

Chap2- - Non- current Assets held for sale and discontinued operations (IFRS5)

1-Overview:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations outlines how to account for non-current assets held for sale (or for distribution to owners). In general terms, assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position. Specific disclosures are also required for discontinued operations and disposals of non-current assets. IFRS 5 was issued in March 2004 and applies to annual periods beginning on or after 1 January 2005.

2-Objective :

The objective of IFRS 5 is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. To fulfill this objective IFRS 5 requires that ; a-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 b- assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

3-Scope :

IFRS 5 presentation requirements apply to:

- ☐ all non-current assets and disposal groups (including the associated liabilities) held for sale; and
- ☐ discontinued operations

4-Classification

4.1.-Non-current assets held for sale : 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 realised 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 realised 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.

EX1-Non current asset held for sale Facts-Consider each of the following situations: 1-Company A is committed to a plan to sell its building and has initiated an active programme to find a buyer and complete the plan. The building is being marketed at a reasonable price and a completed sale is expected within 12 months. It is unlikely that this plan will change significantly. The company will not actually vacate the building until a buyer is found but then the time taken to vacate the building will not exceed what is regarded as usual. 2-Company B is also committed to a plan to sell its building and is in precisely the same situation as Company A except that it will not vacate the building and transfer it to a buyer until a new headquarters building has been constructed.

Required- Should company A and B classify the building as held for sale ?

4.2- Disposal groups 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.

EX 2- Disposal groups An entity plans to sell a portion of its business that is considered a disposal group. The facility is located in a regular business environment, and any sale requires government approval. This means that the timing of the sale is difficult to determine. Authentication cannot be obtained unless the buyer is found and knows the disposed group and the purchase contract has been signed by the facility. But there is a possibility that the asset group will be sold within one year.

Required: Can the asset group be classified as acquired for sale?

5- Measurement of Assets(and Disposal Groups) held for sale

5.1- Individual assets held for sale 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. 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.

For example, a property accounted for using the revaluation model in accordance with IAS 16 Property, Plant and Equipment would be revalued in accordance with IAS 16 immediately before classification as held for sale. Any revaluation gain or loss would be accounted for as usual under IAS 16

□ If the carrying amount determined in accordance with IFRS 5 exceeds the asset’s fair value less costs to sell, an impairment loss is recognised 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 amortised.

□ A gain should be recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss recognised in accordance with IFRS 5 or previously in accordance with IAS 36.

6-CHANGE OF PLANS

-If criteria for an asset to be classified as held for sale are no longer met, then the asset or disposal group ceases to be held for sale.

-In this case, the asset or disposal group should be valued at the lower of the carrying amount before the asset or disposal group was classified as held for sale (as adjusted for any subsequent depreciation, amortization, or revaluation) and its recoverable amount at the date of the decision not to sell.

- Any adjustment to the value should be shown in income from continuing operations for the period.

-If an asset is removed from a disposal group, the disposal group will continue to be classified as such only if it still meets the criteria set out in the Standard.

- If the criteria are not met, then the individual noncurrent assets of the group will be reviewed to see if they meet the criteria to be classified as held for sale