Illustrative Disclosures

This illustration does not form part of the Accounting Standard. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

Facts

- Delta Company has three segments, Food Division, Beverage Division and Clothing Division.
- Clothing Division, is deemed inconsistent with the long-term strategy of the Company. Management has decided, therefore, to dispose of the Clothing Division.
- On 15 November 20X1, the Board of Directors of Delta Company approved a detailed, formal plan for disposal of Clothing Division, and an announcement was made. On that date, the carrying amount of lakhs minus liabilities of Rs. 15 lakhs).
- The recoverable amount of the assets carried at Rs. 105 lakhs was estimated to be Rs. 85 lakhs and the Company had concluded that a pre-tax impairment loss of Rs. 20 lakhs should be recognised.
- At 31 December 20Xl, the carrying amount of the Clothing Division's net assets was Rs. 70 lakhs (assets of Rs. 85 lakhs minus liabilities of Rs. 15 lakhs). There was no further impairment of assets between 15 November 20X1 and 31 December 20X1 when the financial statements were prepared.
- On 30 September 20X2, the carrying amount of the net assets of the Clothing Division continued to be Rs. 70 lakhs. On that day, Delta Company signed a legally binding contract to sell the Clothing Division.
- The sale is expected to be completed by 31 January 20X3. The recoverable amount of the net assets is Rs. 60 lakhs. Based on that amount, an additional impairment loss of Rs. 10 lakhs is recognised.
- In addition, prior to 31 January 20X3, the sale contract obliges Delta Company to terminate employment of certain employees of the Clothing Division, which would result in termination cost of Rs. 30 lakhs, to be paid by 30 June 20X3. A liability and related expense in this regard is also recognised.
- The Company continued to operate the Clothing Division throughout 20X2.
- At 31 December 20X2, the carrying amount of the Clothing Division's net assets is Rs. 45 lakhs, consisting of assets of Rs. 80 lakhs minus liabilities of Rs. 35 lakhs (including provision for expected termination cost of Rs. 30 lakhs).
- Delta Company prepares its financial statements annually as of 31 December. It does not prepare a cash flow statement.
- Other figures in the following financial statements are assumed to illustrate the presentation and disclosures required by the Standard.

1. Financial Statements for 20X1

1.1 Statement of Profit and Loss for 20X1

The Statement of Profit and Loss of Delta Company for the year 20X1 can be presented as follows:

(Amount in Rs. lakhs)

		20X1		20X0
Turnover		140		150
Operating expenses		(92)		(105)
Impairment loss		(20)		(---)
Pre-tax profit from operating activities		28		45
Interest expense		(15)		(20)
Profit before tax		13		25
Profit from continuing operations before tax (see Note 5)	15		12	
Income tax expense	(7)		(6)	
Profit from continuing operations after tax		8		6
Profit (loss) from discontinuing operations before tax (see Note 5)	(2)		13	
Income tax expense	1		(7)	
Profit (loss) from discontinuing operations after tax		(1)		6
Profit from operating activities after tax		**7**		**12**

1.2 Note to Financial Statements for 20X1

The following is Note 5 to Delta Company's financial statements:

On 15 November 20Xl, the Board of Directors announced a plan to dispose of Company's Clothing Division, which is also a separate segment as per AS 17, *Segment Reporting*. The disposal is consistent with the Company's long-term strategy to focus its activities in the areas of food and beverage manufacture and distribution, and to divest unrelated activities. The Company is actively seeking a buyer for the Clothing Division and hopes to complete the sale by the end of 20X2. At 31 December 20Xl, the carrying amount of the assets of the Clothing Division was Rs. 85 lakhs (previous year Rs. 120 lakhs) and its liabilities were Rs. 15 lakhs (previous year Rs. 20 lakhs). The following statement shows the revenue and expenses of continuing and discontinuing operations:

(Amount in Rs. Lakhs)

	Continuing Operations (Food and Beverage Divisions)		Discontinuing Operation (Clothing Division)		Total	
	20X1	20X0	20X1	20X0	20X1	20X0
Turnover	90	80	50	70	140	150
Operating Expenses	(65)	(60)	(27)	(45)	(92)	(105)
Impairment Loss	(---)	(---)	(20)	(---)	(20)	(---)
Pre-tax profit from operating activities	25	20	3	25	28	45
Interest expense	(10)	(8)	(5)	(12)	(15)	(20)
Profit (loss) before tax	15	12	(2)	13	13	25
Income tax expense	(7)	(6)	1	(7)	(6)	(13)

Profit (loss) from operating activities after tax	8	6	(1)	6	7	12

2. Financial Statements for 20X2

2.1 Statement of Profit and Loss for 20X2

The Statement of Profit and Loss of Delta Company for the year 20X2 can be presented as follows:

(Amount in Rs. lakhs)

		20X2		20X1
Turnover		140		140
Operating expenses		(90)		(92)
Impairment loss		(10)		(20)
Provision for employee termination benefits		(30)		--
Pre-tax profit from operating activities		10		28
Interest expense		(25)		(15)
Profit (loss) before tax		(15)		13
Profit from continuing operations before tax (see Note 5)	20		15	
Income tax expense	(6)		(7)	
Profit from continuing operations after tax		14		8
Loss from discontinuing operations before tax (see Note 5)	(35)		(2)	
Income tax expense	10		1	
Loss from discontinuing operations after tax		(25)		(1)
Profit (loss) from operating activities after tax		**(11)**		**7**

2.2 Note to Financial Statements for 20X2

The following is Note 5 to Delta Company's financial statements:

On 15 November 20Xl, the Board of Directors had announced a plan to dispose of Company's Clothing Division, which is also a separate segment as per AS 17, *Segment Reporting*. The disposal is consistent with the Company's long-term strategy to focus its activities in the areas of food and beverage manufacture and distribution, and to divest unrelated activities. On 30 September 20X2, the Company signed a contract to sell the Clothing Division to Z Corporation for Rs. 60 lakhs.

Clothing Division's assets are written down by Rs. 10 lakhs (previous year Rs. 20 lakhs) before income tax saving of Rs. 3 lakhs (previous year Rs. 6 lakhs) to their recoverable amount.

The Company has recognised provision for termination benefits of Rs. 30 lakhs (previous year Rs. nil) before income tax saving of Rs. 9 lakhs (previous year Rs. nil) to be paid by 30 June 20X3 to certain employees of the Clothing Division whose jobs will be terminated as a result of the sale.

At 31 December 20X2, the carrying amount of assets of the Clothing Division was Rs. 80

lakhs (previous year Rs. 85 lakhs) and its liabilities were Rs. 35 lakhs (previous year Rs. 15 lakhs), including the provision for expected termination cost of Rs. 30 lakhs (previous year Rs. nil). The process of selling the Clothing Division is likely to be completed by 31 January 20X3.

The following statement shows the revenue and expenses of continuing and discontinuing operations:

	Continuing Operations (Food and Beverage Divisions)		**Discontinuing Operation (Clothing Division)**		**Total**	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Turnover	100	90	40	50	140	140
Operating Expenses	(60)	(65)	(30)	(27)	(90)	(92)
Impairment Loss	....	....	(10)	(20)	(10)	(20)
Provision for employee termination	....	....	(30)	....	(30)	....
Pre-tax profit (loss) from operating activities	40	25	(30)	3	10	28
Interest expense	(20)	(10)	(5)	(5)	(25)	(15)
Profit (loss) before tax	20	15	(35)	(2)	(15)	13
Income tax expense	(6)	(7)	10	1	4	(6)
Profit (loss) from operating activities after tax	14	8	(25)	(1)	(11)	7

3. Financial Statements for 20X3

The financial statements for 20X3, would disclose information related to discontinued operations in a manner similar to that for 20X2 including the fact of completion of discontinuance.

Illustration 2

Classification of Prior Period Operations

This illustration does not form part of the Accounting Standard. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

Facts

l. Paragraph 34 requires that comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event be restated to segregate assets, liabilities, revenue, expenses, and cash flows of continuing and discontinuing operations in a manner similar to that required by paragraphs 20, 23, 26, 28, 29, 31 and 32.

2. Consider following facts:

(a) Operations A, B, C, and D were all continuing in years 1 and 2;

(b) Operation D is approved and announced for disposal in year 3 but actually disposed of in year 4;

(c) Operation B is discontinued in year 4 (approved and announced for disposal and actually disposed of) and operation E is acquired; and

(d) Operation F is acquired in year 5.

3. The following table illustrates the classification of continuing and discontinuing operations in years 3 to 5:

FINANCIAL STATEMENTS FOR YEAR 3 (Approved and Published early in Year 4)			
Year 2 Comparatives		**Year 3**	
Continuing	Discontinuing	Continuing	Discontinuing
A		A	
B		B	
C		C	
	D		D

FINANCIAL STATEMENTS FOR YEAR 4 (Approved and Published early in Year 5)			
Year 3 Comparatives		**Year 4**	
Continuing	Discontinuing	Continuing	Discontinuing
A		A	
	B		B
C		C	
	D		D
		E	

FINANCIAL STATEMENTS FOR YEAR 5 (Approved and Published early in Year 6)			
Year 4 Comparatives		**Year 5**	
Continuing	Discontinuing	Continuing	Discontinuing
A		A	
	B		
C		C	
	D		
E		E	
		F	

4. If, for whatever reason, five-year comparative financial statements were prepared in year 5, the classification of continuing and discontinuing operations would be as follows:

FINANCIAL STATEMENTS FOR YEAR 5									
Year 1 Comparatives		**Year 2 Comparatives**		**Year 3 Comparatives**		**Year 4 Comparatives**		**Year 5**	
Cont.	Disc.	Cont.	Disc.	Cont.	Disc.	Cont.	Disc.	Cont.	Disc.
A		A		A		A		A	
	B		B		B		B		
C		C		C		C		C	
	D		D		D		D		
						E		E	
								F	