

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

By CPA Ferdinand Othieno

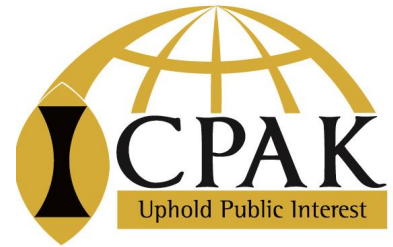
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Credibility.

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Agenda



Non-current assets held for sale

- Background
- Classification as held for sale
- Measurement issues



Discontinued operations

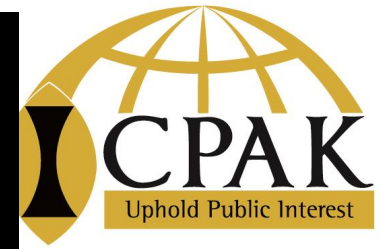
- Definition & criteria
- Classification
- Measurement

Other topics

- Reclassification to assets held for use
- Subsidiaries acquired for sale
- Covid 19 considerations



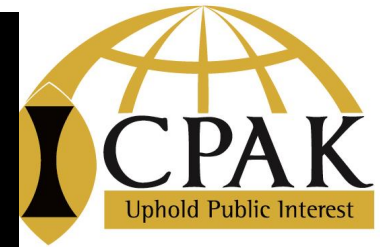
Objectives of IFRS 5



- Specifies
 - Definition;
 - Measurement;
 - Presentation; and
 - Disclosure requirements

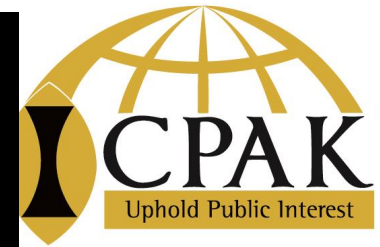
For assets held for sale and discontinued operations

Scope of IFRS 5



- Classification and presentation requirements apply to all non-current assets and disposal groups (as a whole)
- Measurement requirements apply to all non-current assets and disposal groups (as a whole) except the following:
 - financial assets within the scope of IFRS 9;
 - deferred tax assets (IAS 12);
 - assets related to employee benefits (IAS 19) and insurance contracts (IFRS 17);
 - certain assets whose subsequent measurement is based upon fair value (e.g., investment properties).
- Excluded assets are measured using the IFRSs that normally apply to such items. This also applies if they are part of a disposal group.

Classification as held for sale



Non-current
asset

Carrying amount to be recovered
principally through sale

Classify as “held
for sale”

Detailed
criteria

Available for immediate sale

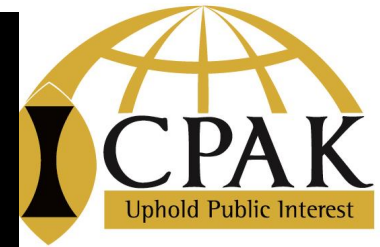
◆ In its current condition

Assets are not available for immediate sale if they continue to be needed for the entity's ongoing operations or are being refurbished to enhance their value

Sale is highly probable

- ◆ Management committed to a plan to sell
- ◆ Actively marketing at a reasonable price
- ◆ Significant changes to plan unlikely
- ◆ Sale expected in one year from the date of classification as held for sale (may be extended in certain circumstances)

Classification as held for sale - Example



Entity X has commenced the process of selling an investment in a subsidiary and meets all of the criteria for classifying the assets and liabilities of the subsidiary as held for sale.

A buyer is identified and the method of calculating the final agreed price for the investment is determined.

Prior to finalising the sale, financial information regarding the subsidiary emerges that leads X to suspect that the final agreed price will be significantly below the price at which it is willing to sell its investment.

Before receiving the results of the calculation, the management of X actively begins to consider alternatives to selling the investment

Does the subsidiary meet the criteria to be classified as 'held for sale'?

Disposal group

Group of assets
(must include at least
one non-current asset
within the scope of IFRS
5)

+

Directly associated
liabilities

=

Disposal group

Dispose
in a
single
transaction

Held for sale?

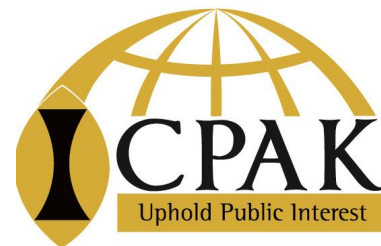
Yes, if carrying amount
to be recovered
principally through sale
(same criteria as for
individual assets)

Extension of period to complete sale beyond one year



- Does not preclude an asset (or disposal group) from being classified as held for sale if:
 - Delay is caused by events and circumstances beyond the entity's control; *and*
 - Sufficient evidence exists that entity remains committed to its plan to sell

Available for immediate sale - examples



Example 1 - new building

A need to vacate the current property is *usual and customary* and does not mean that the property fails the availability criterion

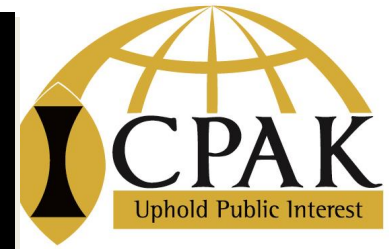
The need to construct a new building to move into prior to vacating means that the existing property fails the availability criterion until the construction is *completed*

Example 2 - operations

If the entity intends to transfer operations with the disposal group, the existence of uncompleted orders does not affect the availability criterion

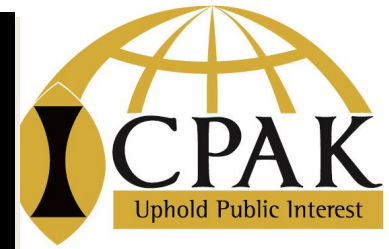
If operations are not to be transferred and the entity intends to complete existing orders and transfer only after the orders are complete and operations cease, the criterion is failed until the operations *actually cease*

Measurement on initial classification



- Immediately before classification as held for sale - measure in accordance with the relevant IFRSs
- Measurement on classification (assets (disposal group) in measurement scope only) - lower of carrying amount and fair value less costs to sell
- Losses on a disposal group
 - allocated to the non-current assets within the measurement scope of IFRS 5 in the order of IAS 36 allocation
 - included in profit or loss whether or not the asset was (or the disposal group includes assets that were) previously measured at revalued amounts
- A disposal group continues to be consolidated while held for sale
- Assets held for sale are not depreciated or amortised

Measurement on initial classification



- Fair value

The price received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market (or most advantageous market) between market

participants at the measurement date



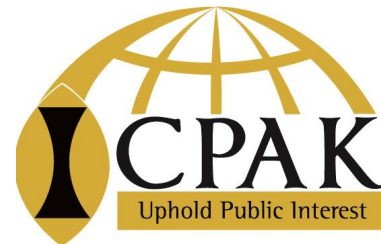
EXIT PRICE

Transport

Transaction costs

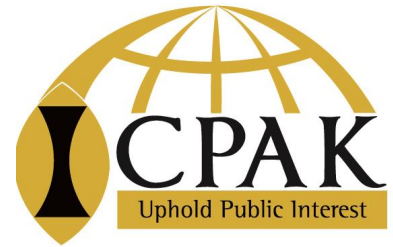


Subsequent remeasurement



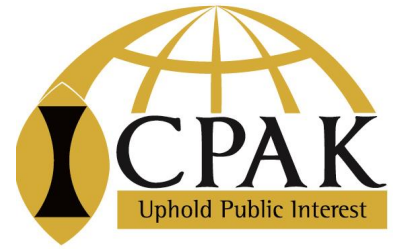
- Assets (disposal groups) in measurement scope of IFRS 5
 - subsequently remeasured at their fair value less costs to sell
 - recognition of gains is restricted to impairment losses previously recognized under IFRS 5 and IAS 36
- Assets and liabilities excluded from measurement scope of IFRS 5
 - on subsequent remeasurement measured in accordance with the relevant individual IFRSs
- Gains / losses on a disposal group
 - allocated to the non-current assets within the measurement scope of IFRS 5 in the order of IAS 36 allocation
 - included in profit or loss whether or not the asset was (or the disposal group includes assets that were) previously measured at revalued amounts
- On disposal
 - any gain or loss not recognised prior to the date of sale is recognized on the derecognition of the assets (disposal group)

Presentation of non-current assets (or disposal groups) held for sale



- On the face of the statement of financial position
 - Non-current assets and assets of disposal group shown separately as “Held for sale”
 - Liabilities of disposal group shown separately as “Held for sale”
 - Presentation as current if sale is within 12 months
 - Comparatives are NOT re-presented
 - Assets and liabilities are NOT offset
- Major classes of assets and liabilities disclosed separately either in the statement of financial position or notes
 - exceptions for certain newly acquired subsidiaries
- Gains and losses on remeasurement included in profit or loss from continuing operations
 - unless the group meets the definition of a discontinued operation

Classification as a discontinued operation



A discontinued operation is:

A component = Operations and cash flows distinguishable operationally and for financial reporting purposes
(e.g., a Cash Generating Unit or a group of CGUs)

That is:

Disposed of or classified as “held for sale”

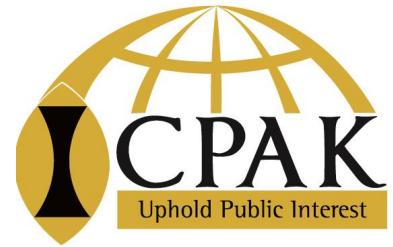
And represents a:

Separate major line of business or geographical area

Part of a single plan to dispose of a separate major line of business or geographical area

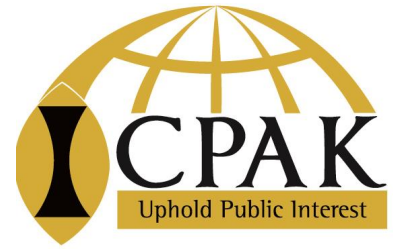
Subsidiary acquired exclusively with a view to resale

Presentation of a discontinued operation



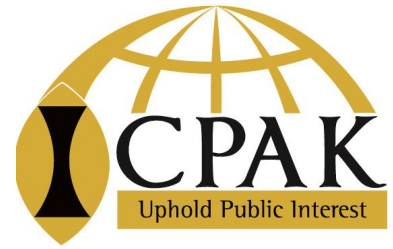
- Classification criteria must be met before end of the reporting period
- Statement of comprehensive income
 - Single amount on the “face” comprising of:
 - post-tax profit/loss of discontinued operation
 - post-tax gain/loss recognised on the measurement to fair value less cost to sell or on the disposal
- Re-present comparatives for prior periods

Presentation of a discontinued operation (continued)



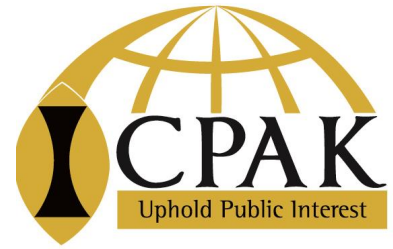
- On the face or in the notes separately from continuing:
 - Revenue
 - Expenses
 - Pre-tax profit or loss and related income tax expense
 - Gain or loss recognised on:
 - remeasurement to fair value less costs to sell; or
 - disposal of the assets or disposal group(s)
 - Related income tax expense
 - Net cash flow attributable to operating, investing and financing activities
 - Income from continuing and discontinued operations attributable to owners of the parent

Presentation of a discontinued operation (continued)



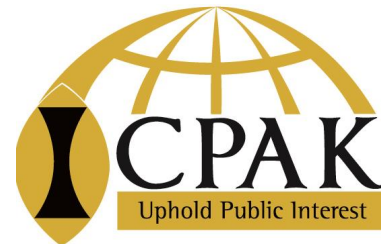
- If components of profit or loss are presented in a separate statement of comprehensive income, present a separate section related to discontinued operations
- If discontinued operation ceases to meet the classification criteria - reclassify to continuing
- Disclosure exception apply to subsidiaries acquired with a view to resale

Subsidiaries acquired exclusively to resale



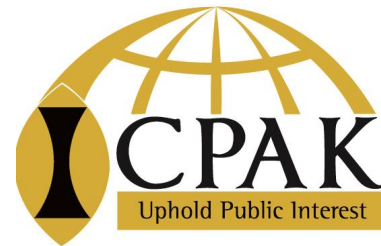
- Classification as held for sale if
 - sale is expected within one year
 - other classification criteria are met or *highly probable* to be met within a short period (usually within three months)
- Measurement on initial recognition at the lower of:
 - carrying amount had the asset (or disposal group) not been classified as held for sale; and
 - fair value less costs to sell
- Investments in subsidiaries
 - consolidated
 - certain exemption regarding presentation and disclosures
- Investments in associates and jointly controlled entities
 - NOT equity accounted or proportionally consolidated

Reclassification as held for use



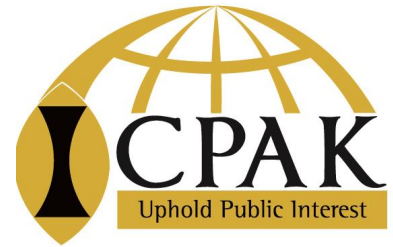
- A non-current asset that ceases to be classified as held for sale is measured at the lower of
 - carrying amount had the asset not been classified as held for sale and
 - its *recoverable amount* at the date criteria are no longer met
- Adjustment is recognised in profit or loss unless the asset was measured at a revalued amount
- Disclosures
 - Description of facts and circumstances leading to the decision
 - Effect on the results for the period and any prior period presented

Covid 19 considerations



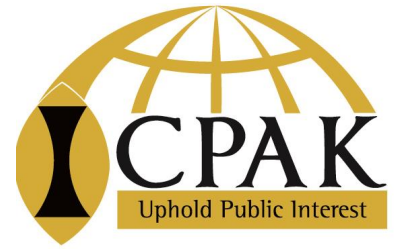
- Covid 19 Implications
 - During this COVID-19 pandemic period, entities should determine whether certain non-current assets or disposal groups should (should not) be classified as ‘held for sale’ under IFRS 5, and whether there are any discontinued operations whose results should be disclosed separately.

Covid 19 considerations

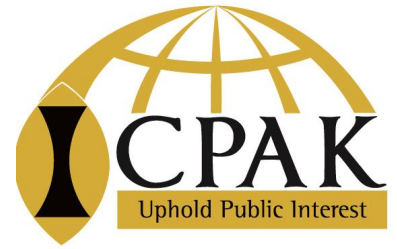


- Covid 19 Considerations
 - Non-current assets and disposal groups previously classified as ‘held for sale’ may no longer meet the ‘highly probable’ criteria for a sale because of a disappearance of buyers.
 - COVID-19 may result in more non-current assets being classified as ‘held for sale’ under IFRS 5 if the effects require entities to liquidate certain assets.
 - Certain business units disposed off may meet the criteria for discontinued operations and require separate disclosure of results and additional disclosures.
 - Non-current assets that are to be abandoned (i.e. not sold) cannot be classified as ‘held for sale’ under IFRS 5.

Questions & comments



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