

Accounting Standard

**AASB 1042**  
August 2000

# **Discontinuing Operations**

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Defined words are *italicised* each time they appear. The definitions are in Section 10. Standards are printed in **bold** type and commentary in light type.

## **MAIN FEATURES OF THE STANDARD**

The Standard is presented in a format that combines the formats previously used in Accounting Standards (AASB Standards) and Australian Accounting Standards (AAS Standards) in order to move towards the issue of a single series of standards. The Standard:

- (a) defines “discontinuing operation” and restricts the use of the term;
- (b) requires the assets, liabilities, revenues, expenses and cashflows relating to a discontinuing operation to be recognised and measured in accordance with other Accounting Standards;
- (c) requires revenues and expenses relating to discontinuing operations to be classified within ordinary activities, except in the rare event that revenues and expenses arising in relation to a discontinuing operation meet the definition of an extraordinary item; and
- (d) requires disclosures to be made in respect of discontinuing operations in the financial report for the reporting period in which the initial disclosure event occurs, and in the financial report for each reporting period up to and including the reporting period in which the discontinuance is completed.

## ACCOUNTING STANDARD AASB 1042

The Australian Accounting Standards Board makes Accounting Standard AASB 1042 “Discontinuing Operations” under section 334 of the Corporations Law.

Dated 21 August 2000

F. K. Alfredson  
Chair – AASB

## ACCOUNTING STANDARD AASB 1042 “DISCONTINUING OPERATIONS”

### 1 Application

#### 1.1 This Standard applies to:

- (a) **each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law and that is a *reporting entity*;**
- (b) ***general purpose financial reports of each other reporting entity; and***
- (c) **financial reports that are, or are held out to be, *general purpose financial reports*.**

1.1.1 The standards specified in this Standard apply to the financial report where information resulting from their application is material in accordance with Accounting Standard AASB 1031 and Australian Accounting Standard AAS 5 “Materiality”. An *economic entity* would only disclose a *discontinuing operation* which is material to the *economic entity*. A *discontinuing operation* which is material to the *parent entity* or to another *entity* within the *economic entity* may not be material to the *economic entity*.

1.1.2 This Standard applies to governments, and to public sector activities other than those excluded in accordance with section 2. For example, the announcement that a public sector operation is being prepared for privatisation may trigger the disclosure requirements for a *discontinuing operation* under the provisions of this Standard.

## 2 Scope

- 2.1 This Standard applies to the *discontinuing operations* of all *entities* other than the *restructuring of administrative arrangements* between *government departments*.**
- 2.2 This Standard does not apply to the administered activities of *government departments*.**
- 2.2.1 Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments” includes requirements for the disclosure of *assets*, *liabilities*, items of *equity*, *revenues* and *expenses* resulting from the *restructuring* of administrative arrangements between *government departments*.
- 2.2.2 An administered activity of a *government department* does not give rise to *revenues* and *expenses* of the department reporting the administered activity and therefore, from the point of view of the department, the discontinuance of an administered activity does not give rise to a *discontinuing operation*. However, if a government were to discontinue an activity that one of its departments had disclosed as an administered activity, from the point of view of that government the discontinuance may constitute a *discontinuing operation*.
- 2.2.3 Although Australian Accounting Standard AAS 27 “Financial Reporting by Local Governments” contains requirements relating to the *restructuring of local governments*, these requirements only apply to the *local government* receiving *assets* or *liabilities* as a result of the *restructuring*. This Standard applies to the *local government* transferring *assets* and *liabilities* where the *restructuring* results in a *discontinuing operation* of the transferor *local government*.

## 3 Operative Date

- 3.1 This Standard applies to *annual reporting periods* beginning on or after 1 July 2001.**
- 3.2 This Standard may be applied to *annual reporting periods* beginning before 1 July 2001. An *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law may apply this Standard to *annual reporting periods* beginning before 1 July 2001, where an election has been**

**made in accordance with subsection 334(5) of the Corporations Law.**

- 3.2.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 22 August 2000.

## **4 Purpose of Standard**

**4.1 The purpose of this Standard is to:**

- (a) **define *discontinuing operation*; and**
- (b) **prescribe disclosures to be made in relation to *discontinuing operations*.**

## **5 Discontinuing Operations**

**5.1 A restructuring, transaction or other event must be reported as a *discontinuing operation* when, and only when, it meets the definition of a *discontinuing operation*.**

5.1.1 An operation meets the definition of a *discontinuing operation* when:

- (a) pursuant to a single plan, the *entity* is disposing of that operation in its entirety;
- (b) the operation represents a separate major activity or geographical area of operations; and
- (c) the operation can be separately identified for operational and financial reporting purposes.

Given these three tests, it follows that *discontinuing operations* are not expected to occur frequently.

5.1.2 Changing the scope of an operation or the manner in which it is conducted does not result in a *discontinuing operation*, because that operation, although changing, is continuing. For example, the outsourcing of activities previously conducted internally would not constitute a *discontinuing operation*.

5.1.3 *Entities* may outsource the provision of goods or services to customers, and support services, such as legal services and



information technology services. Outsourcing of such activities would not constitute a *discontinuing operation* because, although the method of providing the goods and services has changed, the activity is continuing. In addition, outsourcing support services does not fall within the definition of a *discontinuing operation*, because support services do not constitute a separate major activity or geographical area of operations.

- 5.1.4 *Entities* frequently reorganise their activities by closing facilities or services, abandoning products or product lines, and decreasing the size of their work force in response to changes in the environment in which the *entity* operates. Unless they occur in combination with other circumstances, reorganisations such as the following do not meet the definition of a *discontinuing operation*:
- (a) gradual or evolutionary phasing out of a product line or class of service;
  - (b) discontinuing, even if abruptly, several products within an ongoing line of business;
  - (c) shifting some production, service or marketing activities for a particular line of operation from one location to another; and
  - (d) closing a facility to achieve productivity improvements or other cost savings.
- 5.1.5 Governments frequently rearrange activities to redirect resources. Rearrangements of activities generally are not *discontinuing operations* unless they occur in connection with a *discontinuing operation*. For example, the discontinuation of a specific activity by a government would not constitute a *discontinuing operation* where the government continues to provide similar services.
- 5.1.6 Disposing of a major component of an *entity* may result in a *discontinuing operation*. However, this does not, of itself, bring into question the *entity's* ability to continue as a going concern. Where relevant, Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies" require disclosure of uncertainties relating to an *entity's* ability to continue as a going concern and of any conclusion that an *entity* is not a going concern.

## Single Plan for Discontinuing an Operation

- 5.1.7 The existence of a single plan by the *entity* to dispose of, abandon or terminate an operation is a necessary condition for the operation to be classified as a *discontinuing operation*. Where the major activity or geographical area of operations is not being disposed of pursuant to a single plan, the disposal, abandonment or termination of the operation does not meet the definition of a *discontinuing operation*.
- 5.1.8 A *discontinuing operation* may be disposed of through a single transaction or a series of transactions, or abandoned, or terminated through a combination of abandonment and one or more transactions, but always pursuant to a single plan to discontinue the entire operation. Although the existence of a single formal plan is required for the operation to meet the definition of a *discontinuing operation*, the single plan may incorporate a number of sub-plans.
- 5.1.9 An operation may be disposed of through a single transaction including a sale to a single purchaser or a spin-off to the *entity's* shareholders. For discontinuation through a single transaction, there is a single date at which a binding agreement is entered into, although the transfer of control of the *discontinuing operation* may occur at a later date.
- 5.1.10 Instead of disposing of an operation through a single transaction, an *entity* may dispose of the operation by selling its *assets* and settling its *liabilities* individually or in small groups (piecemeal). To qualify as a *discontinuing operation*, a piecemeal disposal must be pursuant to a single plan although there will be 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 reporting period may occur part way through the disposal period. Because sales of *assets* and settlements of *liabilities* relating to a *discontinuing operation* may occur over more than one reporting period, the amount disclosed in accordance with subparagraph 7.5(a) will reflect the profit or loss/result for the reporting period from the discontinuance, rather than the profit or loss/result associated with discontinuing the entire operation over more than one reporting period.
- 5.1.11 A single plan for discontinuing an operation could address such factors as:
- (a) identification of major *assets* to be disposed of and *liabilities* to be settled;

- (b) the expected methods of disposal and settlement;
- (c) the estimated period of time that will elapse between the date of the *initial disclosure event* and the date when the operation will be *discontinued*;
- (d) an active program to find a buyer or buyers if the discontinuance is to occur by way of sale;
- (e) the estimated profit or loss/result of the operation from the date when the plan for the discontinuance is made to the date on which the operation will be *discontinued*; and
- (f) the estimated proceeds or salvage to be realised by disposal.

### **Separate Major Activity or Geographical Area of Operations**

- 5.1.12 A necessary condition for an operation that is being disposed of, abandoned or terminated to meet the definition of a *discontinuing operation* is that the operation represents a separate major activity or geographical area of operations.
- 5.1.13 A *business segment* or *geographical segment* would normally represent a separate major activity or geographical area of operations. A part of a segment or a vertically integrated *business segment* may also represent a separate major activity or geographical area of operations. For an *entity* that operates in a single *business segment* or *geographical segment*, a major product line or class of service may represent a separate major activity or geographical area of operations.
- 5.1.14 A major activity for which information is required to be disclosed by Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments” would normally represent a separate major activity or geographical area of operations. AAS 29 provides guidance on the identification of major activities. Similarly, a broad function or activity for which information is required to be disclosed by Australian Accounting Standard AAS 27 “Financial Reporting by Local Governments” would normally represent a separate major activity or geographical area of operations.
- 5.1.15 Not-for-profit entities, which include *local governments*, *government departments* and governments, are not required to apply Accounting Standard AASB 1005 “Segment Reporting”. However,

the guidance contained in AASB 1005 will be helpful in identifying a separate major activity or geographical area of operations for these entities.

### **Separate Identification**

5.1.16 Unless an operation is separately identifiable for operational and financial reporting purposes, the operation will not meet the definition of a *discontinuing operation*. An operation can be separately identified for operational and financial reporting purposes if:

- (a) its *assets* and *liabilities*;
- (b) its *revenues*; and
- (c) at least a majority of its *expenses*

are attributed to that operation in accordance with paragraph 6.1 of this Standard.

## **6 Recognition and Measurement**

**6.1 *Assets, liabilities, revenues and expenses must be attributed to a discontinuing operation in the financial reports of the entity when, and only when, they will be eliminated in the financial reports of that entity when the operation is discontinued.***

6.1.1 *Borrowing costs expense* is attributed to a *discontinuing operation* only if the related debt is attributed to that *discontinuing operation* as a *liability*. The related debt would only be attributed to the *discontinuing operation* as a *liability* to the extent that:

- (a) the debt has been used to finance the operation that is now a *discontinuing operation*; and
- (b) the debt will be retired as part of the discontinuance.

**6.2 *Assets, liabilities, revenues, expenses and cash flows attributed to a discontinuing operation must be recognised and measured in accordance with the requirements of other Standards.***

## Classification

- 6.3** Subject to paragraph 6.4, all *revenues* and *expenses* arising from a *discontinuing operation* must be classified within *ordinary activities*.
- 6.4** If an individual *revenue* or *expense* associated with a *discontinuing operation* meets the definition of an *extraordinary item*, that *revenue* or *expense* must be classified as an *extraordinary item*.
- 6.4.1 A *discontinuing operation* is based on a single plan to dispose of, abandon or terminate a major component of the *entity*. It follows that the reason for discontinuing an operation would normally be to achieve organisational objectives. Therefore the *revenues* and *expenses* associated with the decision to discontinue an operation usually fall within the scope of *ordinary activities*.
- 6.4.2 In some rare cases, *revenues* or *expenses* associated with a *discontinuing operation* may meet the criteria for classification as an *extraordinary item*. This would be uncommon, due to the narrow scope of the definition of *extraordinary items*.

## 7 Disclosures

- 7.1** For each *discontinuing operation*, the disclosures required by paragraph 7.2 must be made in the financial report for the reporting period in which the *initial disclosure event* occurs and in the financial report for each reporting period up to and including the reporting period in which the operation is *discontinued*.
- 7.1.1 Until the occurrence of the *initial disclosure event*, an *entity* is not required to make any disclosures under this Standard relating to a *discontinuing operation*.
- 7.1.2 The definition of *initial disclosure event* states that the *initial disclosure event* occurs when it is highly unlikely that the *entity* will withdraw from the discontinuance. This will arise on the occurrence of the earlier of the *entity* entering into a binding sale agreement or the approval and announcement of a formal plan for the discontinuance by the *entity's* management or governing body. Where the *initial disclosure event* is the announcement of a plan, the *initial disclosure event* can be deemed to have occurred when:

- (a) the *entity's* management or governing body has made an announcement of the plan, as required by statute or authoritative regulation, to discontinue the operation; or
- (b) in the public sector, an announcement has been made by a minister or department head or *local government* equivalent; or
- (c) no announcement of a plan is required by statute or authoritative regulation, and implementation is started, resulting in announcements such as announcements to affected employees.

**7.2 For each *discontinuing operation*, the following information must be disclosed in the financial report:**

- (a) **a description of the *discontinuing operation*;**
- (b) **the *business segments, geographical segments* or, in the public sector, major activities in which the *discontinuing operation* is reported;**
- (c) **the date and nature of the *initial disclosure event*;**
- (d) **the date on, or the period in which, the operation is expected to be *discontinued*, if known or determinable, or that the period is not determinable;**
- (e) **for the *entity*:**
  - (i) **the *carrying amounts* as at the *reporting date* of the total *assets* to be disposed of and the total *liabilities* to be settled as part of the discontinuance;**
  - (ii) **the amounts of *revenues, expenses* and profit or loss/result from *ordinary activities* before income tax expense (income tax revenue), together with the related income tax expense (income tax revenue), attributed to the *discontinuing operation* during the reporting period; and**
  - (iii) **the amounts of net cash flows attributed to each of the operating, investing and financing activities of the *discontinuing operation* during the reporting period; and**

- (f) **for each reportable segment containing a discontinuing operation:**
- (i) **the carrying amounts as at the reporting date of the total assets to be disposed of and the total liabilities to be settled as part of the discontinuance; and**
  - (ii) **the amounts of revenues, expenses and profit or loss/result from ordinary activities before income tax expense (income tax revenue), together with the related income tax expense (income tax revenue), attributed to the discontinuing operation during the reporting period.**

- 7.2.1 The requirement to disclose the *assets, liabilities, revenues* and *expenses* of a *discontinuing operation* does not override the requirements in Accounting Standard AASB 1040 and Australian Accounting Standard AAS 36 “Statement of Financial Position” and Accounting Standard AASB 1018 and Australian Accounting Standard AAS 1 “Statement of Financial Performance” to disclose total *assets*, total *liabilities*, total *revenues* and total *expenses* for the *entity*. Similarly, the requirement to disclose the *assets, liabilities, revenues* and *expenses* attributed to a *discontinuing operation* within a *reportable segment* does not override the requirements of Accounting Standard AASB 1005 “Segment Reporting” to disclose total segment information.
- 7.2.2 *Entities* are encouraged to present the disclosures required by subparagraphs 7.2(e)(ii) and (iii) on the face of the *statement of financial performance* and the statement of cash flows respectively.
- 7.2.3 AASB 1005 encourages the disclosure of segment cash flow information. Where segment cash flow information is provided, *entities* are encouraged to segregate the segment cash flow information between continuing and *discontinuing operations*.
- 7.2.4 An *entity* making the disclosures required by subparagraphs 7.2(e)(i) and (ii) will automatically meet the disclosure requirements in subparagraph 7.2(f) where a *discontinuing operation* constitutes a *reportable segment*. However, where a *discontinuing operation* is part of one or more *reportable segments*, the disclosures required by subparagraph 7.2(f) are made in addition to those required by subparagraphs 7.2(e)(i) and (ii).

- 7.2.5 The disclosures required by paragraph 7.2 and paragraphs 7.4 to 7.7 are illustrated in Appendix 1.

### **Initial Disclosure Event Occurring After Reporting Date**

- 7.3** If the *initial disclosure event* occurs after the *reporting date* but prior to the *time of completion*, the notes in the financial report must include the disclosures specified in subparagraphs 7.2(a) to (d) for the reporting period covered by the financial report.
- 7.3.1 Accounting Standard AASB 1002 and Australian Accounting Standard AAS 8 “Events Occurring After Reporting Date” require the disclosure of the financial effect of events occurring after the *reporting date* but prior to the *time of completion* where the financial effect can be measured reliably. In the case of a *discontinuing operation*, the financial effect of discontinuing the operation would include the disclosures required by subparagraph 7.2(e) and paragraphs 7.4 and 7.5.

### **Disposal of Assets or Settlement of Liabilities**

- 7.4** In relation to each *discontinuing operation*, when the *entity* enters into binding agreements for the sale of *assets* or the settlement of *liabilities* attributed to the *discontinuing operation*, the *entity* must disclose:
- (a) the net selling price or range of prices of the net assets for which the *entity* has entered into one or more binding sale agreements in the reporting period;
  - (b) the expected timing of the related cash flows; and
  - (c) the *carrying amount* of those net assets.
- 7.5** In relation to each *discontinuing operation*, when the *entity* disposes of *assets* or settles *liabilities* the *entity* must disclose:
- (a) the aggregate amount of any profit or loss/result before income tax expense (income tax revenue) for the reporting period that is *recognised* on the disposal of *assets* or settlement of *liabilities* attributed to the *discontinuing operation*; and



- (b) **the aggregate income tax expense (income tax revenue) related to the disposal of *assets* or settlement of *liabilities* attributed to the *discontinuing operation*.**

- 7.5.1 The *entity* may enter into binding sale agreements, dispose of *assets* or settle *liabilities* in the reporting period in which the *initial disclosure event* occurs or in a later reporting period. The information necessary for the disclosures required by paragraphs 7.4 and 7.5 may not be available for inclusion in the financial report for the reporting period in which the *initial disclosure event* occurs. This information is disclosed in the financial report for the reporting period in which it becomes available.
- 7.5.2 The *entity* may enter into a binding sale agreement, dispose of *assets*, or settle *liabilities* after the *reporting date* but before the *time of completion*. In accordance with AASB 1002 and AAS 8, if any of the *assets* or *liabilities* attributed to a *discontinuing operation*:
  - (a) are the subject of one or more binding sale agreements entered into after the *reporting date* but before the *time of completion*, the notes in the financial report would include the disclosures identified in paragraph 7.4; and
  - (b) have been disposed of or settled after the *reporting date* but before the *time of completion*, the notes in the financial report would include the disclosures identified in paragraph 7.5.

### Updating the Disclosures

- 7.6 **In relation to each *discontinuing operation*, in reporting periods subsequent to the one in which the *initial disclosure event* occurs up to and including the reporting period in which the operation is *discontinued*, the following must be disclosed:**
  - (a) **a description of any transactions, events or activities relating to the *discontinuing operation*; and**
  - (b) **a description of any changes during the reporting period in the anticipated amount or timing of cash flows relating to the *assets* to be disposed of and the *liabilities* to be settled and the events causing those changes.**
- 7.6.1 Examples of transactions, events and activities that are disclosed in accordance with paragraph 7.6 include:

- (a) the nature and terms of binding agreements for the sale of *assets* or the settlement of *liabilities* where these agreements have not already been disclosed in a prior reporting period in accordance with paragraph 7.4;
- (b) a sale of the *assets* via a spin-off of a separate *equity* security to the *entity's* shareholders; and
- (c) any relevant legal or regulatory approvals relating to the discontinuance.

**7.7 For each *discontinuing operation* that is not discontinued in the annual reporting period immediately following the annual reporting period in which the initial disclosure event occurred, the following must be disclosed in the financial report for each annual reporting period after the annual reporting period in which the initial disclosure event occurred until the annual reporting period in which the operation is discontinued:**

- (a) **the reasons for the extended period of discontinuation; and**
- (b) **a description of the active plans for discontinuation.**

#### **Withdrawal from a Plan**

**7.8 If the *entity* withdraws from a plan in relation to an operation that was previously reported as a *discontinuing operation*, the financial report must include an explanation of the withdrawal from the plan. This explanation must include, but is not limited to:**

- (a) **the reasons for the withdrawal; and**
- (b) **the effect of the withdrawal on the *assets, liabilities, revenues and expenses* of the *entity*.**

7.8.1 The occurrence of the *initial disclosure event* means that it is highly likely that the *entity* will discontinue the operation disclosed as discontinuing. It follows that a withdrawal from a plan for a discontinuance would normally only occur as a result of unforeseen circumstances.

7.8.2 In accordance with paragraph 8.2, where the *entity* withdraws from a plan to discontinue an operation that was previously reported as a *discontinuing operation*, the comparative information is presented as if the operation had never been discontinuing.

## **8 Comparative Information**

### **8.1 Comparative information must be disclosed for all reporting periods presented in the financial report.**

8.1.1 In accordance with Accounting Standard AASB 1034 and Australian Accounting Standard AAS 37 “Financial Report Presentation and Disclosures”, comparative information is restated in the financial report for the reporting period in which the *initial disclosure event* occurs and subsequent reporting periods in which the *discontinuing operation* is disclosed. That is, comparative information shows a *discontinuing operation* as if it had always been discontinuing. Appendix 2 illustrates the treatment of comparative information.

8.2 **Where the *entity* withdraws from a plan in relation to an operation that was previously reported as a *discontinuing operation*, the comparative information must be presented as if the operation had never been discontinuing.**

## **9 Transitional Provisions**

9.1 **The provisions of this Standard need not be applied for a *discontinuing operation*:**

- (a) **where the *initial disclosure event* occurred before the beginning of the reporting period in which this Standard is first applied; and**
- (b) **the operation is *discontinued* in, or before, the reporting period in which this Standard is first applied.**

**If the *entity* elects to comply with some of the provisions of this Standard in respect of that *discontinuing operation*, it must comply with all of the provisions of this Standard for that *discontinuing operation*.**

## **10 Definitions**

10.1 **In this Standard:**

***annual reporting period* means the *financial year* or similar period to which an annual financial report relates**

***assets*** means future economic benefits controlled by the *entity* as a result of past transactions or other past events

***borrowing costs*** means interest and other costs incurred by an *entity* in connection with the borrowing of funds

***business segment*** means a distinguishable component of an *entity* and that component is engaged in providing an individual product or service or a group of related products or services and is subject to risks and returns that are different from those of other distinguishable components of the *entity*. Factors to be considered in determining whether products and services are related include:

- (a) the nature of the products or services;
- (b) the nature of the production processes;
- (c) the type or class of customer for the products or services;
- (d) the methods used to distribute the products or provide the services; and
- (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities

***carrying amount*** means, in relation to an *asset* or a *liability*, the amount at which the *asset* or *liability* is recorded in the accounting records as at a particular date

***discontinued*** means, in relation to a *discontinuing operation*, that the plan for discontinuance has been executed, whether or not settlement has occurred

***discontinuing operation*** means a major component of an *entity*:

- (a) that the *entity's* management or governing body has developed a single plan to:
  - (i) dispose of in its entirety through one or more transactions; or
  - (ii) abandon; or

- (iii) terminate through a combination of one or more transactions and abandonment;
- (b) that represents a separate major activity or geographical area of operations; and
- (c) that can be separately identified for operational and financial reporting purposes

*economic entity* means a group of *entities* comprising the *parent entity* and each of its subsidiaries

*entity* means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives

*equity* means the residual interest in the *assets* of the *entity* after deduction of its *liabilities*

*expenses* means consumptions or losses of future economic benefits in the form of reductions in *assets* or increases in *liabilities* of the *entity*, other than those relating to distributions to owners, that result in a decrease in *equity* during the reporting period

*extraordinary items* means items of *revenue* and *expense* that are attributable to transactions or other events of a type that are outside the *ordinary activities* of the *entity* and are not of a recurring nature

*general purpose financial report* means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs

*geographical segment* means a distinguishable component of an *entity* and that component is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other geographical areas. Factors to be considered in identifying geographical segments include:

- (a) similarity of economic and political conditions;

- (b) relationships between operations in different geographical areas;
- (c) proximity of operations;
- (d) special risks associated with operations in a particular area;
- (e) exchange control regulations; and
- (f) the underlying currency risks

***government department*** means a government controlled *entity*, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it

***initial disclosure event*** means the occurrence of one of the following, whichever occurs earlier:

- (a) the *entity* has entered into a binding sale agreement for all of the *assets* attributable to the *discontinuing operation*; or
- (b) the *entity's* management or governing body has both:
  - (i) approved a detailed, formal plan for the discontinuance; and
  - (ii) made an announcement of the plan,

such that it is highly unlikely that the *entity* will withdraw from the discontinuance

***liabilities*** means the future sacrifices of economic benefits that the *entity* is presently obliged to make to other *entities* as a result of past transactions or other past events

***local government*** means an *entity* comprising all *entities* controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation

***ordinary activities*** means activities that are undertaken by an *entity* as part of its business or to meet its objectives and related activities in which the *entity* engages in furtherance

of, incidental to, or arising from activities undertaken to meet its objectives

*parent entity* means an *entity* which controls another *entity*

*recognised* means reported on, or incorporated in amounts reported on, the face of the *statement of financial performance* or the statement of financial position (whether or not further disclosure of the item is made in the notes)

*reportable segment* means a *business segment* or a *geographical segment* for which segment information is required to be disclosed in accordance with Accounting Standard AASB 1005 “Segment Reporting”

*reporting date* means the end of the reporting period to which the financial report relates

*reporting entity* means an *entity* (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:

- (a) a *disclosing entity*; and
- (b) a *company* which is not a subsidiary of a *holding company* incorporated in Australia and which is a subsidiary of a foreign company where that foreign company has its securities listed for quotation on a *stock market* or those securities are traded on a *stock market*

*restructuring* means a program that is planned and controlled by the *entity's* management or governing body, and materially changes either:

- (a) the scope of a business undertaken by the *entity*; or
- (b) the manner in which the business is conducted

*revenues* means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in *assets* or reductions in *liabilities* of the *entity*, other than those relating to contributions by owners, that result in an increase in *equity* during the reporting period

*time of completion* means:

- (a) in the case of *entities* required to produce a financial report in accordance with the Corporations Law - the date of the Directors' Declaration; and
- (b) in the case of other *entities* - the date of final approval of the financial report by the management or governing body of the *entity*, whichever is applicable.

### **Annual Reporting Period**

10.1.1 The definition of *annual reporting period* refers to *financial year* or similar period and will normally be a twelve-month period. The *annual reporting period* will differ from twelve months in circumstances such as:

- (a) the *entity* being established on a date other than a date exactly twelve months before the *reporting date*; and
- (b) the *entity* changing its *reporting date*.

### **Corporations Law Definitions**

10.2 **In this Standard, the following definitions apply to each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law:**

*company* is defined in the Corporations Law

*disclosing entity* is defined in the Corporations Law

*financial year* is defined in the Corporations Law

*holding company* is defined in the Corporations Law

*statement of financial performance* means profit and loss statement as required by the Corporations Law

*stock market* is defined in the Corporations Law.



## APPENDICES

The Appendices form part of the commentary and are provided for illustrative purposes only. They do not include every possible disclosure that might be appropriate. Other methods of presentation which comply with the disclosure requirements in this Standard may be appropriate in the particular circumstances of the entity.

### APPENDIX 1

#### ILLUSTRATIVE DISCLOSURES

##### 1. LOSS ON DISPOSAL

This section illustrates the disclosures required when an entity recognises a loss on the disposal of a discontinuing operation.

##### DATA

X Ltd has three segments, A, B and C. Management has decided to dispose of Segment C (the clothing division) because its activities are deemed to be inconsistent with the long-term direction of X Ltd. On 15 November 20X1, the Board of Directors of X Ltd voted to approve the disposal, and an announcement was made. On that date, the carrying amount of Segment C's net assets was \$90 (assets of \$105 less liabilities of \$15). The recoverable amount of the assets carried at \$105 was \$85, and an impairment loss of \$20 before income tax expense was recognised. At 31 December 20X1, the carrying amount of Segment C's net assets was \$70 (assets of \$85 less liabilities of \$15). The company expected to complete the plan to dispose of Segment C before 31 December 20X2.

On 31 December 20X2, when the carrying amount of the net assets of Segment C was still \$70 (assets of \$85 less liabilities of \$15), X Ltd signed a legally binding contract to sell Segment C for \$60. The sale was completed by 30 April 20X3. Based on the sale contract, the recoverable amount of the assets is \$75 and an additional impairment loss of \$10 is recognised. In addition, the sale contract obliges X to terminate the employment of certain employees of Segment C, incurring an expected termination cost of \$30. This results in a liability and related expense being recognised in 20X2. During 20X3, the company operated Segment C until the settlement date of 30 April 20X3, making a profit of \$5 from those operations. At 30 April 20X3, the carrying amount of Segment C's net assets is \$35, consisting of assets of \$80 less liabilities of \$45 (including the provision for expected termination cost of \$30). The applicable income tax rate is 30 per cent.

X Ltd prepares its financial report annually as at 31 December. The illustrative disclosures contain additional data in order to complete relevant components of the financial report.

If X Ltd were a parent entity within an economic entity, the disclosures illustrated are those required for the parent entity. The economic entity would not disclose Segment C as a discontinuing operation unless all activities similar to those conducted by Segment C are discontinued by the economic entity, and Segment C is material in the context of the economic entity.

## FINANCIAL REPORT FOR 20X1

### Statement of Financial Performance for the year ended 31 December 20X1

The statement of financial performance could be presented as follows. Note that the 20X0 comparative information has been restated to segregate the continuing and discontinuing operations.

#### X Ltd

#### Statement of Financial Performance for the financial year ended 31 December 20X1

	Continuing Operations		Discontinuing Operation		Total Company	
	20X1	20X0	20X1	20X0	20X1	20X0
Revenues from ordinary activities	90	88	50	47	140	135
Expenses from ordinary activities <sup>1</sup>	(65)	(63)	(47)	(34)	(112)	(97)
Borrowing costs expense	(10)	(6)	(5)	(4)	(15)	(10)
Profit (loss) before income tax	15	19	(2)	9	13	28
Income tax revenue (income tax expense)	(5)	(6)	1	(3)	(4)	(9)
Net profit (loss)	10	13	(1)	6	9	19

As an alternative to the foregoing statement of financial performance presentation, note disclosure is permitted as illustrated below .

<sup>1</sup> Expenses from ordinary activities include any impairment loss.

## Statement of Financial Position as at 31 December 20X1

The carrying amounts of Segment C's total assets and total liabilities could be disclosed on the face of the statement of financial position. Alternatively, note disclosure is permitted as illustrated below.

## Statement of Cash Flows for the year ended 31 December 20X1

Cash flows relating to continuing and discontinuing operations could be segregated on the face of the statement of cash flows. Alternatively, note disclosure is permitted as illustrated below.

## Notes in the Financial Report for 20X1

*The notes in X Ltd's financial report should contain the following information where it is not disclosed on the face of the financial statements.*<sup>2</sup>

On 15 November 20X1, the Board of Directors announced a plan to dispose of Segment C, the clothing division which manufactures and retails clothing under the AB and LM brandnames. The disposal is consistent with X'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 expects to complete the sale by the end of 20X2. Financial information for Segment C as at 31 December 20X1 was as follows:

Segment C		
	20X1	20X0
<b>Financial Performance Information for the year ended 31 December</b>		
Revenues from ordinary activities	50	47
Expenses from ordinary activities <sup>3</sup>	(52)	(38)
Profit (loss) before income tax	(2)	9
Income tax revenue (income tax expense)	1	(3)
Net profit (loss)	(1)	6
<b>Financial Position Information as at 31 December</b>		
Assets	85	110
Liabilities	(15)	(20)
Net assets	70	90

<sup>2</sup> Explanatory material in the pro forma notes in the financial report is italicised.

<sup>3</sup> Expenses from ordinary activities include borrowing costs expense.

### Segment C

	20X1	20X0
<b>Cash Flow information for the year ended 31 December</b>		
Cash inflow (outflow) from operating activities	(4)	(10)
Cash inflow (outflow) from investing activities	(7)	0
Cash inflow (outflow) from financing activities	3	13
Total cash inflow (outflow)	(8)	3

## FINANCIAL REPORT FOR 20X2

### Statement of Financial Performance for the year ended 31 December 20X2

The statement of financial performance could be presented as follows.

#### X Ltd

#### Statement of Financial Performance for the financial year ended 31 December 20X2

	Continuing Operations		Discontinuing Operation		Total Company	
	20X2	20X1	20X2	20X1	20X2	20X1
Revenues from ordinary activities	100	90	40	50	140	140
Expenses from ordinary activities	(60)	(65)	(40)	(47)	(100)	(112)
Employee termination expense	-	-	(30)	-	(30)	-
Borrowing costs expense	(20)	(10)	(5)	(5)	(25)	(15)
Profit (loss) before income tax	20	15	(35)	(2)	(15)	13
Income tax revenue (income tax expense)	(6)	(5)	10	1	4	(4)
Net profit (loss)	14	10	(25)	(1)	(11)	9

As an alternative to the foregoing statement of financial performance presentation, note disclosure is permitted as illustrated below.

### Statement of Financial Position as at 31 December 20X2

The carrying amounts of Segment C's total assets and total liabilities could be disclosed on the face of the statement of financial position. Alternatively, note disclosure is permitted as illustrated below.

## Statement of Cash Flows for the year ended 31 December 20X2

Cash flows relating to continuing and discontinuing operations could be segregated on the face of the statement of cash flows. Alternatively, note disclosure is permitted as illustrated below.

### Notes in the Financial Report for 20X2

*The notes in X Ltd's financial report should contain the following information where it is not disclosed on the face of the financial statements.*

On 15 November 20X1, the Board of Directors announced a plan to dispose of Segment C, the clothing division which manufactures and retails clothing under the AB and LM brandnames. The Board decided to dispose of Segment C because its operations are in a different industry from the core business areas (food and beverage manufacture and distribution) that form the long-term direction of X Ltd. Further, Segment C's rate of return has been less than that of Segments A and B during the reporting period.

Segment C was not discontinued before 31 December 20X2 because finding a buyer for the business took longer than expected. On 31 December 20X2, X Ltd signed a contract to sell Segment C for \$60. Under the terms of the contract, X is obliged to terminate the employment of certain employees of Segment C, and a provision for expected termination costs of \$30 has been recognised for the year ended 31 December 20X2. The sale is expected to be completed by 30 April 20X3. Settlement of liabilities relating to termination of employment will be made by 30 June 20X3.

#### Segment C

	20X2	20X1
<b>Financial Performance Information for the year ended 31 December</b>		
Revenues from ordinary activities	40	50
Expenses from ordinary activities <sup>4</sup>	(45)	(52)
Employee termination expense	(30)	-
Profit (loss) before income tax	(35)	(2)
Income tax revenue	10	1
Net profit (loss)	(25)	(1)

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<sup>4</sup> Expenses from ordinary activities include borrowing costs expense.

**Segment C**

	<b>20X2</b>	<b>20X1</b>
<b>Financial Position Information as at 31 December</b>		
Assets	75	85
Provision for employee termination	(30)	-
Other liabilities	(15)	(15)
Net assets	30	70
<b>Cash Flow information for the year ended 31 December</b>		
Cash inflow (outflow) from operating activities	(7)	(4)
Cash inflow (outflow) from investing activities	(3)	(7)
Cash inflow (outflow) from financing activities	2	3
Total cash inflow (outflow)	(8)	(8)

## FINANCIAL REPORT FOR 20X3

The financial report for 20X3 would include all of the disclosures required by this Standard, including the fact that the discontinuance was completed. Either the financial statements for 20X3 or the notes in the financial report would segregate the continuing and discontinuing operations, together with comparative information, in a manner similar to that used in 20X2. Although not required by this Standard the aggregate amount of the pre-tax loss on the disposal of Segment C is shown on the face of the illustrative statement of financial performance which could be presented as follows.

<b>X Ltd</b>						
<b>Statement of Financial Performance</b>						
<b>for the financial year ended 31 December 20X3</b>						
	<b>Continuing Operations</b>		<b>Discontinuing Operation</b>		<b>Total Company</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Revenues from ordinary activities	150	100	12	40	162	140
Expenses from ordinary activities	(102)	(60)	(7)	(40)	(109)	(100)
Profit (loss) on disposal of Segment C	-	-	(5)	-	(5)	-
Employee termination expense	-	-	-	(30)	-	(30)
Borrowing costs expense	(20)	(20)	-	(5)	(20)	(25)
Profit (loss) before income tax	28	20	0	(35)	28	(15)
Income tax revenue (income tax expense )	(10)	(6)	0	10	(10)	4
Net profit (loss)	18	14	0	(25)	18	(11)

## 2. PROFIT ON DISPOSAL

This section amends the data used in the previous section to illustrate the disclosures required when an entity recognises a profit on the disposal of a discontinuing operation.

### REVISED DATA

On 31 December 20X2 (when the carrying amount of Segment C's net assets was \$70), X Ltd signed a binding contract to sell Segment C for \$120. An impairment loss was not recognised in 20X2 and the \$20 impairment loss recognised in 20X1 was reversed in 20X2. X Ltd was committed to pay employee termination costs of \$30. In 20X3, a pre-tax profit on disposal of \$25 is recognised and, although not required by this Standard, is presented on the face of the statement of financial performance. The following illustrates the revised statement of financial performance for 20X3.

### FINANCIAL REPORT FOR 20X3

The financial report for 20X3 would include all of the disclosures required by this Standard, including the fact that the discontinuance was completed.

<b>X Ltd</b>						
<b>Statement of Financial Performance</b>						
<b>for the financial year ended 31 December 20X3</b>						
	<b>Continuing Operations</b>		<b>Discontinuing Operation</b>		<b>Total Company</b>	
	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>	<b>20X3</b>	<b>20X2</b>
Revenues from ordinary activities	150	100	12	40	162	140
Reversal of impairment loss	-	-	-	20	-	20
Expenses from ordinary activities	(102)	(60)	(7)	(30)	(109)	(90)
Employee termination expense	-	-	-	(30)	-	(30)
Borrowing costs expense	(20)	(20)	-	(5)	(20)	(25)
Profit on disposal of Segment C	-	-	25	-	25	-
Profit (loss) before income tax	28	20	30	(5)	58	15
Income tax revenue (income tax expense)	(10)	(6)	(10)	2	(20)	(4)
Net profit (loss)	18	14	20	(3)	38	11



## **APPENDIX 2**

### **COMPARATIVE INFORMATION**

This Appendix is provided to illustrate the application of this Standard to the disclosure of comparative information. Although it illustrates the effect of different timings of discontinuing operations it should not be interpreted as implying that any entity would have two discontinuing operations in such a short time frame.

#### **DATA**

Comparative information that is presented in financial reports prepared after the date of the initial disclosure event is restated to segregate assets, liabilities, revenues, expenses and cash flows attributable to continuing and discontinuing operations.

Consider the following set of changes to an entity:

- (a) operations A, B, C and D were all continuing in years 1 and 2;
- (b) in year 3, operation D is discontinued (initial disclosure event occurred and discontinuance was completed);
- (c) late in year 4, operation B is discontinued (initial disclosure event occurred and discontinuance was completed) and operation E is acquired; and
- (d) in year 5 operation F is acquired.

## 1. DISCLOSURES

The following tables illustrate the classification of operations A, B, C, D, E and F as continuing or discontinuing:

<b>FINANCIAL REPORT FOR YEAR 3 (Prepared Early in Year 4)</b>			
<b>Year 2 Comparatives</b>		<b>Year 3</b>	
<b>Continuing</b>	<b>Discontinuing</b>	<b>Continuing</b>	<b>Discontinuing</b>
<b>A</b>		<b>A</b>	
<b>B</b>		<b>B</b>	
<b>C</b>		<b>C</b>	
	<b>D</b>		<b>D</b>
<b>FINANCIAL REPORT FOR YEAR 4 (Prepared Early in Year 5)</b>			
<b>Year 3 Comparatives</b>		<b>Year 4</b>	
<b>Continuing</b>	<b>Discontinuing</b>	<b>Continuing</b>	<b>Discontinuing</b>
<b>A</b>		<b>A</b>	
	<b>B</b>		<b>B</b>
<b>C</b>		<b>C</b>	
	<b>D</b>		
		<b>E</b>	

In the above table, the financial report for year 4 shows operation D as discontinuing in year 3 because of the requirement to disclose total entity information for both year 3 and year 4.

<b>FINANCIAL REPORT FOR YEAR 5 (Prepared Early in Year 6)</b>			
<b>Year 4 Comparatives</b>		<b>Year 5</b>	
<b>Continuing</b>	<b>Discontinuing</b>	<b>Continuing</b>	<b>Discontinuing</b>
<b>A</b>		<b>A</b>	
	<b>B</b>		
<b>C</b>		<b>C</b>	
<b>E</b>		<b>E</b>	
		<b>F</b>	

## 2. EVENT AFTER REPORTING DATE

If the initial disclosure event for operation B had occurred early in year 4, before the financial reports for year 3 had been finalised, operation B would have been disclosed as a discontinuing operation in a note in the financial report for year 3, together with the year 2 comparatives, as follows:

<b>NOTE IN FINANCIAL REPORT FOR YEAR 3 (Prepared in Year 4 After the Initial Disclosure Event for Operation B)</b>			
<b>Year 2 Comparatives</b>		<b>Year 3</b>	
<b>Continuing</b>	<b>Discontinuing</b>	<b>Continuing</b>	<b>Discontinuing</b>
<b>A</b>		<b>A</b>	
	<b>B</b>		<b>B</b>
<b>C</b>		<b>C</b>	
	<b>D</b>		<b>D</b>

## 3. FIVE-YEAR COMPARATIVES

Based on the original data, if five-year comparative financial information were presented in the financial report for year 5, the classification of continuing and discontinuing operations would be as follows:

<b>FINANCIAL REPORT FOR YEAR 5</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>
<b>A</b>		<b>A</b>		<b>A</b>		<b>A</b>		<b>A</b>	
	<b>B</b>		<b>B</b>		<b>B</b>		<b>B</b>		
<b>C</b>		<b>C</b>		<b>C</b>		<b>C</b>		<b>C</b>	
	<b>D</b>		<b>D</b>		<b>D</b>				
						<b>E</b>		<b>E</b>	
								<b>F</b>	

## **CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS**

### **Conformity with International Accounting Standards**

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 35 “Discontinuing Operations” to the extent that IAS 35 addresses annual financial reporting, except that:

- (a) IAS 35 prohibits a discontinuing operation from being classified as an extraordinary item; and
- (b) IAS 35 requires the amount of gain or loss before income tax expense (income tax revenue) recognised on the disposal of assets or settlement of liabilities attributable to each discontinuing operation to be disclosed on the face of the statement of financial performance.

### **Conformity with New Zealand Accounting Standards**

Financial Reporting Standard FRS-9 “Information to be Disclosed in Financial Statements” contains requirements for disclosure of information relating to discontinued activities. The disclosures required of discontinued activities by FRS-9 are included in the disclosure requirements for discontinuing operations contained in this Standard.

## **DEVELOPMENT OF THE STANDARD**

This section does not form part of the Standard. It is a summary of the development of the Standard.

- 1 The issue of the Standard is part of a program commenced by the former Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation (the former Boards) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee (IASC). The reconstituted Australian Accounting Standards Board (AASB) is continuing this program and has issued the Standard as part of a single series of Standards rather than in the former two series as both an Accounting Standard and an Australian Accounting Standard.
- 2 The issue of the Standard follows consideration of the responses received on Exposure Draft ED 95 “Discontinuing Operations”, which was prepared by the former Boards and released in October 1998. ED 95 contained proposals aimed at harmonising Australian accounting standards with International Accounting Standard IAS 35 “Discontinuing Operations”.

### **Principal Features of ED 95 Retained in the Standard**

- 3 The Standard retains the basic content of ED 95 which was based on IAS 35. In issuing ED 95, the former Boards made minimal changes to IAS 35 with the changes arising mainly from differences in terminology and the order of paragraphs between IASC Standards and Australian accounting standards.
- 4 The Standard defines discontinuing operations and requires disclosures in respect of discontinuing operations.

### **Noteworthy Differences from ED 95**

- 5 In the light of comments received from constituents the Standard has been restructured to:
  - (a) provide additional guidance on the identification of a discontinuing operation and an initial disclosure event and guidance specific to the public sector because constituents

commented, and the AASB agreed, that the guidance proposed in ED 95 was inadequate; and

- (b) remove guidance relating to the application of other Australian accounting standards because constituents commented, and the AASB agreed, that this was unnecessary.
- 6 The Standard does not apply to the restructuring of administrative arrangements between government departments or administered activities of a government department because the financial reporting requirements for such activities and transactions are contained in AAS 29 “Financial Reporting by Government Departments”.
- 7 ED 95 proposed prohibiting the recognition of a discontinuing operation as an extraordinary item. The Standard acknowledges that while a discontinuing operation, in and of itself, is not an extraordinary item, particular revenues and expenses associated with a discontinuing operation may, in rare cases, meet the definition of extraordinary items. In these cases, the Standard requires such revenues and expenses to be classified as extraordinary items.
- 8 ED 95 proposed requiring the aggregate amount of gains or losses on disposal of assets or settlement of liabilities to be disclosed on the face of the statement of financial performance. For some entities this disclosure may overload the face of the statement of financial performance. Therefore, the Standard permits this detail to be disclosed in the notes in the financial report.
- 9 The Standard contains additional disclosure requirements in respect of:
- (a) discontinuing operations that are not discontinued in the annual reporting period immediately following the annual reporting period in which the initial disclosure event occurred, in order to make clear the intentions of the entity in respect of operations where the discontinuance will take place over more than one reporting period; and
  - (b) the rare situation where an entity withdraws from a plan for discontinuation, in order to ensure that the reasons for the withdrawal from the plan are explained.
- 10 The Standard contains additional requirements relating to the disclosure of relevant comparative information because the application of the comparative disclosure provisions of Accounting

Standard AASB 1034 and Australian Accounting Standard AAS 37  
“Financial Report Presentation and Disclosures” required  
clarification in respect of discontinuing operations.

- 11 The Standard contains transitional provisions to relieve entities with  
existing discontinuing operations from potentially burdensome  
disclosure requirements.