

# IFRS 5-Non Current Assets Held For Sale And Discontinued Operations



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# Learning Outcome Statements ('LOS')

- Difference between Indian GAAP and IFRS 5
- Understand the definitions of discontinued operations and disposal group
- Explain the history and reason for issue
- Understand the criteria for classification as held for sale
- Describe measurement and remeasurement of non-current asset (or disposal group) recognition
- Explain the concepts of Impairment and reversal
- Describe the treatment in case of Changes of plan to sale
- Describe the presentation and disclosure

# Difference between Indian GAAP and IFRS-5

	<b>Indian GAAP</b>	<b>IFRS</b>
Scope	There is no standard corresponding to IFRS 5. AS 24 deals only with disclosures relating to discontinuing operations.	IFRS 5 sets out requirements for the classification, measurement and presentation of non-current assets held for sale and the classification and presentation of discontinued operations.
Definition	A discontinuing operation is a component of an entity that the entity, pursuant to a single plan, is disposing of substantially in its entirety, or disposing of piecemeal, or <u>terminating through abandonment</u> ; and that represents a separate major line of business or geographical area of operations; and that can be distinguished operationally and for financial reporting purposes.	A discontinued operation is a component of an entity that either has been disposed of, or <u>is classified as held for sale</u> , and represents, or is a part of a single coordinated plan to dispose of, a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale.

# Difference between Indian GAAP and IFRS-5

	<b>Indian GAAP</b>	<b>IFRS</b>
Maximum period to complete sale	No time-frame specified.	Completed within a year, with limited exceptions.
Measurement	No guidance under AS 24; rather, need to apply the relevant standards, e.g., AS 10 for fixed assets, AS 28 for impairment, etc.	Lower of carrying value or fair value less costs to sell.

# Definitions

➤ Discontinued operation: ('DC')

A component of an entity that either has been disposed of or is *classified as held for sale* and:

- ❖ represents a separate major line of business or geographical area of operations,
- ❖ is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- ❖ is a subsidiary acquired exclusively with a view to resale

Q : Whether JV/associate held for sale will meet the definition of **DC** (JV and associate held for sale may not fall within the definition of separate line of business or geographical area of operations to be classified as component and thereby classified as discontinued operations)

# Definitions

## ➤ Component:

Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity

## ➤ Disposal group:

❖ A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction

❖ 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 to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of IAS 36 Impairment of Assets (as revised in 2004) or if it is an operation within such a cash-generating unit

## ➤ Cash generating unit:

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

# History and Reason for issue of IFRS 5

- IFRS 5 arises from the IASB's consideration of FASB Statement No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), issued in 2001
- The SFAS 144 address three areas as follows:
  - (i) the impairment of long-lived assets to be held and used
  - (ii) the classification, measurement and presentation of assets held for sale &
  - (iii) the classification and presentation of discontinued operations.
- Of the above areas, (ii) and (iii) have been addressed by IFRS 5 and an effort is made to pursue convergence with SFAS 144
- However issue (i) relating to the impairment of long-lived assets to be held and used was considered as a long term project where in there are extensive differences between IFRSs and US GAAP to be converged over a period of time.

# Classification as held for sale

➤ 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. For this to be the case it must satisfy following conditions:

❖ Asset (or disposal group) must be available for immediate sale in its present condition

Eg. For assets to be available for sale:

✓ If the entity intends to sell the building and it vacates the building in usual time, is the asset available for immediate sale ?

Ans: Yes, it meets the criteria of 'assets must be available for immediate sale

✓ If the entity vacates the building only after the construction of the new building is completed, is the assets available for immediate sale ?

Ans: No, then the criteria is not met.

❖ Sale must be highly probable

# Classification as held for sale

- For sale to be highly probable:
  - ❖ Management must be committed to a plan to sell the asset (or disposal group)
  - ❖ An active program to locate a buyer and complete the plan must have been initiated
  - ❖ The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value
  - ❖ Actions to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn
  - ❖ Sale should be expected to qualify for recognition as a completed sale within one year (barring few exceptional situations)

## Classification as held for sale

- When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the sale is expected to qualify for recognition as a completed sale within one year from the date of classification
- An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned, because its carrying amount will be recovered principally through continuing use.

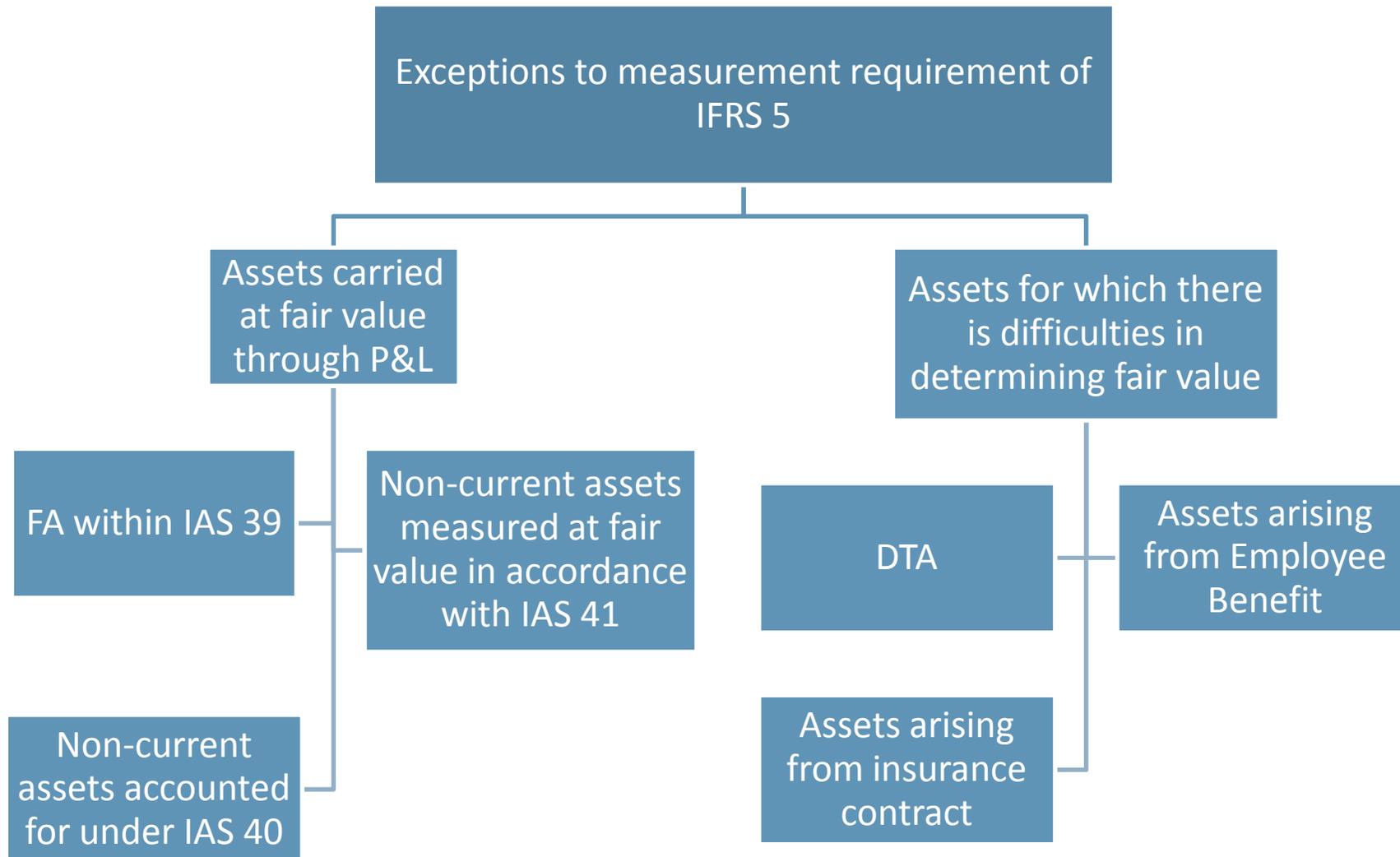
# Classification as held for sale

- e.g. An entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date
  - ❖ During the one year actively solicited but couldn't find a client and market conditions further deteriorated and thus the entity reduced the value asset., is the assets available for sale ?  
Ans: Yes, the assets continues to be marketed at a reasonable market price and therefore the criteria for the exception is met and thus it is available for sale.
  - ❖ In the next year market condition further deteriorated but the company didn't reduced the price, is the asset still available for sale ?  
Ans: No, the exception to the one year criteria is not met and thus the asset need to be reclassified as held in use.

# Measurement & remeasurement of non-current asset (or disposal group)

- Measure at lower of carrying amount or fair value less cost to sell
- If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale, it shall be measured at fair value less costs to sell (including assets purchased in business combination)
- No depreciation in case of asset classified as held for sale, during the period of asset classified as held for sale and actual sale to be consistent with other IFRSs.

# Exceptions to the measurement criteria



# Impairment and reversal

- Recognise an impairment loss to fair value less costs to sell, to the extent that it has not been recognised earlier while classifying asset held for sale (initial classification)
- 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 previously
- A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition.

# Impairment and reversal

- Eg. An entity bought a equipment for Rs. 7,500 on 1<sup>st</sup> Jan 2006. The entity depreciated the asset on a straight-line basis over its useful life of 10 years.
- On 28 February 2009, when the new book value of the equipment is Rs. 4,920, the machine meets the criteria to be classified as held for sale. The recoverable amount of the asset immediately before the initial classification as held for sale is estimated to be Rs. 4,600. Accordingly, Entity recognises an impairment of 320(4,920 – 4,600). As required by IFRS 5 Non-current Asset Held for Sale and Discontinued Operations the entity ceases depreciating the asset.

The carrying amount and accumulated depreciation at various dates are:

Date	Original Cost	Cumulative Depreciation	Cumulative Impairment recognised	Carrying Amount
31-Dec-07	7,500	1,500	240	5,760
28-Feb-09	7,500	2,340	560	4,600
30-Jun-09	7,500	2,340	560	4,600

On 30 June 2009, when the asset is still held for sale, fair value less cost to sell increases to 5,300.

# Impairment and reversal

- To what extent should any depreciation, be taken into account?
- The accumulated depreciation that would have been recognised, had the asset not been classified as held for sale and had no impairment been recognised upto Feb 28, 2009, is Rs. 2,375 and carrying value would have been Rs. 5125.
  
- Conclusion:
  - ❖ When reversing an impairment allowance for an asset or a disposal group classified as held for sale, accumulated depreciation up to the date of classification as held for sale should be taken into account, as if the asset had not been impaired before this date. The gain cannot be more than the total impairment loss recognised before and after the classification of the asset as held for sale.
  
  - ❖ Therefore, the entity recognises a gain of Rs. 525 (5,125 – 4,600) being the difference between the carrying value at 30 June 2009 and the recalculated value as at 28 February 2009. Hence, carrying value after reversal amounts to Rs. 5,125 which is consistent with the carrying value immediately before the classification as held for sale if no impairment had been recognised. i.e. there is no notional depreciation related to the period it was classified as held for sale. The total recognised impairment loss on this asset is 560, so the cap is not relevant in this fact pattern.

# Changes of plan to sale

- If an entity has classified an asset (or disposal group) as held for sale, but the criteria for assets to be held for sale is no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale
- The entity shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:
  - ❖ Its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
  - ❖ Its recoverable amount at the date of the subsequent decision not to sell.
- Adjustment made to the carrying amount as above shall be included in profit and loss from continuing operations.

# Presentation & Disclosure

## Non-current asset held for sale

- An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position.
- An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.
- Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.
- If the entity changes the plan to sale then it should disclose, 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.

# Presentation & Disclosure

## Discontinued operations

- An entity shall disclose:
  - ❖ 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 amount disclosed in the statement of comprehensive income into:
    - i. The revenue, expenses and pre-tax profit or loss of discontinued operations;
    - ii. 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
    - iii. The related income tax expense

# Presentation & Disclosure

- The net cash flows attributable to the operating, investing and financing activities of discontinued operations.
- If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

# Presentation & Disclosure

## Additional disclosures

- An entity shall 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 description of the non-current asset (or disposal group);
  - ❖ a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
  - ❖ 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;
  - ❖ the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating segments*.

## Example – Allocation of Impairment loss

Particulars	Carrying amount at the before classification as held for sale	Carrying amount remeasured immediately before classification as held for sale
Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
Total	16,000	14,900

Example: An entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

The entity recognises the loss of 1,100 (16,000–14,900) immediately before classifying the disposal group as held for sale. The entity measures the fair value less costs to sell of the disposal group as 13,000. Because an entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the entity recognises an impairment loss of 1,900 (14,900 –13,000) when the group is initially classified as held for sale

## Example (Contd)

The impairment loss is allocated to non-current assets to which the measurement requirements of the IFRS are applicable. Therefore, no impairment loss is allocated to inventory and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in IAS 36

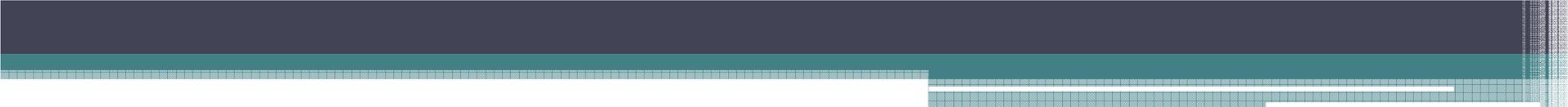
The allocation can be illustrated as follows:

Particulars	Carrying amount	Allocated impairment loss	Carrying amount after allocation of impairment loss
Goodwill	1,500	(1,500)	-
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (carried at cost)	5,700	(235)	5,465
Inventory	2,200	-	2,200
Investments in equity instruments	1,500	-	1,500
Total	14,900	(1,900)	13,000

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets pro rata based on the carrying amounts of those assets.

# Test the understanding

- When is a disposal group classified as held for sale ?
- While measuring a disposal group that is held for sale, what are the two values that should be considered ?
- The total asset and total liabilities of disposal group are presented with other assets and liabilities in the balance sheet. (True or false)
- What values are considered while re measuring a non-current asset that cease to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) ?



Questions ?

# Thank you

**For any information/clarification please contact:**

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