PROPOSED FASB STAFF POSITION

No. FAS 144-c

Title: Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment Is Obtained

Comment Deadline: December 15, 2006

Introduction

1. This FASB Staff Position (FSP) addresses how to classify and whether to depreciate a long-lived asset when the entity plans to account for its direct or indirect interest in the long-lived asset as an equity method investment after the asset is sold.

Background

2. The FASB staff has received inquiries on classifying and accounting for a depreciable long-lived asset when it is expected that once the asset is sold, the entity plans to account for its interest in the entity that holds the long-lived asset (or the long-lived asset) as an equity method investment. In those inquiries, the entity sold less than a 100 percent interest in a long-lived asset that is currently being consolidated, and the entity accounts for its remaining interest in the entity that holds the long-lived asset (or the long-lived asset) as an equity method investment. Those inquiries requested guidance on two issues. First, should an entity classify on the balance sheet all, none, or a portion of the long-lived asset as held-for-sale once the held-for-sale criteria are met. Second, should an entity continue to depreciate all, none, or a portion of the long-lived asset once the held-for-sale criteria are met. There is currently diversity in practice in the conclusions reached on both issues.

FASB Staff Position

3. An entity shall classify the entire long-lived asset as held-for-sale and cease depreciating the long-lived asset once the long-lived asset meets the held-for-sale criteria even if the entity plans to account for its direct or indirect interest in the long-lived asset under the equity method of accounting. When the entity obtains an equity method

investment, the entity will apply existing literature to determine how to account for its equity method investment. This FSP does not change the accounting for investments in joint ventures or equity method investments and whether a new basis of accounting should be applied. The Board concluded that depreciating a long-lived asset once the long-lived asset meets the held-for-sale criteria is inconsistent with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As discussed in paragraphs B83 and B84 of that Statement, the Board concluded that accounting for an asset classified as held-for-sale is a process of valuation rather than allocation, making depreciation inconsistent with the process of valuation.

Effective Date and Transition

4. The guidance in this FSP shall be applied prospectively in the first reporting period beginning after the FSP is posted to the website. Early adoption is permitted for financial statements or interim financial statements that have not yet been issued. For long-lived assets that are initially classified as held-for-sale after the effective date of this FSP, an entity shall cease depreciating the long-lived assets when the long-lived assets are classified as held-for-sale. For long-lived assets classified as held-for-sale before the effective date of this FSP, an entity shall maintain its current accounting policy for depreciating those long-lived assets.