

# **NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (IFRS – 5)**

## **OBJECTIVE**

1. To specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires that the assets held for sale to be measured at lower of carrying value and fair value less cost to sell and depreciation on such assets to cease; and
2. Assets held for sale to be presented separately in the statement of financial position and the results of discontinued operations should be presented separately in the statement of comprehensive income.

## **SCOPE**

The classification and presentation requirements of this IFRS apply to all recognized non-current assets and to all disposal groups of an entity.

The measurement provisions of this IFRS will not apply to the following assets: -

1. Deferred tax assets (IAS 12)
2. Assets arising from employee benefits (IAS 19)
3. Financial assets (IFRS-9/IAS 39)
4. Non-current assets that are accounted for in accordance with the fair value model (IAS 40)
5. Non-current assets measured at fair value less estimate cost of sale (IAS 41); and
6. Contractual right under the Insurance Contract (IFRS 4)

The classification, presentation and measurement requirements under this IFRS applicable to non-current asset classified as held for distribution to owners in their capacity as owners.

## **CLASSIFICATION OF NON-CURRENT ASSETS (OR DISPOSAL GROUP) AS HELD FOR SALE**

An entity will classify a non-current asset (or disposal group) as held for sale if its carrying value will be recovered principally from the sale and not from the continuing use. The pre-conditions necessary to classify held for sale are as under: -

- (a) The assets must be available for sale in its present condition (subject to usual or customary terms);
- (b) The sale is highly probable i.e.;
  - Management are committed to a plan to sell the asset
  - There is an active programme to locate a buyer; and
  - The asset is being actively marketed
- (c) The sale should be expected to complete within one year unless circumstances or events beyond the entity's control may extend the period to complete the sale;
- (d) It is unlikely that the plan will be significantly changed or will be withdrawn;
- (e) Sale transactions include exchange of non-current assets for other non-current assets;
- (f) Non-current assets acquired with the intention of resale should be classified as held for sale only if to be disposed off in one year from the acquisition date; and

- (g) If any non-current asset meet the criteria of an asset held for sale after the statement of financial position date but before the authorization for issuance of financial statements, the entity shall only disclose (non-adjusting event)

#### **NON-CURRENT ASSETS THAT ARE TO BE ABANDONED**

An entity will not classify a non-current asset (disposal group) to be abandoned from use as held for sale because its carrying amount will be recovered from use. Non-current assets to be abandoned include non-current assets (disposal group) to be used to end of their useful life or that are to be closed rather than sold (Exclude temporary abandonment).

#### **NON-CURRENT ASSET DISTRIBUTED TO OWNERS**

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

#### **MEASUREMENT OF NON-CURRENT ASSETS (DISPOSAL GROUP) CLASSIFIED AS HELD FOR SALE**

The non-current assets held for sale should be stated at the lower of carrying value or fair value less costs to sell.

An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

When the sale is expected to occur after one year the entity shall measure the costs to sell at present value and any increase in present value of costs to sell shall be charged to profit and loss account as financing cost.

Immediately before the initial classification of the asset or disposal group as held for sale, the carrying amount will be determined according to other applicable IFRS.

On subsequent re-measurement of any asset or liability of a disposal group not covered under this IFRS should continue to be measured other applicable IFRS.

#### **RECOGNITION OF IMPAIRMENT LOSSES AND REVERSALS**

- ❖ The entity shall recognize the impairment loss for initial or subsequent write down of asset (or disposal group) to fair value less costs to sell.
- ❖ The entity will recognize gain of any increase in fair value up to the cumulative impairment loss recognized under this IFRS or IAS –36
- ❖ The impairment loss (subsequent gain) recognized for a disposal group shall reduce (or increase) the carrying value in a group in the order of allocation as per IAS –36
- ❖ Any impairment loss not recognized up till the sale date will be recognized at the time of de-recognition
- ❖ Depreciation will cease from the date when the asset is recognized for sale

## CHANGES TO PLAN OF SALE

If the entity changes its plan to sell the asset (disposal group), the asset shall cease to be classified as held for sale and will be measured at the lower of: -

- ❖ Its carrying value before the asset (disposal group) was classified as held for sale adjusted against the depreciation, amortization or revaluation that would have been recognized had the asset (disposal group) not classified as held for sale, and
- ❖ Its recoverable amount at the date of the subsequent decision not to sell

## PRESENTATION AND DISCLOSURES

An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

Assets classified as held for sale must be presented separately on the face of the statement of financial position under the heading of current assets.

## DISCONTINUED OPERATIONS

A discontinuing operation is a component of an enterprise that either has been disposed of or is classified as held for sale, and:

- (a) Represents a separate major line of business or geographical area of operations;
- (b) Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- (c) Is a subsidiary acquired exclusively with a view to resale

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the entity.

## PRESENTATION IN THE STATEMENT OF COMPREHENSIVE INCOME

An entity shall disclose for the current period and prior period: -

- (a) A single amount on the face of the statement of comprehensive incomes comprising the following: -
  - ❖ The post tax profit or loss of discontinued operations and
  - ❖ The post tax gain or loss recognized on the measurement to the fair value less costs to sell of the asset or disposal group constituting the discontinuing operations
- (b) An analysis of the single amount in a) into: -
  - ❖ The revenue, expenses and pre-tax profit or loss of discontinued operations;
  - ❖ The related income tax expense as required by IAS –12
  - ❖ The gain or loss recognized on the measurement of fair value less costs to sell or on the disposal of the assets or disposal group constituting discontinued operations
  - ❖ The related tax expense as required by IAS –12

The analysis may be presented on the face of the statement of comprehensive income or in the notes. The analysis is not required for newly acquired subsidiaries held for sale.

## PRESENTATION IN THE CASH FLOW STATEMENT

The net cash flows attributable to operating, investing and financing activities of the discontinued operations. The analysis is not required for newly acquired subsidiaries.

## **PRESENTATION IN THE STATEMENT OF FINANCIAL POSITION**

1. An entity shall present either on the face or in the notes a non-current asset classified as held for sale and the assets / liabilities of a disposal group classified as held for sale separately from other assets/liabilities in the statement of financial position.
2. Those assets and liabilities should not be offset against each other and presented as a single amount.
3. An entity should also disclose any gain / loss related to assets/liabilities held for sale which is recognized directly into equity.
4. The analysis is not required for newly acquired subsidiaries held for sale.
5. An entity shall not disclose/represent amount of assets held for sale in the statement of financial position for prior periods to reflect classification in the statement of financial position for the latest periods presented.

## **ADDITIONAL DISCLOSURES**

An entity shall separately disclose the adjustments to amounts previously presented discontinued operations in a prior period. The examples of adjustments are: -

- ❖ The resolution of uncertainties that arises from the terms of disposal transaction (purchase price)
- ❖ The resolution of uncertainties that arises from the and are directly related to the operations of the component before its disposal (environmental and product warranty obligations)
- ❖ The settlement of employee benefit obligations provided that the settlement is directly related to the disposal transaction.

If an entity ceases to classify a component of an entity as held for sale, the result of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all the periods presented. The amounts of prior periods shall be described as having been re-presented.

An entity shall also disclose the following for assets held for sale/sold.

- a) a description of the non-current assets
- b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and time of that disposal
- c) if applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with IFRS-8.

### **Example 1 – Khan Limited**

On 1 January 20X5 Khan Limited bought a chicken-processing machine for Rs. 20,000. It has an expected useful life of ten years and a nil residual value. On 31 December 20X6, after two years of using the asset, the manager of Khan Limited decides to sell the machine and starts actions to locate a buyer. The machines are in short supply, so the manager is confident that the machine will be sold fairly quickly. Its current market value is Rs. 15,000 and it will cost Rs. 500 to dismantle the machine and make it available to the purchaser.

Required: - At what value should the machine be stated in Khan Limited statement of financial position at 31 December 20X2? Show the presentation in the statement of financial position.

**Illustrations of statement of comprehensive income presentation**  
**KHAN LIMITED**

	<b>20X6</b> <b>Rs.</b>
<b>Continuing operations</b>	
Revenue	X
Cost of sales	(X)
	—
Gross profit	X
Distribution costs	(X)
Administration expenses	(X)
	—
Profit from operations	X
Finance costs	(X)
	—
Profit before tax	X
Income tax expenses	(X)
	—
Profit for the period from continuing operations	X
<b>Discontinued operations</b>	
Profit for the period from discontinued operations*	X
	—
Total profit for the period	X
	—
Attributable to: -	
Owners of the parent	
Profit for the period from continuing operations	x
Profit for the period from discontinued operations	x
Profit for the period attributable to owners of the parent	xx
Non-controlling interests	
Profit for the period from continuing operations	x
Profit for the period from discontinued operations	x
Profit for the period attributable to non-controlling interest	xx
	xxx