income, limited however to the amount of any loss otherwise recognizable for the disposal, with any remainder accounted for when realized. Any changes in the original estimate shall be accounted for in accordance with *Issue Paper No. 3—Accounting Changes*.

7. The results of a reporting entity's discontinued operations shall be reported consistently with the entity's reporting of continuing operations (i.e. no separate line item presentation in the balance sheet or statement of operations aggregating current and future losses from the measurement date).

8. Additionally, the notes to the financial statements for the period encompassing the measurement date and the year subsequent shall contain the following:

- a. The identity of the segment of business that has been or will be discontinued,
- b. The expected disposal date, if known (see definition in paragraph 13 below),
- c. The expected manner of disposal,
- d. A description of the remaining assets and liabilities of the segment at the balance sheet date and the estimated payout pattern,
- e. The amounts related to the discontinued operations and the effect on the statement of operations including the balance sheet and income statement line items which have been affected.

9. If material revisions are made to the estimates of the cost to dispose of a segment in years subsequent to the disclosure required in paragraph 8 above, the nature and the effect of the revisions to the estimates shall be disclosed for the period in which the revision was made including the effect on income or loss from operations and the effect on the carrying amount of the remaining assets and liabilities of the segment at the balance sheet date.

# **Extraordinary Items**

10. Extraordinary items, as defined in paragraph 13 below, shall be reported consistently with the reporting entity's reporting of continuing operations (i.e. no separate line item presentation in the balance sheet or statement of operations). Such items shall not be charged directly to surplus unless specifically addressed elsewhere within the codification.

11. The nature of an extraordinary event or transaction and the principle items entering into the determination of an extraordinary gain or loss shall be disclosed in the notes to the financial statements. This disclosure shall include the line items which have been affected by the estimate of the extraordinary item.

12. Material events or transactions that are either unusual or occur infrequently, but not both, are not considered extraordinary items. However, such material events or transactions shall be disclosed in the notes to the financial statements.

# Definitions

13. For purposes of statutory accounting, the following definitions shall apply:

"Discontinued operations" shall be defined as the operations of a segment of a business that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal.

A "segment" of a business shall be defined as a component of an entity, likely in the form of a subsidiary, whose activities represent a separate major type of business or class of customer. The assets, results of operations, and activities of a segment must be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be

classified as the disposal of a segment of the business. The disposal of a segment of a business should be distinguished from other disposals of assets incident to the evolution of the entity's business, such as the disposal of a line of business or the shifting of marketing activities from one location to another.

"Measurement date" shall be defined as the date on which management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment. The plan, at a minimum, should include identification of the major assets to be disposed of, the expected method of disposal, the period expected to be required for completion of the disposal, an active program to find a buyer if disposal is to be by sale, the estimated results of operations of the segment from the measurement date to the disposal date (defined below), and the estimated proceeds or salvage to be realized by disposal.

"Disposal date" shall be defined as the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment.

"Extraordinary items" shall be defined as those events or transactions which meet both of the following criteria:

- (a) Unusual nature the underlying event or transaction possesses a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the reporting entity, taking into account the environment in which the reporting entity operates.
- (b) Infrequency of occurrence the underlying event or transaction would not reasonably be expected to recur in the foreseeable future, taking into account the environment 90006 Tc 0.039 Tw

presentation of the loss. Some entities record extraordinary items as a charge directly to surplus; other entities do not separate extraordinary items from the results of continuing operations.

17. The conclusion above requires a loss associated with discontinued operations to be recorded at the measurement date. This is consistent with the conservatism concept in the Statement of Concepts. *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets* requires an estimated loss from a loss contingency to be recorded when (a) it is probable that a loss will be incurred and (b) the amount of the loss can be reasonably estimated.

### **Drafting Notes/Comments**

None

# RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

### **Statutory Accounting**

18. Statutory guidance does not address the accounting treatment for the disposal of a segment or extraordinary items.

### **Generally Accepted Accounting Principles**

19. Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (APB 30), discusses discontinued operations and extraordinary items in the following excerpts:

#### Income Statement Presentation and Disclosure

8. Discontinued Operations of a Segment of a Business. For purposes of this Opinion, the term discontinued operations refers to the operations of a segment of a business as defined in paragraph 13 that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal (see paragraph 14). The Board concludes that the results of continuing operations should be reported separately from discontinued operations and that any gain or loss from disposal of a segment of a business (determined in accordance with paragraphs 15 and 16) should be reported in conjunction with the related results of discontinued operations and not as an extraordinary item. Accordingly, operations of a segment that has been or will be discontinued should be reported separately as a component of income before extraordinary items and the cumulative effect of accounting changes (if applicable) in the following manner:

Income from continuing operations before income taxes <sup>2</sup> Provision for income taxes	\$XXXX XXX
Income from continuing operations <sup>2</sup>	\$XXXX
Discontinued operations(Note): Income (loss) from operations of discontinued Division X (less applicable income taxes of \$)	\$XXXX
Loss on disposal of Division X, including provision of \$ for operating losses during phase-out period (less applicable income taxes of \$)	XXXX
Net Income	\$XXXX ====

Amounts of income taxes applicable to the results of discontinued operations and the gain or loss from disposal of the segment should be disclosed on the face of the income statement or in related notes. Revenues applicable to the discontinued operations should be separately disclosed in the related notes.

11. In the absence of discontinued operations and changes in accounting principles, the following main captions should appear in an income statement if extraordinary items are reported (paragraphs 17-19 of APB Opinion No. 9):

Income before extraordinary items <sup>4</sup>	\$XXXX
Extraordinary items of less applicable income taxes of \$) (Note)	XXX
Net income	\$XXXX

<sup>4</sup> This caption should be modified appropriately when an entity reports the cumulative effect of an accounting change.

The caption extraordinary items should be used to identify separately the effects of events and transactions, other than the disposal of a segment of a business, that meet the criteria for classification as extraordinary as discussed in paragraphs 19-24. Descriptive captions and the amounts for individual extraordinary events or transactions should be presented, preferably on the face of the income statement, if practicable; otherwise disclosure in related notes is acceptable. The nature of an extraordinary gain or loss should be described. The income taxes applicable to extraordinary items should be disclosed on the face of the income statement; alternatively disclosure in the related notes is acceptable. The caption net income should replace the three captions shown above if the income statement includes no extraordinary items.

Accounting for the Disposal of a Segment of a Business

13. For purposes of this Opinion, the term segment of a business refers to a component of an entity whose activities represent a separate major line of business or class of customer. A segment may be in the form of a subsidiary, a division, or a department, and in some cases a joint venture or other nonsubsidiary investee, provided that its assets, results of operations, and activities can be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. Financial statements of current and prior periods that include results of operations prior to the measurement date (as defined in paragraph 14) should disclose the results of operations of the disposed segment, less applicable income taxes, as a separate component of income before extraordinary items (see paragraph 8). The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be classified as the disposal of a segment of the business. The disposal of a segment of a business should be distinguished from other disposals of assets incident to the evolution of the entity's business, such as the disposal of part of a line of business, the shifting of production or marketing activities for a particular line of business from one location to another, the phasing out of a product line or class of service, and other changes occasioned by technological

<sup>&</sup>lt;sup>2</sup> These captions should be modified appropriately when an entity reports an extraordinary item and/or the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, *Accounting Changes*. The presentation of per share data will need similar modification.

improvements. The disposal of two or more unrelated assets that individually do not constitute a segment of a business should not be combined and accounted for as a disposal of a segment of business.

14. **Definition of Measurement and Disposal Dates.** For purposes of applying the provisions of this Opinion, the measurement date of a disposal is the date on which the management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment. The plan of disposal should include, as a minimum, identification of the major assets to be disposed of, the expected method of disposal, the period expected to be required for completion of the disposal, an active program to find a buyer if disposal is to be by sale, the estimated results of operations of the segment from the measurement date to the disposal date, and the estimated proceeds or salvage to be realized by disposal. For purposes of applying this Opinion, the disposal date is the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment.

15. **Determination of Gain or Loss on Disposal of a Segment of a Business.** If a loss is expected from the proposed sale or abandonment of a segment, the estimated loss should be provided for at the measurement date.<sup>5</sup> If a gain is expected, it should be recognized when realized, which ordinarily is the disposal date. The determination of whether a gain or a loss results from the disposal of a segment of a business should be made at the measurement date based on estimates at that date of the net realizable value of the segment after giving consideration to any estimated costs and expenses directly associated with

that are not individually material should be aggr

Materiality. An extraordinary event or transaction, if material, shall be classified separately in the Summary of Operations. Items shall be evaluated individually and not in the aggregate in determining whether an event or transaction is material.

Even though they do not meet the criteria for an extraordinary item, if material, gains and losses from extinguishment of debt, significant asset disposition after a pooling, discontinuation of accounting for the effects of certain types of regulation, shall be classified as an extraordinary item.

## **RELEVANT LITERATURE**

### **Statutory Accounting**

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- Issue Paper No. 3—Accounting Changes
- Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets
- Issue Paper No. 20—Gain Contingencies

## **Generally Accepted Accounting Principles**

- Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions
- Accounting Interpretation of Accounting Principles Board Opinion 30, Reporting the Results of Operations
- FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses
- FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)
- FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements

### **State Regulations**

- No add .2uanc-3.fdance obtained g Issu