

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA  
MALAYSIAN ACCOUNTING STANDARDS BOARD**

**MASB Standard 28**  
**Discontinuing Operations**

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## Introduction

1. This Standard addresses presentation and disclosures relating to discontinuing operations. The presentation and disclosures relating to discontinuing operations had been dealt with briefly in paragraphs 21-24 of MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. This Standard supersedes those paragraphs of MASB 3. This Standard is effective for financial statements for periods beginning on or after 1 January 2003. Earlier application is encouraged.
2. The objectives of this Standard are to establish a basis for segregating information about a major operation that an enterprise is discontinuing from information about its continuing operations and to specify minimum disclosures about a discontinuing operation. Distinguishing discontinuing and continuing operations improves the ability of investors, creditors, and other users of financial statements to make projections of the enterprise's cash flows, earnings generating capacity, and financial position.
3. A discontinuing operation is a relatively large component of an enterprise – such as a business or geographical segment that the enterprise, pursuant to a single plan, either is disposing of substantially in its entirety or is terminating through abandonment or piecemeal sale.
4. This Standard uses the term “discontinuing operation” rather than the traditional “discontinued operation” because “discontinued operation” (past tense) implies that recognition of a discontinuance is necessary only at or near the end of the process of discontinuing the operation. This Standard requires that disclosures about a discontinuing operation begin earlier than that – when a detailed formal plan for disposal has been adopted and announced or when the enterprise has already contracted for the disposal.
5. This is a presentation and disclosure Standard. It focuses on how to present a discontinuing operation in an enterprise's financial statements and what information to disclose. It does not establish any new principles for deciding when and how to recognise and measure the income, expenses, cash flows, and changes in assets and liabilities relating to a discontinuing operation. Instead, it requires that enterprises follow the recognition and measurement principles in other MASB Standards.

6. Under this Standard, information about a planned discontinuance must initially be disclosed in the first set of financial statements issued by an enterprise after (a) it has entered into an agreement to sell substantially all of the assets of the discontinuing operation or (b) its board of directors or other similar governing body has both approved and announced the planned discontinuance. Required disclosures include:
  - (a) a description of the discontinuing operation;
  - (b) the business or geographical segment(s) in which it is reported;
  - (c) the date and nature of the initial disclosure event;
  - (d) the timing of expected completion;
  - (e) the carrying amounts of the total assets and the total liabilities to be disposed of;
  - (f) the amounts of revenue, expenses, and pre-tax profit or loss attributable to the discontinuing operation, and related income tax expense;
  - (g) the net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation;
  - (h) the amount of any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, and related income tax expense; and
  - (i) the net selling prices, after disposal costs, from the sale of those net assets for which the enterprise has entered into one or more binding sale agreements, and the expected timing thereof, and the carrying amounts of those net assets.
7. Financial statements for periods after initial disclosure must update those disclosures, including a description of any significant changes in the amount or timing of cash flows relating to the assets and liabilities to be disposed of or settled and the causes of those changes.
8. The disclosures would be made if a plan for disposal is approved and publicly announced after the end of an enterprise's financial reporting period but before the financial statements for that period are authorised for issue. The disclosures continue until completion of the disposal.
9. Comparative information for prior periods that is presented in financial statements prepared after initial disclosure must be restated to segregate the continuing and discontinuing assets, liabilities, income, expenses, and cash flows. By separating discontinuing and continuing operations retrospectively, the ability of a user of financial statements to make projections is improved.

# Discontinuing Operations

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# LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA MALAYSIAN ACCOUNTING STANDARDS BOARD

## Discontinuing Operations

*The standards, which have been set in bold type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Foreword to MASB Standards. MASB Standards are not intended to apply to immaterial items.*

### Objective

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

### Scope

1. **This Standard applies to all discontinuing operations of all enterprises.**

### Definitions

#### Discontinuing Operation

2. **A discontinuing operation is a component of an enterprise:**
  - (a) **that the enterprise, pursuant to a single plan, is:**
    - (i) **disposing of substantially in its entirety;**
    - (ii) **disposing of piecemeal; or**
    - (iii) **terminating through abandonment;**
  - (b) **that represents a separate major line of business or geographical area of operations; and**
  - (c) **that can be distinguished operationally and for financial reporting purposes.**

3. Under criterion (a) of paragraph 2, a discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.
4. If an enterprise sells a component substantially in its entirety, such as by selling the component in a single transaction, by demerger or spin-off of ownership of the component to the enterprise's shareholders, the result can be a net gain or net loss. For such a discontinuance, there is a single date at which a binding sale agreement is entered into, although the actual transfer of possession and control of the discontinuing operation may occur at a later date. Also, payments to the seller may occur at the time of the agreement, at the time of the transfer, or over an extended future period.
5. Instead of disposing of a major component in its entirety, an enterprise may discontinue and dispose of the component by selling its assets and settling its liabilities piecemeal (individually or in small groups). For piecemeal disposals, while the overall result may be a net gain or a net loss, the sale of an individual asset or settlement of an individual liability may have the opposite effect. Moreover, there is no single date at which an overall binding sale agreement is entered into. Rather, the sales of assets and settlements of liabilities may occur over a period of months or perhaps even longer, and the end of a financial reporting period may occur part way through the disposal period. To qualify as a discontinuing operation, the disposal must be pursuant to a single co-ordinated plan.
6. An enterprise may terminate an operation by abandonment without substantial sales of assets. An abandoned operation would be a discontinuing operation if it satisfies the criteria in the definition. However, changing the scope of an operation or the manner in which it is conducted is not an abandonment because that operation, although changed, is continuing.
7. Business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in and of themselves, discontinuing operations as that term is used in this Standard, they can occur in connection with a discontinuing operation.

8. Examples of activities that do not necessarily satisfy criterion (a) of paragraph 2, but that might do so in combination with other circumstances, include:
  - (a) gradual or evolutionary phasing out of a product line or class of service;
  - (b) discontinuing, even if relatively abruptly, several products within an ongoing line of business;
  - (c) shifting of some production or marketing activities for a particular line of business from one location to another;
  - (d) closing of a facility to achieve productivity improvements or other cost savings; and
  - (e) selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.
9. A reportable business segment or geographical segment as defined in MASB 22, Segment Reporting, would normally satisfy criterion (b) of paragraph 2 of the definition of a discontinuing operation, that is, it would represent a separate major line of business or geographical area of operations. A part of a segment as defined in MASB 22 may also satisfy criterion (b) of the definition. For an enterprise that operates in a single business or geographical segment and therefore does not report segment information, a major product or service line may also satisfy the criteria of the definition.
10. MASB 22 permits, but does not require, that different stages of vertically integrated operations be identified as separate business segments. Such vertically integrated business segments may satisfy criterion (b) of the definition of a discontinuing operation.
11. A component can be distinguished operationally and for financial reporting purposes – criterion (c) of paragraph 2 of the definition – if:
  - (a) its operating assets and liabilities can be directly attributed to it;
  - (b) its income (gross revenue) can be directly attributed to it; and
  - (c) at least a majority of its operating expenses can be directly attributed to it.

12. Assets, liabilities, income, and expenses are directly attributable to a component if they would be eliminated when the component is sold, abandoned or otherwise disposed of. Interest and other financing cost is attributed to a discontinuing operation only if the related debt is similarly attributed.
13. As defined in this Standard, discontinuing operations are expected to occur relatively infrequently. Some changes that are not classified as discontinuing operations may qualify as restructurings (see MASB 20, Provisions, Contingent Liabilities and Contingent Assets).
14. Also, some infrequently occurring events that do not qualify either as discontinuing operations or restructurings may result in items of income or expense that require separate disclosure pursuant to MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, because their size, nature, or incidence make them relevant to explain the performance of the enterprise for the period.
15. The fact that a disposal of a component of an enterprise is classified as a discontinuing operation under this Standard does not, in itself, bring into question the enterprise's ability to continue as a going concern. MASB 1, Presentation of Financial Statements, requires disclosure of uncertainties relating to an enterprise's ability to continue as a going concern and of any conclusion that an enterprise is not a going concern.

### **Initial Disclosure Event**

16. **With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:**
  - (a) **the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or**
  - (b) **the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.**

## Recognition and Measurement

17. **An enterprise should apply the principles of recognition and measurement that are set out in other MASB Standards for the purpose of deciding when and how to recognise and measure the changes in assets and liabilities and the income, expenses, and cash flows relating to a discontinuing operation.**
18. This Standard does not establish any recognition and measurement principles. Rather, it requires that an enterprise follow recognition and measurement principles established in other Standards. Two Standards that are likely to be relevant in this regard are:
  - (a) MASB 20, Provisions, Contingent Liabilities and Contingent Assets; and
  - (b) MASB 23, Impairment of Assets.
19. Other Standards that may be relevant include MASB 29, Employee Benefits, with respect to recognition of termination benefits, and MASB 15, Property, Plant and Equipment, with respect to disposals of those kinds of assets.

### Provisions

20. A discontinuing operation is a restructuring as that term is defined in MASB 20, Provisions, Contingent Liabilities and Contingent Assets. MASB 20 provides guidance for certain of the requirements of this Standard, including:
  - (a) what constitutes a “detailed, formal plan for the discontinuance” as that term is used in paragraph 16(b) of this Standard; and
  - (b) what constitutes an “announcement of the plan” as that term is used in paragraph 16(b) of this Standard.
21. MASB 20 defines when a provision should be recognised. In some cases, the event that obligates the enterprise occurs after the end of a financial reporting period but before the financial statements for that period have been authorised for issue. Paragraph 29 of this Standard requires disclosures about a discontinuing operation in such cases.

## **Impairment Losses**

22. The approval and announcement of a plan for discontinuance is an indication that the assets attributable to the discontinuing operation may be impaired or that an impairment loss previously recognised for those assets should be increased or reversed. Therefore, in accordance with MASB 23, Impairment of Assets, an enterprise estimates the recoverable amount of each asset of the discontinuing operation (the higher of the asset's net selling price and its value in use) and recognises an impairment loss or reversal of a prior impairment loss, if any.
23. In applying MASB 23 to a discontinuing operation, an enterprise determines whether the recoverable amount of an asset of a discontinuing operation is assessed for the individual asset or for the asset's cash-generating unit (defined in MASB 23 as the smallest identifiable group of assets that includes the asset under review and that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets). For example:
  - (a) if the enterprise sells the discontinuing operation substantially in its entirety, none of the assets of the discontinuing operation generate cash inflows independently from other assets within the discontinuing operation. Therefore, recoverable amount is determined for the discontinuing operation as a whole and an impairment loss, if any, is allocated among the assets of the discontinuing operation in accordance with MASB 23;
  - (b) if the enterprise disposes of the discontinuing operation in other ways such as piecemeal sales, the recoverable amount is determined for individual assets, unless the assets are sold in groups; and
  - (c) if the enterprise abandons the discontinuing operation, the recoverable amount is determined for individual assets as set out in MASB 23.

24. After announcement of a plan, negotiations with potential purchasers of the discontinuing operation or actual binding sale agreements may indicate that the assets of the discontinuing operation may be further impaired or that impairment losses recognised for these assets in prior periods may have decreased. As a consequence, when such events occur, an enterprise re-estimates the recoverable amount of the assets of the discontinuing operation and recognises resulting impairment losses or reversals of impairment losses in accordance with MASB 23.
25. A price in a binding sale agreement is the best evidence of an asset's (cash-generating unit's) net selling price or of the estimated cash inflow from ultimate disposal in determining the asset's (cash-generating unit's) value in use.
26. The carrying amount (recoverable amount) of a discontinuing operation includes the carrying amount (recoverable amount) of any goodwill that can be allocated on a reasonable and consistent basis to that discontinuing operation.

## **Presentation and Disclosure**

### **Initial Disclosure**

27. **An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 16) occurs:**
  - (a) **a description of the discontinuing operation;**
  - (b) **the business or geographical segment(s) in which it is reported in accordance with MASB 22, Segment Reporting;**
  - (c) **the date and nature of the initial disclosure event;**
  - (d) **the date or period in which the discontinuance is expected to be completed if known or determinable;**
  - (e) **the carrying amounts, as of the balance sheet date, of the total assets and the total liabilities to be disposed of;**
  - (f) **the amounts of revenue, expenses, and pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense relating thereto as required by paragraph 79(g) of MASB 25, Income Taxes; and**

- (g) **the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.**
28. In measuring the assets, liabilities, revenues, expenses, gains, losses, and cash flows of a discontinuing operation for the purpose of the disclosures required by this Standard, such items can be attributed to a discontinuing operation if they will be disposed of, settled, reduced, or eliminated when the discontinuance is completed. To the extent that such items continue after completion of the discontinuance, they should not be allocated to the discontinuing operation.
  29. **If an initial disclosure event occurs after the end of an enterprise's financial reporting period but before the financial statements for that period are authorised for issue, those financial statements should include the disclosures specified in paragraph 27 for the period covered by those financial statements.**
  30. For example, the board of directors of an enterprise whose financial year ends on 31 December 20x5 approves a plan for a discontinuing operation on 15 December 20x5 and announces that plan on 10 January 20x6. The board approves the financial statements for 20x5 on 20 February 20x6. The financial statements for 20x5 include the disclosures required by paragraph 27.

### **Other Disclosures**

31. **When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include in its financial statements the following information when the events occur:**
  - (a) **for any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or loss, as required by paragraph 79(g) of MASB 25, Income Taxes; and**
  - (b) **the net selling price or range of prices (which is after deducting the expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows, and the carrying amount of those net assets.**

32. The asset disposals, liability settlements, and binding sale agreements referred to in the preceding paragraph may occur concurrently with the initial disclosure event, or in the period in which the initial disclosure event occurs, or in a later period. In accordance with MASB 19, Events After the Balance Sheet Date, if some of the assets attributable to a discontinuing operation have actually been sold or are the subject of one or more binding sale agreements entered into after the financial year end but before the board approves the financial statements for issue, the financial statements include the disclosures required by paragraph 31 if non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

### **Updating the Disclosures**

33. **In addition to the disclosures in paragraphs 27 and 31, an enterprise should include in its financial statements for periods subsequent to the one in which the initial disclosure event occurs a description of any significant changes in the amount or timing of cash flows relating to the assets and liabilities to be disposed of or settled and the events causing those changes.**
34. Examples of events and activities that would be disclosed include the nature and terms of binding sale agreements for the assets, a demerger of the assets via spin-off of a separate equity security to the enterprise's shareholders, and legal or regulatory approvals.
35. **The disclosures required by the bold paragraphs from paragraphs 27 to 34 should continue in financial statements for periods up to and including the period in which the discontinuance is completed. A discontinuance is completed when the plan is substantially completed or abandoned, though payments from the buyer(s) to the seller may not yet be completed.**
36. **If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact and the reasons for the abandonment or withdrawal and its effect should be disclosed.**
37. For the purpose of applying the preceding paragraph, disclosure of the effect includes reversal of any prior impairment loss or provision that was recognised with respect to the discontinuing operation.

## **Separate Disclosure for Each Discontinuing Operation**

- 38. Any disclosures required by this Standard should be presented separately for each discontinuing operation.**

## **Presentation of the Required Disclosures**

### **Face of Financial Statements or Notes**

- 39. The disclosures required by the bold paragraphs from paragraphs 27 to 37 may be presented either in the notes to the financial statements or on the face of the financial statements except that the disclosure of the amount of the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation [paragraph 31(a)] should be shown on the face of the income statement.**
40. The disclosures required by paragraphs 27(f) and 27(g) are encouraged to be presented on the face of the income statement and cash flow statement, respectively.

### **Not an Extraordinary Item**

- 41. A discontinuing operation should not be presented as an extraordinary item.**
42. MASB 3 defines extraordinary items as “income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly.” The two examples of extraordinary items cited in MASB 3 are expropriations of assets and an earthquake or other natural disasters, both of which are types of events that are not within the control of the management of the enterprise. As defined in this Standard, a discontinuing operation must be based on a single plan by an enterprise’s management to sell or otherwise dispose of a major portion of the business.

### **Restricted Use of the Term ‘Discontinuing Operation’**

- 43. A restructuring, transaction, or event that does not meet the definition of a discontinuing operation in this Standard should not be called a discontinuing operation.**

### **Illustrative Disclosures**

44. Appendix 2 provides examples of the presentation and disclosures required by this Standard.

### **Restatement of Prior Periods**

45. **Comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event should be restated to segregate continuing and discontinuing assets, liabilities, income, expenses, and cash flows in a manner similar to that required by the bold paragraphs from paragraphs 27 to 43.**
46. Appendix 3 illustrates application of the preceding paragraph.

### **Disclosure in Interim Financial Reports**

47. **The notes to an interim financial report should describe any significant activities or events since the end of the most recent annual reporting period relating to a discontinuing operation and any significant changes in the amount or timing of cash flows relating to the assets and liabilities to be disposed of or settled.**
48. This principle is consistent with the approach in MASB 26, Interim Financial Reporting, that the notes to an interim financial report are intended to explain significant changes since the last annual reporting date.

### **Effective Date**

49. **This MASB Standard becomes operative for financial statements covering periods beginning on or after 1 January 2003. Earlier application is encouraged in financial statements for periods ending after this Standard is published.**
50. This Standard supersedes paragraphs 21 to 24 of MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

## **Appendix 1**

### **Compliance with International Accounting Standards**

As at the date of issue of this Standard, compliance with this Standard will ensure conformity in all material respects with International Accounting Standard, IAS 35 (1998), Discontinuing Operations.

## Appendix 2

### Illustrative Disclosures

*This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning. Specimen income statements are provided to illustrate the disclosures pertaining to the requirements of this Standard. These specimen income statements do not necessarily conform with all disclosure and presentation requirements of other MASB Standards.*

### Facts

1. X Company has three segments, A, B, and C. Segment C (the clothing division) is deemed inconsistent with the long-term direction of the Company. Management has decided, therefore, to dispose of Segment C. On 15 November 20x1 the board of directors of X Company voted to approve the disposal, and an announcement was made. On that date, the carrying amount of Segment C's net assets was RM90,000 (assets of RM105,000 minus liabilities of RM15,000). The net recoverable amount of the assets carried at RM105,000 was determined to be RM85,000, and the Company had concluded that a pre-tax impairment loss of RM20,000 should be recognised. At 31 December 20x1, the carrying amount of Segment C's net assets was RM70,000 (assets of RM85,000 minus liabilities of RM15,000). There was no further impairment of assets between 15 November and 31 December when the financial statements were prepared.
2. On 30 September 20x2, when the carrying amount of the net assets of Segment C continued to be RM70,000, X Company signed a legally binding contract to sell Segment C. The sale is expected to be completed by 31 January 20x3. The recoverable amount of the net assets is RM60,000. Based on that amount, MASB Standards require that an additional impairment loss of RM10,000 must be recognised. In addition, prior to 31 January 20x3, the sale contract obliges X Company to terminate the employment of certain employees of Segment C, incurring an expected termination cost of RM30,000 to be paid by 30 June 20x3. MASB Standards would require that a liability and related expense be recognised in this amount. The Company continued to operate Segment C throughout 20x2. At 31 December 20x2, the carrying amount of Segment C's net assets is now RM45,000, consisting of assets of RM80,000 minus liabilities of RM35,000 (including the provision for expected termination cost of RM30,000). The corporate income tax rate is 30 per cent.

3. X Company prepares its financial statements annually as of 31 December.

### **Financial Statements for 20x1**

#### **Note to Financial Statements for 20x1**

4. The following is a note to X Company's financial statements:

On 15 November 20x1, the board of directors announced a plan to dispose of Segment C, our clothing division. The disposal is consistent with the Company's long-term strategy to focus its activities in the areas of food and beverage manufacture and distribution, and to divest unrelated activities. The Company is actively seeking a buyer for Segment C and hopes to complete the sale by the end of 20x2. At 31 December 20x1, the carrying amount of the assets of Segment C was RM85,000 and its liabilities were RM15,000. During 20x1, Segment C earned revenue of RM50,000, incurred expenses of RM52,000 and incurred a pre-tax operating loss of RM2,000, with a related tax benefit to the enterprise of RM1,000. During 20x1, Segment C's cash outflow from operating activities was RM4,000, cash outflow from investing activities was RM7,000, and cash inflow from financing activities was RM3,000.

### **Financial Statements for 20x2**

#### **Balance Sheet at 31 December 20x2**

5. The carrying amounts of Segment C's total assets and total liabilities at 31 December 20x2 must be disclosed.

#### **Income Statement for 20x2**

6. The income statement of the enterprise for the years 20X1 and 20X2 could be presented as follows. Note that Year 20X1 has been restated to segregate the discontinuing and continuing operations, as required by paragraph 45 of this Standard:

	<b>Continuing Operations (Segments A &amp; B)</b>		<b>Discontinuing Operation (Segment C)</b>		<b>Enterprise as a Whole</b>	
	20x2	20x1	20x2	20x1	20x2	20x1
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	100	90	40	50	140	140
Operating expenses	(60)	(65)	(30)	(27)	(90)	(92)
Impairment loss	-	-	(10)	(20)	(10)	(20)
Provision for employee termination	<u>-</u>	<u>-</u>	<u>(30)</u>	<u>-</u>	<u>(30)</u>	<u>-</u>
Pre-tax profit (loss) from operating activities	40	25	(30)	3	10	28
Interest expense	<u>(20)</u>	<u>(10)</u>	<u>( 5)</u>	<u>(5)</u>	<u>(25)</u>	<u>(15)</u>
Profit (loss) before tax	20	15	(35)	(2)	(15)	13
Tax expense (income)	<u>(6)</u>	<u>(7)</u>	<u>10</u>	<u>1</u>	<u>4</u>	<u>(6)</u>
Profit (loss) from operating activities after taxes	14	8	(25)	(1)	(11)	7

7. One alternative is that the income statement could be presented as follows:

	20x2 RM'000	20x1 RM'000	20x1 RM'000
<b>Continuing operations (Segments A &amp; B)</b>			
Revenue	100	90	
Operating expenses	<u>(60)</u>	<u>(65)</u>	
Pre-tax profit from operating activities	40	25	
Interest expense	<u>(20)</u>	<u>(10)</u>	
Profit before tax	20	15	
Tax expense	<u>( 6)</u>	<u>( 7)</u>	
Profit after taxes		14	8
<b>Discontinuing operation (Segment C):</b>			
Revenue	40	50	
Operating expenses	(30)	(27)	
Impairment loss	(10)	(20)	
Provision for employee termination	<u>(30)</u>	<u>-</u>	
Pre-tax (loss) profit from operating activities	(30)	3	
Interest expense	<u>( 5)</u>	<u>( 5)</u>	
Loss before tax	(35)	( 2)	
Tax income	<u>10</u>	<u>1</u>	
Loss after taxes		<u>(25)</u>	<u>( 1)</u>
<b>Total enterprise:</b>			
(Loss) Profit from ordinary activities		(11)	7

8. As an alternative to the foregoing income statement presentations, note disclosure is allowed.

### **Cash Flow Statement for 20x2**

9. Cash flows relating to continuing and discontinuing operations could be segregated on the face of the cash flow statement for 20x2.

Alternatively, note disclosure is allowed. Presentation format options for the face of the cash flow statement include ones similar to the two income statement formats shown in paragraphs 6 and 7, that is, with continuing and discontinuing shown in separate columns or with continuing and discontinuing separately subtotalled in a single column.

### **Note to Financial Statements for 20x2**

10. The following is a note to X Company's financial statements:

On 15 November 20x1, the board of directors announced a plan to dispose of Segment C, our clothing division. On 30 September 20x2, the Company signed a contract to sell Segment C to Z Corporation for RM60,000. The Company decided to dispose of Segment C because its operations are in areas apart from the core business areas (food and beverage manufacture and distribution) that form the long-term direction of the Company. Further, Segment C's rate of return has not been equal to that of the Company's other two segments during the period. Segment C's assets were written down by RM10,000 (before income tax benefit of RM3,000) to their net recoverable amount. The Company recognised a provision for termination benefits of RM30,000 (before income tax benefit of RM9,000) to be paid by 30 June 20x3 to certain employees of Segment C whose jobs will be terminated as a result of the sale. The process of selling Segment C was completed by 31 January 20x3. The Company recognised the related deferred income tax asset of RM4,000 because the management of the Company believes it is probable that the continuing operations of Segments A and B will earn sufficient taxable profit to allow the benefit of that deferred tax asset to be utilised.

**Financial Statements for 20x3**

11. The financial statements for 20x3, or the notes to the financial statements, would segregate the continuing and discontinued operations in a manner similar to 20x2. Data for years prior to 20x3 presented for comparative purposes would be similarly segregated. The notes to the financial statements for 20x3 would include all of the disclosures required by paragraph 35 of this Standard, including the fact that the discontinuance was completed.

**Gain on Disposal**

12. To change the facts of the example slightly, on 30 September 20x2 (when the carrying amount of Segment C's net assets was RM70,000) X Company signed a binding contract to sell Segment C for RM120,000, rather than RM60,000. The contract continued to oblige the Company for the employee termination costs of RM30,000. In that case, an impairment loss would not have been recognised in 20x2. The RM30,000 pre-tax provision for employee termination would be recognised as a liability and an expense in 20x2. In 20x3, a pre-tax gain on disposal of RM50,000 will be recognised when the transaction is completed and, in accordance with paragraph 39, will be presented on the face of the income statement.

13. The following is an example of how the 20x3 income statement might appear:

	20x3		20x2	
	RM'000	RM'000	RM'000	RM'000
<b>Continuing operations</b>				
<b>(Segments A &amp; B):</b>				
Revenue	150		100	
Expenses	<u>(102)</u>		<u>(60)</u>	
Pre-tax profit from operating activities	48		40	
Interest	<u>(20)</u>		<u>(20)</u>	
Profit before tax	28		20	
Tax expense	<u>(10)</u>		<u>(6)</u>	
Profit after taxes		18		14
<b>Discontinuing operations</b>				
<b>(Segment C):</b>				
Revenue	3		40	
Expenses before income taxes	(5)		(30)	
Provision for employee termination	<u>-</u>		<u>(30)</u>	
Pre-tax loss from operating activities	(2)		(20)	
Interest	<u>-</u>		<u>(5)</u>	
Loss before tax	(2)		(25)	
Tax income	<u>-</u>		<u>7</u>	
Loss after taxes		(2)		(18)
Gain on discontinuance of Segment C	50			
Tax thereon	<u>(15)</u>			
After-tax gain on discontinuance of Segment C		<u>35</u>		<u>-</u>
<b>Total enterprise:</b>				
Profit (loss) from ordinary activities		51		(4)

## Appendix 3

### Classification of Prior Period Operations

*This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.*

#### Facts

1. Paragraph 45 requires that comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event be restated to segregate continuing and discontinuing assets, liabilities, income, expenses, and cash flows in a manner similar to that required by paragraphs 27 to 43.
2. Consider the following set of changes to an enterprise:
  - (a) operations A, B, C, and D were all continuing in years 1 and 2;
  - (b) in year 3, operation D is discontinued (approved for disposal and actually disposed of);
  - (c) in year 4, operation B is discontinued (approved for disposal and actually disposed of) and operation E is acquired; and
  - (d) in year 5 operation F is acquired.
3. The following table illustrates the classification of continuing and discontinuing operations in the foregoing circumstances:

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

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

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

4. If the approval and announcement of the discontinuance of operation B had occurred early in year 4, before the financial statements for year 3 had been authorised for issue by the enterprise's board of directors, operation B would have been classified as a discontinuing operation in the financial statements for year 3 and the year 2 comparatives, as follows:

<b>FINANCIAL STATEMENTS FOR YEAR 3</b> <b>(Approved in Year 4 After the Discontinuance of Operation B was Approved and Announced)</b>			
<b>Year 2 Comparatives</b>		<b>Year 3</b>	
<b>Continuing</b>	<b>Discontinuing</b>	<b>Continuing</b>	<b>Discontinuing</b>
A		A	
	B		B
C		C	
	D		D

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

<b>FINANCIAL STATEMENTS FOR</b>									
<b>Year 1 Comparatives</b>		<b>Year 2 Comparatives</b>		<b>Year 3 Comparatives</b>		<b>Year 4 Comparatives</b>		<b>Year 5</b>	
<b>Cont.</b>	<b>Disc.</b>	<b>Cont.</b>	<b>Disc.</b>	<b>Cont.</b>	<b>Disc.</b>	<b>Cont.</b>	<b>Disc.</b>	<b>Cont.</b>	<b>Disc.</b>
A		A		A		A		A	
	B		B		B		B		
C		C		C		C		C	
	D		D		D				
						E		E	
								F	