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**THE PREDICTIVE ABILITY AND CLASSIFICATION SHIFTING OF  
DISCONTINUED OPERATIONS UNDER IFRS – 5**

A Dissertation  
submitted to the Graduate Research School of  
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“Life isn’t about finding yourself. Life is about creating yourself.”

- *George Bernard Shaw*

I dedicate this dissertation to my beloved mother, who has quietly stood by and made sacrifices while showering me with unconditional love and support through all the years I pursued an academic career. It is also dedicated to my honoured father, who is no longer with me. There is no doubt he would have been so proud of his daughter's latest achievement. To them I shall forever be indebted.

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## ABSTRACT

Considerable attention has been directed towards the impact of International Financial Reporting Standards (IFRS) by the business community and regulators. IFRS-5 *Non-current Assets Held for Sale and Discontinued Operations* requires the separate reporting of discontinued operations in the statement of comprehensive income. This is based on the (untested) assertion that cash flows from discontinued operations are different from continuing flows. Thus, there is a need to provide empirical evidence to support the assumption.

This thesis examines the usefulness of separate reporting of discontinued operations in two important attributes: predictive ability and classification shifting. Motivated by the concerns that discontinued operations are not useful to predict future profitability and are used to manipulate core earnings, this thesis investigates these two aspects for Australian listed companies that have adopted IFRS since 2005.

Existing literature documents evidence that discontinued operations should be ignored to predict future profitability (Fairfield, Sweeney, & Yohn, 1996) and managers engage in classification shifting using discontinued operations (Barua, Lin, & Sbaraglia, 2010) under the United States' Generally Accepted Accounting Practices (US GAAP). As discontinued operations are defined and measured differently under US GAAP and IFRS, this thesis investigates the usefulness of separate reporting of discontinued operations under IFRS by examining predictive ability and classification shifting of discontinued operations.

The findings show discontinued operations, particularly when splitting it into gains and losses from discontinued operations, are useful to predict a company's future profitability. Furthermore, results show losses from discontinued operations are opportunistically used to manipulate core earnings, to avoid reporting losses and earnings decreases under IFRS, when firms report discontinued operations frequently, and the amount of losses is high.

These results could be used for IASB in deciding whether to report discontinued operations separately in statements of comprehensive income.

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## LIST OF ACRONYMS

APE	Absolute Percentage Errors
AFE	Absolute Forecasted Errors
ASC	Accounting Standards Codification
ASU	Accounting Standard Update
CE	Core Earnings
DCO	Discontinued Operations
EPS	Earnings Per Share
FASB	Financial Accounting Standard Board
GAAP	Generally Accepted Accounting Practices
GCU	Cash Generating Unit
IAS	International Accounting Standards
IASB	International Accounting Standard Boards
IASC	International Accounting Standard Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
MAPE	Mean Absolute Percentage Error
MoU	Memorandum of Understanding
SEC	Security Exchange Commission
SFAS	Statement of Financial Accounting Standards
US	United States