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

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Basic concept

- Entities possess assets whose carrying amount is to be recovered not by continuing use of the asset but by sale of the said assets
- Those assets to be classified as 'held for sale' in case they fulfill the criteria prescribed under IFRS 5
- IFRS 5 provides guidelines for valuation, presentation and disclosure of the aforesaid assets 'held for sale'

Basic concept

- Applicable to non-current assets
- Said non-current assets 'held for sale' to be measured in the financial statements at the lower of:
  - Carrying amount
  - Fair value less costs to sell
- IFRS 5 provides that such assets 'held for sale' should be classified and presented separately from other assets in the statement of financial position

Basic concept

- No such separate Indian Accounting Standard
- Issue addressed in para 14.2 to 14.4 of AS 10 Accounting for Fixed Assets
- Similar concept also existing in para 17 of the AS 28 Impairment of Assets
- Issue not as comprehensively addressed as IFRS 5

Issues

- Criteria for classification of non-current assets held for sale ?
- How to ascertain fair value less costs to sell ?
- Presentation in the financial statements ?
- Disclosure requirements ?

IFRS 5

- Issued by IASB in 2004 and replaced IAS 35
- The IFRS:
  - Adopts the classification 'held for sale'
  - Introduces the concept of a disposal group
  - Assets or disposal groups held for sale are carried at lower of carrying amount and 'fair value less costs to sell'

Scope

- Current assets
- Assets being scrapped
- Assets being abandoned
- Replacement of assets with newer but similar assets
- Non current assets in the context of IFRS 5 are those that will be recovered in more than 12 months from the balance sheet date

Current assets

IAS 1 Presentation of F.S.

- It is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle.
- It is held primarily for the purpose of being traded.
- It is expected to be realised within 12 months after the balance sheet date.
- It is cash or cash equivalent as defined in IAS 7.

Non-current assets to be abandoned

- Assets to be abandoned not to be classified as held for sale
- Recovery of carrying amount not by sale

Exclusions

- Deferred tax assets
- Assets arising from employee benefits
- Financial assets
- Non-current assets that are accounted for as per IAS 40 I*nvestment property*
- Non-current assets that are measured in accordance with IAS 41 Agriculture
- Contractual rights under insurance contracts

Classification

- Carrying amount will be recovered principally through sale rather than through continuing use
- Non current assets held for sale may continue to be used in the business
- Basic criteria:
  - Assets should be available for immediate sale in in its present condition
  - Sale highly probable

Highly probable

- Probable: ‘more likely than not’
- Highly probable: ‘likely to occur’

Highly probable

- Appropriate level of management must be committed to a plan to sell
- An active programme to locate a buyer must have been initiated
- Actively marketed at a reasonable price in relation to its current fair value
- Sale expected to be completed within one year
- It is unlikely that the plan will be withdrawn

Time period of one year

- Sale beyond one year:
  - Delay due to third party extending period to complete
  - Conditions imposed by the buyer after firm purchase commitment
  - Unforeseen circumstances
- Sufficient evidence to show that the entity remains committed to its plan

Classification

- Criteria in case met after the reporting date ?
- Classification not to be changed
- Criteria met after the reporting date but before authorisation of the financial statements
- Necessary disclosure to be made in the notes to the financial statements non adjusting post balance sheet event

Impairment of assets

- Whether IFRS 5 same as impairment of assets?
- Impairment loss is the amount by which the carrying amount of an asset exceeds the recoverable amount
- Assets held for sale is an indication that the asset may be impaired
- Assets held for sale may not be impaired
- Assets impaired may not be held for sale

Measurement

- Non-current assets classified as held for sale to be valued at the lower of:
  - Its carrying amount &
  - Its fair value less costs to sell

Fair value

- Appendix A : The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- SFAS 144 : 'the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale'

Costs to sell

- Appendix A : The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

- SFAS 144 : 'the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made'

Depreciation

- Asset classified as held for sale
- Valued as per this IFRS at lower of carrying amount or fair value less cost to sell
- Whether depreciation to be provided thereon ?
- No depreciation or amortisation (para 25)

Change of plan

- Asset classified as held for sale
- Valued as per this IFRS
- Subsequently change of plan to sell
- Treatment ?
- Asset to be measured at lower of:
  - Carrying amount before the asset was classified as held for sale *less* depreciation / amortisation / revaluation that would have been provided
  - The recoverable amount at the date of subsequent decision not to sell

Disposal group

- A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.
- Treatment same as an asset held for sale

Disposal group

- Applicable to current assets which form part of a disposal group
- Disposal group made up only of current assets
- Current & non current liabilities forming part of disposal group
- Disposal group to include goodwill allocated under IAS 36 'Impairment of assets'

Discontinued operations

- A discontinued operation is 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 co-ordinated 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

Component

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

Discontinued operation

- Size:
  - Separate major line of business
  - Geographical area of operation
- Timing:
  - Merely having started the process of closure is not sufficient
  - It should fulfill the criteria of 'held for sale'

Presentation

- Non-current asset / disposal group classified as held for sale to be shown separately from other assets in the statement of financial position
- Liabilities shall be presented separately from other liabilities
- The assets and liabilities shall not be offset and presented as a single amount
- Major classes of assets & liabilities to be disclosed

Disclosure

- A description of the non-current asset / disposal group
- A description of the facts and circumstances of the sale and the expected manner and timing of the disposal
- The gain or loss recognised
- Reportable segment in which the non-current asset is presented

Disclosure of change of plan

- Period of decision to change the plan
- Description of the facts and circumstances leading to the decision
- The effect of the decision on the results of the operations

Thanks You

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