025 continuing operations would exclude hardware while the 2024 comparison still included it. Placement changes; 2024 net income remains \$18 million.

ASC 205-20-45-3

Comparative income statement

Granite Harbor · Both years use the current discontinued-operation classification · US dollars

ACCOUNT	2025	2024, RECAST
Net sales	118,000,000	100,000,000
Cost of goods sold	(70,000,000)	(60,000,000)
Gross profit	48,000,000	40,000,000
Selling expenses	(14,000,000)	(12,000,000)
Administrative expenses	(8,000,000)	(8,000,000)
Operating income	26,000,000	20,000,000
Gain on sale of van	2,000,000	—
Gain on sale of land	—	2,000,000
Flood loss	(2,000,000)	—
Interest expense	(1,000,000)	(2,000,000)
Income before income taxes	25,000,000	20,000,000
Income tax expense	(5,000,000)	(4,000,000)
Income from continuing operations	20,000,000	16,000,000
Income (loss) from discontinued operations, net of tax	(3,000,000)	2,000,000
Net income	17,000,000	18,000,000

ASC 205-20-45-3



Held-for-sale measurement and depreciation

Apply these rules when long-lived assets qualify as held for sale.

Held-for-sale amount = lower of carrying amount or fair value less cost to sell

MEASUREMENT

Write the long-lived assets down when fair value less cost to sell is lower. Do not record an initial gain above carrying amount.

DEPRECIATION STOPS

Stop depreciating the long-lived assets on the held-for-sale classification date; recovery is now expected through sale.

Disposal groups may contain other items

Measure other assets and liabilities under their own guidance first; then apply this rule to the long-lived assets.

ASC 360-10-35-39, 35-40, and 35-43

Evaluate the controller's proposal

Granite Harbor Manufacturing · Western Division · December 31, 2026 · 5 minutes

CONTEXT

Granite Harbor plans to sell its Western outdoor-cabinetry division, which qualifies as held for sale and as a discontinued operation.

AMOUNTS

For this exercise, the division's only assets are long-lived assets covered by the property, plant, and equipment guidance. They have a \$620,000 carrying amount and \$690,000 fair value less cost to sell. Related liabilities of \$140,000 retain their amounts under their own guidance.

CONTROLLER'S PROPOSAL

Increase the long-lived assets to \$690,000, stop their depreciation, and present one \$550,000 net held-for-sale asset.

Your task: Evaluate the measurement, depreciation, and presentation. Correct each part you reject and explain why.



No initial write-up above carrying amount

Western Division · December 31, 2026

LONG-LIVED-ASSET MEASUREMENT

Report the long-lived assets at \$620,000, the lower amount. The \$70,000 excess does not create an initial gain. The related liabilities retain the amounts determined under their applicable guidance.

DEPRECIATION

Stop depreciation for the long-lived assets classified as held for sale. Their expected recovery path changed from use to sale.

Presentation

Report \$620,000 of held-for-sale assets and \$140,000 of related liabilities on separate lines. Do not combine them into one net amount.

ASC 360-10-35-39, 35-40, and 35-43



Show held-for-sale balances in the full statement

Granite Harbor Manufacturing · December 31, 2026 · USD thousands

Assets		Liabilities and shareholders' equity	
Cash and cash equivalents	823	Accounts payable	890
Accounts receivable, net	1,186	Accrued liabilities	415
Inventories	1,240	Contract liability	15
Prepaid expenses	130	Current maturities of long-term debt	300
Assets held for sale	620	Liabilities held for sale	140
Total current assets	3,999	Total current liabilities	1,760
Available-for-sale debt securities	1,275	Long-term debt	1,700
Property, plant and equipment, net	2,180	Deferred income taxes	285
Intangible assets, net	340	Total liabilities	3,745
Total assets	7,794	Shareholders' equity	4,049
		Total liabilities and equity	7,794

Why separate lines matter

One \$480,000 net amount would hide both the \$620,000 of resources expected to be sold and the \$140,000 of related obligations.

ASC 205-20-45-10 and 45-11

Keep each period's measurement

Use separate line items in every balance-sheet period shown.

DECEMBER 31, 2026

- Separate Western Division asset and liability lines
- Assets remain at \$620 because sale value is higher
- Do not record an initial gain in 2026

2025 COMPARATIVE

- Present the division's assets and liabilities on separate lines
- Retain amounts recognized at December 31, 2025
- Do not apply the 2026 measurement retroactively

⇒ Same presentation; period-specific measurements

Separate line items make the disposal group visible in both columns. Each column still reports the amounts recognized at that reporting date.

ASC 205-20-45-10 and 45-11



Reading the statements and notes together

A reader finds reported totals on the statements and the business-exit detail in the note.

WHAT A READER FINDS ON THE STATEMENTS

- The after-tax discontinued-operation total
- Separate held-for-sale asset and liability totals

WHAT A READER LOOKS FOR IN THE NOTE

- Which business is leaving and why
- How the totals were built and what involvement continues

→ Why the note matters

A reader uses the note to identify the business that left, rebuild the net-of-tax result, examine the resources and obligations leaving, and understand any relationship that continues after disposal.

ASC 205-20-50-1, 50-4A, 50-4B, and 50-5B through 50-5D



Information the note may add

The applicable disclosures depend on the disposal facts and what the statements already present.

DISCLOSURE AREA	INFORMATION A READER MAY FIND
The disposal	The business sold or held for sale, the facts and timing, and why the company acted
Results	Operating results, disposal gains or losses, and income tax effects
Assets and liabilities	Major classes leaving the company and their statement amounts
Cash flows and continuing involvement	Cash-flow information and material relationships that continue after disposal

No required reading order

These categories summarize common disclosure content. They are not a student procedure, and some disclosures apply only when the related facts exist.

ASC 205-20-50-1, 50-4A, 50-4B, and 50-5B through 50-5D

? How should 2025 be presented?

? iClicker · Question 4 of 5

A component first qualifies as held for sale in 2026. The company presents comparative 2025 and 2026 balance sheets. How should it present the component's 2025 assets and liabilities?

- ☐ A Leave the 2025 lines unchanged.
- ☐ B Use separate 2025 lines and apply the 2026 write-down to both years.
- ☐ C Use separate 2025 lines but retain the December 31, 2025 amounts.
- ☐ D Combine the 2025 assets and liabilities into one net amount.

✓ Separate 2025 lines; no 2026 write-down

How should 2025 be presented?

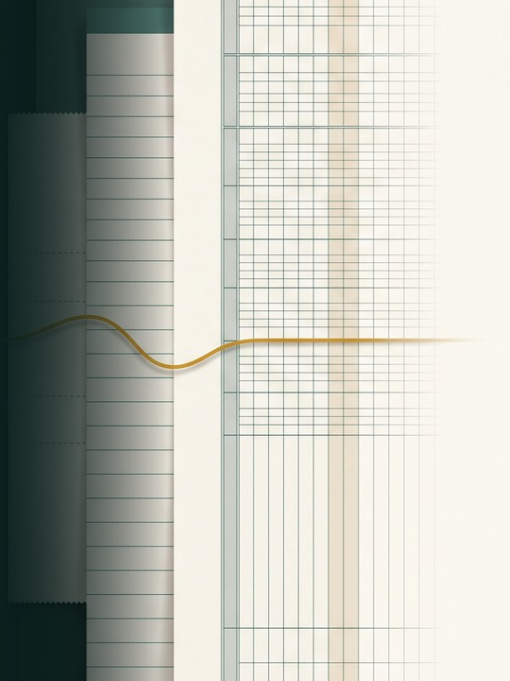
✓ iClicker · Answer 4 of 5

- A** Leave the 2025 line items unchanged. Comparative presentation uses separate lines for every balance-sheet period shown.
- B** Apply the 2026 write-down to both years. The later measurement does not change amounts measured at the earlier reporting date.
- C** Use separate 2025 line items but retain the amounts measured at December 31, 2025.
The 2025 change is a presentation change only. The 2026 held-for-sale measurement does not change the prior-period amounts.
- D** Combine the 2025 assets and liabilities. The balance sheet does not offset the disposal group's assets and liabilities.

PART 3 · A SEPARATE PRESENTATION ISSUE

Unusual or infrequent items

These items remain within continuing operations. Companies may make a material item visible on the statement or explain it in the notes.



Unusual nature and infrequency

Evaluate each condition using the entity's activities and operating environment.

UNUSUAL NATURE

Is the event highly abnormal and unrelated or only incidentally related to the entity's ordinary activities, considering the environment in which it operates?

INFREQUENCY

Is this type of event not reasonably expected to recur in the foreseeable future, considering the entity's environment?

Evidence to examine

Consider what the company normally does, where it operates, whether similar events have occurred, and whether another event is reasonably expected. An item may be unusual, infrequent, both, or neither.

ASC 220-20-55-1 and 55-2



Presentation of unusual or infrequent items

Both approaches remain within continuing operations and before tax.

SEPARATE STATEMENT LINE

Name the material item on the income statement when a separate line helps readers understand its nature and financial effect.

ORDINARY LINE PLUS NOTE

Include the amount in an appropriate continuing-operation line and use the note to identify the event, amount, and statement location.

What does not change

The presentation choice does not create a discontinued operation or change the measurement guidance that applies to the event.

ASC 220-20-45-1



QVC supplies the event detail in a note

Rocky Mount fulfillment-center fire · Qurate Retail, Inc. (QVC)

continued by employees. The Company's cash contributions to the plans were \$23 million, \$24 million, and \$23 million for the years ended December 31, 2024, 2023, and 2022, respectively.

(17) Restructuring, penalties and fire related costs, net of (recoveries)

Fire at Rocky Mount Fulfillment Center

On December 18, 2021, QVC experienced a fire at its Rocky Mount fulfillment center in North Carolina. Rocky Mount was the Company's second-largest fulfillment center for QxH and the Company's primary returns center for hard goods. The Company maintains property, general liability and business interruption insurance coverage.

During the year ended December 31, 2022, the Company recorded \$157 million of fire related costs including \$95 million for the write-down of Rocky Mount inventory which was included in Cost of goods sold. Due to the circumstances surrounding the write-down of the inventory, this write-down has been excluded from Adjusted OIBDA (as defined in note 15).

In June 2023, the Company agreed to a final insurance settlement with its insurance company and received all remaining proceeds related to the Rocky Mount claim. During the year ended December 31, 2023, the Company received \$280 million of insurance proceeds, of which \$210 million represented recoveries for business interruption losses. During the year ended December 31, 2023, the Company recorded \$32 million of fire related costs and recognized net gains of \$208 million representing proceeds received in excess of recoverable losses in restructuring, penalties and fire related costs, net of (recoveries) in the consolidated statements of operations.

In February 2023, QVC sold the Rocky Mount fulfillment center to an independent third party and as of December 31, 2023 received net cash proceeds of \$19 million. QVC recognized gains on the sale of \$17 million during the year ended December 31, 2023, calculated as the difference between the aggregate consideration received and the carrying value of the property. The gain is included in restructuring, penalties

QVC's filed XBRL groups this disclosure under **Unusual or Infrequent Items, or Both.**

Source: Qurate Retail, Inc. 2023 Form 10-K, Note 17 and filed XBRL disclosure

? What does QVC's note demonstrate?

? iClicker · Question 5 of 5

The filing's XBRL classifies QVC's fire disclosure as unusual or infrequent. The note identifies amounts in cost of goods sold and another continuing-operation line. What does that presentation demonstrate?

- ☐ A A material event must be reported net of tax.
- ☐ B A note can identify the nature, amount, and location of a material continuing item.
- ☐ C A fire automatically qualifies as a discontinued operation.
- ☐ D Every fire-related amount must use one statement line.

✓ The note makes the continuing item visible

What does QVC's note demonstrate?

✓ iClicker · Answer 5 of 5

A The event must be reported net of tax. Continuing-operation items appear before the continuing tax line.

B A note can identify the nature, amount, and location of a material continuing item.

QVC explains which continuing-operation lines contain the fire-related amounts and supplies detail the statement alone cannot provide.

C A fire automatically qualifies as a discontinued operation. The type of event does not satisfy the discontinued-operation criteria.

D Every amount must use one statement line. QVC's note traces related effects to more than one continuing-operation line.



Discontinued operations and unusual items

A business exit changes the reporting boundary; an unusual item changes visibility within that boundary.

DISPOSED OR HELD-FOR-SALE COMPONENT

Ask: Are all three discontinued-operation conditions met?

Yes: Below continuing operations, net of allocated tax

No: Continuing operations

EVENT IN THE CONTINUING BUSINESS

Ask: Is it unusual, infrequent, or both for this entity?

Presentation: Continuing operations, gross of tax

If material: Present separately or disclose

Unusual event $\neq$ discontinued operation

A qualifying discontinued operation removes a major business that is leaving from the subtotal for the business that remains. Unusualness describes an event inside the continuing business; separate presentation or disclosure can make it visible without changing sections.

NEXT CLASS · THURSDAY, SEPTEMBER 24

Apply the revenue model

Next topic: Apply the five-step revenue model to customer contracts.

Course site: Chapter 8 is available as a reference for the next topic.

Unit 2 review assignment: Due Sunday, September 27, at 11:59 p.m. (D2L).