AS 24 – Discontinuing Operations

1. What is a Discontinuing Operation?

A **discontinuing operation** means when a company **decides to stop one complete major part of its business**, and does it under a **single, clear plan**.

This can happen in three ways:

1. **Sale in entirety** – selling the whole division/business.
2. **Piecemeal disposal** – selling assets/liabilities step by step.
3. **Abandonment** – shutting down the operation completely.

It must be a **separate major line of business** or **geographical segment**, not just one product.

Example:
If Reliance Industries decides to sell its entire **telecom business (Jio)** to focus only on oil & retail – that's a discontinuing operation.

2. What is NOT a Discontinuing Operation?

Sometimes companies stop or change something, but it does **not** qualify as discontinuing operation.

- Cases which are NOT covered:
  - **Gradual phase out:** Slowly stopping one product line.
  - **Stopping few products:** Closing 2 out of 10 models of TV sets.
  - **Shifting location:** Moving a factory from Mumbai to Pune.
  - **Closing a facility for efficiency:** Shutting down one old plant but continuing the same business elsewhere.

Examples:

- **Coca-Cola Tab (2020):** After nearly 60 years, Coca-Cola discontinued "Tab", its first diet cola → gradual phase out (NOT discontinuing operation).
- **Microsoft Internet Explorer (2022):** Microsoft phased out Internet Explorer browser after 27 years → again a gradual phase-out, not a discontinuing operation.

3. When is a Component Qualifying?

A part of business is treated as a **component** (and can be discontinued) if:

1. Its **assets & liabilities** can be separately identified.
2. Its **revenues** can be separately identified.

3. Its **expenses** can be separately identified.

Example:
Infosys has **domestic IT business** and **overseas IT business**. If Infosys discontinues the overseas arm, separate revenues, costs and assets are clearly available → qualifies as discontinuing operation.

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4. Initial Disclosure Event (IDE)

The reporting of discontinuing operation starts from the **earliest** of:

1. Signing of a **binding sale agreement**, OR
2. **Board approval** of a detailed plan + **formal public announcement**.

Example:
AB Ltd approves sale of its clothing division on **1st March**, announces it on **15th March**, and signs agreement on **1st July**.

- IDE = **15th March** (announcement date).

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5. What should a Formal Plan include?

A plan should be **written, specific, and detailed**. It must clearly state:

- Which **assets** will be sold.
- How disposal will happen (full sale, piecemeal, demerger).
- **Timeline** for completion.
- Locations affected.
- Approx. number of **employees losing jobs / to be compensated**.
- Expected **cash inflows / proceeds** from the sale.

Once such a plan is publicly announced, the company is considered "committed" to discontinuance.

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6. What Disclosures are Required?

(a) First year (after IDE):

- Description of the discontinued business.
- Segment in which it is reported.
- Date & nature of IDE.
- Timeline for completion.
- Assets & liabilities to be disposed.
- Revenues, expenses, profit/loss, tax related to the operation.
- Cash flows (operating, investing, financing).

Important: Profit/Loss & related tax → shown **on the face of P&L**.
All other items → shown in **Notes to Accounts**.

(b) In later years:

- Actual gain/loss on disposal.
- Tax effect.
- Selling price agreed.
- Changes in timeline/cash flows.

(c) Duration:
Disclose until discontinuance is **completed or abandoned**.

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7. Comparative & Interim Reporting

- Previous year figures must be **restated** (to show continuing vs. discontinuing separately).
- In **quarterly/interim reports**, companies must also update on major changes/events.

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8. Does it Affect Going Concern?

Stopping one division does **not mean** the company will shut down completely.

- Remaining operations continue as going concern.

Example:
Tata Motors discontinued its **passenger diesel cars**, but continues with electric & commercial vehicles – company still a going concern.

Real-Life Company Examples

1. **ITC Hotels Demerger (2023):** ITC announced demerging its **hotel business** into a separate entity. Hotels were a major line → discontinuing operation.
2. **Tata Steel UK (2016):** Tata Steel sold its **long products division in the UK**. This was a separate geographical segment → discontinuing operation.
3. In June 2025, Panasonic decided to **discontinue** its consumer electronics business in India.

Key Takeaways for Students

- **Discontinuing operation = stopping one major segment under a single plan.**
- **NOT included:** gradual phase-out (Coca-Cola Tab, Microsoft IE), shifting, facility closure.
- **Disclosure starts** from IDE (sale agreement or board announcement).

- Show **profits/losses on P&L face**, other details in **Notes**.
- Disclosures continue till completion/abandonment.
- Discontinuance ≠ company shut down.