



## AS 24

# Discontinuing Operations

### Question 1

- 1) **What are the disclosure and presentation requirements of AS 24 for discontinuing operations?**  
**(RTP May 20, May 22, Old & New SM)**
- 2) **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.**  
**(RTP May 20, Nov 18, May 22, Old & New SM)**

### Answer 1

**(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) occurs

#### **INITIAL DISCLOSURE**

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

#### **DISCLOSURES OTHER THAN INITIAL DISCLOSURES NOTE**

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.

#### **Other disclosures**

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 recognized 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 and



- b. The net selling price or range of prices (which is after deducting 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 on the balance sheet date.

### **Updating the disclosures**

In addition to these disclosures, 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 to be disposed or liabilities to be settled and the events causing those changes.

The disclosures should continue in financial statements for periods up to and including the period in which the discontinuance is completed. Discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received. If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefore and its effect should be disclosed.

Separate disclosure for each discontinuing operation Any disclosures required by AS 24 should be presented separately for each discontinuing operation.

### **Presentation of the required disclosures**

The above disclosures should be presented in the notes to the financial statements except the following which should be shown on the face of the statement of profit and loss:

- 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 and
- The amount of the pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to the discontinuing operation.

(ii) Para 3 of AS 24 “Discontinuing Operations” explains the criteria for determination of discontinuing operations.

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

- 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.
- Shifting of some production or marketing activities for a particular line of business from one location to another and
- Closing of a facility to achieve productivity improvements or other cost savings.

### **Questions 2**

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:**

- 1. If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS-24.**
- 2. 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?**
- 3. Would your answer to (ii) above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner? (New SM)**

### Answers 2

- (i) A discontinuing operation is a component of an enterprise:
- that the enterprise, pursuant to a single plan, is
- (ii) 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
- (iii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
- (iv) terminating through abandonment; and
- that represents a separate major line of business or geographical area of operations; and
  - 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:

- Gradual or evolutionary phasing out of a product line or class of service;*
  - Shifting of some production or marketing activities for a particular line of business from one location to another; and*
  - 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 companies' 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.*
- (v) *No, the resolution is silent about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposals 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 operations.*

- (vi) *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 Operations as per AS-24.*





### **Question 3**

**What are discontinuing operations as per AS 24? Should an enterprise include prescribed information relating to a discontinuing operation in its financial statements? (RTP Nov '21)**

### **Answer 3**

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 prescribed information relating to a discontinuing operation in its financial statements, as per requirements of AS 24, beginning with the financial statements for the period in which the initial disclosure event occurs.

### **Question 4**

**What do you understand by Discontinuing Operations? What are the disclosure and presentation requirements of AS 24 for discontinuing operations? Explain in brief. (RTP Nov 20, PYP 5 Marks Nov'18)**

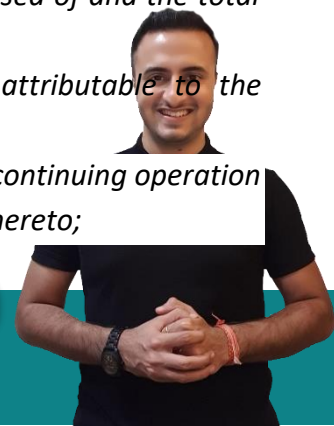
### **Answer 4**

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.

### Question 5

What is the disclosure requirement in interim financial reports as per AS 24 for discontinuing operations? (RTP Nov'22)

### Answer 5

#### **Disclosure in interim financial reports:**

Disclosures in an interim financial report in respect of a discontinuing operation should be made in accordance with AS 25, 'Interim Financial Reporting', including:

- 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 to be disposed or liabilities to be settled.

### Question 6

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

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2021 - September 2021	2,00,000	2,00,000
October 2021 - December 2021	1,00,000	3,00,000
January 2022 - March 2022	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 2021 to this effect. The company follows calendar year as its accounting year.

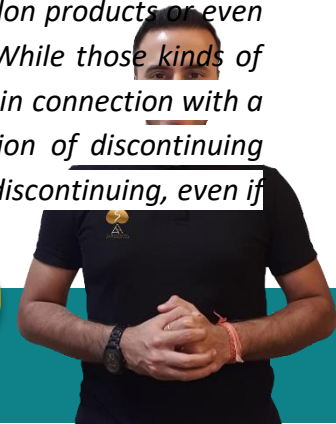
You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24? (RTP May '23, MTP 5 Marks Apr'19, Aug'18, RTP May'18)

### Answer 6

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

- that the enterprise, pursuant to a single plan, is:
  - disposing of substantially in its entirety,
  - disposing of piecemeal, or
  - terminating through abandonment; and
- that represents a separate major line of business or geographical area of operations; and
- 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
- 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.

### **Question 7**

**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?**

**(PYP 5 Marks July 21) (Same concept lesser adjustments RTP May'21)**

### **Answer 7**

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
- 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.

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 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 salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposals 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 operations.*
- (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 Operations as per AS-24.*

