



Audit Alert: Presentation of discontinued operations in a classified balance sheet

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Questions have arisen in practice regarding the presentation of current and noncurrent assets and liabilities of a discontinued operation in the statement of financial position. In particular, stakeholders have questioned whether there are circumstances in which it is appropriate to classify as current all assets and liabilities of the discontinued operation. For example, if the held-for-sale criteria are met at the current balance-sheet date and the sale is expected within one year, would all assets and liabilities of a discontinued operation now be presented as current, and, similarly, would the prior-period comparative balance sheet be recast to reflect previously noncurrent assets and liabilities as current?

The guidance in ASC 205-20-45-10, Presentation of Financial Statements: Discontinued Operations, states that:

“In the period(s) that a discontinued operation is classified as held for sale and for all prior periods presented, the assets and liabilities of the discontinued operation shall be presented separately in the asset and liability sections, respectively, of the statement of financial position.”

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However, the guidance in ASC 205-20 does not address:

- whether a reporting entity should present those assets and liabilities as current and noncurrent in a classified balance sheet

- how to determine which assets and liabilities should be classified as current
- whether there should be changes to the prior comparative-period classifications of assets and liabilities now that the held-for-sale criteria are met for a discontinued operation

When a discontinued operation is classified as held-for-sale, we believe that, subject to the following discussion, those existing classifications should continue but should be condensed into four balance-sheet line items: current assets held-for-sale, noncurrent assets held-for-sale, current liabilities held-for-sale, and noncurrent liabilities held-for-sale.

However, if it is probable that a sale will occur within one year of when the assets or liabilities meet the held-for-sale criteria and the sale is expected to qualify for recognition as a completed sale, we believe that it is appropriate to classify all assets and liabilities of a discontinued operation as current in the current-period balance sheet when the determination of held-for-sale is met, even though they were classified as noncurrent in prior periods.

In contrast, prior comparative periods would not be recast to reflect as current all of the assets and liabilities of a now discontinued operation. That is, we believe that current and noncurrent classification of the assets and liabilities in the prior comparative periods should not change. Those assets and liabilities did not meet the held-for-sale criteria in the prior periods, even though the held-for-sale criteria was subsequently met, and they are presented as current assets and liabilities in the current balance sheet.

Source: Grant Thornton, *On the Horizon*, September 14, 2017.

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