"The journal is running a series of updates on IFRS, IAS, IFRIC and SIC. The updates mostly collected from different sources of IASB publication, seminars, workshop & IFRS website. This issue is based on IFRS 5 which has been collected, collated & summarized by Mr. Md. Mahabubul Alam FCMA. He has been working as First Assistant Vice President for Al Arafah Islami Bank Limited. He is a fellow member of the Institute of Cost & Management Accountants of Bangladesh."

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

International Financial Reporting Standard 5 (IFRS 5) Non-current Assets Held for Sale and Discontinued Operations deals with the measurement and presentation in the statement of financial position of non-current assets (and disposal groups) held for sale. In particular, the IFRS requires assets that meet the criteria to be classified as held for sale to be:

a) Measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

b) Presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

When a company (or another entity) plans to sell an asset and / or stop some part of its business, then it might affect its future cash flows, profitability and overall financial situation. Therefore, the users of financial statements, mainly investors, should be informed about these events. There are two distinct parts to this IFRS. Both are related and can occur together, but each can also occur independently of the other. "Non-current assets held for sale" deals with the situation where an entity decides that a non-current asset (which by definition is held for continuing use in the business) is no longer to be held for continuing use. Rather it is to be sold. As this is an intention rather than an observable fact, strict controls are laid down by IFRS 5 to regulate when an asset is considered to be "held for sale" and also its accounting treatment. "Discontinued operations" arise when an entity decides to discontinue a part of its business. This part of IFRS 5 is concerned with separate disclosure of the results of operations deemed to be discontinued. It is possible to have a discontinued operation which has no assets held for sale. Similarly it is possible to have assets held for sale without discontinuing an operation. They can also occur together.

In this article, we only highlight "Non-current assets held for sale" section of IFRS-5.

Classification and Presentation Requirements

The classification and presentation requirements of IFRS 5 apply to all recognized non-current assets and disposal groups of an entity, but certain assets are not subject to its measurement requirements and instead continue to be measured in accordance with other Standards.

Non-current assets are assets that do not meet the definition of a current asset. A current asset is an asset that satisfies any of the following criteria:

a) It is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle;

b) It is held primarily for the purpose of being traded;

c) It is expected to be realized within twelve months after the reporting period; or

d) It is cash or a cash equivalent asset, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A disposal group 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. If the group includes a cash-generating unit to which goodwill has been allocated under IAS 36 Impairment of Assets, or includes an operation within such a cash-generating unit, the associated goodwill is included within the disposal group.

Measurement Requirements

'Scoped-out' non-current assets: The measurement requirements of IFRS 5 do not apply to the following assets [IFRS 5(5)]:

a) Deferred tax assets (IAS 12 Income Taxes);
b) Assets arising from employee benefits (IAS 19 Employee Benefits);
c) financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement;
d) Non-current assets that are accounted for in accordance with the fair value model in IAS 40 Investment Property;
e) Non-current assets that are measured at fair value less estimated point-of-sale costs in accordance with IAS 41 Agriculture; and
f) Contractual rights under insurance contracts as defined in IFRS 4 Insurance Contracts.

Current assets can be caught by the requirements of IFRS 5, but only when they are part of a disposal group. Thus, in particular:

a. where a current asset is part of a disposal group that also contains scoped-in non-current assets, the disposal group as a whole will be subject both to the measurement and to the classification and presentation requirements of IFRS 5;
b. where a current asset is part of a disposal group that does not contain any scoped-in noncurrent assets, the disposal group as a whole will be subject to the classification and presentation requirements of IFRS 5, but not to the Standard's measurement requirements; and
c. a current asset being sold as an individual asset (i.e. not as part of a disposal group) will never be classified as held for sale under IFRS 5.

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

The overall principle of IFRS 5 is that a non-current asset (or disposal group) should be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Standard specifies certain requirements and conditions that must be met for this to be the case. The two general requirements for a non-current asset (or disposal group) to be classified as held for sale are that:

1. 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
2. Its sale must be highly probable.

Available for immediate sale: IFRS 5 requires that '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)'.

Example 1: An entity is committed to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders.

- The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date will be transferred to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in IFRS 5 would be met at the plan commitment date.
- The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in IFRS 5 would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility were obtained earlier.

Highly probable: specific conditions: The Standard defines 'highly probable' as meaning 'significantly more likely than probable', where 'probable' means 'more likely than not'. A number of specific conditions must be satisfied for the sale of a non-current asset (or disposal group) to qualify as highly probable:

- The appropriate level of 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; and

- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required 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.

Example 2: At the year end, an entity's board of directors has approved a plan to sell a non-current asset. The eventual disposal requires approval from a majority of the entity's shareholders through a formal vote which will take place after the year end. At the year end, a majority of the entity's shareholders have provided the entity with signed irrevocable agreements stating that they will vote their shares in favor of the disposal.

The criterion that an 'appropriate level of management' be committed to the plan is met because the shareholders have irrevocably committed to approve the transaction and, therefore, the formal vote by the shareholders is merely a formality.

Impairment reviews for assets not qualifying as held for sale: When an entity has indicated an intent to sell an asset with a carrying amount that may exceed its fair value less costs to sell, but the asset does not qualify as held for sale, the entity should consider this to be an impairment indicator under IAS 36 Impairment of Assets, which would require the entity to perform an impairment loss review. The holding period used in estimating the future cash flows for the purpose of determining the asset's value in use should reflect the entity's intent to sell the asset. IAS 36 notes that the fair value less costs to sell of an asset to be disposed of will often approximate its value in use, as the value in use calculation will consist mainly of the net disposal proceeds. This is because the future cash flows from continuing use of the asset until its disposal are likely to be negligible

Extension of the period required to complete a sale: IFRS 5 notes that, on occasion, events or circumstances may extend the period to complete the sale beyond one year. Provided that the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group), such an extension does not preclude an asset (or disposal group) from being classified as held for sale. IFRS 5 specifies that held-for-sale classification will continue to be available in the following situations:

a) At the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:
   - actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained; and
   - a firm purchase commitment is highly probable within one year.

b) An entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale; and:
   - timely actions necessary to respond to the conditions have been taken, and
   - a favorable resolution of the delaying factors is expected.

c) During the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:
   - during the initial one-year period the entity took action necessary to respond to the change in circumstances,
   - the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances.

Example 3: 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 buyer's 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.

Assets that are to be abandoned: Assets held for sale are those whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Where assets or disposal groups are to be abandoned, rather than sold, there will be no sale transaction, so their carrying amounts can only be recovered through continuing use. Accordingly, assets to be abandoned will not qualify as held for sale and should not be classified as such in the statement of financial position.

For non-current assets retired from active use, the Board decided that where such assets do not meet

the criteria for classification as held for sale, they should not be presented separately in the statement of financial position because their carrying amounts may not be recovered principally through sale.

Assets that are to be exchanged: It is not necessary that the intended sale of a non-current asset should be in exchange for cash. It is, however, necessary that the expected exchange would qualify for recognition as a completed sale. Thus, if an entity intends to exchange a non-current asset for another non-current asset, the IFRS 5 conditions for classification as held for sale cannot be met unless the exchange will have commercial substance in accordance with IAS 16 Property, Plant and Equipment.

IAS 16 states that an entity should determine whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- Either:
  - the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
  - the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- The difference arising in either of the two circumstances outlined above is significant relative to the fair value of the assets exchanged.

Assets ceasing to qualify as held for sale: Where an asset (or disposal group) has been classified as held for sale, but the requirements and conditions discussed in this section are no longer met, the asset (or disposal group) should be removed from the held-for-sale category

Measuring assets (and disposal groups) held for sale

Where non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell.

Individual assets held for sale: Certain assets are outside the scope of IFRS 5's measurement requirements. When classified as held for sale, those scooped-out non-current assets will continue to be measured in accordance with the Standards that applied before they were classified as held for sale, although the presentation and disclosure requirements of IFRS 5 apply.

All other individual non-current assets held for sale (i.e. 'scoped-in non-current assets') are measured at the lower of their carrying amount and fair value less costs to sell. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

If assets are carried at fair value prior to initial classification, the requirement to deduct costs to sell from fair value will result in an immediate charge to profit or loss. The detailed requirements are as follows.

- The carrying amount of the non-current asset is measured in accordance with applicable IFRSs immediately before initial classification as held for sale.
- If the carrying amount determined in accordance with IFRS 5 exceeds the asset's fair value less costs to sell, an impairment loss is recognized to reduce the carrying amount to fair value less costs to sell.
- Once classified as held for sale, a non-current asset is no longer depreciated or amortized.
- A gain should be recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss recognized in accordance with IFRS 5 or previously in accordance with IAS 36.

Example 4: Measuring non-current assets held for sale: A freehold property was originally acquired for CU400,000. Some years later, after cumulative depreciation of CU110,000 has been recognized, the property is classified as held for sale. At the time of classification as held for sale:

- carrying amount is CU290,000; and
- fair value less costs to sell is assessed at CU300,000.

Accordingly, there is no write-down on classification as held for sale and the property is carried at CU290,000. At the next reporting date, the property market has declined and fair value less costs to sell is reassessed at CU285,000. Accordingly, a loss of CU5,000 is recognized in profit or loss and the property is carried at CU285,000. Subsequently, the property is sold for CU288,000, at which point a gain of CU3,000 is recognized.

Disposal groups: The measurement requirements for disposal groups are for the most part similar to those relating to individual non-current assets. The general principle is that a disposal group held for sale is measured at the lower of its carrying amount and fair value less costs to sell. The detailed requirements on initial classification are as follows.

- Immediately before initial classification as held for sale, the carrying amounts of all the individual assets and liabilities in the disposal group are measured in accordance with applicable IFRSs.
- If fair value less costs to sell for the disposal group is below the aggregate carrying amount of all of the assets and liabilities included in the disposal group, the disposal group is written down. The impairment loss is recognized in profit or loss for the period.

On subsequent re-measurement of a disposal group, the detailed requirements are as follows:

- Assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 – namely the scoped-out non-current assets, current assets and all liabilities – are first re-measured in accordance with applicable IFRSs, and the carrying amount of the disposal group is adjusted to reflect these re-measurements.
- Interest and other expenses attributable to liabilities within the disposal group continue to be recognized.
- Other non-current assets (i.e. those within the scope of IFRS 5's measurement requirements – the scoped-in non-current assets) are no longer depreciated or amortized.
- The fair value less costs to sell of the disposal group is calculated.
- If the updated carrying amount of the disposal group exceeds its fair value less costs to sell, the excess is written off as a further impairment loss.
- A gain is recognized for any subsequent increase in fair value less costs to sell of a disposal group:
  - to the extent that it has not been recognized in the re-measurement of scoped-out noncurrent assets, current assets and liabilities; but
  - not in excess of the cumulative impairment loss recognized, either in accordance with IFRS 5 or previously in accordance with IAS 36, on the scoped-in non-current assets (note that the requirements of IFRS 5.

Where an impairment loss is recognized (or reversed) for a disposal group, it is allocated between the scoped-in non-current assets using the order of allocation set out in IAS 36. The order of allocation of impairment losses under IFRS 5 is therefore:

- first, to reduce the carrying amount of any goodwill allocated to the disposal group;
- then, to the other scoped-in non-current assets of the disposal group, pro-rata on the basis of the carrying amount of each of those assets.

Example 5: Initial and subsequent measurement of a disposal group: 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 re-measured 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 CU550,000.

The fair value less costs to sell of the disposal group as a whole is initially estimated at CU560,000. Accordingly, there is no initial write-down on classification as held for sale, and the disposal group is carried at CU550,000.

At the next reporting date, the fair value of the investment property has fallen to CU280,000, 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 recognized 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 CU515,000; 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, 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).

Measuring costs to sell

Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

Facility-holding costs (e.g. insurance, security services, utility expenses etc.) to be incurred between the date of classifying the asset as held for sale and the date of ultimate disposal should not be recognized as costs to sell. Such costs are not incremental costs directly attributable to the disposal of an asset (or disposal group) because they would be incurred whether or not the facility was being sold.

If the sale of an asset (or disposal group) is expected to occur beyond one year, costs to sell are measured

at their present value, i.e. discounted for the time value of money. The subsequent unwinding of the discount is presented in profit or loss as a financing cost.

Gains and losses on disposal

To the extent that gains or losses arising on the sale of a non-current asset (or disposal group) have not previously been recognized through re-measurement, they are recognized when the asset or disposal group is derecognized. IFRS 5 notes that requirements relating to de-recognition are set out in:

- IAS 16 for property, plant and equipment; and
- IAS 38 for intangible assets.

Additional evidence obtained subsequent to the end of the reporting period

When additional evidence is obtained subsequent to the end of the reporting period relating to a non-current asset (or disposal group) classified as held for sale, the accounting is determined in accordance with IAS 10 Events after the Reporting Period. Therefore:

- if the evidence relates to conditions that existed at the end of the reporting period, then it is accounted for as an adjusting event (i.e. the entity adjusts the amounts recognized in its financial statements); and
- if the evidence relates to conditions that arose after the reporting period, then it is a non-adjusting event (i.e. the entity does not adjust the amounts recognized in its financial statements. However additional disclosure will be required if the impact is material.)

Changes to a plan of sale

Where an asset or disposal group has been classified as held for sale, but the held-for-sale criteria are no longer met, the asset/disposal group should be removed from the held for sale category.

Re-measuring a non-current asset that is no longer held for sale: When a non-current asset ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale), it is measured at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized 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.

Recoverable amount is the higher of fair value less costs to sell and value in use, where value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. If a non-current asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognized after the allocation of any impairment loss arising on that cash-generating unit in accordance with IAS 36.

Where the above requirement triggers an adjustment to the asset's carrying amount, the adjustment is included in profit or loss from continuing operations in the period in which the held-for-sale criteria are no longer met. The adjustment should be included in the same caption in the statement of comprehensive income used to present other gains or losses on held-for-sale items not meeting the definition of discontinued operations. If the asset is property, plant and equipment or an intangible asset that had been revalued in accordance with IAS 16 or IAS 38 before classification as held for sale, the adjustment is treated as a revaluation increase or decrease.

Removing an asset or liability from a disposal group: If an individual asset or liability is removed from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group will continue to be measured as a group only if the group continues to meet the held-for-sale criteria.

Assets acquired exclusively with a view to subsequent disposal

An entity may acquire a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, for example as part of a business combination. In such circumstances, the non-current asset (or disposal group) is classified as held for sale at the acquisition date only if:

- the requirement that a sale is expected within one year is met; and
- it is highly probable (i.e. significantly more likely than probable) that any of the other general requirements and specific conditions that are not met at that date will be met within a short period following the acquisition (usually within three months).

If a newly-acquired asset (or disposal group) meets the criteria to be classified as held for sale, it will be measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Accordingly, if the asset (or disposal group) is acquired as part of a business combination, it will be measured at fair value less costs to sell.

[Source: IFRS website & IFRS provided free unaccompanied pdf version of the IFRS 5]