

APB 30: Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions

APB 30 STATUS

Issued: June 1973

Effective Date: For events and transactions after September 30, 1973

- Affects:**
- Amends APB 9, paragraph 17
 - Deletes APB 9, paragraphs 20 through 22 and 29, footnote 2, and Exhibits A through D
 - Amends APB 15, paragraph 13 and footnote 8
 - Amends APB 17, paragraph 31
 - Amends APB 18, paragraph 19(d)
 - Amends APB 19, paragraph 10
 - Amends APB 26, paragraph 20
 - Amends AIN-APB 9, Interpretation No. 1
 - Amends APS 4, paragraph 198 and footnotes 53 and 54
- Affected by:**
- Paragraph 3 amended by FAS 144, paragraph C5(a)
 - Paragraph 7 amended by FAS 96, paragraph 205(h); FAS 109, paragraph 288(i); FAS 141, paragraph E5(a); and FAS 141(R), paragraph E40
 - Paragraph 8 and footnote 2 deleted by FAS 144, paragraph C5(b)
 - Paragraph 9 amended by FAS 128, paragraph 165(a)
 - Paragraph 9 deleted by FAS 144, paragraph C5(b)
 - Paragraph 11 amended by FAS 144, paragraph C5(c)
 - Paragraph 12 replaced by FAS 128, paragraph 165(b)
 - Paragraphs 13 through 18 and footnotes 5 through 7 deleted by FAS 144, paragraphs C5(d) and C5(e), respectively
 - Paragraph 20 amended by FAS 4, paragraph 10; FAS 101, paragraph 10; FAS 141, paragraph E5(b); FAS 141(R), paragraph E10; and FAS 145, paragraph 7(a)
 - Paragraph 23 amended by FAS 144, paragraph C5(f)
 - Paragraph 25 amended by FAS 16, paragraph 16(c); FAS 144, paragraph C5(g); and FAS 154, paragraph C6
 - Paragraph 26 amended by FAS 145, paragraph 9(b)
 - Footnote 3 deleted by FAS 128, paragraph 165(a)
 - Footnote 4 amended by FAS 154, paragraph C19(b)
 - Footnote 8 amended by FAS 60, paragraph 63, and FAS 83, paragraph 3
 - Footnote 8 deleted by FAS 97, paragraph 31
- Other Interpretive Pronouncements:**
- AIN-APB 30, Interpretation No. 1
 - FIN 27
 - FTB 82-1
 - FTB 84-2 (Superseded by FAS 96 and FAS 109)
 - FTB 84-3 (Superseded by FAS 96 and FAS 109)
 - FTB 85-1
 - FTB 85-6

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncement: SOP 90-7

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: Paragraphs 20 and 23 interpreted by EITF Issues No. 89-13 and 01-10
Paragraphs 21, 22, and 24 interpreted by EITF Issue No. 01-10

Related Issues: EITF Issues No. 86-22, 87-4, 96-9, 99-4, 00-9, and 01-13 and Topics No. D-5 and D-104

INTRODUCTION

1. In APB Opinion No. 9, *Reporting the Results of Operations*, issued in 1966, the Board concluded that net income for a period should reflect all items of profit and loss recognized during the period except for certain prior period adjustments. The Opinion further provided that *extraordinary items* should be segregated from the results of ordinary operations and shown separately in the income statement and that their nature and amounts should be disclosed.
2. Financial reporting practices in recent years indicate that interpreting the criteria for extraordinary items in APB Opinion No. 9 has been difficult and significant differences of opinion exist as to certain of its provisions. The Board is also concerned with the varying accounting treatments accorded to certain transactions involving the sale, abandonment, discontinuance, condemnation, or expropriation of a segment of an entity (referred to in this Opinion as disposals of a segment of a business).
3. The purposes of this Opinion are (1) to provide more definitive criteria for extraordinary items by clarifying and, to some extent, modifying the existing definition and criteria, (2) to specify disclosure requirements for extraordinary items, [and] (3) to specify disclosure requirements for other unusual or infrequently occurring events and transactions that are not extraordinary items.

DISCUSSION

4. Some accountants believe that financial statements would be improved by presenting an all-inclusive income statement without separate categories for continuing operations, discontinued operations and extraordinary items. In their view, the use of arbitrary and subjectively defined categories tends to mislead investors and to invite abuse of the intended purposes of the classifications. They believe, therefore, that basically an income statement should reflect only the two broad categories, (a) revenue and gains and (b) expenses and losses. They also believe that investors would be better served by reporting separately the primary types of revenue and expense, including identification of items that are unusual or occur infrequently. Alternatively, sufficient information relating to those items should be otherwise disclosed to permit investors to evaluate their relevance. These accountants believe that such changes should be implemented at the present time.
5. Other accountants believe that the income statement is more useful if the effects of events or transactions that occur infrequently and are of an unusual nature are segregated from the results of the continuing, ordinary, and typical operations of an entity. They also believe that the criteria for income statement classification should relate to the environment in which an entity operates. In their view the criteria in APB Opinion No. 9, paragraph 21, for determining whether an event or transaction should be reported as extraordinary lack precision. Accordingly, they conclude that the criteria should be clarified and modified to provide that to be classified as an extraordinary item an event or transaction should be both unusual in nature and infrequent in occurrence when considered in relation to the environment in which the entity operates. They also believe that to enhance the usefulness of the income statement (a) the results of continuing operations of an entity should be reported separately from the operations of a segment of the business which has been or will be discontinued and (b) the gain or loss from disposal of a segment should be reported in conjunction with the operations of the segment and not as an extraordinary item. They

further believe that material events and transactions that are either unusual or occur infrequently, but not both, should be adequately disclosed.

6. Still other accountants agree in part with the views described in paragraph 5 but believe that a combination of infrequency of occurrence and abnormality of financial effect should also result in classifying an event or transaction as extraordinary.

APPLICABILITY

7. This Opinion supersedes paragraphs 20 through 23, paragraph 29 insofar as it refers to examples of financial statements, and Exhibits A through D of APB Opinion No. 9. It also amends paragraph 13 and footnote 8 of APB Opinion No. 15, *Earnings per Share*, insofar as this Opinion prescribes the presentation and computation of earnings per share of continuing and discontinued operations. This Opinion does not modify or amend the conclusions of FASB Statement No. 109, *Accounting for Income Taxes*, paragraph 37, with respect to the classification of the effects of certain events and transactions as extraordinary items. Prior APB Opinions that refer to the superseded paragraphs noted above are modified to insert a cross reference to this Opinion. ⁱ1

OPINION

Income Statement Presentation and Disclosure

8-9. [These paragraphs have been deleted. See Status page.]

2-3 [These footnotes have been deleted. See Status page.]

10. *Extraordinary Items.* The Board has also reconsidered the presentation of extraordinary items in an income statement as prescribed in APB Opinion No. 9, and reaffirms the need to segregate extraordinary items for the reasons given in paragraph 5 of this Opinion and paragraph 19 of APB Opinion No. 9.

11. In the absence of discontinued operations ⁱⁱ3a and changes in accounting principles, the following main captions should appear in an income statement if extraordinary items are reported (paragraphs 17-19 of APB Opinion No. 9):

Income before extraordinary items	\$XXX
Extraordinary items (less applicable income taxes of \$____)	XXX
(Note____)	
Net income	XXXX

⁴ [This footnote has been deleted because the effective date of FASB Statement No. 154, *Accounting Changes and Error Corrections*, has passed.]

The caption *extraordinary items* should be used to identify separately the effects of events and transactions, other than the disposal of a component of an entity, that meet the criteria for classification as extraordinary as discussed in paragraphs 19-24. Descriptive captions and the amounts for *individual* extraordinary events or transactions should be presented, preferably on the face of the income statement, if practicable; otherwise disclosure in related notes is acceptable. The nature of an extraordinary event or transaction and the principal items entering into the determination of an extraordinary gain or loss should be described. The income taxes applicable to extraordinary items should be disclosed on the face of the income statement; alternatively, disclosure in the related notes is acceptable. The caption *net income* should replace the three captions shown above if the income statement includes no extraordinary items.

12. Earnings per share data for extraordinary items shall be presented either on the face of the income statement or in the related notes, as prescribed by Statement 128.

13–18. [These paragraphs have been deleted. See Status page.]

5-7 [These footnotes have been deleted. See Status page.]

Criteria for Extraordinary Items

19. Judgment is required to segregate in the income statement the effects of events or transactions that are extraordinary items (as required by paragraph 11). The Board concludes that an event or transaction should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion.

20. Extraordinary items are events and transactions that are distinguished by their unusual nature *and* by the infrequency of their occurrence. Thus, *both* of the following criteria should be met to classify an event or transaction as an extraordinary item:

- a. *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates. (See discussion in paragraph 21.)
- b. *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. (See discussion in paragraph 22.)

[Note: Prior to the adoption of FASB Statement No. 141 (revised 2007), *Business Combinations* (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), the remainder of this paragraph should read as follows:]

However, the following items shall be recognized as extraordinary items regardless of whether those criteria are met:

- (1) [This subparagraph has been deleted. See Status page.]
- (2) The net effect of discontinuing the application of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, pursuant to paragraph 6 of FASB Statement No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*
- (3) The remaining excess of fair value of acquired net assets over cost pursuant to paragraphs 45 and 46 of FASB Statement No. 141, *Business Combinations*.

[Note: After the adoption of Statement 141(R), the remainder of this paragraph should read as follows:]

However, the following item shall be recognized as an extraordinary item regardless of whether those criteria are met:

- (1) [This subparagraph has been deleted. See Status page.]
- (2) The net effect of discontinuing the application of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, pursuant to paragraph 6 of FASB Statement No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*.

21. *Unusual Nature*. The specific characteristics of the entity, such as type and scope of operations, lines of business, and operating policies should be considered in determining ordinary and typical activities of an entity. The environment in which an entity operates is a primary consideration in determining whether an underlying event or transaction is abnormal and significantly different from the ordinary and typical activities of the entity. The environment of an entity includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and

extent of governmental regulation. Thus, an event or transaction may be unusual in nature for one entity but not for another because of differences in their respective environments. Unusual nature is not established by the fact that an event or transaction is beyond the control of management.

22. *Infrequency of Occurrence.* For purposes of this Opinion, an event or transaction of a type not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which an entity operates. Accordingly, a specific transaction of one entity might meet that criterion and a similar transaction of another entity might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular entity provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future. By definition, extraordinary items occur infrequently. However, mere infrequency of occurrence of a particular event or transaction does not alone imply that its effects should be classified as extraordinary. An event or transaction of a type that occurs frequently in the environment in which the entity operates cannot, by definition, be considered as extraordinary, regardless of its financial effect.

23. Certain gains and losses should not be reported as extraordinary items because they are usual in nature or may be expected to recur as a consequence of customary and continuing business activities. Examples include:

- a. Write-down or write-off of receivables, inventories, equipment leased to others, deferred research and development costs, or other intangible assets.
- b. Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations.
- c. Gains or losses on disposal of a component of an entity.
- d. Other gains or losses from sale or abandonment of property, plant, or equipment used in the business.
- e. Effects of a strike, including those against competitors and major suppliers.
- f. Adjustment of accruals on long-term contracts.

In rare situations, an event or transaction may occur that clearly meets both criteria specified in paragraph 20 of this section and thus gives rise to an extraordinary gain or loss that includes one or more of the gains or losses enumerated above. In these circumstances, gains or losses such as (a) and (d) above should be included in the extraordinary item if they are a direct result of a major casualty (such as an earthquake), an expropriation, or a prohibition under a newly enacted law or regulation that clearly meets both criteria specified in paragraph 20. However, any portion of such losses which would have resulted from a valuation of assets on a going concern basis should not be included in the extraordinary items. Disposals of a component of an entity shall be accounted for and presented in the income statement in accordance with Statement 144 even though the circumstances of the disposal meet the criteria specified in paragraph 20.

24. *Materiality.* The effect of an extraordinary event or transaction should be classified separately in the income statement in the manner described in paragraph 11 if it is material in relation to income before extraordinary items or to the trend of annual earnings before extraordinary items, or is material by other appropriate criteria. Items should be considered individually and not in the aggregate in determining whether an extraordinary event or transaction is material. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action that otherwise meets the two criteria in paragraph 20 should be aggregated to determine materiality.

Adjustment of Amounts Reported in Prior Periods

25. Circumstances attendant to extraordinary items frequently require estimates, for example, of associated costs and occasionally of associated revenue, based on judgment and evaluation of the facts known at the time of first accounting for the event. Each adjustment in the current period of an element of an extraordinary item that was reported in a prior period should be separately disclosed as to year of origin, nature, and amount and classified separately in the current period in the same manner as the original item. If the adjustment is the correction of an error, the provisions of FASB Statement No. 154, *Accounting Changes and Error Corrections*, paragraphs 25 and 26 should be applied.

Disclosure of Unusual or Infrequently Occurring Items

26. A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, should be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction should be disclosed on the face of the income statement or, alternatively, in notes to the financial statements. Gains or losses of a similar nature that are not individually material should be aggregated. Such items should not be reported on the face of the income statement net of income taxes or in any other manner that may imply that they are extraordinary items. Similarly, the earnings per share effects of those items should not be disclosed on the face of the income statement.

⁸[This footnote has been deleted. See Status page.]

EFFECTIVE DATE

27. This Opinion shall be effective for events and transactions occurring after September 30, 1973. Events and transactions that were reported as extraordinary items in statements of income for fiscal years ending before October 1, 1973 should not be restated, except that a statement of income including operations of discontinued segments of a business may be reclassified in comparative statements to conform with the provisions of paragraphs 8 and 9 of this Opinion and the Board encourages such reclassification. In addition, the accounting for events and transactions that have been reported previously for the fiscal year in which September 30, 1973 occurs may be restated retroactively to comply with the provisions of this Opinion, and the Board encourages such restatement. Differences in classification of the effects of events and transactions in the financial statements of the current and any prior periods presented should be disclosed in notes to the financial statements.

The Opinion entitled "Reporting the Results of Operations" was adopted by the assenting votes of fifteen members of the Board, of whom three, Messrs. Horngren, Norr, and Welsch, assented with qualification. Messrs. Bows and Watt dissented.

Mr. Horngren assents to this Opinion because it provides somewhat more definitive criteria for pinpointing extraordinary items than have existed to date. However, he agrees with the substance of paragraph 4. Separate identification of abnormal, unusual, or infrequent items is the primary need. Whether these items are classified as extraordinary or ordinary is a secondary issue. Furthermore, he is unconvinced that any criteria can be formulated which provide a workable distinction between extraordinary and ordinary items.

Mr. Norr assents because he believes the Opinion will reduce the frequency of use of the extraordinary item category. In order to provide stewardship he believes all items should go through the income statement with supplemental disclosure of results of discontinued operations, paragraph 8. He believes that the criteria created in this Opinion for extraordinary items, unusual and infrequent (paragraphs 20-22), are subjective and unworkable. He does not believe earthquakes, expropriations or prohibitions under new laws (paragraph 23) are extraordinary. He believes that the extraordinary category has resulted in a proliferation of abuses, particularly debits, comparable to direct entries to surplus. He believes the investor is best served by single line identification of unusual items. In that way there is stewardship for past events and the reader may predict which items may not recur. Thus, the subject of forecasting is a companion piece and is a vital adjunct to an all-inclusive income statement.

Mr. Welsch assents to the issuance of this Opinion because he believes it will reduce the differences in the classification of certain events and transactions as extraordinary. He also believes that it will reduce the varying accounting treatments accorded certain transactions involving the disposal of a segment of an entity. Mr. Welsch does not agree that the addition of another subjectively defined category and the attendant earnings per share complications will further serve the investor. He believes that the all-inclusive income statement, coupled with comprehensive disclosure requirements, would better serve the investor for the reasons given in paragraph 4 of this Opinion. He believes this change should be implemented at the present time.

Mr. Bows dissents to this Opinion because in his view it will cause serious erosion and confusion in efforts to achieve an informative and proper presentation of results of operations. This deterioration will occur because ordinary operating results will be blurred by inclusion of nonoperating, unusual and

nonrecurring items that affect net income for a given period. For example, material gains or losses from retirement of debt, from major devaluations, from sales of nonoperating capital assets, from major storms or floods, and from litigation unrelated to current operations are to be included in the determination of "income from continuing operations" rather than being set out separately on a net-of-tax basis below such operating results. The statement of income will present a distorted picture of ordinary operating results and thus will be less useful to readers than if ordinary operating results were clearly distinguished from truly extraordinary items on a net-of-tax basis and with a separate indication of their earnings per share effect.

Mr. Watt dissents to this Opinion because it virtually eliminates extraordinary items yet perpetuates the format which implies that only ordinary events and transactions are included in income before extraordinary items. To him the inclusion in "ordinary" income, for example, of expenses, net of tax, directly associated with the disposal of a business (and in the format required by paragraph 8), and gains and losses from sale or abandonment of a plant without adjustment for related income taxes (paragraph 23d), obscures current operating performance and will result in readers of financial statements questioning the usefulness of the complex format described in paragraph 8. He also believes that, in addition to the criteria for extraordinary items prescribed in paragraph 20, the Board should have recognized that the quality of being extraordinary can be derived from a combination of infrequency of occurrence (paragraph 20b) and abnormality of size, without regard to the nature of the event or transaction (paragraph 20a). This view is described in paragraph 6 of the Opinion.

APB 30 NOTES

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board.

Board Opinions need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Rule 203 of the Institute's Rules of Conduct prohibits a member from expressing his opinion that financial statements are presented in conformity with generally accepted accounting principles if the statements depart in a material respect from such principles unless he can demonstrate that due to unusual circumstances application of the principles would result in misleading statements—in which case his report must describe the departure, its approximate effects, if practicable, and the reasons why compliance with the established principles would result in misleading statements.

Pursuant to resolution of Council, this Opinion of the APB establishes, until such time as they are expressly superseded by action of FASB, accounting principles which fall within the provisions of Rule 203 of the Rules of Conduct.

Accounting Principles Board (1973)

Philip L. DeFliese,
Chairman
Donald J. Bevis
Albert J. Bows
Milton M. Broeker
Leo E. Burger

Joseph P. Cummings
Robert L. Ferst
Oscar S. Gellein
Newman T. Halvorson
Robert Hampton, III
Donald J. Hayes

ⁱAPB30, Footnote 1—This Opinion amends APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, to the extent that they describe an extraordinary item.

ⁱⁱAPB30, Footnote 3a—Paragraphs 41–44 of Statement 144 address the reporting of discontinued operations.