CA

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

NCA Held for Sale & Discontinued Operations (SLFRS 05)

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SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Key focus areas

- What is the Objective of the standard?
- Which items you should include for assets held for sale?
- Which criteria to consider?
- What is the accounting treatment for assets held for sale?
- What are discontinued operations?
- What and where to present and disclose for assets held for sale and discontinued operations?

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Objective

– Specify the **accounting** for **assets held for sale**

– Specify the **presentation** and **disclosure** of **discontinued operations**

Scope

The classification and presentation requirements applies to all:

-non-current assets and

-all disposal groups of an entity.

Measurement requirements of this SLFRS applies to all non-current assets and disposal groups except for scoped out areas of this standard.

Assets classified as Non-current assets as per LKAS 1 should not be classified as current unless it meets the criteria of this SLFRS 5.

"Which items you should include for assets held for sale?"

Disposal groups?

A disposal group (DG) is 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.

A disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit.

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Distribution to owners

Classification, presentation and measurement requirements in this SLFRS is applicable for non-current assets (or disposal group) that is classified as held for distribution.

Disclosure Scope

This SLFRS specifies the disclosures requirement for non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosure in other SLFRSs will not be applicable for such assets unless those SLFRS require;

- Specific disclosures in respect of non-current assets held sale or discontinued operations.

- Disclosure about measurement of assets and liabilities within a disposal group which are not measured as per this SLFRS.

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"Which items you should include for assets held for sale?"

Measurement provisions of this standards are not applicable for following assets which are covered by the SLFRSs listed either as individual or as part of a disposal group:

(a) deferred tax assets (LKAS 12 Income Taxes).

(b) assets arising from employee benefits (LKAS 19 Employee Benefits).

(c) financial assets within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

(d) non-current assets that are accounted for in accordance with the fair value model in LKAS 40 Investment Property. (note that where investment property is accounted for in accordance with the cost model in LKAS 40, it will be within the scope of the measurement requirements of SLFRS 5)

(e) non-current assets that are measured at fair value less costs to sell in accordance with LKAS 41 Agriculture.

(f) contractual rights under insurance contracts as defined in SLFRS 4 Insurance Contracts.

"Which criteria to consider before classifying assets held for sale?"

Sale

- Available for Immediate Sale
- Sale is – Highly Probable
- Classification.

Both criteria must be met for a non-current asset/ disposal group to be classified as 'held for sale'

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

The asset (or disposal group) must be **available for immediate sale** in **its present condition** subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its **sale must be highly probable.**

For the sale to be highly probable:-

- Management is committed to a plan to sell
- Asset is available for immediate sale in current condition
- Active program to locate a buyer
- Sale is highly probable within 12 months
- Actively marketed at reasonable price
- Unlikely that plan will be significantly changed or withdrawn

Impairment review for assets not qualifying as held for sale

Failure to meet the criteria should not prevent being written down to their recoverable amounts. .

If the CA > FVLCS then this is an impairment indicator and it will require the company to do a impairment review.

Extension of the period required to complete a sale

Conditions required to keep held for sale classification if not sold within one year-

-Whether the conditions was beyond entity's controls

-Entity reasonably expected such conditions

-Unable to respond until a firm commitment is there

-Commitment is highly probable

If entity does not expect such condition, after the firm commitment, timely action and favourable response should be taken by the entity.

An entity in the power generating industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until alter a buyer is known and a firm purchase commitment is obtained.

However a firm purchase commitment is highly probable within one year. In that situation, the conditions in IFRS 5(B1)(a) for an exception to the one year requirement in IFRS 5(8) would be met.

An entity is committed to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyers inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year.

However the entity has initiated actions to make good the damage, and satisfactory rectification of the damage is highly probable. In that situation, the conditions in IFRS S(Bt l(b) for an exception to the one-year requirement in IFRS 5(8) would be met.

"Which criteria to consider before classifying assets held for sale?"

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 initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period- During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in IFRS 5(7)&(8) are therefore met. In that situation, the conditions in IFRS 5(B1)(c} for an exception to the one-year requirement in IFRS 5(8) would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.
During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset- The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by IFRS 5(7). In addition, IFRS 5(8) also requires an asset to be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in IFRS S(81)(c) for an exception to the one-year requirement in IFRS 5(8) would not be met. The asset would be reclassified as held and used in accordance with IFRS 5{26).

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Criteria for a non-current asset (or disposal group) to be classified as held for distribution

- Entity should be committed to distribute the assets to owners
- Assets must be available for immediate distribution
- Distribution is highly probable
- Actions to complete the distribution has taken
- If required shareholder approval

(this was added to the standards by IFRIC 17)

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Assets that are to be abandoned

If CA is recovered through continuing use rather than through a sale transaction;

-Asset or disposal group cannot be classified as a NCAHS in the SFP

- Disposal group could be presented as discontinued operations in SFP and SCF at the date it ceases to be used (discontinued operation criteria should be met)

Partial disposals

An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

For the purposes of SLFRS 5, a disposal will occur either when the entire holding in an investment is sold or when the nature of the holding changes substantively as a result of a partial sale.

Type of transaction	IFRS 5 held-for-sale classification?	Reason
Subsidiary to subsidiary	No	Control remains
Subsidiary to associate	Yes	Control lost
Subsidiary to equity-accounted joint venture (JV)	Yes	Control lost
Subsidiary to proportionately- consolidated JV	Yes	Control lost
Subsidiary to investment	Yes	Control lost
Equity—accounted JV to associate	No	Joint control lost but the method of accounting adopted implies no change |n the nature of the holding
Equity-accounted JV to equity-accounted JV	No	Joint control remains
Equity-accounted JV to investment	Yes	Joint control lost
Associate to investment	Yes	Significant influence lost
Associate to associate	No	Significant influence remains

Classification – balance sheet

Single line in current assets

Single line in current liabilities

Held for Sale Classification

Separate presentation

Assets/liabilities

No offset

Measurement and presentation

Specific rules for discontinued operations

Measured at:

lower of CA and FV less costs to sell

Three important stages for measurement

Impairment under LKAS 36 → **Just before HFS classification** → **At HFS classification**

Just before HFS classification:

- Measure all assets/liabilities in the disposal group according to their applicable SLFRS
- Update impairment
- amortisation/ depreciation until this point

At HFS classification:

Lower of CA and FVLCTS

Ensure that no SLFRS's impact is masked by measurement under SLFRS 5

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

- At the lower of its carrying amount and fair value less costs to sell
- Until the date of reclassification continue to measure assets per relevant SLFRSs; e.g. depreciate PPE asset under LKAS 16
- When sale is expected to occur beyond one year, measure costs to sell at their present value (charge to PL as finance cost)
- Non-current assets held for sale must be reclassified within current assets in the statement of financial position
  - Must not restate comparatives for prior periods to reflect reclassification in current period

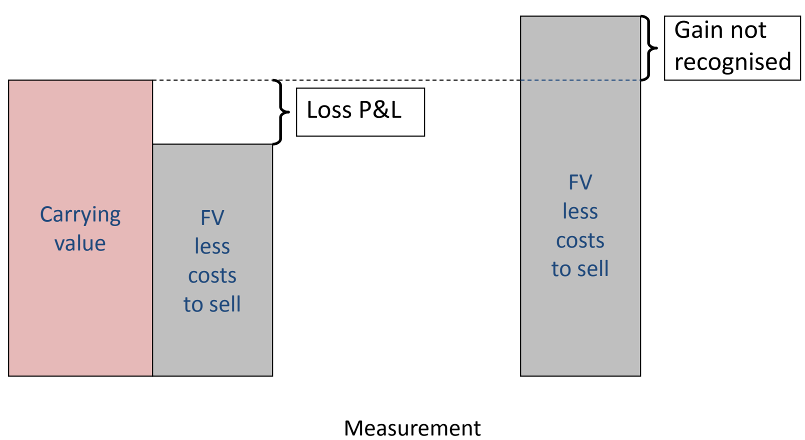
SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Measurement-Recognition of impairment losses and reversals

- Impairment losses shall be recognised - initial or subsequent write down of asset (or DG)
- Any impairment loss reduces the carrying amount of the non-current assets in the order of allocation required by LKAS 36
  - Firstly to any goodwill
  - Any excess to other assets pro rata to carrying amounts
- Recognise gain only to extent of cumulative impairment loss
- Shall not depreciate or amortise
- Interest and other liabilities attributable to DG should recognise

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Recognition of Impairment losses



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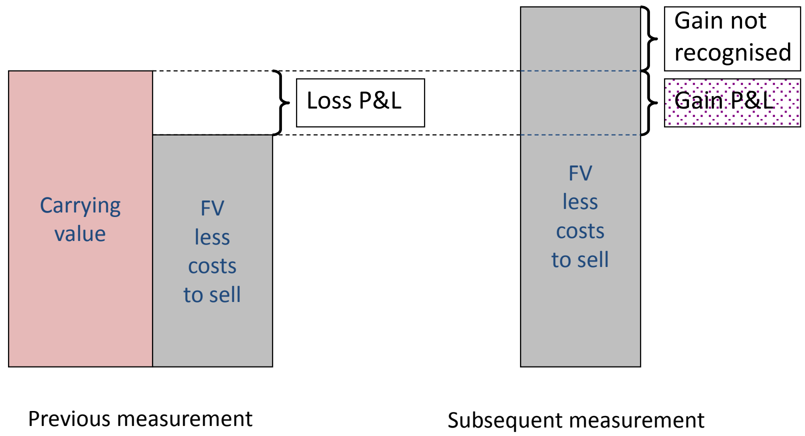
Recognition and reversal of Impairment losses



SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

A freehold property was originally acquired for CU400,000. Some years later, after cumulative depreciation of CU110,000 has been recognised, the property is classified as held for sale.

At the time of classification as held for sale:

- **Carrying amount is CU 290,000; and**
- **Fair value less costs to sell is assessed at CU 300,000.**

Accordingly, there is no write-down on classification as held for sale and the property is carried at CU 290,000.

At the next reporting date, the property market has declined and fair value less costs to sell is reassessed at CU 285,000. Accordingly a loss of CU 5,000 is recognised in profit or loss and the property is carried at CU 285,000.

Subsequently, the property is sold for CU 288,000, at which point a gain of CU3,000 is recognised.

A freehold property was originally acquired for CU400,000. Some years later, after cumulative depreciation of CU 110,000 has been recognised, an impairment loss of CU 35,000 is recognised, taking the carrying amount to CU 255,000, which represents the estimated value in use of the property. Shortly thereafter, as a consequence of a proposed move to new premises, the freehold property is classified as held for sale.

At the time of classification as held for sale:

- Carrying amount is CU 255,000; and
- Fair value less costs to sell is assessed at CU 250,000.

Accordingly, the initial write-down on classification as held for sale is CU 5,000 and the property is carried at CU 250,000.

At the next reporting date, the property market has improved and fair value less costs to sell is reassessed at CU 265,000. The gain of CU 15,000 is less than the cumulative impairment losses recognised to date (CU 35,000 + CU 5,000 = CU 40,000). Accordingly, it is credited in profit or loss and the property is carried at CU 265,000.

Six months after that, the properly market has continued to improve, and fair value less costs to sell is now assessed at CU 300,000. This further gain of CU 35,000 is, however, in excess of the cumulative impairment losses recognised to date (CU 35,000 + CU 5,000 – CU 15,000 = CU 25,000). Accordingly, a restricted gain of CU 25,000 is credited in profit or loss and the property is carried at CU 290,000.

Subsequently, the property is sold for CU 300,000, at which point a gain of CU 10,000 is recognised.

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Reversal of impairment losses on an asset with a prior revaluation decrease but no prior impairment loss

An entity holds land (original cost CU 100,000), previously carried at a revalued amount of CU 250,000 in accordance with LKAS 16, which is classified as held for sale in accordance with SLFRS 5,

- Before its reclassification as held for sale, a revaluation decrease was recognised on the land in accordance with LKAS 16. The revaluation decrease of CU 50,000 was debited in full to the asset revaluation reserve attributable to the land.

- Immediately before its reclassification as held for sale, the land was carried at a revalued amount of CU 200,000 in accordance with LKAS 16, which was also the appropriate measure on initial classification as held for sale under SLFRS 5.

- Since the land's reclassification as held for sale, the entity has recognised an impairment loss of CU 20,00 in profit or loss (in accordance with SLFRS 5 because its fair value less costs to sell fell to CU 180.000).

- On the reporting date, the land has not been sold and it still satisfies the criteria for classification as held for sale. Its fair value less costs to sell has increased to CU 215,000.

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Summary of the land's history:	**CU**
Revalued carrying amount prior to revaluation decrease	250,000
Revaluation decrease debited to asset revaluation reserve in accordance with LKAS 16	(50,000)
Revalued carrying amount immediately before classification as held for sale	200,000
Impairment loss recognized in profit or loss in accordance with SLFRS 5	(20,000)
Fair value less costs to sell under SLFRS 5	180,000
Fair value less costs to sell on the reporting date	215,000
Fair value movement	35,000

SLFRS 5 only allows the reversal of impairment losses and not revaluation decreases. Consequently, the impairment-loss reversal is limited to CU20,000 (i.e. the amount of the impairment loss recognised under SLFRS 5). The additional fair value gain of CU15,000 (CU35,000 — CU20,000} cannot be recognised because it was initially written down through equity as a revaluation decrease and not an impairment loss.

Initial and subsequent measurement of a disposal group (1)

A disposal group includes an investment property (previously accounted for under the fair value model in IAS 40 and other assets. None of the assets has been previously impaired and they are all within the scope of IFRS 5's measurement requirements. Immediately prior to classification as held for sale, the investment property is remeasured under IAS 40 to fair value of CU300,000.

The aggregate carrying amount of the other assets under applicable IFRSs is CU250,000, giving a total of CU 550,000.

The fair value less costs to sell of the disposal group as a whole is initially estimated at CU 560,000. Accordingly, there is no initial write-down on classification as held for sale, and the disposal group is carried at CU 550,000

At the next reporting date, the fair value of the investment property has fallen to CU 280,000, and the fair value less costs to sell of the disposal group as a whole is reassessed at CU515,000

Accordingly:

- the loss of CU20,000 on the investment property is recognised under IAS 40:
- this brings the carrying amount of the disposal group down to CU530,000, but the fair value less costs to sell of the disposal group is only CU5 15,000; and
- accordingly, a further loss of CU15,000 is recognized, bringing the carrying amount of the disposal group down to CU515,000.

In accordance with IFRS 5(23], this further impairment loss is allocated first to reduce any goodwill in the disposal group, and then pro-rata between the other scoped-in non-current assets (i.e. without allocation to the investment property).

Initial and subsequent measurement of a disposal group (2)

A disposal group includes an investment property (previously accounted for under the fair value model in IAS 40) and other assets. None of the assets has been previously impaired and they are all within the scope of IFRS 5's measurement requirements. Immediately prior to classification as held for sale, the investment property is remeasured under IAS 40 to fair value of CU 300,000.

The aggregate carrying amount of the other assets under applicable IFRSs is CU250,00 , giving a total of CU 550,000.

The fair value less costs to sell of the disposal group as a whole is initially estimated at CU 520,000. Accordingly, the initial write-down on classification as held for sale is CU 30,000 and the disposal group is carried at CU 520,000. The CU 30,000 impairment loss is allocated first to reduce any goodwill in the disposal group, and then pro-rata between the other scoped-in non-current assets (i.e. without allocation to the investment property).

At the next reporting date, the fair value of the investment property has increased to CU 310,000 and the fair value less costs to sell of the disposal group as a whole is reassessed at CU 570,000

Accordingly:

- The gain of CU 10,000 on the investment property is recognised under LKAS 40;
- This brings the carrying amount of the disposal group up to CU 530,000, which is less than the fair value less costs to sell;
- The fair value less costs to sell of the disposal group has increased by CU 50,000 (CU570,000 — CU520,000), but under SLFRS 5(22) this must be reduced by the amount already recognised in respect of scoped-out non-current assets - the CU 10,000 gain on the investment property in this case;
- the remaining CU 40,000 is then capped at the amount of cumulative impairment losses, namely CU30,000 (in this example, there were no previous impairment losses under LKAS 36);
- Accordingly, a further gain of CU30,000 is recognised, bringing the carrying amount of the disposal group up to CU 560,000. The reversal is allocated to the scoped-in non-current assets, except for goodwill.

[Guidance on Implementing SLFRS 5 (Example 10)]
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:

	Carrying amount at the reporting date before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	CU	CU
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
AFS financial assets	1 ,800	1,500
Total	16,000	14,900

The entity recognises the loss of CU1,100 (CU16,000-CU14,900) immediately before classifying the disposal group as held for sale.

The entity estimates that fair value less costs to sell of the disposal group amounts to CU 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 CU1,900 (CU14,900 – CU13,000) when the group is initially classified as held for sale.

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 AFS financial assets.
The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of LAS 36.

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale CU	Allocated impairment loss CU	Carrying amount after allocation of impairment loss CU
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
AFS financial assets	1,500	—	1,500
Total	1 4,900	(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.

What is the accounting treatment for assets held for sale?

Measurement-Changes to a Plan of Sale

•If criteria no longer met, cease to classify the asset (or disposal group) as held for sale

•Measure asset at lower of

– Carrying amount before the asset (or disposal group) was classified as held for sale reduced by depreciation that would have been charged subsequently if asset had not been classified as held for sale, and
– Recoverable amount at the date of subsequent decision not to sell

Adjustment to carrying amount included in profit or loss

•If individual asset removed from disposal group

– Ensure group meets SLFRS 5 criteria; if so, apply to remainder
– If not, measure assets individually

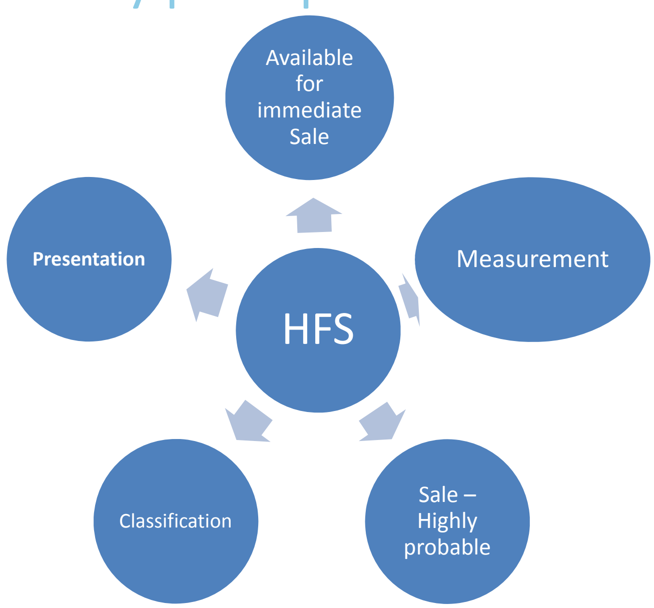
SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Presentation and disclosure Balance sheet (extract)

Current assets	20X5	20X4
Cash and cash equivalents	XXX	XXX
Inventories	XXX	XXX
	XXX	XXX
Non-current assets held for sale	**XXX**	**-**
Total current assets	XXX	XXX

Current liabilities		
Trade and other payables	XXX	XXX
	XXX	XXX
Liabilities directly associated with non-current assets held for sale	**XXX**	**-**
Total current liabilities	XXX	XXX

Key principles of SLFRS 5



What are discontinued operations?

Discontinued operations

•Applies to component of an entity – a component represents “operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity”

What are discontinued operations?

Discontinued operations

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

What are discontinued operations?

Statement of comprehensive income disclosures

- A single amount on face of statement of comprehensive income
  - Post-tax profit or loss of discontinued operations and
  - Post-tax gain or loss recognised on measurement to fair value less costs to sell or on actual disposal
- Analysis of the single amount (on face or in notes)
  - Revenue, expenses, pre-tax profit or loss of discontinued operations
  - Related income tax expense
  - Gain or loss recognised on measurement to fair value less costs to sell or on disposal
  - Related income tax expense
- Separate from continuing operations

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

What are discontinued operations?

Presentation in statement of cash flows

- Separately present operating, investing, and financing activities of a discontinued operation
- Present on the face of the statement of cash flows or disclose in notes

Comparative information for prior periods should be restated to segregate continuing and discontinued income, expenses and cash flows

- single amount on face of statement of comprehensive income
  - Post-tax profit or loss of discontinued operations and
  - Post-tax gain or loss recognised on measurement to fair value less costs to sell or on actual disposal
- Analysis of the single amount (on face or in notes)
  - Revenue, expenses, pre-tax profit or loss of discontinued operations
  - Related income tax expense
  - Gain or loss recognised on measurement to fair value less costs to sell or on disposal
  - Related income tax expense
- Separate from continuing operations

Presentation and disclosure Income Statement (extract)

	20X4	20X3
Continuing operations		
Revenue	XXX	XXX
Cost of sales	XXX	XXX
Gross profit	XXX	XXX
. . . . .	XXX	XXX
Profit for the year from continuing operations	XXX	XXX
Discontinued operations		
Profit for the year from discontinued operations (full disclosure in notes)	**XXX**	**XXX**
Profit for the year	XXX	XXX

SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

Key points

- **Disposal group can be held for sale and not be a discontinued operation**
- **Balance sheet position for assets and disposal groups classified as held for sale not restated in comparative period**
- **Statement of Comprehensive Income – results of discontinued operations are restated**
- **Abandoned activity at year end may be discontinued but will not be held for sale**