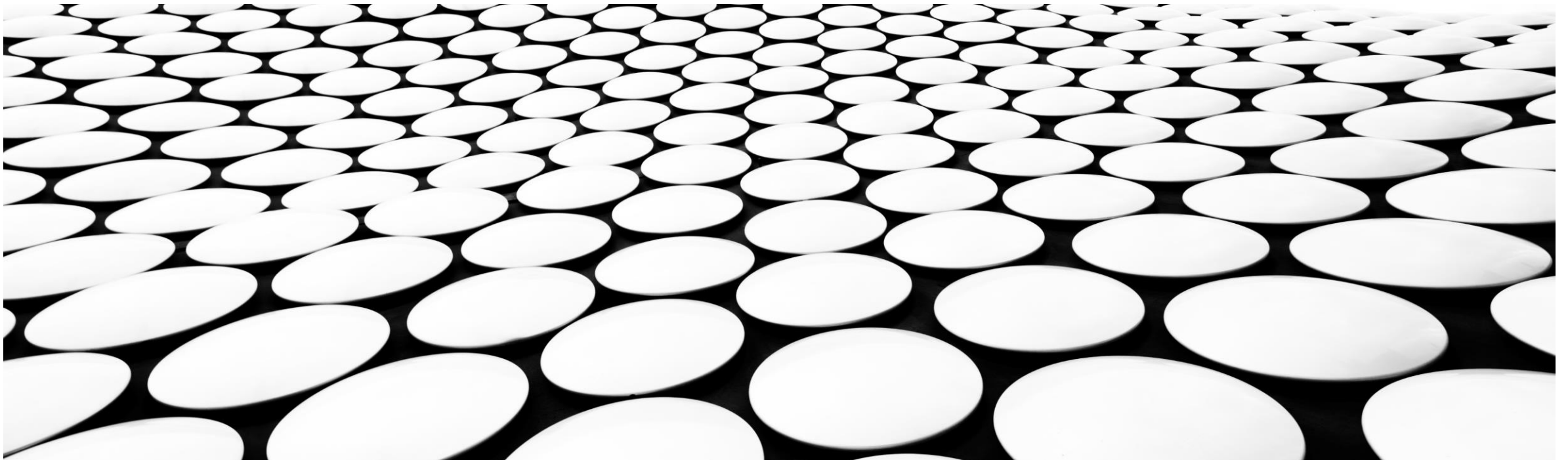

INTERNATIONAL FINANCIAL REPORTING STANDARDS NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

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**INTERNATIONAL FINANCIAL REPORTING STANDARDS
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NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

- **IFRS 5** prescribes the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires
 - 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
 - an asset classified as held for sale and the assets and liabilities included within a disposal group classified as held for sale to be presented separately in the statement of financial position
 - the results of discontinued operations to be presented separately in the statement of comprehensive income

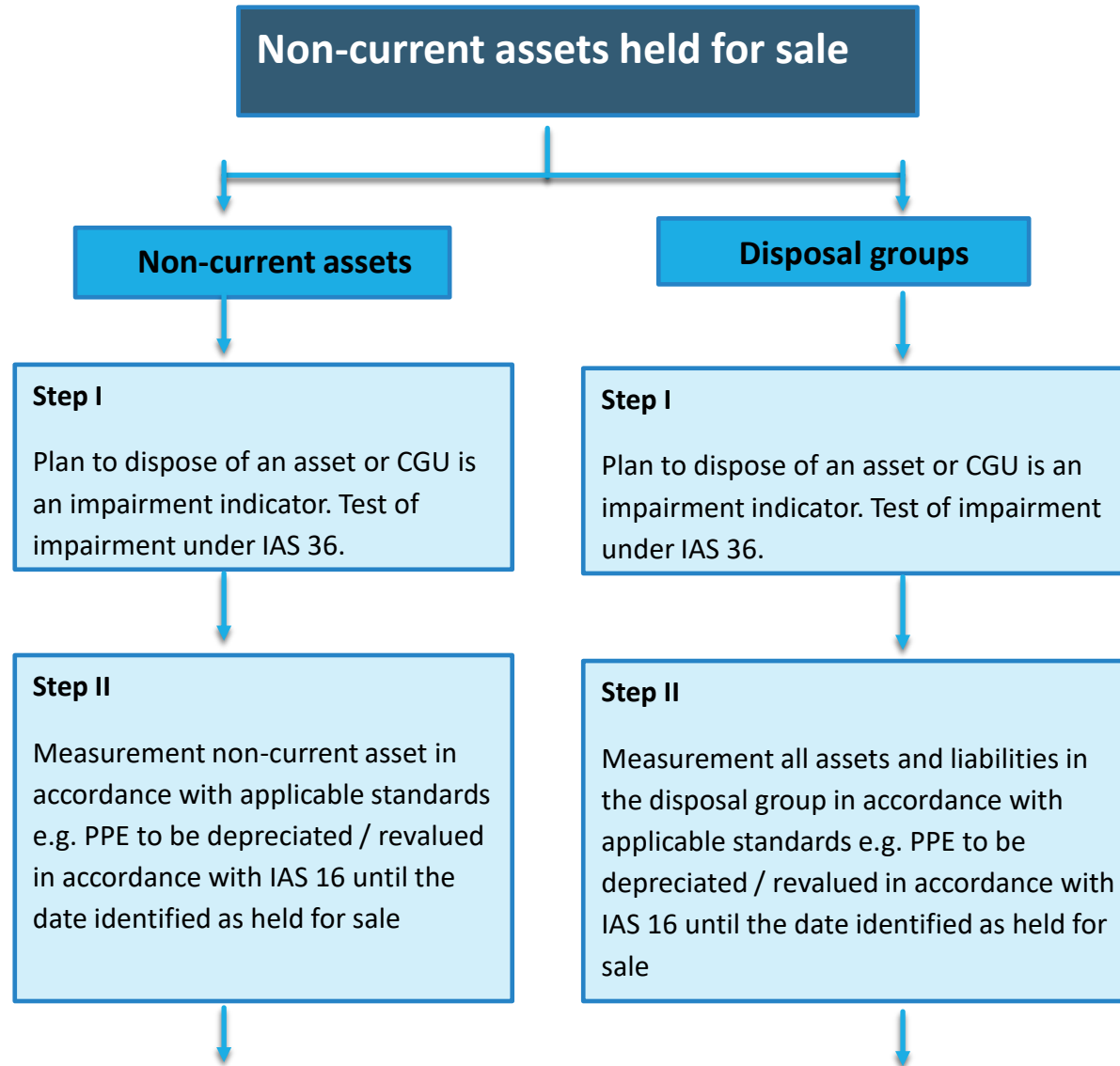
NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

- The IFRS
 - adopts the classification held for sale
 - introduces the concept of a disposal group, being 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 to the transaction,
 - classifies an operation as discontinued at the date the operation meets the the criteria to be classified as held for sale or when the entity has disposed of the operation.

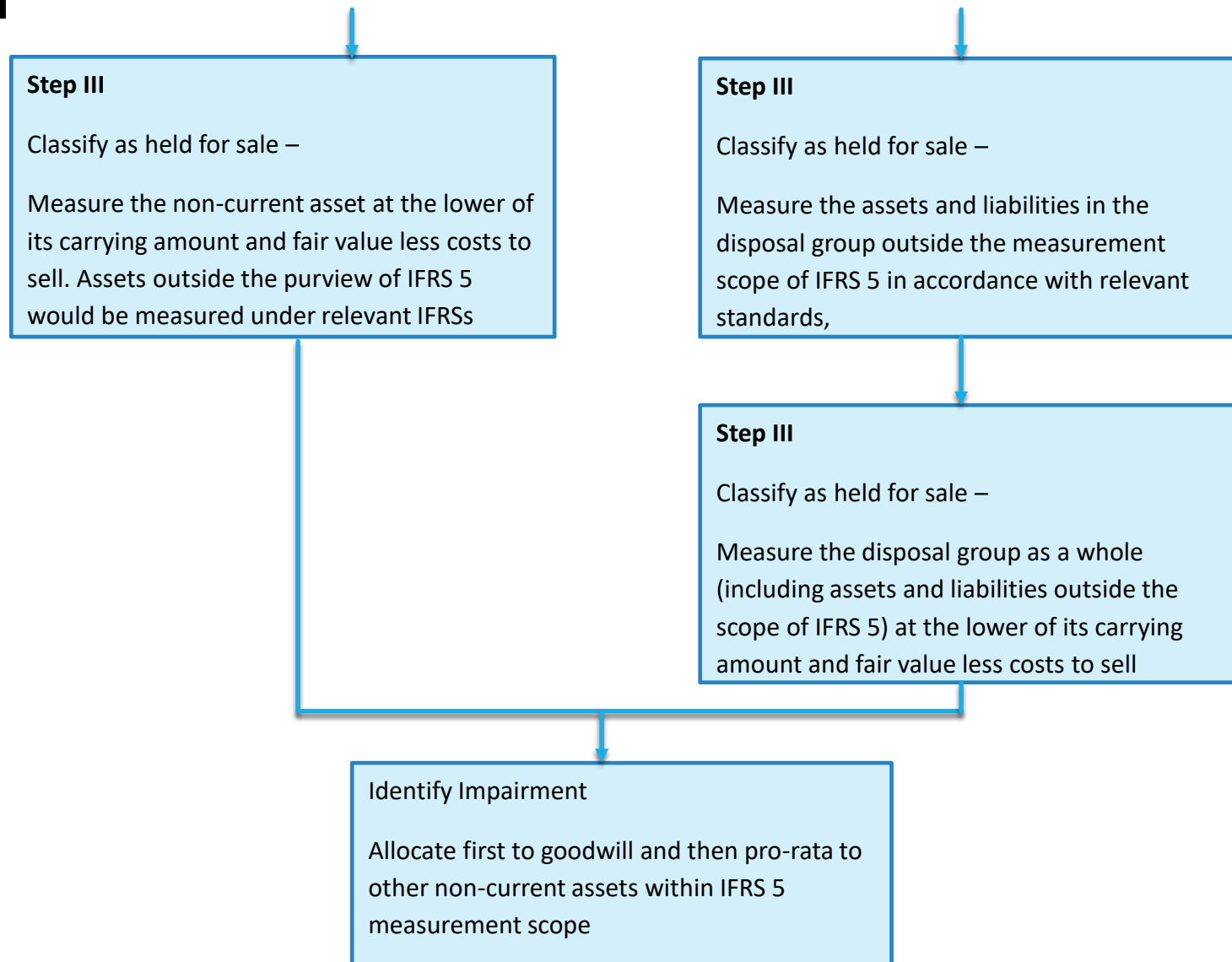
NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

- 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.
- The asset must be available for immediately sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale must be highly probable.
- 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 coordinated plan to dispose of a separate major line of business or geographical area of operations or
 - it is subsidiary acquired exclusively with a view to resale

IFRS 5 – DIAGRAMMATIC REPRESENTATION



IFRS 5 – DIAGRAMMATIC REPRESENTATION



NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

- Measured at lower of:
 - Carrying amount (CA)
 - Fair value less costs to sell (FVLCS)
- Any loss is considered an impairment loss
- No depreciation charged on this asset

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset shall be measured in accordance with applicable IFRSs.

IFRS 5: Treatment of assets held for sale where there is a change in plan for sale

The entity should cease to classify an asset or a disposal group as held for sale.

These assets are measured at the lower of :

- The possible carrying value of the asset at the date of subsequent decision not to sell if it was not classified earlier as held for sale and
- Its recoverable amount at the date of the subsequent decision not to sell

NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

Illustration 1

On 1st April 2020, the carrying value of an asset was Rs.60,000 when it was classified as held for sale. Had it not been classified as held for sale, then the depreciation for 2021 and 2022 would have amounted to Rs.6000 each year and there would not have been any impairment loss.

On 31st March 2022, the carrying value of the asset held for sale was \$ 50,000 and the company does not want to sell it any more. The recoverable amount of the asset is Rs. 49,000.

If the asset was not classified as held for sale then the carrying amount would have been $\text{Rs.}60,000 - \text{Rs.}6,000 - \text{Rs.}6,000 = \text{Rs.}48,000$.

Since the lower of the two is Rs.48,000, the asset would be measured at this value as on 31st March 2022. This is compared to the current carrying amount of Rs. 50,000. Hence there is an impairment loss of Rs. 2000 ($\text{Rs.} 50,000 - \text{Rs.}48,000$), which is recognised in SOPL under continuing operations.

NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Non-current assets held for sale or disposal	There is no requirement to classify and present an asset as held for sale on the face of the balance sheet or in the notes	Non-current asset is classified as held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Comparative balance sheet is not restated.	Similar to IFRS

DISCONTINUED OPERATIONS – IFRS 5

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Discontinued operations - definition and measurement	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations. Measurement of discontinued operations is based on AS 28 and AS 29.	Similar definition to Indian Accounting Standard. However, it also includes a subsidiary acquired exclusively with a view to resale. Measured at lower of carrying amount and fair value less costs to sell.	Wider definition than IFRS : component that is clearly distinguishable operationally and for financial reporting can be: reporting segment, operating segment, reporting unit, subsidiary or asset grouping. Measurement is same as in IFRS.

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Discontinued operations - presentation and main disclosures	At a minimum, separately from continuing operations, pre-tax profit or loss, related taxes, pre-tax gains or losses on disposal should be disclosed on the face of the income statement : Income and expenses line items separate from continuing and discontinued operations are disclosed in the notes : however, presented on a combined basis in the income statement. No separate presentation for balance sheet items. Exemption for certain SMEs having turnover or borrowings below certain threshold.	At a minimum, a single amount is disclosed on the face of the income statement, and further analysis disclosed in notes for current and prior periods. Assets and liabilities of discontinued operations are presented separately on balance sheet. No restatement of comparative balance sheet.	Similar to IFRS. Discontinued and held-for-sale operations are reported as separate line items on face of income statement before extraordinary items.

Illustration 2

Plymouth holds the following assets:

1. A property given on rental.
2. A machinery used for production.
3. A car not in use for which a prospective buyer is being looked for.
4. A property worth \$5m with furniture worth Rs.1m, which are charged as A security for a loan of Rs. 3m which was specially taken for the property.

Advertisements have been issued about the intention to sell the properties With the loan thereof.

Required:

How would these assets, be disclosed in the financial statements?

Solution

1. A property given on rental is shown under investment properties.
2. Machinery used for production is shown under Plant and Machinery of non-current assets group.
3. A car not in use for which a prospective buyer is being looked for is shown as an asset held for sale.
4. The property under mortgage along with the loan is shown in financial statements as disposal group held for sale.

Illustration 3

Omega follows the cost model when measuring its property, plant and equipment. One of its properties was carried in the statement of financial position at 31 March 2020 at Rs.6 million. The depreciable amount of this property was estimated at Rs.3.6 million at 31 March 2020 and the estimated future economic life of the property at 31 March 2020 was 18 years. Omega depreciates its properties on a monthly basis.

On 1 January 2021 Omega decided to dispose of the property as it was surplus to requirements and began to actively seek a buyer. On 1 January 2021 Omega estimated that the market value of the property was Rs.7.1 million and that the costs of selling the property would be Rs.80,000. These estimates remained appropriate at 31 March 2021. The property was sold on 1 June 2021 for net proceeds of Rs.7 million.

Required:

Explain, with relevant calculations, how the property would be treated in the financial statements of Omega for the year ended 31 March 2021 and the year ending 31 March 2022.

Solution

Year ended 31 March 2021

On 1 January 2021 the property would be designated as 'held for sale'. The implications of this treatment are that the property would cease to be depreciated and be classified in a separate section of the statement of financial position – non-current assets held for sale.

The depreciation on the property to the date of classification as held for sale would be 150 ($3,600 \times 1/18 \times 9/12$) and this would be charged as an operating expense in the income statement.

The carrying value of the property immediately before reclassification of 5,850 (6,000 – 150) would be compared with its 'fair value less costs to sell' of 7,020 (7,100 – 80). The new carrying value of the property is the lower of these two amounts – in this case 5,850.

Year ended 31 March 2022

No depreciation will be charged on the property.

At the date of sale the profit on sale of 1,150 (7,000 – 5,850) will be reported in the income statement



THANK YOU!