
Status

Issued: June 13, 2003
Effective Date: for periods ending after September 30, 2002
Interpretations and Technical Releases: None.
Affects: None.
Affected by: None.

Summary

I. This technical bulletin answers certain questions arising from the creation of the Department of Homeland Security and other transfers of operations between federal entities directed by the Homeland Security Act of 2002. Standards issued by the Federal Accounting Standards Advisory Board (FASAB) have precedence over other sources of generally accepted accounting principles for Federal entities. This technical bulletin supplements any relevant Federal standards, but is not a substitute for and does not take precedence over standards and interpretations issued by FASAB.

II. The primary effects of this technical bulletin are that:

   a. Legacy entities will segregate the net costs of continuing and transferred operations, and recognize a transfer-out for assets and liabilities transferred. Segregation of the net cost is required for both current and prior period net cost.

   b. Transferred entities will segregate the net costs of continuing and transferred operations for components of the transferred entity that (1) were not transferred from the legacy entity or (2) subsequent to the creation of the Department of Homeland Security were no longer included in the transferred entity’s operations. Transferred entities will recognize a transfer-out for assets and liabilities transferred. Segregation of the net cost is required for both current and prior period net cost.

   c. Department of Homeland Security and other receiving entities will recognize assets and liabilities received at book value\(^1\) and recognize a “transfer-in.” Financial statements based on the transfers and actual operations subsequent to the transfer will be presented.

\(^1\) “Book value” is the net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of any asset or liability minus any allowance or valuation amount.
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Introduction

1. The Homeland Security Act of 2002 impacts many federal entities in varying ways. The purpose of this Technical Bulletin is to provide accounting and reporting guidance for legacy, transferred and receiving entities. The guidance is based largely on Financial Accounting Standard (FAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, modified to fit the circumstances of federal entities. The objective is to provide comparable information for entities affected by the HS Act to the extent feasible.

Effective Date

2. This technical bulletin is effective for reporting periods beginning after September 30, 2002.

Technical Guidance

Scope

3. **What entities’ accounting practices are addressed in this Technical Bulletin?**

4. This guidance is limited to transfers of functions\(^2\), personnel, assets, and liabilities resulting from the Homeland Security Act of 2002 (HS Act\(^3\)). The following types of entities affected by the HS Act are addressed:

   a. “Receiving entity” refers to an entity to which functions are transferred.

   b. “Legacy entity” refers to an entity from which a smaller entity or specific function is being transferred.

\(^2\) The HS Act provides for the transfer of functions, personnel, assets, and liabilities. The term “functions” includes authorities, powers, rights, privileges, immunities, programs, projects, activities, duties, and responsibilities. The term “operations” is more commonly used in accounting literature and is sometimes used as a substitute for “functions” in this document.

\(^3\) Public Law 107-296, 116 Stat. 2135, November 25, 2002.
c. “Transferred entity” refers to an entity preparing stand-alone financial statements consolidated with a legacy entity’s financial statements prior to transfer and with a receiving entity’s financial statements after transfer.\(^4\)

**APB 20 Is Not Applicable**

5. Should receiving, legacy, and/or transferred entities apply Accounting Principles Bulletin (APB) 20 (par. 12 and 35) guidance for a change in entity? (See Appendix B, page 21, for the relevant text of APB 20)

6. No. APB 20 should not be applied to any of the changes resulting from transfers of functions among federal entities due to the HS Act.

**FAS 144 is Applicable**

**Accounting by Legacy Entities**

7. Should legacy entities apply Financial Accounting Standard (FAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,*\(^5\) in accounting for and reporting on components of the entity\(^6\) transferred to receiving entities? (See Appendix C, page 17, for the relevant text of FAS 144)

8. Yes. FAS 144 par. 41 to 44 and 47(a)\(^7\) should be applied by legacy entities with the exception of par. 43 guidance requiring recognition of a gain or loss on disposal (see par. 12

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\(^4\) Guidance is provided for transferred entities because it is possible that functions would be transferred back to the legacy entity. The Office of Management and Budget (OMB) plan for Department of Homeland Security (DHS) specifically provides that “any functions of those entities that are not directly related to securing the homeland will continue to be allocated to the agencies and subdivisions in which they are currently incorporated.”

\(^5\) This Technical Bulletin addresses questions related to applying FAS 144 to a federal reporting entity. While this Technical Bulletin discusses many aspects of applying FAS 144, it does not provide a comprehensive illustration.

\(^6\) FAS 144, par. 41 states that “a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.”

\(^7\) Paragraph 47(a) requires the following disclosure: A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group.
through 14 below). While FAS 144 uses the term “discontinued operations”, legacy entities should use the term “Transferred Operations” as appropriate.\textsuperscript{8}

9. In reporting the “results of operations of the component” for current and prior periods as required by par. 43 of FAS 144 (see page 17), what information should the legacy entities report?

10. For all periods presented, legacy entities should report material amounts of gross cost, exchange revenue, and net cost for transferred or discontinued components of the entity (as defined by par. 41 of FAS 144 - see page 17). In some cases, functions may be discontinued or transferred but may not be “components of the entity” as defined in par. 41 of FAS 144. If functions are not “components of the entity” there is no requirement to separately report the function’s results of operations under FAS 144.

11. The Statement of Net Cost should present a sub-total for “Net Cost of Continuing Operations” immediately before the presentation of amounts related to transferred and/or discontinued operations. All elements related to transferred and/or discontinued operations should be appropriately labeled. For example, for transferred operations:

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<th>Net Cost of Continuing Operations</th>
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<td>XX</td>
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<tr>
<td>Net Cost</td>
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12. What amount should legacy entities report for the transfer of assets and liabilities?

\textsuperscript{8}All affected entities are components of the Federal Government as a whole. Thus, all statements should clearly distinguish between operations that are transferred versus truly “discontinued.” While the operations may be discontinued at one entity – they may be continued at another entity. Thus, the term “transferred” may be more appropriate.
13. SFFAS 7, par. 74, provides that transfers between entities without reimbursement should be recognized as “transfers-in⁹ or out” on the Statement of Changes in Net Position. The amount transferred is equivalent to the book value¹⁰ of all assets and liabilities transferred.

14. This SFFAS 7 guidance precludes application of FAS 144’s requirement that gains and losses be included in the results of operations of discontinued or transferred operations (FAS 144, par. 37 and 43).

15. **Does FAS 144 require legacy entities to segregate the Statements of Budgetary Resources and Financing between continuing and transferred and/or discontinued operations?**

16. No. There are no FAS 144 requirements that would apply to the Statements of Budgetary Resources and Financing.¹¹

**Accounting by Transferred Entities**

17. **Should a transferred entity preparing its own financial statements apply FAS 144 par. 41 through 44 and 47(a) to reporting on discontinued or transferred components of the entity?**

18. Yes. If a transferred entity had material components (as defined by FAS 144 par. 41) that were not also transferred with the rest of the entity, the transferred entity should apply FAS 144, par. 41 through 44 and 47(a) and par. 10 and 11 above and report separately the results of continuing and transferred operations.¹²

19. **What additional disclosures should a transferred entity preparing free-standing entity-level financial statements provide?**

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⁹It is possible to have a negative transfer-out at the legacy entity because liabilities transferred may exceed assets transferred.

¹⁰“Book value” is the net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of any asset or liability minus any allowance or valuation amount.

¹¹While these statements may be affected by transactions related to the HS Act, this Technical Bulletin provides guidance on application of FAS 144 in light of existing federal guidance. FAS 144 requirements relate primarily to exchange transactions as well as events associated with operations. Thus, FAS 144 requirements do not extend to these statements.

¹²For example, an entity may transfer to DHS “except for” certain functions that remain with the legacy entity. If these un-transferred functions are carried out by a component of the entity as defined in FAS 144 par. 41 and the associated amounts are material, the related revenues and costs would be reported under “transferred operations” per par. 11.”
20. Transferred entities should disclose:
   a. a description of the facts and circumstances leading to the transfer,
   b. the timing of the transfer,
   c. significant changes in its operations as a result of the transfer, and
   d. the net cost attributable to the transferred entity’s pre-transfer operations (this amount is equal to the amount the legacy entity would report as “net cost of discontinued or transferred operations” per par. 10 above).

Accounting by Receiving Entities

21. How will receiving entity financial statements report on the transfer of components and functions from legacy entities?

22. Receiving entities will recognize assets and liabilities based on the legacy entities’ book values at the time of transfer. SFFAS 7, par. 74 provides guidance for transfers-in and requires that transferred assets be recognized by the receiving entity at the legacy entity’s book value.13

23. The net effect of the assets and liabilities received will be recognized as a “transfer-in” on the receiving entity’s Statement of Changes in Net Position. Note that it is possible to have a negative transfer-in at the receiving entity because liabilities transferred may exceed assets transferred.

24. Receiving entities will prepare financial statements based on the transfers and actual operations subsequent to the transfer.

The provisions of this bulletin need not be applied to immaterial items.

13 The net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of any asset or liability minus any allowance or valuation amount.
Appendix A: Basis For Conclusions

25. The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with section III. I. 5 of the Board’s rules of procedure, as amended and restated through October 1, 1999 and the procedures described in FASAB Technical Bulletin 2000-1, Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance. The provisions of Technical Bulletins need not be applied to immaterial items.

26. An exposure draft was issued March 21, 2003 and the Board considered responses to the exposure draft at its April 24, 2003 public meeting. The FASAB has reviewed this Technical Bulletin and a majority of its members do not object to its issuance.

27. This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section—not the material in this appendix—should govern the accounting for specific transactions, events or conditions.

APB 20 Is Not Applicable

28. APB 20 defines a “change in entity” as:

This type [of accounting change] is limited mainly to (a) presenting consolidated or combined statements in place of statements of individual companies, (b) changing specific subsidiaries comprising the group of companies for which consolidated financial statements are presented, and (c) changing the companies included in combined financial statements. A different group of companies comprise the reporting entity after each change. (Financial Accounting Standards Board, Original Pronouncements, Change in Reporting Entity (par. 12))

29. APB 20 requires restatement when a “change in entity” occurs. Restatement means the “recasting of a previously determined (and published) balance sheet or operating statement, and its republication where there has been a substantial change in accounting principles or policies.” (Kohler’s Dictionary for Accountants) For private-sector entities a complete set of comparable financial statements for an individual reporting entity is critical to lending and...
investing decisions.14 The current and prior period financial statements assist in discerning the earning power and credit-worthiness of entities thus trends in assets, liabilities and results of operations are essential.

30. Federal financial reporting objectives do not focus on the earning power or credit worthiness of the component entities of the government. Instead, federal financial reporting objectives focus on:

a. Compliance with laws and regulations governing the use of resources (budgetary integrity);

b. Evaluating the service efforts and accomplishments of a reporting entity (operating performance) as well as the entity’s management of assets and liabilities;

c. Assessing the government’s financial position and changes in its financial position (stewardship); and

d. Assuring that systems and controls support compliance with laws and regulations (systems and controls).

31. Restatement may obscure information about the changes directed by the HS Act since restatement would portray financial information as if the event occurred prior to its enactment and effective date. Portraying the actual results of operations including actual transfers of assets and liabilities for which an entity is legally accountable is most consistent with federal reporting objectives. Thus, staff does not believe restatement aids in meeting federal financial reporting objectives.

14 FASB Concepts Statement 1: Objectives of Financial Reporting by Business Enterprises states that:

—Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

—Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.

—Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.
32. Further, staff does not believe that comparable financial statements for all affected entities could result from the restatement envisioned by APB 20. Staff does not believe that the changes required by the HS Act are “changes in entity” as defined in APB 20. APB 20 describes a change in entity as “changing specific subsidiaries for which consolidated financial statements are presented.” The APB 20 description does not fit all of the changes required by the HS Act. The HS Act requires concurrent changes within entities that are transferred as well as realignment of entities and operations that are part of a single larger entity both before and after the change.

33. Respondents to the March 21, 2003 exposure draft supported the staff’s assertion that APB 20 is not applicable. Some respondents suggested that the scope of the Technical Bulletin be expanded so that APB 20 would not be applied to any future changes at the federal level. Staff has not incorporated this suggestion but has recommended that the Board consider it when an opportunity to address new issues arises in the future.

Applicability of FAS 144

34. FAS 144 addresses discontinued operations and provides for separate reporting of the results of operations associated with discontinued operations. The standard provides a definition of “component of an entity” (FAS 144, par. 41, see page 17) as well as criteria for determining if the activity of the component has been discontinued (FAS 144, par. 42, see page 17).

35. Under the HS Act, functions may be discontinued at the legacy entity, but not discontinued by the government-as-a-whole. Therefore, the term “transferred” operations should be substituted for “discontinued” operations when appropriate. This will ensure that the reader does not conclude that the government has stopped performing certain functions.15

36. FAS 144 provides guidance that – in the private sector – results in segregation of critical information directly linked to operations that are either continuing or discontinued. Application of FAS 144 to entities affected by the Homeland Security Act of 2002 will result in:

   a. Legacy and transferred entities providing comparable financial information for continuing operations by separately identifying the net cost of continuing and transferred operations on the face of the Statement of Net Cost for all periods presented; and

15 “Discontinued operations” may be appropriate in the event that material functions are discontinued.
b. Receiving entities preparing Statements of Net Cost based on the actual operations subsequent to the transfer.

37. This will result in the most useful presentation since it produces a consistent and understandable result across all entities.

38. Respondents to the March 21, 2003 exposure draft supported the staff's assertion that FAS 144 is applicable. Some respondents suggested that the scope of the Technical Bulletin be expanded so that FAS 144 would be applied to any future changes at the federal level. Staff has not incorporated this suggestion but has recommended that the Board consider it when an opportunity to address new issues arises in the future.

Respondents’ Request for Guidance on General PP&E Transfers

39. Some respondents asked for specific guidance on the transfer of general property, plant, and equipment (PP&E). The questions posed were:

   a. Should a capitalization threshold be applied to the book value upon transfer?

   b. Should the acquisition date be adjusted to the transfer date?

   c. Should the gross book and associated accumulated depreciation be recorded or should the PP&E be booked at “net”?

40. Staff has not incorporated guidance on these questions in this Technical Bulletin. The questions posed are procedural in nature. Staff believes management may determine the most effective procedures to accomplish the initial recognition of the book value of general PP&E and its depreciation during the operating period.

Respondents’ Request for Guidance on the Statements of Custodial Activity and Changes in Net Position

41. Some respondents asked whether collections for which the collecting function was transferred should be separately disclosed on the face of or in notes to the Statement of Custodial Activity. Staff has not included in this Technical Bulletin this requirement or expressed a preference for the suggested display. However, staff notes that there is nothing precluding the suggested treatment. Staff did not believe the issue was controversial enough to suggest a proposed resolution.

42. Some respondents suggested that the Statement of Changes in Net Position also should present separate amounts for continuing and transferred (or discontinued) operations. While this proposal may be explored at a future time, staff does not believe it would be appropriate
to impose this requirement through a Technical Bulletin. Technical Bulletins receive minimal due process. Thus, limitations are placed on the types of requirements that may be imposed in a Technical Bulletin.

43. Technical Bulletin 2000-1 provides that staff may pursue an issue through a Technical Bulletin if:

   a. the guidance is not expected to cause a major change in accounting practice. (TB 2000-1, par. 5a)

   b. the administrative cost involved in implementing the guidance is not expected to be significant to most affected entities. (TB 2000-1, par. 5b)

   c. the guidance does not conflict with a broad fundamental principle or create a novel accounting practice. (TB 2000-1, par. 5c)

44. In this case, staff elected to rely on practices developed through full due process in other domains by searching GAAP for non-governmental entities for relevant requirements. FAS 144 was found to be the best fit for this circumstance. In relating the FAS 144 guidance to the federal reporting model, staff was mindful that FAS 144 provisions are applicable to revenues, expenses, gains and losses resulting from exchange transactions and related events. Staff found that the elements for which FAS 144 requires segregation aligned with the elements presented on the Statement of Net Cost.

45. Staff does not believe that FAS 144 requirements extend logically to financing sources presented on the Statement of Changes in Net Position. Thus, FAS 144 would not support a requirement that federal entities segregate continuing and transferred/discontinued financing sources.

46. In addition, the federal reporting model requires entities to report net cost by program while reporting financing sources for the entity as a whole. Staff believes that requiring the Statement of Changes in Net Position to present information for a transferred/discontinued “component of an entity” is arguably a major change in practice from aggregated to disaggregated financing information.

47. Therefore, staff believes segregation of the Statement of Changes in Net Position warrants greater due process than that provided through a Technical Bulletin and has not incorporated the respondents’ suggestions in this Technical Bulletin.
Statement of Budgetary Resources

48. As mentioned in par. 44, FAS 144 does not require segregation of information beyond the results of continued and discontinued operations. Since the Statement of Budgetary Resources does not report the results of operations, FAS 144 would not support a requirement that federal entities segregate elements of the Statement of Budgetary Resources between continuing and transferred/discontinued budgetary and reconciling elements. For reasons similar to those provided in paragraphs 42 through 46, staff does not believe this Technical Bulletin should require segregation of the elements of this statement.

49. Staff also notes that the Statement of Budgetary Resources presents information intended to support the “budgetary integrity” reporting objective. This reporting objective provides that “Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations.” (SFFAC 1, par. 112)

50. Thus, the information presented on the Statement of Budgetary Resources relates to compliance with budgetary provisions including reporting on transfers of budgetary resources associated with the HS Act. It also relates to the current availability of budgetary resources. It is less clear that the Statement of Budgetary Resources is intended to provide information needed to determine whether financing sources will be “continuing.” In addition, SFFAS 7, par. 79 currently requires extensive disclosures relating to legislative actions affecting resources provided to entities. Thus, staff does not believe that immediate changes to the Statement of Budgetary Resources are needed to ensure that federal financial reporting objectives are met.

51. Generally, staff believes that existing guidance in accounting standards, guidance from the Office of Management and Budget regarding the Statement of Budgetary Resources (e.g., OMB Circular A-11 which is referenced by SFFAS 7, par. 78), and other operational guidance will assist in resolving some of the other issues raised by respondents.

Statement of Financing

52. SFFAS 7 indicates that the purpose of the Statement of Financing is:

.. to explain how budgetary resources obligated during the period relate to the net cost of operations for that reporting entity. This information should be presented in a way that clarifies the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship through a reconciliation, the statement provides information necessary to understand how
the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity. (SFFAS 7, par. 95)

53. Staff does not believe that SFFAS 7 envisioned explanations of these relationships in greater detail than the “reporting entity” level. To impose a greater disaggregation would, in staff’s opinion, require greater due process than afforded for a Technical Bulletin.

Unique Federal Guidance Sought by Some Respondents

54. Some respondents agreed that the result of applying FAS 144 was desirable but asserted that standards tailored to the unique federal environment and reporting model should be developed. Staff believes this Technical Bulletin provides important guidance in response to an immediate need. Given the limited due process associated with Technical Bulletins, staff believes that – in this case – it was appropriate to rely on non-federal accounting standards to support a solution that fits the circumstances and meets federal reporting objectives.

Effective Date

55. The effective date of this Technical Bulletin -- for reporting periods beginning after September 30, 2002 – is necessary due to the timing of the HS Act. Staff does not routinely issue pronouncements that are effective in the period issued but must do so in this case to provide timely guidance.
12. One special type of change in accounting principle results in financial statements which, in effect, are those of a different reporting entity. This type is limited mainly to (a) presenting consolidated or combined statements in place of statements of individual companies, (b) changing specific subsidiaries comprising the group of companies for which consolidated financial statements are presented, and (c) changing the companies included in combined financial statements. A different group of companies comprise the reporting entity after each change.

35. Disclosure. The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on income before extraordinary items, net income, and related per share amounts should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures. (Paragraphs 56 to 65 and 93 to 96 of APB Opinion No. 16, Business Combinations, describe the manner of reporting and the disclosures required for a change in reporting entity that occurs because of a business combination.)
Appendix C: Excerpt From Financial Accounting Standard 144, Accounting for the Impairment or Disposal of Long-Lived Assets

FAS144, Par. 41

41. For purposes of this Statement, a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment (as those terms are defined in paragraph 10 of Statement 131), a reporting unit (as that term is defined in Statement 142), a subsidiary, or an asset group (as that term is defined in paragraph 4).

42. The results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 if both of the following conditions are met: (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. (Examples 12-15 of Appendix A illustrate disposal activities that do or do not qualify for reporting as discontinued operations.)

43. In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise (or statement of activities of a not-for-profit organization) for current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 [emphasis added], in discontinued operations. The results of operations of a component classified as held for sale shall be reported in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), shall be reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable). For example, the results of discontinued operations may be reported in the income statement of a business enterprise as follows:
This caption shall be modified appropriately when an entity reports an extraordinary item or the cumulative effect of a change in accounting principle or both in accordance with Opinion 20. If applicable, the presentation of per-share data will need similar modification.

A gain or loss recognized on the disposal shall be disclosed either on the face of the income statement or in the notes to the financial statements (paragraph 47(b)).

44. Adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period shall be classified separately in the current period in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which those types of adjustments may arise include the following:

   a. The resolution of contingencies that arise pursuant to the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser

   b. The resolution of contingencies that arise from and that are directly related to the operations of the component prior to its disposal, such as environmental and product warranty obligations retained by the seller

   c. The settlement of employee benefit plan obligations (pension, postemployment benefits other than pensions, and other postemployment benefits), provided that the settlement is directly related to the disposal transaction.25

25Paragraph 3 of FASB Statement No. 88, Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, defines settlement as “a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a pension benefit obligation, and (c) eliminates significant risks related to the obligations and the assets used to effect the settlement.” A settlement is directly related to the disposal transaction if there is a demonstrated direct cause and effect relationship and the settlement occurs no later than one year following the disposal transaction, unless it is delayed by events or circumstances beyond an entity's control (refer to paragraph 31).
Reporting Disposal Gains or Losses in Continuing Operations

45. A gain or loss recognized for a long-lived asset (disposal group) classified as held for sale that is not a component of an entity shall be included in income from continuing operations before income taxes in the income statement of a business enterprise and in income from continuing operations in the statement of activities of a not-for-profit organization. If a subtotal such as "income from operations" is presented, it shall include the amounts of those gains or losses.

Reporting a Long-Lived Asset or Disposal Group Classified as Held for Sale

46. A long-lived asset classified as held for sale shall be presented separately in the statement of financial position. The assets and liabilities of a disposal group classified as held for sale shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either on the face of the statement of financial position or in the notes to financial statements (paragraph 47(a)).

Disclosure

47. The following information shall be disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:

a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group

b. The gain or loss recognized in accordance with paragraph 37 and if not separately presented on the face of the income statement, the caption in the income statement or the statement of activities that includes that gain or loss

c. If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations

d. If applicable, the segment in which the long-lived asset (disposal group) is reported under Statement 131.

48. If either paragraph 38 or paragraph 40 applies, a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and
its effect on the results of operations for the period and any prior periods presented shall be
 disclosed in the notes to financial statements that include the period of that decision.

Examples 12–15—Reporting Discontinued Operations

A24. The results of operations of a component of an entity that either has been disposed of or is
classified as held for sale shall be reported in discontinued operations if (a) the operations
and cash flows of the component have been (or will be) eliminated from the ongoing
operations of the entity as a result of the disposal transaction and (b) the entity will not have
any significant continuing involvement in the operations of the component after the disposal
transaction (paragraph 42). Examples 12–15 illustrate disposal activities that do or do not
qualify for reporting as discontinued operations.

Example 12

A25. An entity that manufactures and sells consumer products has several product groups, each
with different product lines and brands. For that entity, a product group is the lowest level at
which the operations and cash flows can be clearly distinguished, operationally and for
financial reporting purposes, from the rest of the entity. Therefore, each product group is a
component of the entity.

A26. The entity has experienced losses associated with certain brands in its beauty care products
group.

   a. The entity decides to exit the beauty care business and commits to a plan to sell the
      product group with its operations. The product group is classified as held for sale at
      that date. The operations and cash flows of the product group will be eliminated from
      the ongoing operations of the entity as a result of the sale transaction, and the entity
      will not have any continuing involvement in the operations of the product group after it
      is sold. In that situation, the conditions in paragraph 42 for reporting in discontinued
      operations the operations of the product group while it is classified as held for sale
      would be met.

   b. The entity decides to remain in the beauty care business but will discontinue the
      brands with which the losses are associated. Because the brands are part of a larger
cash-flow-generating product group and, in the aggregate, do not represent a group
that on its own is a component of the entity, the conditions in paragraph 42 for reporting
in discontinued operations the losses associated with the brands that are discontinued
would not be met.
Example 13

A27. An entity that is a franchiser in the quick-service restaurant business also operates company-owned restaurants. For that entity, an individual company-owned restaurant is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, each company-owned restaurant is a component of the entity.

a. The entity has experienced losses on its company-owned restaurants in one region. The entity decides to exit the quick-service restaurant business in that region and commits to a plan to sell the restaurants in that region. The restaurants are classified as held for sale at that date. The operations and cash flows of the restaurants in that region will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the restaurants after they are sold. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the restaurants while they are classified as held for sale would be met.

b. Based on its evaluation of the ownership mix of its system-wide restaurants in certain markets, the entity commits to a plan to sell its company-owned restaurants in one region to an existing franchisee. The restaurants are classified as held for sale at that date. Although each company-owned restaurant, on its own, is a component of the entity, through the franchise agreement, the entity will (1) receive franchise fees determined, in part, based on the future revenues of the restaurants and (2) have significant continuing involvement in the operations of the restaurants after they are sold. In that situation, the conditions in paragraph 42 for reporting in discontinued operations the operations of the restaurants would not be met.

Example 14

A28. An entity that manufactures sporting goods has a bicycle division that designs, manufactures, markets, and distributes bicycles. For that entity, the bicycle division is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, the bicycle division is a component of the entity.

A29. The entity has experienced losses in its bicycle division resulting from an increase in manufacturing costs (principally labor costs).

a. The entity decides to exit the bicycle business and commits to a plan to sell the division with its operations. The bicycle division is classified as held for sale at that date. The operations and cash flows of the division will be eliminated from the ongoing operations...
of the entity as a result of the sale transaction, and the entity will not have any
continuing involvement in the operations of the division after it is sold. In that situation,
the conditions in paragraph 42 for reporting in discontinued operations the operations
of the division while it is classified as held for sale would be met.

b. The entity decides to remain in the bicycle business but will outsource the
manufacturing operations and commits to a plan to sell the related manufacturing
facility. The facility is classified as held for sale at that date. Because the manufacturing
facility is part of a larger cash-flow-generating group (the bicycle division), and on its
own is not a component of the entity, the conditions in paragraph 42 for reporting in
discontinued operations the operations (losses) of the manufacturing facility would not
be met. (Those conditions also would not be met if the manufacturing facility on its own
was a component of the entity because the decision to outsource the manufacturing
operations of the division will not eliminate the operations and cash flows of the division
[and its bicycle business] from the ongoing operations of the entity.)

Example 15

A30. An entity owns and operates retail stores that sell household goods. For that entity, each
store is the lowest level at which the operations and cash flows can be clearly distinguished,
operationally and for financial reporting purposes, from the rest of the entity. Therefore,
each store is a component of the entity.

A31. To expand its retail store operations in one region, the entity decides to close two of its retail
stores and open a new “superstore” in that region. The new superstore will continue to sell
the household goods previously sold through the two retail stores as well as other related
products not previously sold. Although each retail store on its own is a component of the
entity, the operations and cash flows from the sale of household goods previously sold
through the two retail stores in that region will not be eliminated from the ongoing operations
of the entity. In that situation, the conditions in paragraph 42 for reporting in discontinued
operations the operations of the stores would not be met.