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IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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1.0 Objective

- The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations . In particular, the IFRS requires:
- (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell , and depreciation on such assets to cease; and
- (b) assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

1.2: scope

- Standards for non-current assets with carrying values to be recovered through sale rather than use.
- Covers classification, measurement, presentation of assets held for sale, and reporting of discontinued operations.

1.2: scope Cont..'ed

- **Measurement provisions of IFRS 5 do not apply to:**
  - **Deferred tax assets (IAS 12)**
  - **Assets arising from employee benefits (IAS19)**
  - **Financial assets (IFRS 9)**
  - **Investment properties measured using fair value model (IAS 40)**
  - **Agricultural non-current assets measured at fair value less costs (IAS 41)**

Definitions;Non current asset held for sale

- The term refers to an ***individual asset*** or ***group of assets***
- An ***individual non-current asset*** is regarded as 'held for sale' if its carrying amount will be recovered principally through a sale transaction rather than through continuing use
- A ***disposal group*** is a group of assets to be disposed of together as a single transaction together with liabilities directly associated with those assets that will be transferred in the transaction.
- The group includes goodwill acquired in a business combination if the group is a cash-generating unit.

Classification

- The classification and presentation requirements of this IFRS apply to all recognised non-current assets *and to all disposal groups of an entity
- Assets classified as non-current in accordance with IAS 1 *Presentation of Financial Statements* shall not be reclassified as *current assets* until they meet the criteria to be classified as held for sale in accordance with this IFRS.

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

- **An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.**

conditions for a non-current asset or disposal group to be classified as held-for-sale IFRS 5(6-8)

- Asset is available for immediate sale in its present condition
- Sale is highly probable
  - Management committed to a plan to sell the asset
  - Programme to locate a buyer initiated
  - Asset actively marketed as a price that is reasonable in relation to its fair value
  - Disposal plan should be completed within one year from date of classification (subject to events outside entity’s control)
  - Significant change in plan or withdrawal unlikely

Example 1: Plan to sell – time to vacate

An entity is committed to a plan to sell its HQ and has initiated action to find a buyer.

Situation 1

The entity intends to transfer the building to a buyer after it vacates the building. The time to vacate is normal. The criterion is met at the plan commitment date.

Situation 2

The entity will continue to use the building until a new HQ is built. The building will not be transferred until construction is completed. The delay demonstrates that the building is not available for immediate sale and thus the criterion is not met, even if a firm purchase commitment has already been entered into.

Example 2

- An entity has agreed in a directors' meeting to sell a building, and has tentatively started looking for a buyer for the building. The price of the building has been fixed at $4m and a surveyor has valued the building based on market prices at $3.6m. The entity will continue to use the building until another building has been found with equivalent facilities, and in a suitable location for the office staff, who will not be relocated until the new building has been found.
- Additionally, the entity is planning to sell part of its business and has actively marketed the business at a fair price but, before the business can be sold, government approval is required and any sale requires government approval. This means that the sale time is difficult to determine and it may take longer than one year to sell the disposal group.

Answer

- The building will not be classified as held-for-sale as it is not available for immediate sale because, until new premises have been found, the office staff will remain in the existing building. Also, the directors have only tentatively started looking for a buyer which may indicate that the entity is not committed to the sale. Additionally, the price being asked for the building is above the market price, and is not reasonable compared to that price. It is unlikely that the entity will sell the building for that price.
- The disposal group, however, would be classified as held-for-sale because the delay is caused by events or circumstances beyond the entity's control, and there is evidence that the entity is committed to selling the disposal group.

Measurement of a non-current asset (or disposal group)-IFRS 5(15)

- An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and 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

Recognition of impairment losses and reversals

- IFRS 5(20) An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 19.
- IFRS 5(21) An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this IFRS or previously in accordance with IAS 36 *Impairment of Assets*.

Measurement; Changes to a plan of sale IFRS 5 (26-27)

- Item is reclassified
- Remeasured to **lower of**:

(a) Carrying amount before classified as held for sale less any depreciation that would have been taken if it had not been held for sale, and

(b) Its recoverable amount (i.e., higher of fair value less costs to sell and value in use)

- Difference is recognized in profit or loss from continuing operations

Example 3

A property is purchased for Shs500,000 on 1 January 2013. The useful life of the property is 20 years (zero residual value). The property is measured subsequently at depreciated historical cost.

On 31 December 2014, it is decided that the property is to be classified as held for sale (classification criteria are met).

An impairment assessment on 31 December 2014 determines the recoverable value (based on VIU) to be Shs400,000.

The FVLCS on 31 December 2014 is Shs390,000.

At 31 December 2015, there is a change in plans and the property no longer meets the criteria to be classified as held for sale.

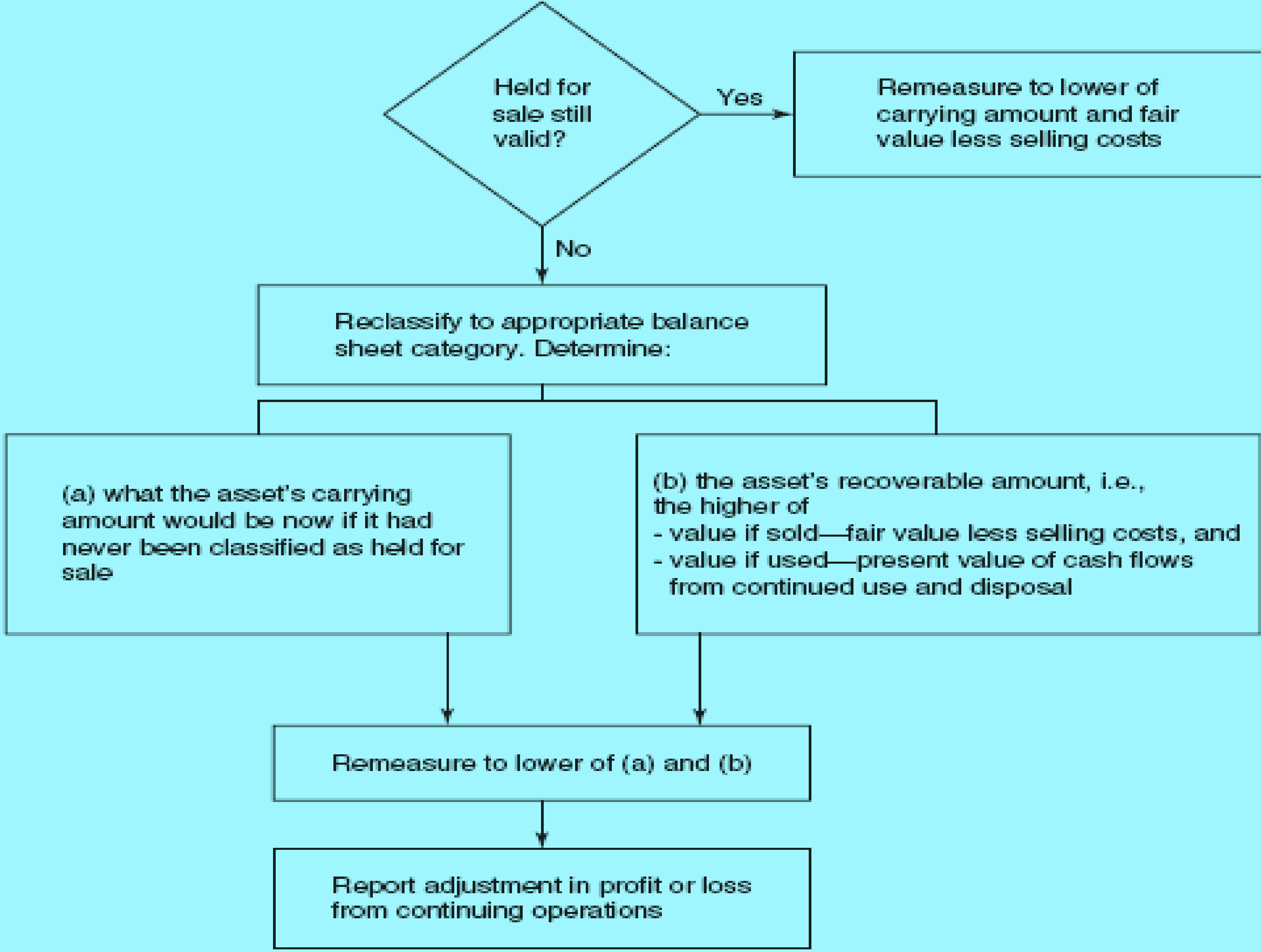
There is no change in the useful life of the property at any point. The recoverable value at 31 December 2015 is Shs385,000.

Requirement

Show how the property would be accounted for in 2014 .

solution

2014	Shs
Cost 1 January 2013	500,000
Depreciation 2013	(25,000)
Depreciation 2014	(25,000)
Carrying value prior to impairment	450,000
Impairment charge at 31 Dec. 2014	(50,000)
Carrying value prior to re-classification as held for sale	400,000
Impairment charge after re-classification as held for sale	(10,000)
Carrying value at 31 December 2014 (classified as held for sale	390,000


Held for sale still valid?
Yes
Remeasure to lower of carrying amount and fair value less selling costs
No
Reclassify to appropriate balance sheet category. Determine:
(a) what the asset's carrying amount would be now if it had never been classified as held for sale
(b) the asset's recoverable amount, i.e., the higher of
- value if sold—fair value less selling costs, and
- value if used—present value of cash flows from continued use and disposal
Remeasure to lower of (a) and (b)
Report adjustment in profit or loss from continuing operations

EXAMPLE 4

A property is purchased for €500,000 on 1 January 2014. The useful life of the property is 20 years (zero residual value). The property is measured subsequently at depreciated historical cost.

On 30 June 2016, it is decided that the property is to be classified as held for sale (classification criteria are met).

An impairment assessment on 30 June 2016 determines the recoverable value (based on value in use) to be €400,000.

The fair value less costs to sell on 30 June 2016 is €390,000.

Requirement

a) What is the carrying value of the property immediately before re-classification as held for sale on 30 June 2016?

b) What are the required accounting entries in 2016 in respect of the re-classification of the asset as held for sale?

Solution for (a)

	Shs.
▪ Cost	500,000
▪ Depreciation 2014	(25,000)
▪ Depreciation 2015	(25,000)
▪ Depreciation six months 2016	(12,500)
▪ Carrying value at 30 June 2016 prior to impairment assessment	437,500
▪ Impairment charge 2016	(37,500
	400,000

Solution for (b)

	Shs
▪ Carrying value at date of re-classification as held for sale	400,000
▪ Fair value less costs to sell	<u>390,000</u>
▪ Impairment charge 2016	<u>10,000</u>

Measurement after re-classification as held for sale (IFRS 5(21-23)

- No depreciation or amortisation charges (even if asset is still used)
- At subsequent reporting dates, re-measure to FVLCS
  - Impairment losses are recognised in SPLOCI – P/L
  - Gains are recognised for increases in FVLCS but not in excess of cumulative impairment losses recognised in accordance with IFRS 5 or previously in accordance with IAS 36

Example-Impairment losses are recognised in SPLOCI – P/L

At 30 June 2013, a decision is taken to classify property as held for sale (criteria are met). At the time of classification, the carrying value is Shs250,000 and the FVLCS is Shs 260,000.
Upon re-classification, there is no impairment and the property is initially classified as held for sale at Shs 250,000. There is no depreciation of the property after the date of re-classification.
At the next reporting date, 31 December 2013, the market has declined and the FVLCS is determined to be Shs 240,000. An impairment loss of Shs10,000 is recognised in SPLOCI – P/L.
The property is subsequently sold for Shs 270,000. A gain on disposal of Shs 30,000 is recognised in SPLOCI – P/L.

Example Gains are recognised for increases in FVLCS but not in excess of cumulative impairment losses.

At 30 June 2013, a decision was taken to classify property as held for sale (criteria are met). The property was originally acquired for **Shs400,000**. Cumulative depreciation to 30 June 2013 amounted to **Shs110,000**. An impairment loss of **Shs35,000** was also recognised at 30 June 2013 because VIU was determined at that date to be **Shs255,000.**

Upon re-classification as held for sale, the FVLCS was assessed at Shs250,000. An additional impairment charge therefore arose under IFRS 5 and the carrying value of the property was **Shs250,000.**

At the next reporting date, 31 December 2013, the FVLCS is reassessed at **Shs265,000**. The full amount of the gain, **Shs15,000,** is recognised in SPLOCI – P/L because it is less than the cumulative impairment losses recognised to date **(Shs40,000).**

Cont..ed Example 2

If however, at 31 December 2013, the FVLCS was Shs300,000, then the gain of Shs50,000 would exceed the cumulative impairment losses (Shs40,000).

In this circumstance, only Shs40,000 of the gain could be recognised in SPLOCI – P/L and the carrying value of the property would be Shs290,000. If the property was subsequently sold for Shs300,000, a gain on disposal of Shs10,000 would be recognised at that point.

Presentation of disposal groups classified as held for sale

	2012 Shs	2013 Shs
ASSETS		
Non current assets		
AAA	X	X
BBB	X	X
CCC	X	X
	X	X
Current assets		
DDD	X	X
EEE	X	X
	X	X
Non-current assets classified as held for sale	8,000	-
	X	X
Total assets	**X**	**X**

Presenting discontinued operations IFRS 5(32-36)

- A discontinued operation is a **<u>component</u>** of an entity 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 co-ordinated 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 <u>component</u> of an entity is a CGU or group of CGUs

Presentation and Disclosure

- **An entity shall disclose: IFRS 5(33)**
- (a) **a single amount in the statement of comprehensive income** comprising the total of:
- (i) the post-tax profit or loss of discontinued operations and
- (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell **or** on the disposal of the assets or disposal group(s) constituting the discontinued operation.
- **An analysis of the single figure is provided in the notes or in SPLOCI.**

An entity shall disclose: IFRS 5(33)

- (b) **An analysis of the single amount** in (a) into:
- (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;
- (ii) the related income tax expense as required by paragraph 81(h) of IAS 12;
- (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

An entity shall disclose: IFRS 5(33)

- (iv) the related income tax expense as required by paragraph 81(h) of IAS 12.

- **The analysis may be presented in the notes or in the statement of comprehensive income.**
- **If it is presented in the statement of comprehensive income it shall be presented in a section identified as relating to discontinued operations**

Format

	Shsm
Continuing Operations	
Revenue	x
Cost of sales	(x)
Gross profit	x
Other operating income	x
Distribution costs	(x)
Administrative expenses	(x)
Other expenses	(x)
Finance costs	(x)
Share of profit of associates	x
Profit before tax	x
Income tax expense	(x)
Net profit for period for continuing operations	x

..cont..'ed Format

	Shsm
Discontinued Operations	
Net profit for period for discontinued operations*	x
Net profit for period	x
Attributable to:	
Equity holders of the parent	x
Non-controlling interest	x

- ****Required analysis would be given in notes. Alternatively, profit from discontinued operations could be analysed in separate column on the face of SPLOCI.***

An entity shall disclose: IFRS 5(33)

- (c) The **net cash flows** attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements.
- These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).
- (d) The **amount of income** from continuing operations and from discontinued operations attributable to owners of the parent.
- **These disclosures may be presented either in the notes or in the statement of comprehensive income.**

Additional disclosures IFRS 5(41)

- **Disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:**
- (a) A description of the non-current asset;
- (b) A description of the facts and circumstances of the sale;
- (c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss;
- (d) If applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating Segments*.

Additional disclosures IFRS 5(42)

- If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group),
- A description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

Summary: Assets held for sale

- To be classified as held for sale:
- Available for immediate sale in present condition
- Sale highly probable
- Transfer to be completed within one year

Where assets & liabilities to be disposed of in a single transaction treat as a disposal group

- ✓ Carry at lower of carrying value & FVLCS
- ✓ Do not depreciate
- ✓ Present separately on face of SFP

Where an entity adopts the revaluation model for the measurement of assets, any asset classified as held for sale should be revalued at fair value **immediately prior** to the reclassification. Upon reclassification costs to sell are deducted and recognised as an impairment in the SPLOCI.

Summary: Discontinued operations

- Discontinued is a component of an entity that has either been disposed of or is classified as held for sale and:
  - Represents a major line of business or geographical area; or
  - Part of a single coordinated plan of disposal; or
  - Is a subsidiary acquired exclusively with a view to resale.

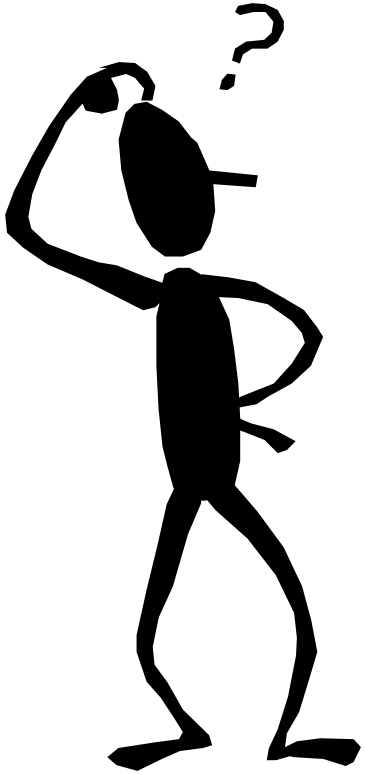
Disclose as a single amount on the face of the SPLOCI, the sum of:

• Post-tax profit or loss of discontinued operation; and

• Post-tax gain or loss recognised on the disposal of the asset.

Detailed disclosures of revenue, expenses, pre-tax profit or loss and related income taxes also required either in notes or on face of SPLOCI plus separate disclosures relating to cash flows from discontinued operations

ANY QUESTIONS, COMMENTS…



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THANK YOU