REPORTING DISCONTINUED OPERATIONS

**No Phase-out Period**: Measurement (M) and Disposal (D) date are the same.

\[
\begin{array}{ccc}
1/1/x1 & 10/1/x1 & 12/31/x1 \\
\end{array}
\]

\{ 1 Income (loss) from Discontinued Operations \}
\{ 2 \} Gain (loss) on Disposal of Segment

\{Report 1 & 2 separately in x1\}

**Phase-out Period**: Measurement and Disposal dates are different, but in same year.

\[
\begin{array}{ccc}
1/1/x1 & M & 10/1/x1 & D & 12/31/x1 \\
7/1/x1 & \{ \text{as above} \} & 10/1/x1 & \{ \text{as above} \} & 12/31/x1 \\
\end{array}
\]

\{ 3 income (loss) on Discontinued Operations \\
from measurement date (M) to disposal date (D) \}

\{ 2 & 3 are net against each other and reported separately from 1 \\
in 19x1 as Gain (loss) on Disposal\}

**Extended Phase-out Period**: Measurement and Disposal Dates are in two different years.

\[
\begin{array}{ccc}
1/1/x1 & M & 10/1/x1 & 12/31/x1 & D & 3/1/x2 \\
7/1/x1 & \{ \text{as above} \} & 12/31/x1 & \{ \text{as above} \} & 3/1/x2 \\
\end{array}
\]

\{ 1=$ (300,000) \}
\{ 2 M to end of year \}
\{ 3 M to end of year \}

\{ 2 and 3 are estimated from end of year to disposal (D) date and net\}

- Estimated losses after year end can be carried back and net with the net of 2 & 3 from M to end of year. They would be reported in x1.
- Estimated net gains in x2 can be carried back to the extent of losses (net of 2 & 3) in x1—thus reducing/eliminating losses in x1.
- Otherwise gains recognized when realized.

**EXAMPLE**: On October 1, 1998, Host Co. approved a plan to dispose of a segment of its business. Host expected that the sale would occur on April 1, 1999, at an estimated gain of $350,000. The segment had actual and estimated operating losses as follows:

\[
\begin{align*}
1/1/98-9/30/98 &= $ (300,000) \\
10/1/98-12/31/98 &= $ (200,000) \\
1/1/99-3/31/99 &= $ (400,000)
\end{align*}
\]

In its 1998 income statement, what should Host report as a loss on disposal of the segment before income tax?

a. $200,000  
b. $250,000  
c. $500,000  
d. $600,000

\[
\begin{array}{ccc}
\{ 1=$ (300,000) \} & \{ 3=$ (200,000) \} & \{ 3=$ (400,000) \} & \{ \text{as above} \} & \{ \text{as above} \} \\
\end{array}
\]

\text{loss on discontinued operations} 

\[2=350,000\]

\$ (200,000) loss on \text{disposal in 1998} 
\$ (400,000) + $350,000 = \$ (50,000) loss on \text{disposal in 1999}

\text{carry the 1999 loss back and add to 1998 loss = $ (250,000)}

Prepared by Dr. Elaine Eikner, Accounting Department
Revised: Spring 2004
STUDENT LEARNING ASSISTANCE CENTER (SLAC)
Texas State University-San Marcos