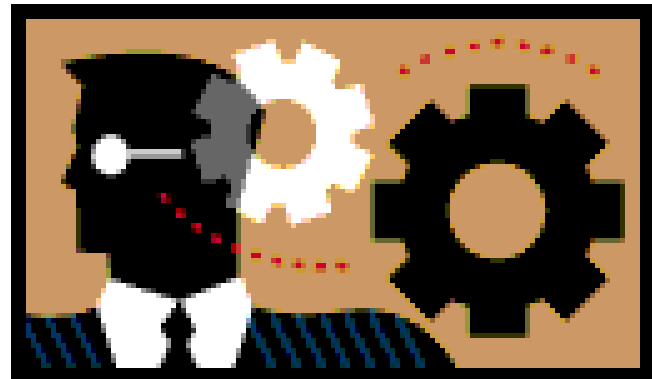


Distinctive Financial Reporting

FAC3702



Study unit 5
Assets held for sale & discontinued operations

Important information

- Assignments
 - Assignment 2: 4 September 2013
 - Assignment 3: 18 September 2013
- Tutor
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- Additional information
 - <https://sites.google.com/site/fac3702ctn/home>

Overview

- General definitions
- Non-current assets held for sale
- Discontinued operations

GENERAL DEFINITIONS

Definitions

- **Component of an entity**
 - Operations & cash flows
 - Clearly distinguished
 - Operations
 - Financial reporting
- **Cost to sell**
 - Incremental costs directly attributed to dispose of asset or disposal group
 - **EXCLUDING**
 - Finance cost
 - Income tax expense
- **Discontinued operations**
 - Component → disposed of 'held for sale'
 - Separate major line of business/geographical area of business
 - Expected to be realised within 12 months after y/e, or
 - Subsidiary acquired exclusively to resell

Definitions (2)

- **Disposal group (DG)**
 - Group of assets to be disposed
 - In single transaction, AND
 - Liabilities directly associated with those assets
 - Will be transferred in transaction
 - Includes:
 - Goodwill acquired in business combination if cash-generating unit
- **Firm purchase commitment**
 - Agreement with unrelated party – binding on both
 - Usually legally enforceable
 - Specifies all significant terms incl. price and timing
 - Disincentive for non-performance, make performance highly probable
- **Recoverable amount**
 - Higher of
 - Value in use, or
 - Fair value less cost to sell

ASSETS HELD FOR SALE

Overview

- Scope
- Classification
- Criteria
- Measurement
- Recognition of impairments & reversals
- Non-current assets to be abandoned
- Changes in plan of sale
- Tax
- Presentation

Scope – IFRS 5

- ALL recognised non-current assets and DG's of entity
 - DG as a whole
 - Exclude from measuring assets already carried @ fair value
 - Financial assets
 - Investment property
 - Agricultural non-current assets
- Also excludes
 - Current assets (e.g. inventory)

Classification

- Classify as 'non-current asset held for sale' if
 - Carrying amount will be recovered
 - Through sale transaction
 - RATHER than through continuing use
- Distinguish from Abandonment
 - End of useful life or decide to close down rather than sell
 - NOT classified as 'non-current asset held for sale'
 - NOT include asset temporarily taken out of use

Criteria

ALL

- Asset/disposal group available for immediate sale
 - In present condition
 - May be subject to usual & customary sales terms
 - Sale must be highly probable
- Highly probable
 - Appropriate level of management committed to plan to sell asset/DG
 - Active plan to find buyer & complete plan to sell
- Asset actively market at reasonable price
- Expect sale to be completed within 1 year from y/e (*)
- Actions required to complete plan indicate unlikely
 - Significant changes to plan
 - Withdrawal

Extension of sale period (*)

- Delay caused - Circumstances beyond entity's control
- Significant evidence – remains committed to sell
- Examples
 - Other parties impose conditions on transfer of asset
 - Selling entity cannot respond until purchaser commitment obtained
 - Firm purchase commitment highly probable within 1 yr
 - Obtains firm purchase commitment
 - Buyer unexpectedly impose conditions on transfer
 - Favourable solution expected
 - Circumstances arise that were previously regarded as unlikely
 - Tried to respond to changes
 - Non-current assets actively marketed @ reasonable price

Acquired to resell

- Acquire non-current asset EXCLUSIVELY to resell
- Classify as 'non-current asset held for sale' ONLY if:
 - 1 year (or permitted extended period) is met, and
 - Highly probable that other criteria not met will be met within short period
 - Usually within 3 months

Criteria met AFTER reporting date


- Do NOT classify as 'non-current asset held for sale'
- Criteria met BEFORE authorisation of AFS
 - Disclose in Notes:
 - Description of
 - Non-current asset/DG
 - Facts & circumstances of sale or leading to expected sale
 - Expected manner and timing of disposal
 - Segment

Time line

Acquire non-current assets & use
in business



Classify as 'non-current asset
held for sale'



End of financial period



Sell asset held for sale

Measurement

- **Immediately before reclassification**
 - Carrying value into other IFRS
 - Cost or revaluation model
 - Depreciation & amortisation
 - Determine carrying value immediately before reclassification
- **On date of reclassification**
 - Only IFRS5 assets restated
 - Lower of:
 - Carrying value before reclassification
 - Fair value less cost to sell
 - Examples 4 & 5
 - Impairment
- *Dispose IFRS5 and non-IFRS5 items*
 - Can form part of 1 disposal group
 - Example 3

DG – Initial classification HfS

- New asset acquired to resell
 - Lower of carrying amount as if not HfS OR Fair value less cost to sell
(*Example 8*)
 - If acquired as business combination – fair value less cost to sell
- Other: Method
 1. Calculate carrying value of individual assets on reclassification date
 2. Determine fair value less cost to sell of DG on reclassification date
 3. Determine lower of (1) and (2)
 4. If (1)>(2), recognise impairment loss on reclassification date
 - Allocate impairment loss to:
 - Goodwill (if any), then
 - IFRS5 assets in proportion to carrying amounts.
- Example 6

Subsequent remeasurement

- If y/e between date of initial classification & date of disposal
- Non IFRS5 assets
 - Remeasure carrying value before applying 'new' fair value less cost to sell
- IFRS5 assets
 - Fair value less cost to sell
 - Less impairment loss determined at initial classification as HfS
 - If Fair value less cost to sell change
 - Determine whether additional impairment loss or reversal thereof

Recognition – Impairment loss

- Individual non-current asset
 - Cr Carrying amount of asset
 - Dr Impairment loss (P/L)
- Disposal group
 - Allocate impairment to
 - Goodwill, then
 - IFRS5 assets in proportion to their carrying amounts
 - *Example 9*

Reversal of impairment loss/gain

- Remeasurement of individual asset
- Increase in fair value less cost to sell
 - Recognise gain
 - Limited to cumulative impairment loss previously recognised
 - IFRS7 and IAS36

Date of sale

- @ derecognition date:
 - Recognise gain/loss not previously recognised at
 - Initial or subsequent classification
- Derecognition requirements - PPE
 - Date of disposal – Apply IAS18 criteria
 - Consideration receivable – fair value
 - Deferred payment: cash price equivalent + interest
 - Gain/loss = Net disposal proceeds – carrying amount
 - Include gain/loss arising from derecognition in P/L (not Revenue)

(Example 10)

Changes to plan of sale

- HfS criteria no longer met - cease to classify asset as HfS
- Measure
 - Lower of
 - Adjusted carrying value (as if asset were never classified as HfS)
 - Recoverable amount at date of decision not to sell
- Individual asset
 - Adjustment – P/L gain/loss
 - If revaluation model : adjustment = revaluation in/(de)crease
 - Example 11
 1. Calculate carrying value if asset had never been classified as HfS
 2. Calculate adjustment. (Fair value less cost to sell) – (1)
 3. Depending on model (cost/revaluation) disclose as other income or revaluation in/decrease

Changes to plan of sale (2)

- Individual item – part of disposal group
- Split group – assets meeting HfS criteria and others
 - Reclassify assets no longer HfS – refer to previous slide
 - Example 12.

Tax

- Individual asset (cost model) HfS
 - Carrying amount > tax base → Deferred tax liability
 - Carrying amount < tax base → Deferred tax asset
 - Adjustments iro classification HfS only accounting
 - Result in deferred tax – Example 30.15
- Individual asset (revaluation model) HfS
 - Example 30.16

Presentation

- Non-current assets held for sale
 - Separate from other assets in SFP
 - NOT offset HfS assets & liabilities
 - Disclose major classes of assets & liabilities separately
 - Cumulative income/expense from HfS assets separately in P/L
- Newly acquired subsidiary
 - Major classes of assets & liabilities not required
- NOT re-classify or re-present HfS for prior periods in SFP

Disclosure

- NOTES
 - Description of
 - Non-current asset (or DG)
 - Facts & circumstances of sale or leading to expected sale
 - Expected manner & timing of disposal
 - Gain/loss recognises
 - Segment
 - (P181 SG)

DISCONTINUED OPERATIONS

Overview

- Classification as discontinued operations
- Presentation & disclosure
- Gains/losses relating to discontinued operations
- Tax
- Model for disclosure

Classification

- Meets definition
- At date
 - Meets criteria to be classified as held for sale, or
 - Entity disposed of operation

Tax

- Expenses directly related to decision to discontinue
 - Not incurred in the production of income
 - Therefore not deductible
- Include operating profits/losses from discontinued operations to date of disposal
- Tax allowances on non-current assets
 - Until date asset no longer used for business activities/date of disposal
- Scrapping allowance
- Recoupments
- CGT inclusion rate 66.6%
- Deferred tax
 - Temporary differences: Carrying amount & Tax base

Disclosure

- P/L
 - Single amount – total of
 - Post-tax profit/loss of discontinued operations, and
 - Post-tax gain/loss recognised on measurement to fair value less cost to sell/ disposal of assets/DG
- Analysis - P/L or Notes
 - Revenue, expenses and pre-tax profit/loss of discontinued operations
 - Related income tax expense
 - Gain/loss recognised on reclassification & related income tax
- Re-present disclosure for prior period
- Adjustments in current period
 - Disposals in prior periods

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 20.4**

	Notes	R
CONTINUING OPERATIONS		
Revenue		XXXX
Cost of sales		(XXX)
		<hr/>
Gross profit		XXXX
Other expenses		(XXX)
Finance costs		(XX)
		<hr/>
Profit before tax		XXX
Income tax expense		(XX)
		<hr/>
Profit for the year from continuing operations		<hr/> XXX
 DISCONTINUED OPERATIONS		
Revenue		XXX
Expenses		(XXX)
		<hr/>
Loss before tax		(XXX)
Income tax benefit		XX
		<hr/>
Loss after tax		XXX
Loss after tax on measurement of non-current asset held for sale/disposal group		(XX)
Loss on measurement of non-current asset held for sale to fair value less costs to sell		(XX)
Income tax benefit		X
		<hr/>
Loss for the year from discontinued operations		<hr/> (XX)
 PROFIT FOR THE YEAR		 <hr/> <hr/> (XX)XXXX