SREERAM COACHING POINT

[The Best of All and The Best for All]

AS-24
Discontinuing Operations

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1. A discontinuing operation is a component of an enterprise

a) That the enterprise pursuant to a single plan, is disposing off substantially in its entirety or disposing of piecemeal or terminating through abandonment of assets and liabilities

b) That represents separate major line of business or geographical area of operations

c) That can be distinguished operationally and for financial reporting purposes

d) All of these

Answer: d para 3 envisages all the three situations as discontinuing operations

2. A component can be distinguished operationally and for financial reporting purposes, if what combination of the following conditions are met?

i. The operating assets and liabilities of the component can be attributed to it
ii. Its revenue can be directly attributed to it
iii. All the operating expenses can be directly attributed to it
iv. At least a majority of its operating expenses can be directly attributed to it

a) Combination of (i), (ii) and (iv)

b) Combination of (ii) and (iii)

c) Combination of (ii) and (iv)

d) Combination of (i), (ii) and (iii)

Answer: a

Para 11 of the Accounting Standard stipulates that a component can be distinguished operationally and for financial reporting purposes only if all the conditions mentioned in (i), (ii) and (iv) are met.

3. Which of the following events, the initial disclosure event with respect to a discontinuing operation is said to take place?

a) The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation

b) The enterprise's board of directors or similar governing body has both approved a detailed, formal plan for the discontinuance and made an announcement of the plan

c) Either of them whichever occurs earlier

d) Both a and b occurring simultaneously

Answer: c

As per para 15(b) the Initial disclosure event is said to be occurred if the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and made an announcement of the plan.

4. On 24th September PL Ltd decided to dispose of the operations Segment N, had made public announcement on 18th October 2003. The carrying amount of the segment was Rs.12 crores with recoverable amount estimated at Rs.10.5 Crores in the announcement. On 31.12.2003 the year end balance sheet, it was stated by independent valuers that the segment value is Rs.9.5 Crores. It was decided by the management that 20% of the segment shall be retained on the ground of common assets/facilities with other operations, show how much shall be the segment value under discontinuing operations to be stated for the year ending 31.12.2003

a) Rs.7.6 crores

b) Rs.10.5 Crores

c) Rs.9.5 Crores

a) Rs.12 Crores

Answer: a

As per Para 20(e), the Carrying amount as of the balance sheet to be disclosed .The assets are attributable to the discontinuing operation only if they are eliminated once the discontinuance is completed. Since 20% of the segment is retained by the enterprise 80% of Rs.9.5 lacs alone are disclosed as segment value.

5. **Which of the following is usually not a content of a detailed, formal plan for discontinuance?**

a) The location, function and approximate number of employee who will be compensated for terminating their services

b) Identification of the major assets to be disposed off

c) Principal locations affected

d) None of the above

Answer: d
According to para 16 of the Accounting Standard, a detailed, formal plan for the discontinuance includes all those mentioned from (a) through (c) among others like the expected method of disposal, the period expected to be required for completion of the disposal and the estimated proceeds or salvage to be realized by disposal.

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6. An enterprise's board of directors or similar governing body is considered to have made the announcement of a detailed, formal plan for discontinuance if it has announced the main features of the plan to

a) The government

b) The ROC

c) All those who are affected by the plan like lenders, stock exchanges etc.

d) The members

Answer: c

Para 17 of the Accounting Standard considers if the company has announced the main features of the plan to all those affected by it like lenders, stock exchanges, creditors, trade unions etc. in a sufficiently specific manner so as to make the enterprise demonstrably committed to the discontinuance.

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7. The Board of directors of a company approved a detailed plan in respect of discontinuing an operation on 25.03.2003. But the same was announced only on15.042003.When is the of occurrence of initial disclosure event?

a) 15.04.2003

b) 25.03.2003

c) 31.03.2003

d) 31.03.2004

Answer: a

As per para 15(b) the Initial disclosure event is said to be occurred if the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and made an announcement of the plan.

8. Ltd. sold one of its components substantially in its entirety by entering into a sale agreement on 01.01.2004. A part payment was received from the buyer on 30.03.2003.The actual transfer of possession and control of the discontinuing operation is only with effect from 1.04.2005. When is the occurrence of initial disclosure event?

a) 30.03.2003

b) 01.01.2004

c) 01.04.2005

d) 31.03.2004

Answer: b

As per Para 5 binding sale agreements is made at a specific date, although the date of payment or transfer of possession and control may differ. Initial disclosure requirement is said to have occurred on the date of entering into sale agreement.

9. Which of the following is not a disclosure requirement set by the Standard?

a) The date and nature of the initial disclosure event

b) The business or geographical segments in which it is reported as per AS 17, Segment Reporting

c) Intra group transactions between the various segments

d) All the above

Answer: c
The Accounting Standard does not require intra group transactions to be disclosed anywhere.

10. **If an initial disclosure event occurs between the Balance sheet date and the approval of the financial statements by the BOD or the respective governing body**

a) Consider it as an initial disclosure event for the period and make the relevant disclosures as per AS 24

b) Make disclosures as per AS 4 requirements

c) Ignore the event

d) None of the above

Answer: b
Para 22 says that in cases where the initial disclosure event takes place between the balance sheet date and the date of approval, disclosures as required by AS 4 are required to be made.

11. Which among the following is not a true statement with regard to discontinuance and disclosure related to discontinuance?

a) The disclosures should continue in financial statements for period's upto and including the period in which discontinuance is completed

b) A discontinuance is completed when the plan is fully completed or abandoned and full payments from buyer(s) have been received

c) Both a & b

d) Any disclosures required by this Statement should be presented separately for each discontinuing operation.

Answer: b
Discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyers may not yet have been received

12. Which of the below combination of disclosures is required to be made when an enterprise disposes of assets and settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities:

i. Any gain or loss recognized on disposal of assets or settlement of liabilities
ii. Amount of pre-tax gain or loss and income tax relating to the gain or loss
iii. Net selling prices or range of prices of those net assets
iv. The expected timing of receipt of those cash flows
v. Carrying amount of those net assets on the balance sheet date

a) Combination of (i), (iii) and (v)

b) Combination of (i) and (ii)

c) Combination of (i), (ii), (iii) and (iv)

d) Combination of (i), (ii), (iii),(iv) and (v)

Answer: d
This is as per the other disclosure requirements according to Para 23 of the Accounting Standard.

13. The disclosures should be presented in the

a) Face of the statement of profit and loss

b) All the disclosures in the notes

c) Letter of Representations

d) None of the above

Answer: d

As per Para 32 the disclosures required under this AS should be presented in the notes to the financial statements with certain exceptions which are to be shown on the face of the statement of profit and loss account.

14. Which of the following constitute a discontinuing operation by itself?

a) Gradual or evolutionary phasing out of a product line or class of service

b) Closing of a facility to achieve productivity improvements or other cost savings

c) Discontinuing several products within an ongoing line of business

d) None of these

Answer: d

Discontinuing operations should be distinguished separately from such restructuring transactions or events that do not meet the definition criteria and those that do not individually satisfy the definition, but may do so in conjunction with other situations

15. Pick out the correct statement with regard to AS 24, among the four given below:

a) LM ltd. has two divisions R and H. During the year H division was separated, by forming a new company H Limited. This is a discontinuing operation.

b) A Ltd. holds 85% of the shares of B Limited. During 2002-03, it sells off its entire investment. This is an example of a discontinuing operation.

c) Recognition of revenue and expense, assets and liabilities is done by a specific method provided by AS 24.

d) AS 24 provides disclosure requirements for discontinued operations.

Answer: a

Selling off investments in subsidiaries is not a discontinuing operation; there is no separate method for recognition of revenue, expenses, assets or liabilities according to the Standard; and the objective of the Statement is to disclose information on discontinuing operations and not on discontinued operations.

16. The recognition of Revenue and Expense, assets & liabilities is done by

a) Specific method provided by AS-24

b) Accrual method of accounting

c) As established in other accounting standards

d) by following normal accounting principles

Answer: c
As per Para 18 an enterprise should apply the principles of recognition and measurement that are set out in other accounting standards for the purpose of recognizing and measuring revenue, expenses, assets and liabilities.

17. Disclosure of discontinuing operation is required

a) Only for the year in which discontinuance commenced

b) From the year in which the discontinuance commenced upto and including the period in which the discontinuance is completed

c) For a period of five years from the year of commencement of discontinuance

d) In the year in which the discontinuance is commenced and the year in which the discontinuance is completed

Answer: b

As per Para 28, the disclosures required under this AS should continue in financial statements for periods upto and including the period in which the discontinuance is completed.

18. GM Ltd. reported a discontinuing operation during the year 2003-2004.During the month of August 2004, it withdraws from the discontinuance plan. What are the disclosure requirements?

a) No disclosure is required.

b) As per the AS disclosure is required only if initial disclosure event had occurred

c) Disclosure required showing reasons of such abatement or withdrawal and the effect of such treatment.

d) Disclosure required only for discontinuing process up to the date of such abandonment or withdrawal.

Answer: c
As per Para 29, if an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefore and its effects should be disclosed.

19. J ltd. sold one of its departments with effect from 01.01.2003 qualifying as discontinuing operation. There were 20 employees in that department who were paid Rs.3000 per month as salary. Of these employees 12 were retained even after 01.01.2003.What will be the allocation of salary expense for the discontinuing operation for the year ending 31.03.2003?

a. Rs.324000

b. Rs.540000

c. Rs.216000

d. Rs.612000

Answer: c
As per Para 21 the various items can be attributed to a discontinuing operation only if they will be eliminated when the discontinuance is completed. To the extent that such items continue after completion of the discontinuance, they are not allocated to the discontinuing operation. In the given case only 8 employees of discontinuing operation are terminated and only their salary for 9 months (i.e. 01.04.2002 to 01.01.2003) is allocated to the discontinuing operation.

20. The Board of directors of SCP Ltd. decides to discontinue its component V and formed a detailed plan and announced the same on 30.11.2003. A loan of Rs.5 lacs was taken at 12% p.a and Rs.3 lacs were spent on this component in 2001.It was expected that the discontinuance will be completed by 31.05.2004.It was also decided to repay the loan only by 2006.What will be the amount of interest expense to be allocated for the discontinuing operation V for the year ending 31.03.2004?

a) Rs.60000

b) Rs.36000

c) Rs.40000

d) Nil

Answer: d

As per the standard expenses are to be attributed to discontinuing operation only if they are reduced or eliminated when the discontinuance is completed. The loan amount is repayable only by 2006 which is independent of completion of discontinuance and thereby the interest expense paid for the year ending 31.03.2004 is not allocated to discontinuing component V.