

AS 24 - Discontinuing Operations

1. **Discontinuing operation** - It means component of Enterprise :

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| • that pursuant to a single plan is being disposed off by selling in entirety, piecemeal demerger & spin off or termination through <u>Abandonment and</u> | * Single plan is decision / Board Resolution to close down component. It must be time bound & in phased manner. |
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stoppage of operations (as it is) without selling its assets/components | |
| • that represents a major line of business or geographical area of operations <u>and</u> | * Component should be big. Generally a reportable segment under AS 17 is big / major. If Entity doesn't apply AS 17, major product / service can be considered. |
| • that can be distinguished operationally / for financial reporting purpose | * Data can be identified about assets & liabilities, revenue and major operating cost that are <u>directly attributable</u> to DCO
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those which will be eliminated on discontinuation of component |

2. **What is not a Discontinuing Operation** - Examples :-

- Gradual / evolutionary phasing out of a product line / class of service [change]
- Discontinuing several products within an ongoing line of business, even if abruptly done
- Shifting of production / marketing activities from one location to another
- Closing of facility to achieve productivity improvements / cost savings [outsourcing]
- Selling a subsidiary, when similar work is done by holding co. / another subsidiary

Note :-

These can become DCO, if additional info. proves that para 3 is satisfied

3. **Initial Disclosure Event** - Disclosure begins after occurrence of such event.

IDE is occurrence of the following, whichever is EARLIER :

- Entity has entered into Binding agreement for sale of substantial assets

- Entity has approved detailed formal plan & made announcement showing commitment

(or)



Includes :-

to stakeholders, customers, supplier, Employees, SEB, Govt, etc. (those affected by it)

- identification of major assets to be disposed
- method of disposal
- Period of completion of disposal
- Principle locations affected
- Location, function, no. of employees who will be compensated for termination of service
- Estd. proceeds / salvage to be realised from disposal.

4. Disclosure - Presented in notes to FS (starting from period in which IDE occurs until discontinuance completes)

→ In Annual financial statements

- Description of DCO
- Business / geographical segment in which it was reported under AS17
- Date & nature of IDE
- Date / period in which discontinuance is expected to be completed
- Carrying amount as of BS date of total assets to be disposed of & total liabilities to be settled.
- Revenue & expenses from ordinary activities attributable to DCO
- Pre tax profit from DCO & related tax → Exception: present on face of P/L
- Net Cash flows attributable to DCO

* Updation → Gain / Loss on sale of assets & Expected timings

→ In Interim financial Statements

- Activities in DCO since in most recent financial statements
- Expected changes in cash flow or timing of cash flow

5. Additional Disclosure

- Asset sold: Pre tax P/L on sale, tax on such P/L
- Binding agreement to sell: sale price, carrying amt, Expected timing of receipt of cash

6. Other Points :

- DCO is infrequent event in Entity but not all infrequent events are DCO
- DCO has no relation with going concern

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Component of
Entity

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Entity

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