

TOPIC - 22

ACCOUNTING STANDARD - 24

DISCONTINUING OPERATION

TOTAL NO QUESTION - 07

Q.AS22.SM.01: (RTP May18, May23 & MTP April19, Aug18)

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000



The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 20X6 to this effect. The company follows the calendar year as its accounting year.

You required advising the company whether it should be treated as discontinuing operation or not as per AS 24?

Q.AS22.SM.02: (RTP - Nov18, May20, May22, Nov22)

Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances



Q.AS24.RMP.03: (RTP Nov20, May22)

What do you understand by Discontinuing Operations? What are the disclosure and presentation requirements of AS 24 for discontinuing operations? Explain in brief.

**Q.AS24.RMP.04: (RTP May21)**

Arzoo Ltd. is in the business of manufacture of passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the passenger car segment to the commercial vehicles segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it has planned that it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner. These plans have not approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

**Q.AS24.RMP.05: (Exam Nov 18, RTP Nov21)**

What are the initial disclosure requirements of AS 24 for discontinuing operations?

Q.AS24.RMP.06: (Exam July21)

Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment:

- i. If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS - 24.
- ii. If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?
- iii. Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

Q.AS24.SM.07

- (i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?
- (ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

SOLUTIONS OF ABOVE QUESTIONS

ANSWER: Q01

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

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

As per provisions of the standard, 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 themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business; In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- (i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- (ii) The enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

ANSWER: Q02

Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

- (i) Gradual or evolutionary phasing out of a product line or class of service;
- (ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (iv) Closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

ANSWER: Q03

As per AS 24 "Discontinuing Operations", 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, such as by selling the component in a single transaction

or by demerger or spin-off of ownership of the component to the enterprise's shareholders or

(ii) Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually or

(iii) Terminating through abandonment and

b. That represents a separate major line of business or geographical area of operations.

c. That can be distinguished operationally and for financial reporting purposes.

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 occurs:

- A description of the discontinuing operation(s);
- The business or geographical segment(s) in which it is reported as per AS 17;
- The date and nature of the initial disclosure event.
- The date or period in which the discontinuance is expected to be completed if known or determinable,
- The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;
- The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
- The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto;
- The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

ANSWER: Q04

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

- (1) Gradual or evolutionary phasing out of a product line or class of service;
- (2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (3) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (4) Closing of a facility to achieve productivity improvements or other cost savings.

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e.,

commercial vehicle production line in a new factory has not started.
and made an announcement of the plan.

ANSWER: Q05

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 occurs:

- a. A **description** of the discontinuing operation(s)
- b. The **business or geographical segment(s)** in which it is reported as per AS 17
- 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** to be disposed of and the **total liabilities** to be settled
- f. The amounts of **revenue and expenses** in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period
- g. The amount of **pre-tax profit or loss from ordinary activities** attributable to the discontinuing operation during the current financial reporting period, **and the income tax expense** related thereto
- h. The amounts of **net cash flows** attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period

Where to disclose above items?

All the disclosures above should be presented in the notes to the financial statements except for amounts pertaining to pre-tax profit/loss of the discontinuing operation and the income tax expense thereon (second last bullet above) which should be shown on the face of the statement of profit and loss.

SOLUTION Q06

(i) As per AS 24, 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, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
- ii. Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
- iii. Terminating through abandonment; and

That represents a separate major line of business or geographical area of operations; and

(b) That can be distinguished operationally and for financial reporting purposes.

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'. Examples of activities that do not necessarily satisfy criterion of the definition, 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. Shifting of some production or marketing activities for a particular line of business from one location to another; and
- c. Closing of a facility to achieve productivity improvements or other cost savings.

In this case, it cannot be considered as Discontinuing Operation as per AS-24 as the company's strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e., commercial vehicle production line in a new factory has not started.

(ii) No, the resolution is silent about stoppage of the car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.

Hence, AS 24 will not be applicable and it cannot be considered as discontinuing operation.

(iii) Yes, phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.

Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operation as per AS-24.

Solution Q07

- (i) An enterprise should include prescribed 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 15 of AS 24) occurs. For details, please refer Section 6.5 of this Chapter above.
- (ii) Examples of activities that do not necessarily satisfy criterion (a) of the definition, 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; and
 - (d) Closing of a facility to achieve productivity improvements or other cost savings.



Student Notes: -