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Assets held for sale and discontinued operations

A guide to IFRS 5

An IAS Plus guide

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1. Introduction

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. It also covers the presentation of discontinued operations in the statement of comprehensive income.

IFRS 5 was issued by the International Accounting Standards Board (IASB) in March 2004. When first introduced, the Standard was generally greeted as straightforward and less complex than the other Standards issued around the same time. However, in the intervening years, preparers and users of financial statements have discovered that the Standard presents more challenges than had been anticipated. A number of practical issues have arisen in the application of IFRS 5 – principally because the guidance in the Standard is not always clear as to how certain transactions should be accounted for and how the requirements of IFRS 5 interact with those of other Standards.

At Deloitte, we have built up considerable experience in dealing with these practical issues. Throughout this guide, in addition to providing detailed summaries and explanations of the requirements of the Standard, we have included supplementary guidance and examples based on that experience. We have summarised the latest IFRS thinking and the evolving literature – including on issues such as partial disposals of subsidiaries, and the impact of the disclosure requirements of other Standards, which are currently the subject of IASB debate.

In the Appendices, we have also provided a brief comparison with US Generally Accepted Accounting Principles (US GAAP) and a convenient checklist of IFRS 5's presentation and disclosure requirements.

We trust that you will find this guide informative and a useful reference source.

Note: Throughout this guide, the authors have adopted the general terminology changes arising from IAS 1(2007) *Presentation of Financial Statements*. Revised titles are used for financial statements (e.g. 'statement of financial position' instead of 'balance sheet'), and Standards (e.g. IAS 10 is referred to as *Events after the Reporting Period*).

2. Scope

Although IFRS 5 deals with the measurement and presentation of non-current assets (and disposal groups) held for sale, it does not cover liability recognition for costs associated with the disposal of non-current assets (or disposal groups) such as one-time termination benefits, lease termination costs, facility closing costs, and employee relocation costs. Liability recognition for such costs is covered by other Standards, such as IAS 19 *Employee Benefits* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

2.1 Classification and presentation requirements

The classification and presentation requirements of IFRS 5 apply to all recognised 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 (see 2.2 below). [IFRS 5(2)]

2.1.1 Non-current assets

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:

[IFRS 5(Appendix A)]

(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.

2.1.2 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. [IFRS 5(Appendix A)] 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.

Where an asset is being sold individually, IFRS 5 will apply only if it is a non-current asset. Where a group of assets is being disposed of in a single transaction, the classification and presentation requirements of IFRS 5 will apply to the disposal group as a whole.

Thus, where a business is being sold, IFRS 5 will apply to all recognised assets and liabilities of that business, including goodwill. The definition of a disposal group is, however, much wider than this. It requires neither that the disposal involve a 'business', nor that the group include any non-current assets. At an extreme, therefore, it is apparently possible for a group of inventories intended to be sold in a single transaction to constitute a disposal group. In practice, it is doubtful whether it would be helpful to users for such items to be removed from inventories and classified separately as assets held for sale. Accordingly, some care and judgement may be necessary when interpreting and applying the definition of a disposal group.

2.2 Measurement requirements

2.2.1 'Scoped-out' non-current assets

The measurement requirements of IFRS 5 do not apply to the following assets (which are covered by the Standards listed):

[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*;

> Note that where investment property is accounted for in accordance with the cost model in IAS 40, it will be within the scope of the measurement requirements of IFRS 5.

(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*.

The non-current assets listed above are excluded from the measurement requirements of IFRS 5 when they are held for sale either as individual assets or when they form part of a disposal group.

The exclusions relate only to the measurement requirements of IFRS 5 – the classification and presentation requirements of IFRS 5 apply to all non-current assets (see 2.1 above).

For convenience, the term 'scoped-out non-current assets' is used elsewhere in this guide to refer to the assets listed at (a) to (f) above. Non-current assets other than those listed are referred to as 'scoped-in non-current assets'.

Disposal groups may include both scoped-in and scoped-out non-current assets. Where a disposal group includes any scoped-in non-current asset, the measurement requirements of IFRS 5 apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. [IFRS 5(4)]

Where 'scoped-out non-current assets' form part of a disposal group, the measurement requirements of IFRS 5 can be more complex than they may at first appear. Those requirements are discussed in section 4.2 of this guide.

2.2.2 Current assets

It follows from the discussion so far that current assets can be caught by the requirements of IFRS 5, but only when they are part of a disposal group. Thus, in particular:

- 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;
- where a current asset is part of a disposal group that does not contain any scoped-in non-current 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
- 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.

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

3.1 Assets that are to be sold

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. [IFRS 5(6)] The Standard specifies certain requirements and conditions that must be met for this to be the case, as discussed in the following sections.

It is worth emphasising that the separate presentation of certain non-current assets and disposal groups in the statement of financial position under IFRS 5 is not retrospective. Assets held for sale will be presented as such if they meet IFRS 5's conditions at the end of the reporting period. Accordingly, comparatives are not restated. If an asset qualifies as held for sale during 20X5, it will be classified as such in the statement of financial position at the end of 20X5, but not in the 20X4 comparatives.

This contrasts with IFRS 5's requirements regarding the presentation of discontinued operations in the statement of comprehensive income (see section 6 of this guide), which do require re-presenting the results of those operations for comparative periods. Thus, if an operation qualifies as discontinued during 20X5, it will be classified as discontinued in the statement of comprehensive income for the whole of 20X5 and also in the 20X4 comparatives.

It is also worth noting that there need be no link between assets (and disposal groups) held for sale and operations classified as discontinued. In particular, it may be the case that:

- a disposal group that is classified as held for sale does not qualify as a discontinued operation (for example, because it does not represent a separate major line of business or geographical area of operations); or
- an operation is classified as discontinued even though none of its assets has ever qualified as held for sale.

3.1.1 General requirements

The two general requirements for a non-current asset (or disposal group) to be classified as held for sale are that:

[IFRS 5(7)]

- 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.

These requirements are discussed further in 3.1.2 to 3.1.5 below.

Where the held-for-sale criteria are not met until after the reporting period, non-current assets (or disposal groups) should not be classified as held for sale. Instead, the disclosures required by IFRS 5(41)(a, b & d) (discussed in section 7.3 of this guide) should be provided. [IFRS 5(12)] Furthermore, unless and until they meet the held-for-sale criteria:

- assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale; and
- assets classified as non-current in accordance with IAS 1 *Presentation of Financial Statements*

should not be classified as current assets. [IFRS 5(3)] The treatment of assets acquired exclusively with a view to resale is discussed in section 5 of this guide.

3.1.2 Available for immediate sale

IFRS 5(7) 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)'. No further guidance on what this might mean is included within the Standard itself, but the Implementation Guidance accompanying IFRS 5 states that a non-current asset (or disposal group) is available for immediate sale if an entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition. The Implementation Guidance also sets out various examples illustrating this point, which are reproduced below.

Example 3.1.2A

[Guidance on Implementing IFRS 5 (Example 1)]

An entity is committed to a plan to sell its headquarters building and has initiated actions to locate a buyer.

(a) The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in IFRS 5(7) would be met at the plan commitment date.

(b) The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in IFRS 5(7) would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

Example 3.1.2B

[Guidance on Implementing IFRS 5 (Example 2)]

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.

(a) 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(7) would be met at the plan commitment date.

(b) 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(7) 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.

Example 3.1.2C

[Guidance on Implementing IFRS 5 (Example 3)]

An entity acquires through foreclosure a property comprising land and buildings that it intends to sell.

(a) The entity does not intend to transfer the property to a buyer until after it completes renovations to increase the property's sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in IFRS 5(7) would not be met until the renovations are completed.

(b) After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in IFRS 5(7) would not continue to be met. The property would be reclassified as held and used in accordance with IFRS 5(26).

More generally, where there are certain, relatively minor, pre-selling activities outstanding, and those activities are usually performed immediately before an asset is transferred, the asset could nevertheless be capable of being treated as available for immediate sale.

Conversely, where an asset is still in the course of construction, and significant activities will need to be performed before it can be transferred, it is unlikely that it could be regarded as available for immediate sale.

In the Basis of Conclusions for IFRS 5, the Board has confirmed that assets that are being used are not precluded from classification as held for sale if they meet the criteria set out in IFRS 5(7). This will be case, for example, where an entity continues to operate an asset while actively marketing it. This is because, if a non-current asset is available for immediate sale, the remaining use of the asset is incidental to its recovery through sale and the carrying amount of the asset will be recovered principally through sale. [IFRS 5(BC23)]

The following additional examples illustrate further circumstances in which assets (or disposal groups) may or may not be regarded as available for immediate sale.

Example 3.1.2D

Operational requirement to operate a non-current asset group to be disposed of by sale

Company D is a joint venture between two multi-national diversified manufacturers.
On 28 December 20X2, management having the appropriate level of authority approved and committed D to a restructuring plan that included both employee terminations and plant disposals. The plan specifically identified all significant actions to be taken to complete the plan, activities that will not be continued, including the location of those activities and the method of disposal, and the expected date of completion (within one year). As part of the restructuring plan, D will continue to operate Plant B until June 20X3, at which time an alternative plant (Plant L) will be able to absorb Plant B's capacity.

Company D may not classify Plant B as held for sale at 31 December 20X2. Company D has an operational requirement to continue to operate Plant B until June 20X3 and, as such, Plant B has not met the requirement of IFRS 5(7) because it is not available for immediate sale. Additionally, D should reconsider the period over which Plant B is being depreciated and perform a detailed impairment review of Plant B in accordance with IAS 36 *Impairment of Assets*.

Example 3.1.2E

Completion of planned overhauls prior to disposal by sale

On 1 March 20X2, an entity announced plans to close and sell one of its manufacturing facilities. The entity will be required to perform major building and equipment overhauls to be able to market the facility effectively. The facility was closed on 30 April 20X2, and the overhauls were completed on 31 May 20X2. Immediately after the overhauls were completed, the entity began marketing the facility and the facility was sold on 15 July 20X2.

The entity may not classify the manufacturing facilities as held for sale in its statement of financial position at 31 March 20X2. At that date, the entity had not met the conditions of IFRS 5(7) which require that the asset 'must be available for immediate sale in its present condition…'. Assuming all the other criteria of IFRS 5(7) were met, the entity would classify the asset as held for sale on 31 May 20X2, the date that the overhauls were completed and the entity began to market the facility.

Example 3.1.2F

Capital expenditures in the normal course of business of a held-for-sale component

Company G owns and operates cable television franchises throughout Europe. In June 20X2, G committed to a plan and entered into an agreement to sell its franchises in France and Germany to Company J, subject to approval by regulators. During the time that G waits for regulatory approval, G is required by the sales agreement to continue to expand the cable networks of the franchises to be sold, as subscribers demand service. Such capital expenditures are common to all cable franchises and G would have to make the expenditures even if it did not sell the franchises. Company G expects to invest €125 million in the French and German franchises before their sale to J is consummated.

Assuming that regulatory approval is usual and customary for these sales, and all the other criteria of IFRS 5(7)&(8) have been met, G should classify the French and German franchises as held for sale in its statement of financial position at 30 June 20X2, because the capital expenditures that G is required to make are usual and customary for the operation of such assets (i.e. the assets are available for immediate sale in their present condition regardless of the capital expenditures to be incurred). Company G is operating and selling a live cable franchise and there is an expectation that G will have to make certain capital expenditures in the normal course of business to accommodate new subscribers.

3.1.3 Highly probable: specific conditions

The Standard defines 'highly probable' as meaning 'significantly more likely than probable', where 'probable' means 'more likely than not'. [IFRS 5(Appendix A)]

A number of specific conditions must be satisfied for the sale of a non-current asset (or disposal group) to qualify as highly probable:

[IFRS 5(8)]

- the appropriate level of management must be committed to a plan to sell the asset (or disposal group);
- an active programme 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
- except as discussed at 3.1.5 below, 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.

The Implementation Guidance accompanying the Standard includes the following illustration of the application of the criteria in IFRS 5(7)&(8).

Example 3.1.3A

[Guidance on Implementing IFRS 5 (Example 4)]

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (IFRS 5(7)), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (IFRS 5(8)). That criterion would not be met if, for example:

(a) an entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently ceased to be leased and the ultimate form of a future transaction (sale or lease) has not yet been determined; or

(b) an entity is committed to a plan to 'sell' a property that is in use, and the transfer of the property will be accounted for as a sale and finance leaseback.

The following additional examples focus on approval by the appropriate level of management.

Example 3.1.3B

Board approval of a plan to split off a segment

Company D is contemplating a non pro-rata split-off (i.e. issuance of shares) of one of its segments, Company E. Company D anticipates that the split-off will occur prior to the end of D's calendar year ending 31 December 20X2, and that it will receive a ruling from the taxing authority that the transaction may be accounted for as tax-free. Subsequent to issuing the second quarter interim report, the following events occur:

- Company D receives a ruling from the taxing authority indicating that if D does complete a split-off it will be considered a non-taxable transaction; and
- Company D's board of directors appoints a committee to explore the split-off. The committee is charged to explore the following: (a) the precise ratio at which E shares will be offered for exchange to the D shareholders, (b) the minimum number of shares required for D to complete the distribution to make the split-off economically feasible, and (c) other criteria that must be met for D to complete the distribution. The committee is required to report to the board for approval of the conditions related to the proposed split-off.

Company D has indicated that if the structure, timing and terms of a non-pro rata split-off transaction are not approved by the board, D will continue to control and operate E. There are currently no alternative disposal plans being contemplated.

At the point in time that the ruling is received from the taxing authority and the committee of the board is appointed, D does not meet the criteria to classify the segment as held for sale. IFRS 5(8) clarifies that for a sale to be highly probable, the 'appropriate level of management must be committed to a plan to sell the asset'. Approval by the board of directors would generally constitute this level of commitment.

3.1.3.1 Plan of sale requiring shareholder approval

It is not unusual for local laws or regulations (or the entity's own constitution) to require that asset disposals be approved by a majority of the entity's shareholders (generally for transactions above a certain size threshold or transactions with connected parties). In such cases, approval by the board of directors (or equivalent level of management) will generally precede shareholder approval. Where, at the year end, the board has approved a plan to dispose of a non-current asset by sale but the required shareholder vote has not yet taken place, the question arises as to whether an 'appropriate level of management' is committed to the sale (as required by IFRS 5(8)) at the reporting date.

To satisfy the criterion in IFRS 5(8), the board of directors (or the appropriate level of management) must be able to commit the entity to the plan to sell the asset (or disposal group). Approval of the plan by the board of directors, if it does not represent a commitment by the entity, would not be sufficient to meet the criterion. The determination as to whether the board of directors is able to commit the entity to a plan to sell the asset requires a careful assessment of the facts and circumstances surrounding the transaction, taking into account relevant jurisdictional and legal requirements. In particular, an assessment must be made as to whether the shareholders' approval is substantive in nature.

The following examples illustrate two possible scenarios.

Example 3.1.3.1A

Plan of sale requiring shareholder approval (1)

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 favour 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.

Example 3.1.3.1B

Plan of sale requiring shareholder approval (2)

Company A holds an 80% interest in a subsidiary, Company B. At the year end, the board of directors of B has approved a plan to sell a non-current asset to A. The eventual disposal requires approval from a majority of B's shareholders through a formal vote which will take place after the year end. However, the jurisdiction in which B operates provides protection to minority shareholders where the value of the transaction exceeds a certain threshold. These protections prevent A from participating in the formal vote. B has not received any undertakings to vote in a particular manner from any of the shareholders.

From B's perspective, the criterion that an 'appropriate level of management' must be committed to the plan to sell the asset is not met at the year end because the formal vote by the remaining shareholders is substantive in nature.

3.1.4 Impairment reviews for assets not qualifying as held for sale

The criteria for classifying an asset (or disposal group) as held for sale set out in IFRS 5(7)&(8) are very rigorous. Failure to meet these criteria should not, however, result in potentially impaired assets not being written down to their recoverable amounts.

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(21) 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.

3.1.5 Extension of the period required to complete a sale

IFRS 5(9) 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.

Appendix B to IFRS 5 specifies that held-for-sale classification will continue to be available in the following situations:

[IFRS 5(B1)]

'(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:

(i) actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained; and

(ii) 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:

(i) timely actions necessary to respond to the conditions have been taken, and

(ii) a favourable 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:

   (i) during the initial one-year period the entity took action necessary to respond to the change in circumstances,

   (ii) the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances; and

   (iii) the criteria in paragraphs 7 and 8 [of the Standard] are met.'

A firm purchase commitment is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable. [IFRS 5(Appendix A)]

The criteria in paragraphs 7 and 8, referred to above, are respectively the general requirements discussed at section 3.1.1 above and the specific conditions discussed at sections 3.1.2 and 3.1.3.

The Implementation Guidance accompanying the Standard includes the following examples of the limited situations in which the period required to complete a sale may extend beyond one year but not breach the held-for-sale criteria.

Example 3.1.5A

[Guidance on Implementing IFRS 5 (Example 5)]

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 after 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.

Example 3.1.5B

[Guidance on Implementing IFRS 5 (Example 6)]

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. In that situation, the conditions in IFRS 5(B1)(b) for an exception to the one-year requirement in IFRS 5(8) would be met.

Example 3.1.5C

[Guidance on Implementing IFRS 5 (Example 7)]

An entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date.

(a) 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.

(b) 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 5(B1)(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).

The following additional example illustrates further circumstances in which assets may or may not qualify as held for sale.

Example 3.1.5D

Non-current assets to be disposed of by sale requiring bankruptcy court approval

Company S has filed for reorganisation under a local bankruptcy code, and has entered into an agreement to sell certain assets and liabilities of one of its wholly-owned subsidiaries to a third party. The sale has been authorised by the directors and approved by the creditors. However, the sale requires approval from the bankruptcy court. The role of the bankruptcy court in this jurisdiction primarily is to ensure compliance with legal procedures regarding bankruptcy filings. Management considers that it is highly probable that the bankruptcy court will approve the sale, but S has not received approval from the bankruptcy court as of the period end.

S is not precluded from classifying the disposal group as held for sale. In accordance with IFRS 5(8), the appropriate level of management has committed to the plan to dispose of the group of assets and liabilities. The criteria in IFRS 5(7) require that the disposal group be available for immediate sale. As the sale agreement must be approved by the bankruptcy court prior to finalisation of the sale, circumstances may arise that extend the period to complete the sale beyond one year. Such an extension does not preclude a disposal group from being classified as held for sale if 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 disposal group.

Note, however, that bankruptcy courts may have different roles in different jurisdictions and this could affect the above conclusion. Further, in certain situations, the appropriate level of management may not yet have committed to the plan to dispose, while they await the ruling of the bankruptcy court. Where the appropriate level of management is not yet committed to disposal, classification of the assets and liabilities as held for sale would be inappropriate.

3.2 Assets that are to be abandoned

As noted at section 3.1 above, 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. [IFRS 5(13)]

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. [IFRS 5(BC23)]

Example 3.2A

Non-current assets to be abandoned as part of a corporate restructuring

An entity has committed to a plan of restructuring and expects that certain assets will be disposed of through abandonment. The assets will continue to be used until their abandonment. Should all the assets to be abandoned as a result of the restructuring be written down to zero carrying amount as of the commitment date?

No. Non-current assets to be disposed of by abandonment, whether or not as the result of a restructuring, should be evaluated for impairment in accordance with IAS 36 *Impairment of Assets*. Additionally, the entity should revise the estimated useful lives of the assets in accordance with IAS 16 *Property, Plant and Equipment*, to reflect the use of the assets over their shortened useful lives, and recognise the depreciation expense in continuing operations until the date of disposal. Only in unusual situations would the recoverable amount of a non-current asset to be abandoned be zero while it is being used, as the continued use of the non-current asset demonstrates the presence of service potential.

If an impairment loss is recognised relating to assets that are part of a component that has qualified for discontinued-operations presentation in accordance with IFRS 5(30), the impairment loss should be presented in discontinued operations.

Nevertheless, for the purpose of presentation in the statements of comprehensive income and cash flows, a disposal group to be abandoned could meet the definition of a discontinued operation at the date on which it ceases to be used (see section 6.1 of this guide). The Implementation Guidance accompanying the Standard illustrates this point as follows.

Example 3.2B

[Guidance on Implementing IFRS 5 (Example 9)]

In October 2005 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 2006. In the financial statements for the year ended 31 December 2005, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 2006, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by IFRS 5(33)&(34) (see section 6.2.1 of this guide).

Example 3.2C

Classification of non-current assets (or disposal groups) that are to be abandoned

Company A, operating in the construction industry, made a decision to abandon its property rental interests (Company B) with effect from 30 June 20X2. The business of B operates via a number of property leases, including both finance leases and operating leases. Selected properties are also occupied by the Company A and B group as well as subleased to tenants. Company A has determined that B represents a component of its entity. B plans to allow the leases to run to the end of the lease terms as this is the lowest cost option for exiting the business. No alterations will be made to any of the leases and effectively the business runs on 'autopilot'. This process will take a number of years.

Company A cannot classify the operations of B as discontinued operations in its 31 December 20X2 financial statements. IFRS 5(13) states as follows with regard to abandoned operations:

'An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in IFRS 5 (32)(a)-(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with IFRS 5 (33)&(34) at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.'

For an operation to be classified as discontinued, it must either have been disposed of or meet the held for sale criteria (IFRS 5 (32)). In addition, IFRS 5(13) states that an operation to be abandoned may only be treated as a discontinued operation if it has actually been abandoned. Although A and B are not seeking new tenants, they must continue to provide landlord services and maintain the buildings in a good state of repair, etc. Therefore, the operations have not yet been abandoned, have not been disposed of and do not meet the criteria for classification as held for sale. Consequently, they cannot be classified as 'discontinued operations'.

Where a non-current asset has been temporarily taken out of use, it should not be accounted for as if it had been abandoned. [IFRS 5(14)] The Implementation Guidance accompanying the Standard includes the following illustration.

Example 3.2D

[Guidance on Implementing a IFRS 5 (Example 8)]

An entity ceases to use manufacturing plant because demand for its product has declined. However, the plant is maintained in workable condition and it is expected that it will be brought back into use if demand picks up. The plant is not regarded as abandoned.

In practice, when an entity is closing an operation, it may intend to sell some assets and to scrap others. Care will be needed, as the former may qualify as held for sale while the latter will not.

3.3 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 (see 3.1.3 above). 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*. [IFRS 5(10)]

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:

[IAS 16(25)]

- 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.

3.4 Partial disposals

Currently, IFRS 5 is silent as to whether the assets and liabilities of a subsidiary should be classified as held for sale where the parent commits to selling part of its interest in the subsidiary. The point is addressed, however, in the Exposure Draft of Proposed Amendments to IFRSs issued in October 2007 (which are expected to be finalised as amendments to Standards in the near future). The ED proposes to insert a new paragraph 8A in IFRS 5 to clarify the impact of a sale plan involving a partial disposal and loss of control of a subsidiary.

The draft amendment is as follows:

'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.'

The IASB has concluded that loss of control is a significant economic event that changes the nature of an investment. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship. The new investor-investee relationship is recognised and measured initially at the date when control is lost.

Therefore, for the purposes of IFRS 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. A change between controlling interest, joint control, significant influence and trade investments represents such a substantive change in the nature of the holding in the investment.

The table below demonstrates how this guidance should be applied.

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
Proportionately-consolidated JV to associate	Yes	Joint control lost
Equity-accounted JV to associate	No	Joint control lost but the method of accounting adopted implies no change in the nature of the holding
Equity-accounted JV to equity-accounted JV	No	Joint control remains
Proportionately-consolidated JV to investment	Yes	Joint control lost
Proportionately-consolidated JV to proportionately-consolidated 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

Example 3.4A

Disposal of subsidiary undertaking with retention of associate interest

An entity has a 70 per cent interest in a subsidiary that it consolidates in accordance with IAS 27 *Consolidated and Separate Financial Statements*. On 1 July 20X6, the entity enters into an unconditional, binding agreement to dispose of 30 per cent of its interest. The 30 per cent interest is disposed of in February 20X7, at which point the entity ceases to have control and instead has significant influence.

The planned disposal of shares results in the subsidiary being classified as a disposal group held for sale that should be accounted for in accordance with IFRS 5 from the date the criteria for classification as held for sale are met.

For the purposes of the 20X6 financial statements, the 70 per cent interest continues to be consolidated (i.e. 100 per cent of the assets and liabilities of the subsidiary are consolidated), but presentation is collapsed into two lines in the statement of financial position (i.e. non-current assets held for sale and associated liabilities). If the disposal group qualifies as a discontinued operation, the presentation in the statement of comprehensive income is collapsed into one single line in accordance with IFRS 5(33) (see section 6 of this guide).

In 20X7, the entity consolidates the subsidiary in accordance with IAS 27 for the first 2 months of the financial year (classifying amounts as arising from discontinued operations, where appropriate). Following the disposal of shares, the remaining 40 per cent interest will be equity-accounted.

Example 3.4B

Dilution of interest in a subsidiary through a rights offer

Company H has a wholly-owned subsidiary, Company B. Company B makes a rights offer to H's shareholders, proposing to issue 10 of its own shares for each share held in H. To receive the rights, the shareholders must pay fair value for the shares issued and accept the offer by a specified deadline.

After the issuance of shares under the rights offer, H will hold 35 per cent of B. As a result, H will relinquish control over B but will retain significant influence. Should the rights offer be regarded as a sale transaction under IFRS 5?

Before the conclusion of the rights offer, H controls B. The rights offer is therefore subject to approval by H. Effectively, the rights offer is H's disposal of a portion of its interest in B to a preferred group of bidders. Since the shares will be issued at fair value, H is effectively receiving proceeds for the sale of 65 per cent of its investment in B to its shareholders.

As a result of a partial disposal, the transaction changes the nature of the investment in B from a subsidiary to that of an associate. Accordingly, the entire investment in B will be recognised as a disposal group held for sale if the investment is available for sale in its present condition and the sale is regarded as highly probable.

3.5 Demergers

Example 3.5

Demergers

Company A intends to distribute a significant segment of its business to its shareholders. The intended distribution has been approved by the appropriate level of management. The business to be distributed meets the definition of a disposal group and is sufficiently significant to qualify as a discontinued operation.

Can a disposal group that is to be disposed of via a demerger qualify as held for sale under IFRS 5?

No. IFRS 5(6) states that '[a]n 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'. [Emphasis added]

The detailed requirements of IFRS 5 regarding classification as held for sale are based on an assumption that there will be a sale transaction (i.e. there will be sales proceeds). In the case of a distribution to shareholders, the entity will not 'recover' the carrying amount of the segment to be divested. Therefore, the segment does not qualify as held for sale.

However, at the date of the distribution, as the segment qualifies as a discontinued operation, it should be presented as such (see section 6 of this guide).

3.6 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. [IFRS 5(26)] The measurement requirements that apply in such circumstances are discussed in section 4.6 of this guide.

4. 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. [IFRS 5(15)]

The comparison of carrying amount and fair value less costs to sell is carried out on the date the non-current asset (or disposal group) is first classified as held for sale, and then again at each subsequent reporting date while it continues to meet the held-for-sale criteria.

4.1 Individual assets held for sale

Certain assets (listed in section 2.2.1 of this guide) are outside the scope of IFRS 5's measurement requirements. When classified as held for sale, those scoped-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. [IFRS 5(15)] 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. [IFRS 5(Appendix A)] Costs to sell are discussed at 4.3 below.

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. [IFRS 5(18)]

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.

For assets within the scope of IAS 36, if there is any indication of an impairment loss, the recoverable amount of the asset needs to be calculated and, where required, the impairment loss recognised in accordance with IAS 36. Although IAS 36 specifically excludes from its scope assets classified as held for sale, it still applies immediately before initial classification as held for sale.

- If the carrying amount determined in accordance with IFRS 5(18) 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. [IFRS 5(20)]

For example, immediately on classification as held for sale and at each subsequent reporting date, the property, which was previously measured under IAS 16, is remeasured in accordance with IFRS 5. In accordance with IFRS 5(20) and IFRS 5(37), any impairment loss arising subsequent to the classification as held for sale is recognised in profit or loss.

- Once classified as held for sale, a non-current asset is no longer depreciated or amortised. [IFRS 5(25)]

A non-current asset is no longer depreciated or amortised, even if the entity continues to use it within the business.

- 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. [IFRS 5(21)]

Where assets had been impaired prior to classification as held for sale, it is possible that a net remeasurement gain may be recognised while they are held for sale. It should, however, be noted that, although earlier impairment losses may in effect be reversed, the same is not true for accumulated depreciation.

Assets acquired exclusively with a view to their subsequent disposal, for example as part of a business combination, are discussed in section 5 of this guide.

Example 4.1A

Measuring non-current assets held for sale (1)

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 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 recognised 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 recognised.

Example 4.1B

Measuring non-current assets held for sale (2)

A freehold property was originally acquired for CU400,000. Some years later, after cumulative depreciation of CU110,000 has been recognised, an impairment loss of CU35,000 is recognised, taking the carrying amount to CU255,000, 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 CU255,000; and
- fair value less costs to sell is assessed at CU250,000.

Accordingly, the initial write-down on classification as held for sale is CU5,000 and the property is carried at CU250,000.

At the next reporting date, the property market has improved and fair value less costs to sell is reassessed at CU265,000. The gain of CU15,000 is less than the cumulative impairment losses recognised to date (CU35,000 + CU5,000 = CU40,000). Accordingly, it is credited in profit or loss and the property is carried at CU265,000.

Six months after that, the property market has continued to improve, and fair value less costs to sell is now assessed at CU300,000. This further gain of CU35,000 is, however, in excess of the cumulative impairment losses recognised to date (CU35,000 + CU5,000 – CU15,000 = CU25,000). Accordingly, a restricted gain of CU25,000 is credited in profit or loss and the property is carried at CU290,000.

Subsequently, the property is sold for CU300,000, at which point a gain of CU10,000 is recognised.

Example 4.1C

Subsequent write-up of a held-for-sale asset to fair value

On 31 January 20X2, Company T announced plans to move its corporate headquarters. According to the plan, T would vacate and sell the office building housing its headquarters, and move to a new building closer to the majority of T's production facilities. On 30 April 20X2, T completed the move. All other criteria in IFRS 5(7)&(8) having been met, T classified the property as held for sale and recognised CU1 million write-down to adjust the carrying amount of the property to its current fair value less costs to sell of CU20 million. At 31 December 20X2, T had not yet sold the property. However, the real estate market had recovered and T's real estate agent indicated that T could expect to sell the property for CU22 million. On 15 March 20X3, T sold the building for CU22.2 million. Can T write up the carrying amount of the building held for sale to the then current fair market value of CU22 million in its 31 December 20X2 financial statements?

No. A gain for the increase in fair market value can be recognised in T's 31 December 20X2 financial statements, but only to the extent of any previously-recognised impairment loss (either in accordance with IFRS 5 or previously in accordance with IAS 36). At 31 December 20X2, T would be able to adjust the carrying amount of the building upward by CU1 million to CU21 million. At 31 March 20X3, the date that T sold the building, T would recognise a gain on sale of the property of CU1.2 million.

Example 4.1D

Non-current asset previously accounted for under revaluation model

An entity has adopted a policy of carrying a particular class of property, plant and equipment (PPE) at revalued amounts. An item of PPE in that class now satisfies the criteria for classification as held for sale. On the date of reclassification, the fair value less costs to sell is lower than the current carrying amount of the particular item. The write-down to fair value less costs to sell should be accounted for as follows.

Step 1: update valuation (fair value)

Immediately before the asset is initially classified as held for sale, the carrying amount of the asset should be measured in accordance with applicable IFRSs. [IFRS 5(18)]

Given that the asset is carried at a revalued amount under IAS 16, any decrease in value would be accounted for in equity to the extent that any credit balance exists in the revaluation reserve for that asset, with any excess being recognised in profit or loss.

Step 2: consider recoverable amount (higher of fair value less costs to sell and value in use)

Before the asset's classification as held for sale, the entity must assess whether there is any indication that the asset is impaired. If there is an indication of an impairment loss, the recoverable amount of the asset should be determined under IAS 36.

If recognition of an impairment loss is required, the impairment loss should be accounted for as a revaluation decrease in accordance with IAS 16, to the extent that a revaluation reserve for the asset remains. Any impairment loss in excess of the available reserve should be recognised in profit or loss.

Step 3: write-down to fair value less costs to sell (if lower than Step 2)

Upon reclassification of the asset as held for sale, if fair value less costs to sell equates to value in use, there should be no further impairment loss to recognise. However, if value in use is higher, a further impairment loss should be recognised in profit or loss in accordance with IFRS 5(20)&(37). This impairment loss is recognised in profit or loss in the same way as any asset that before classification as held for sale had not been revalued. [IFRS 5(BC47-48)]

Example 4.1E

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

An entity holds land (original cost CU100,000), previously carried at a revalued amount of CU250,000 in accordance with IAS 16, which is classified as held for sale in accordance with IFRS 5.

- Before its reclassification as held for sale, a revaluation decrease was recognised on the land in accordance with IAS 16. The revaluation decrease of CU50,000 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 CU200,000 in accordance with IAS 16, which was also the appropriate measure on initial classification as held for sale under IFRS 5.
- Since the land's reclassification as held for sale, the entity has recognised an impairment loss of CU20,00 in profit or loss (in accordance with IFRS 5 because its fair value less costs to sell fell to CU180,000).
- 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 CU215,000.

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 IAS 16	(50,000)
Revalued carrying amount immediately before classification as held for sale	200,000
Impairment loss recognised in profit or loss in accordance with IFRS 5	(20,000)
Fair value less costs to sell under IFRS 5	180,000
Fair value less costs to sell on the reporting date	215,000
Fair value movement	35,000

IFRS 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 IFRS 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.

Example 4.1F

Reversal of impairment losses on an asset previously classified as property, plant and equipment with prior impairment loss

Summary of asset's history	CU
Property purchased on 1 July 20X4 at cost (nil residual value and a useful life of 10 years)	500,000
Depreciation for 2 years (500,000/10 x 2)	(100,000)
Impairment loss recognised in accordance with IAS 36 at 30 June 20X6	(100,000)
Carrying amount at 30 June 20X6	300,000
Depreciation for the year (300,000/8)	(37,500)
Carrying amount at 30 June 20X7 immediately before classification as held for sale under IFRS 5	262,500
Write-down to fair value less costs to sell in accordance with IFRS 5 on classification as held for sale at 30 June 20X7	(100,000)
Carrying amount at 30 June 2007 after classification as held for sale	162,500

On 30 June 20X8, the asset is still held for sale and fair value less costs to sell has increased by CU200,000 to CU362,500.

The reversal of prior impairment losses is limited to the carrying amount that would have been determined at the date the property was classified as held for sale under IFRS 5, as if no prior impairment loss had been recognised under IAS 36. The carrying amount cannot be increased beyond CU350,000 because that is the amount that would have been determined at the date the property was classified as held for sale if no previous impairment loss had been recognised under IAS 36 (i.e. the original cost of CU500,000 less accumulated depreciation of CU150,000 over three years). Accordingly, even though the fair value less costs to sell has increased by CU200,000 (i.e. by an amount equivalent to all prior impairment losses and write-downs under IAS 36 and IFRS 5), the reversal is limited to CU187,500 (i.e. CU350,000 – CU162,500).

Example 4.1G

Interest in associate reclassified as held for sale

Company X has a 25 per cent associate, Company A, which it accounts for using the equity method in accordance with IAS 28 *Investments in Associates*. Prior to the year end, Company X has decided to sell its interest in Company A and all the criteria in IFRS 5 for classification as held for sale have been met. At the date of classification as held for sale, Company X ceases to equity account for the associate and accounts for its interest in Company A at the lower of its carrying amount and fair value less costs to sell. [IFRS 5(15)] For IFRS 5 measurement purposes, the carrying amount at the date of classification as held for sale is the 'frozen' equity-accounted carrying amount, i.e. the amount at which the associate was recognised under equity accounting immediately prior to reclassification.

4.2 Disposal groups

The measurement requirements for disposal groups are for the most part similar to those relating to individual non-current assets. But they are complicated by the treatment of those assets (listed in section 2.2 of this guide) that are outside the scope of IFRS 5's measurement requirements (the scoped-out 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. [IFRS 5(15)] 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. [IFRS 5(18)]

For example, investment property held at fair value will be measured in accordance with IAS 40 *Investment Property*, factory equipment in accordance with IAS 16 *Property, Plant and Equipment*, inventories in accordance with IAS 2 *Inventories* and derivative financial liabilities in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Any changes in the carrying amounts of the assets and liabilities are recognised as usual in accordance with their applicable IFRSs.

If there is any indication of impairment loss for assets falling within the scope of IAS 36, an impairment review is carried out and an impairment loss will be recognised in accordance with IAS 36, if necessary.

- 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 recognised in profit or loss for the period. [IFRS 5(20)&(37)]

On subsequent remeasurement 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 (listed in section 2.2 of this guide), current assets and all liabilities – are first remeasured in accordance with applicable IFRSs, and the carrying amount of the disposal group is adjusted to reflect these remeasurements. [IFRS 5(19)]

For example, the carrying amounts for inventories will be adjusted to the lower of cost and net realisable value.

- Interest and other expenses attributable to liabilities within the disposal group continue to be recognised. [IFRS 5(25)]
- 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 amortised. [IFRS 5(25)]
- 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. [IFRS 5(20)]
- A gain is recognised for any subsequent increase in fair value less costs to sell of a disposal group:
  [IFRS 5(22)]
  - to the extent that it has not been recognised in the remeasurement of scoped-out non-current assets, current assets and liabilities; but
  - not in excess of the cumulative impairment loss recognised, 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(22) are discussed in more detail at 4.2.1 below).

Where an impairment loss is recognised (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(104)(a)&(b) and IAS 36(122). [IFRS 5(23)] 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.

The allocation of disposal-group impairment losses under IFRS 5 is different from that specified by IAS 36. Disposal-group impairment losses can only be allocated between the scoped-in non-current assets, whereas impairment losses recognised under IAS 36 may, in principle, be allocated between all assets of a cash-generating unit. Further, the purpose of the restricted references to IAS 36 is to make clear that, unlike IAS 36(105), IFRS 5 does not establish a limit below which the carrying amount cannot be reduced. Accordingly, it is possible for a scoped-in non-current asset within a disposal group to be written down to a lower amount than would result if IAS 36 alone were applied. The reference to IAS 36(104) is not to the entire paragraph, but is limited to the specific criteria in (a) and (b). Therefore, the reference is intentionally only to the order of allocation and not to the entire paragraph.

Where a disposal group is written down to fair value less costs to sell, the methodology described by the Standard allocates the adjustment against the scoped-in non-current assets in the disposal group – no element of the adjustment is allocated to the other assets and liabilities of the disposal group. This is true even where the adjustment has arisen because the fair value of liabilities (e.g. fixed-rate borrowings) is higher than their carrying amount. Accordingly, although the net amount included for the disposal group will be the fair value less costs to sell of the disposal group as a whole, the gross amounts presented separately for assets and liabilities may differ significantly from the fair value less costs to sell of those individual assets and liabilities.

IFRS 5 does not discuss the possibility that the carrying amount of scoped-in non-current assets may be less than the amount by which a disposal group's carrying amount exceeds its fair value less costs to sell. Such a scenario could arise if, for example, the carrying amount of scoped-in non-current assets is small, but there are fixed-rate borrowings (carried at amortised cost) with a fair value significantly in excess of carrying amount. In such circumstances, a number of different approaches might be possible. For example, to the extent that the write-down exceeds the carrying amount of scoped-in non-current assets, that excess:

- might also be allocated against the scoped-in non-current assets, so that their carrying amount becomes negative;
- might be allocated against other assets (i.e. those outside the scope of IFRS 5's measurement requirements);
- might be recognised as an additional liability; or
- might not be recognised at all.

In the absence of relevant guidance from the IASB or the International Financial Reporting Interpretations Committee (IFRIC), in these circumstances it would seem appropriate for an entity to adopt one of the above approaches as an accounting policy choice.

Example 4.2A

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 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 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 CU515,000; and
- accordingly, a further loss of CU15,000 is recognised, 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).

Example 4.2B

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 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 CU520,000. Accordingly, the initial write-down on classification as held for sale is CU30,000 and the disposal group is carried at CU520,000. The CU30,000 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 CU310,000 and the fair value less costs to sell of the disposal group as a whole is reassessed at CU570,000. Accordingly:

- the gain of CU10,000 on the investment property is recognised under IAS 40;
- this brings the carrying amount of the disposal group up to CU530,000, 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 CU50,000 (CU570,000 – CU520,000), but under IFRS 5(22) this must be reduced by the amount already recognised in respect of scoped-out non-current assets – the CU10,000 gain on the investment property in this case;
- the remaining CU40,000 is then capped at the amount of cumulative impairment losses, namely CU30,000 (in this example, there were no previous impairment losses under IAS 36);
- accordingly, a further gain of CU30,000 is recognised, bringing the carrying amount of the disposal group up to CU560,000. The reversal is allocated to the scoped-in non-current assets, except for goodwill.

The Implementation Guidance accompanying the Standard includes the following illustration of the allocation of an impairment loss to the assets of a disposal group.

Example 4.2C

[Guidance on Implementing IFRS 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 CU13,000. 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 IAS 36 (as revised in 2004).

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	CU	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	14,900	(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.

A further example is set out below.

Example 4.2D

Allocation of impairment loss to a disposal group

Company Z intends to sell a division, Division D, which is not a separate legal entity. Division D (the disposal group) meets all the criteria in IFRS 5 to be classified as held for sale. Division D is a service organisation with few non-current assets. The carrying amounts of assets and liabilities held in D are as follows:

	CU
Property, plant and equipment: Asset A	75
Property, plant and equipment: Asset B	25
Receivables	300
Cash	50
Total assets	450
Post-employment benefits	130
Trade payables	180
Other current liabilities	100
Total liabilities	410
Net assets	40

The fair value of the disposal group is CU30. All financial liabilities are accounted for at amortised cost, and costs to sell are estimated at CU2. The disposal group, therefore, should be written down to CU28 [CU30 – CU2].

IFRS 5(20) requires that the full write-down of CU12 [CU40 – CU28] be recognised against the disposal group. In accordance with IFRS 5(23), the whole CU12 should reduce the non-current assets within the scope of IFRS 5 (in this case property, plant, and equipment) to CU88 in total. The write-down is allocated pro-rata on the basis of the carrying amount of each asset in the group. This would require the entity to recognise CU9 [(75 ÷ 100) x 12] against Asset A and CU3 [(25 ÷ 100) x 12] against Asset B.

4.2.1 Recognising gains in relation to a disposal group

As discussed above, although under IFRS 5(19) gains and losses relating to scoped-out non-current assets will continue to be recognised in accordance with the applicable IFRSs, IFRS 5(22) restricts the extent to which gains can separately be recognised in respect of a disposal group:

'An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

(a) to the extent that it has not been recognised in accordance with paragraph 19; but

(b) not in excess of the cumulative impairment loss that has been recognised, either in accordance with this IFRS or previously in accordance with IAS 36, on the non-current assets that are within the scope of the measurement requirements of this IFRS.'

At first glance, it might appear that the purpose of IFRS 5(22) is to isolate gains and losses relating to scoped-out non-current assets and then to recognise gains relating to the rest of the disposal group only to the extent that they reverse previous impairment losses. In fact, the drafting of IFRS 5(22) is not as equitable as this. Care is needed when applying it, as illustrated in the following example.

Example 4.2.1

Recognising subsequent measurement gains on disposal groups classified as held for sale

A disposal group held for sale includes a freehold property carried under IAS 16's cost model on which an impairment loss of CU100,000 was recognised prior to the asset being classified as held for sale. No adjustments are necessary when the disposal group is classified as held for sale. Some time after the disposal group has been classified as held for sale, the property increases in value by CU50,000, causing a corresponding increase of CU50,000 in the fair value less costs to sell of the disposal group. How will this gain be recognised?

Scenario 1

Assume that scoped-out non-current assets have increased in value by CU10,000 and the increase in value has been recognised in accordance with the requirements of other Standards, so that the disposal group as a whole has increased in value by CU60,000. Applying the requirements of IFRS 5(22), this total gain of CU60,000 is restricted by CU10,000 (being the amount in respect of scoped-out non-current assets), leaving a balance of CU50,000. This is less than the cumulative impairment loss, so a gain of CU50,000 will be recognised (in addition to the scoped-out non-current asset gains of CU10,000 recognised).

Scenario 2

Assume instead that scoped-out non-current assets have decreased in value by CU40,000, and the value of the property has increased by CU50,000 so that the disposal group as a whole has increased in value by a net CU10,000. Applying the requirements of IFRS 5(22), only this net increase in the fair value less costs to sell can be considered for recognition. This is not restricted by any amounts recognised in respect of scoped-out non-current assets (which are negative), and is less than the cumulative impairment loss on the property, so a gain of only CU10,000 will be recognised. Since losses of CU40,000 will have been recognised on the scoped-out non-current assets, the net effect will be to recognise losses of CU30,000.

Scenario 3

Finally, assume instead that scoped-out non-current assets have decreased in value by CU60,000, and the value of the property has increased by CU50,000, so that the disposal group as a whole has decreased in value by a net CU10,000. Applying the requirements of IFRS 5(22), there is no increase in the fair value less costs to sell of the disposal group, so no gain can be recognised. Thus only the losses of CU60,000 will be recognised (on the scoped-out non-current assets), even though the disposal group has decreased in value by only CU10,000.

Thus, the recognition of subsequent changes in measurement can be affected by how the scoped-out non-current assets in the disposal group have changed in value.

4.2.2 Accumulated translation adjustments relating to a foreign subsidiary held for sale

Where a disposal group classified as held for sale consists of the assets and liabilities of a foreign subsidiary, in respect of which accumulated translation adjustments have been recognised in equity, the question arises as to whether the accumulated foreign currency translation adjustments should be taken into account in determining the recoverability of the subsidiary.

Such differences should not be included when measuring the carrying amount of the disposal group. IAS 21 The *Effects of Changes in Foreign Exchange Rates* requires exchange differences to be reclassified from equity to profit or loss at the time of disposal of the operation. IFRS 5(BC37) &(BC38) clarify that exchange differences should not be so reclassified at the time when the asset or disposal group is classified as held for sale. Including these translation adjustments in the carrying amount of the asset or disposal group to calculate the impairment loss (if any) would be tantamount to reclassifying them from equity to profit or loss. The accumulated foreign currency translation adjustments, therefore, should be excluded from the carrying amount. They will not be taken into account until the asset or disposal group is sold.

4.3 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. [IFRS 5(Appendix A)]

4.3.1 Facility-holding costs

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 recognised 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.

4.3.2 Costs to sell measured at present value

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. [IFRS 5(17)]

Only in certain limited circumstances (discussed in section 3.1.5 of this guide) will an asset or disposal group that is not expected to be sold within one year be classified as held for sale. Accordingly, the requirement to discount costs to sell should apply only in those limited circumstances.

4.4 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 recognised through remeasurement, they are recognised when the asset or disposal group is derecognised. IFRS 5(24) notes that requirements relating to derecognition are set out in:

(a) IAS 16(67-72) for property, plant and equipment; and

(b) IAS 38(112-117) for intangible assets.

4.5 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 recognised 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 recognised in its financial statements. However additional disclosure will be required if the impact is material.)

Example 4.5

Additional evidence obtained regarding the fair value of an asset subsequent to the end of the reporting period

Company T has met the requirements for classifying an asset as held for sale at year end. Accordingly, T has classified the asset as held for sale in its annual financial statements and adjusted the carrying amount of the asset to its estimated fair value less cost to sell. Subsequent to the end of the reporting period, but prior to the issuance of the financial statements, T enters into a final agreement to sell the asset at a value less than the adjusted carrying amount. Should T consider the final agreement and adjust the carrying amount of the asset at the end of the reporting period?

Company T would need to evaluate the factors that led to the decrease in value of the asset between its classification as held for sale and the determination of the actual sales price. If facts and circumstances related to the value of the asset changed after the end of T's reporting period to cause the decrease in value, T should not adjust the value of the asset as of the end of the reporting period. However, if facts and circumstances related to the asset remained unchanged between the time T classified the asset as held for sale and the determination of the final sales price, and the sales price determined after the end of the reporting period provided additional evidence of conditions that existed at the end of the reporting period, which were indicative of the true estimate of the fair value, then T should write down the fair value of the asset to the price determined by the sales agreement, less costs to sell the asset, as of the end of the reporting period.

4.6 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 (see section 3.1 of this guide) are no longer met, the asset/disposal group should be removed from the held for sale category. [IFRS 5(26)]

4.6.1 Remeasuring 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:

[IFRS 5(27)]

(a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale; and

(b) its recoverable amount at the date of the subsequent decision not to sell.

This effectively restates the asset at the value at which it would have been recognised had it never been classified as held for sale in the first place, taking into account any impairment loss. Part (b) includes an impairment assessment, which seems appropriate since an impairment loss indicator (e.g. a fall in market value) could be underlying the decision not to sell the asset.

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. [IFRS 5(Appendix A)] If a non-current asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognised 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 (see section 7.1 of this guide). 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. [IFRS 5(28)]

4.6.2 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 (see section 3.1 of this guide). Otherwise:

[IFRS 5(29)]

- any non-current assets of the group that individually meet the criteria to be classified as held for sale are measured individually at the lower of their carrying amounts and fair values less costs to sell at that date; and
- any non-current assets that do not meet the criteria are removed from the held-for-sale category and measured in accordance with 4.6.1 above.

Example 4.6.2

Sale of a subsidiary with the exception of certain assets

Company C has a wholly-owned subsidiary, Subsidiary D, which manufactures and sells athletic equipment. In January, C adopted a plan to sell all of the assets and liabilities of D. Having met the requirements of IFRS 5(7)&(8) at the end of the first quarter, C appropriately classified D as held for sale and reported the results of D's operations in discontinued operations.

In June, C elected not to sell certain existing trademarks and license arrangements owned by D. Subsequent to the sale of D, C will continue to generate revenue (and incur the associated costs) from its trademark and license arrangements. Such revenue represented approximately five per cent of D's total revenue for the year.

If C removes the trademark and license arrangements from the asset group to be disposed of, should C continue to account for the remaining assets and liabilities as held for sale?

If the remaining assets and liabilities of D continue to meet the criteria of IFRS 5(7)&(8), C should continue to classify those remaining assets and liabilities as held for sale. Company C must reclassify the trademarks and license arrangements to assets held and used. Additionally, C should measure the trademarks and license arrangements at the lower of (a) their carrying amounts before being classified as held for sale less any amortisation expense that would have been recognised if they had not been classified as held for sale, and (b) their recoverable amount at the date of the subsequent decision not to sell.

5. 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:

[IFRS 5(11)]

- the requirement that a sale is expected within one year (see section 3.1.3 of this guide) is met (unless the exception discussed in section 3.1.5 applies); and
- it is highly probable (i.e. significantly more likely than probable) that any of the other general requirements (see section 3.1.1) and specific conditions (see sections 3.1.2 and 3.1.3) 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.
[IFRS 5(16)]

6. Discontinued operations

The overall objective of IFRS 5's presentation and disclosure requirements is to enable users to evaluate the financial effects of discontinued operations and disposals of non-current assets or disposal groups. [IFRS 5(30)] To this end, the Standard distinguishes discontinued operations from other operations and presents them separately.

Certain operations that are to be disposed of will be classified as discontinued operations, resulting in gains and losses relating to them (including those for any corresponding disposal group) being presented separately in the statement of comprehensive income. Other operations, disposal groups and assets held for sale will not be classified as discontinued operations and gains and losses relating to them will be presented as part of continuing operations.

6.1 Definition of a discontinued operation

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

[IFRS 5(32) and IFRS 5(Appendix A)]

(a) represents a separate major line of business or geographical area of operations; or

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

IFRS 5(31) explains that a component of an entity 'comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.' As in IAS 36, a cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. [IFRS 5(Appendix A)]

Example 6.1

Classification of a component that is to be abandoned

Company M, which has a 31 December year end, announced a plan to abandon the operations of its subsidiary, Company E, on 15 December 20X2. Company M has determined that E represents a component of the entity as defined in IFRS 5. Under the plan for abandonment, E will cease to accept any new business as of 31 December 20X2. Company M anticipates that E will be able to wrap up production of all remaining orders, ancillary operations and close both the plant and office facilities by 15 March 20X3. Should M classify the operations of E as discontinued operations in its 31 December 20X2 financial statements?

IFRS 5(13) states that while assets or disposal groups to be abandoned may not be classified as held for sale, a disposal group may be classified as a discontinued operation if the group represents a component of an entity and meets the criteria in IFRS 5(32). IFRS 5(32) requires a component to be disposed of, or classified as held for sale, prior to being presented as a discontinued operation. Since an item to be abandoned cannot be classified as held for sale (per IFRS 5(13)), it will not meet the IFRS 5(32) criteria until it is actually abandoned. Therefore, in the circumstances described, M should not classify the operations of E as discontinued operations in its 31 December 20X2 financial statements.

However, at 15 December 20X2, M may have an impairment loss indicator under IAS 36 *Impairment of Assets*, and may need to test the assets of E for recoverability. In addition, M may need to revise its depreciation estimates in accordance with IAS 16 *Property, Plant and Equipment* to reflect the use of E's assets over their shortened useful life.

6.1.1 Equity-method investees

In some circumstances, the disposal of a stand-alone investment in equity securities accounted for by the equity method may be classified as a discontinued operation in the investor's consolidated financial statements. If the entity's business model includes conducting operations through strategic investment in associates and jointly controlled entities accounted for using the equity method, it may be possible to demonstrate that the investment is a component of the entity as described in IFRS 5(31). In many cases, however, the operations relating to an equity-method investment (an investor's share of the earnings and losses of an equity-method investee) are not sufficient to establish a component of the investor-entity under IFRS 5(31). If a component of an entity has operations that include, but are not limited to, operations related to an equity-method investment, and the conditions for reporting discontinued operations are met (as set out in IFRS 5(32)), all of the operations of the component should be reported as discontinued operations.

An investor should not present its share of an equity-method investee's discontinued operations as a discontinued operation in its consolidated financial statements. IAS 1(68) requires a separate line item in the statement of comprehensive income for investments accounted for using the equity method. It would not be appropriate to break out of that line item an amount that relates to the discontinued operations of the associate. In addition, it is unlikely that a component of an equity-method investment could be determined to be a component of the investor-entity.

6.1.2 Disposal achieved in stages

Example 6.1.2

Discontinued operations classification for disposals achieved in stages

On 15 December 20X1, Company Z decided to sell 65 per cent of its wholly-owned subsidiary, X. At that time, it was determined that the subsidiary met the requirements to be classified as an asset held for sale and a discontinued operation (as X represented a major line of business). On 1 April 20X2, Z sold 65 per cent of its wholly-owned subsidiary X to Company Y. Subsequent to the disposal, Company Z's investment in X was classified as an equity-method investment. On 30 June 20X3, Z decided to sell its remaining 35 per cent interest in X to Y. The sale was completed on 31 August 20X3. When should Z classify the results of X's operations as a discontinued operation, if at all?

A subsidiary that represents a major line of business should be classified as a discontinued operation at the earlier of its disposal date, or when that subsidiary meets the held-for-sale criteria in IFRS 5(7). A subsidiary meets the highly probable sale criteria in IFRS 5(7) when the controlling entity, as a result of the disposal, will lose control over the former subsidiary (see section 3.4 of this guide). Therefore, providing the other criteria are met, X should be presented as a discontinued operation in Z's first financial statements on or after 15 December 20X1.

6.1.3 Sale of a component to more than one buyer

Example 6.1.3

Sale of a component to more than one buyer

Company C manufactures and markets men's shoes and coats. Company C discloses two operating segments under IFRS 8 *Operating Segments*, the Shoe Group and the Coat Group. Company C also discloses certain trademark and license agreements within each segment.

The operations and cash flows of the Shoe Group can be clearly distinguished operationally and for financial reporting purposes from the rest of C. Therefore, the Shoe Group is a component of C. In the fourth quarter of 20X2, C initiated and closed on a transaction to sell the majority of the Shoe Group's manufacturing and distribution operations to Company E. In addition, management, having the appropriate level of authority, has committed to a formal plan of sale for the remaining assets of the Shoe Group. Should C account for the sale of the majority of the Shoe Group together with the formalised plan by management to dispose of the remaining Shoe Group assets as a discontinued operation at 31 December 20X2?

Yes. While the definition of a disposal group requires a sale in a single transaction, a discontinued operation may comprise several disposal groups. At 31 December 20X2, one disposal group (the majority of the Shoe Group's operations) has already been sold and a second (the remaining assets of the Group) is classified as held for sale (assuming all of the requirements of IFRS 5(7) are met). Therefore, the segment qualifies for classification as discontinued.

6.1.4 Allocation of part of an asset's cost to discontinued operations

Example 6.1.4

Allocation of part of an asset's cost to discontinued operations

Company T, a public entity, currently reports three segments. In the current year, T implemented a new centralised computer system that is used by each of the three segments. Subsequent to the implementation of the computer system, T entered into an agreement to sell one of the segments. The disposal of the segment will be accounted for as a discontinued operation. Is it appropriate for T to allocate a portion of the costs incurred on the new computer system to the segment being sold in determining the gain or loss on the disposal of the segment?

No. In order for an asset to be classified as held for sale, it must be available for immediate sale in its present condition. The central computer system would not be available for sale, and thus would not be included in the assets to be disposed of. Therefore, T may not allocate the overall costs incurred on the new computer system to the segment being disposed of. Additionally, any impairment loss recognised by T in respect of the central computer system would not be included in discontinued operations.

6.1.5 Normally occurring discontinued operations

Certain entities (e.g. real estate investment trusts, retailers and restaurants) routinely dispose of asset groups that meet the definition of a component of an entity in IFRS 5(31). Such routine disposals of components will not generally represent a separate major line of business or geographical area of operations, as required by IFRS 5(32)(a). Therefore, many routine disposals of components will not be classified as discontinued operations.

6.2 Presenting discontinued operations

6.2.1 Presentation in the statement of comprehensive income

IFRS 5(33) requires the presentation of a single amount in the statement of comprehensive income comprising the total of:

(i) the post-tax profit or loss of discontinued operations; and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

In addition, this single amount must be analysed, either in the notes or in the statement of comprehensive income, into:

[IFRS 5(33)]

(i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

(ii) the related income tax expense as required by IAS 12(81)(h);

(iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(iv) the related income tax expense as required by IAS 12(81)(h).

Where this analysis is included in the statement of comprehensive income, it is shown separately from continuing operations, in a section identified as relating to discontinued operations. The analysis is not required for disposal groups that are newly-acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see section 5 of this guide).

The comparative figures for prior periods are also re-presented, so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented. [IFRS 5(34)]

When IFRS 5 was issued, the IASB made no change to the requirement in IAS 1(81)(a) that revenue should be shown in the statement of comprehensive income. However, the option set out in IFRS 5(33) to present revenue from discontinued operations only in a note apparently conflicts with this requirement of IAS 1. It appears that the failure to amend IAS 1 was an oversight on the part of the IASB, since it would make little sense for IFRS 5 to include an option that can never be adopted. Accordingly, notwithstanding IAS 1(81)(a), it seems acceptable to present only revenue from continuing operations in the statement of comprehensive income, and to show revenue for discontinued operations in a note.

The Implementation Guidance accompanying the Standard includes the following illustration of presentation in the statement of comprehensive income.

Example 6.2.1

[Guidance on Implementing IFRS 5 (Example 11)]

XYZ GROUP – STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20-2 (illustrating the classification of expenses by function)

Continuing operations	20-2	20-1
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Share of profit of associates	X	X
Profit before tax	X	X
Income tax expenses	(X)	(X)
Profit for the period from continuing operations	X	X
Discontinued operations		
Profit for the period from discontinued operations [a]	X	X
Profit for the period[b]	X	X
Attributable to:		
Equity holders of the parent	X	X
Minority interest	X	X
	X	X

(a) The required analysis would be given in the notes.

(b) The entity did not recognise any components of other comprehensive income in the period presented.

6.2.1.1 Disclosure of components of income and expense

When IFRS 5 was issued, the Board appears not to have considered the disclosure requirements of other Standards relating to the statement of comprehensive income and the extent to which they should apply to the components of income and expense included in discontinued operations. Items affected include:

- disclosure of analysis of expenses under IAS 1;
- disclosure of finance costs and finance income under IAS 1 and IFRS 7; and
- disclosure of the components of income tax under IAS 12.

In recent months, the IASB has discussed this issue and has proposed amendments to IFRS 5 (see section 7.2.2 of this guide). If implemented, these proposed changes would clarify that the disclosure requirements of other Standards do not generally apply to discontinued operations and, therefore, that the amounts disclosed under the requirements listed above need relate only to continuing operations.

6.2.1.2 Allocated corporate overhead costs included in discontinued operations

An entity may include in amounts reported for discontinued operations only those costs that are clearly identifiable as costs of the component that is being disposed of and that will not be recognised on an ongoing basis by the entity.

Example 6.2.1.2A

Allocated corporate overhead costs included in discontinued operations (1)

An entity has a general workers' compensation insurance policy for all of its operations, the cost of which is allocated to each operation based on the number of employees in the operation. The entity's insurance costs will be reduced by CU1 million as a result of the disposal of an operation which meets the criteria for classification as discontinued. The allocation of CU1 million insurance costs to the discontinued operation is appropriate.

Example 6.2.1.2B

Allocated corporate overhead costs included in discontinued operations (2)

An entity allocates the salary costs of its executive committee to all of its operations based on total revenues. No executive has direct responsibility for the operation being disposed of, which meets the criteria for classification as discontinued. However, two of the executives will transfer with the operation. The entity may not allocate the salaries of the transferred executives to discontinued operations because the costs are not clearly identifiable as costs of the component.

6.2.1.3 Earnings per share presentation of discontinued operations

Earnings per share amounts should be shown separately when an entity reports discontinued operations. IAS 33(68) requires an entity that reports discontinued operations to present basic and diluted per-share amounts for discontinued operations either in the statement of comprehensive income or in the notes to the financial statements. This disclosure is required in addition to the presentation of basic and diluted per-share amounts for income from continuing operations and net income, both of which should be shown in the statement of comprehensive income with equal prominence. The required disclosures are illustrated in Deloitte's IFRS model financial statements available on our IAS Plus website.

6.2.1.4 Classification of non-controlling interest in discontinued operations

Example 6.2.1.4

Classification of non-controlling interest in discontinued operations

Company T owns 85 per cent of Company V. Company T consolidates V and accounts for the remaining 15 per cent ownership in V as a non-controlling interest. On 31 August 20X2, T committed to a plan to sell its 85 per cent interest in V. All the criteria of IFRS 5(7), IFRS 5(31) and IFRS 5(32) were met as of 31 August, and T classified V as a discontinued operation as of that date. How should T present the 15 per cent minority interest in V in T's 30 September 20X2 financial statements?

IAS 1 (and the accompanying Implementation Guidance) make clear that in the statement of comprehensive income, the amount reported as non-controlling interests is an allocation of profit or loss for the period. Therefore, the presentation of non-controlling interests is unaffected by whether an operation is continuing or discontinued. Entities may choose to analyse non-controlling interests between continuing and discontinued operations. However, such a presentation is not required.

6.2.1.5 Intragroup sales

Example 6.2.1.5A

Intragroup sales to a discontinued operation with external sales

Company N is a paper manufacturer with factories around the country. Company N also owns a distribution business, Company X, which buys paper from N and then sells the paper to external customers. Company N is planning to discontinue the operations of X and sell X to another paper manufacturer. In its consolidated financial statements, N has appropriately eliminated the intragroup sales between itself and X and, therefore, only recognises the sales from X to the external customers. Company X will be classified as a discontinued operation in the second quarter financial statements.

Following its disposal, Company X will continue to purchase paper from N to sell to external customers. Therefore, N will continue to have sales to X that will not be eliminated once it is no longer a consolidated subsidiary. How should sales, cost of sales, and profit be reported in N's consolidated accounts following classification of X as a discontinued operation?

The sales from N to X should continue to be eliminated in the consolidation. Any profit made from sales to external parties by the discontinued operation (X) would be presented outside continuing operations. Therefore, the profit on the corresponding sales made by N should be shown in the continuing operations of N.

For example: N sells paper to X for CU6 with a cost of CU4. N's profit is CU2. Company X sells paper to external customers for CU7 with a cost (X's purchase price from N) of CU6. Company X's profit is CU1. In the consolidated financial statements of N, the intragroup sales of CU6 will be eliminated along with the CU6 cost of sales, leaving a profit of CU3. The CU3 margin will come through as CU2 in continuing operations (representing the sales from N to X) and CU1 in discontinued operations (representing the sales from X to the external customers).

Therefore, N's consolidated financial statements would present sales from continuing operations of CU6, cost of sales from continuing operations of CU4, a profit of CU2 from continuing operations, and a profit of CU1 in discontinued operations since the sale was to an external entity. In the following year (assuming the same facts), when N sells paper to X, it will have sales of CU6, CU4 cost of sales and CU2 profit in its continuing operations (and will not have the additional CU1 profit from sales to external customers).

In accordance with IFRS 5(33)(b), the single amount for discontinued operations (CU1 in the above example) should be analysed between its components either in the statement of comprehensive income or in the notes: revenue of CU1, cost of sale of nil, and profit of CU1.

Example 6.2.1.5B

Intragroup sales to a discontinued operation without external sales

Company N is a paper manufacturer with factories around the country. Company N owns a distribution business, Company X, which buys paper from N and then sells the paper to external customers. Company N is planning to discontinue the operations of X and sell X to another paper manufacturer. In its consolidated financial statements, N has appropriately eliminated the intragroup sales between itself and X and, therefore, only recognises the sales from X to the external customers. Company X will be classified as a discontinued operation in the second quarter financial statements.

Following its disposal, Company X will continue to purchase paper from N to sell to external customers. Therefore, N will continue to have sales to X that will not be eliminated once it is no longer a consolidated subsidiary. Should the intragroup sales between N and X that have not been passed on to external customers remain in continuing operations?

No. While IFRS 5 requires the separate presentation of discontinued operations, the requirement to eliminate intragroup sales is not changed from that in IAS 27 *Consolidated and Separate Financial Statements*. Therefore, the sales should be fully eliminated and not reported by N until an external sale occurs.

6.2.2 Disclosures in the statement of cash flows

The net cash flows attributable to the operating, investing and financing activities of discontinued operations must be shown, either in the notes or in the statement of cash flows. These disclosures are not required for disposal groups that are newly-acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see section 5 of this guide). [IFRS 5(33)]

Once again, the comparative figures for prior periods are also re-presented, so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented. [IFRS 5(34)]

Example 6.2.2

Presentation of taxes on sale of discontinued operations in statement of cash flows

Company P sold its international business to Company J for CU12 billion. As a result of the sale, P paid taxes related to the gain on the sale of approximately CU3 billion. Company P has appropriately determined to report the sale of the international business as a discontinued operation in its statement of comprehensive income. In its statement of cash flows, P has proposed including the taxes on the gain as a component of cash flows from investing activities, below the net proceeds from the sale of the international business.

Is it appropriate to present taxes associated with the proceeds from the sale of a component of an entity as part of investing activities in the statement of cash flows?

Yes. IAS 7(35) states that taxes shall be classified as operating activities '…unless they can be specifically identified with financing and investing activities'. The disposal of non-current assets would be considered investing activities and, therefore, allocation of the tax effect of the sale to investing activities would be appropriate.

6.2.3 Adjustments to prior period disposals

It may be necessary occasionally to estimate a gain or loss on disposal of a discontinued operation, with the result that further adjustments arise in a subsequent period. Where adjustments are made to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period, they are classified separately in discontinued operations, and the nature and amount of such adjustments are disclosed. [IFRS 5(35)]

IFRS 5(35) gives the following examples of circumstances that may trigger such adjustments:

(a) the resolution of uncertainties arising from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser;

(b) the resolution of uncertainties arising from and directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller; and

(c) the settlement of employee benefit plan obligations if the settlement is directly related to the disposal transaction.

6.2.3.1 Reporting retained equity interest sold in a subsequent period

Example 6.2.3.1

Reporting retained equity interest sold in a subsequent period

Company D is proposing to sell a subsidiary, Company T, which qualifies as a discontinued operation under IFRS 5. Because this transaction arose from an unexpected offer from Company X, a third party, D does not have immediate plans for use of the proceeds from this sale. Accordingly, D would like to retain an equity interest (common stock) of up to 10 per cent in T for the next four to five years. D's retained equity interest in T would not be sufficient to enable D to exercise significant influence over T.

Additionally, D will have a put option on the retained equity interest in T to sell this interest over a four to five year period to X. Company X also would receive a call option to purchase the equity interest retained by D at the end of the four to five-year period. How should D report gains on the sale of the retained interest in T in subsequent periods?

Changes in the carrying amount of assets received as consideration in the disposal, or of residual interests in the business, should be classified within continuing operations. IFRS 5(35) requires adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period to be classified separately in the current period in discontinued operations. Developments subsequent to the disposal date that are not directly related to the disposal of the component or the operations of the component prior to disposal will not meet the criteria in IFRS 5(35). Subsequent changes in the carrying amount of assets received upon disposal of a component do not affect the determination of gain or loss at the disposal date, but represent the consequences of management's subsequent decisions to hold or sell those assets. Gains and losses, dividend and interest income, and portfolio management expenses associated with assets received as consideration for discontinued operations should be reported within continuing operations.

The gains resulting from D exercising its put option to sell a portion of its retained interest in T, or gains resulting from Company X exercising its call option to purchase the remaining interest in T, should be reported within continuing operations since they are not related directly to D's initial sale of T to X, and are the result of management's decision to hold and then sell an investment. Furthermore, any increases or decreases that may need to be reflected under IAS 39 *Financial Instruments: Recognition and Measurement* would be reported as part of continuing operations.

6.2.3.2 Interest income on note receivable from discontinued operations

Example 6.2.3.2

Interest income on note receivable from discontinued operations

In October 20X2, Company P properly accounted for a component of its entity as a discontinued operation in accordance with IFRS 5. As part of the discontinuation, P retained a note receivable from the component. Subsequent to October 20X2, P received interest income from the note receivable. Interest income recognised totalled CU43,000 in 20X2, and CU250,000 in 20X3.

During the fourth quarter of 20X3, the disposed component defaulted on the note receivable and stopped paying interest. Based upon the current default as well as other factors, P believes the value of the note receivable has been impaired and that the amount will be written off during the fourth quarter of 20X3.

Company P believes the 20X2 financial statements did not contain an error since there was no oversight or misuse of available facts that would have indicated the existence of the impairment loss.

What is the proper accounting for the interest income on the note receivable subsequent to the discontinuation?

Income from a financial asset received as part of the proceeds of disposal of discontinued operations should be reported as part of continuing operations. The carrying amount of assets received as consideration in the disposal or of residual interests in the business should be classified within continuing operations. Subsequent changes in the carrying amount of assets received upon disposal of a component do not affect the determination of the gain or loss at the disposal date, but represent the consequences of management's subsequent decisions to hold those assets. The interest income associated with assets received as consideration for discontinued operations or with residual interests in the business should be reported within continuing operations.

Company P should recognise any impairment loss on the note receivable within continuing operations in the current year.

6.2.3.3 Ongoing pension obligations

Example 6.2.3.3

Ongoing pension obligations

Company B, a publicly-held entity, previously closed two of its four chemical plants and retained the obligation for the defined benefit pension plans at the facilities. In the current year, B has spun-off its remaining chemical division through a share distribution to its current shareholders. Prior to approving the spin-off, the Pension Governmental Agency (PGA) required B to retain the pension obligations for the two chemical plants that were previously closed. This agreement was required because the PGA believed B was an entity more financially viable than the spun-off division, and, accordingly, was more likely to remain in existence in order to settle the pension obligations as they continue to come due.

At B's current year end, the pension obligations for the closed plants are underfunded by approximately CU22 million. Since the participants are no longer earning additional pension benefits under the plans, the only components of net periodic pension cost each year are interest cost, return on plan assets and amortisation of gains and losses. Historically, B has recognised the net periodic pension cost for the plans at the closed plants within continuing operations each year.

Management contends that since the entire division was spun-off in the current year, all future interest costs associated with these plans should be accrued as part of discontinued operations in the current year. Accordingly, management has proposed calculating the total future interest cost on the plans (over their remaining payout period) and accruing this amount as part of discontinued operations in the current year.

Would it be acceptable for B to recognise as an immediate charge to discontinued operations an accrual for the future interest cost on the pension obligations that were retained?

No. Company B made a decision not to settle the pension obligations at the time the plants were closed and a second decision not to fully fund the obligations. As a result of these decisions, B continues to incur interest cost on the unfunded pension obligations. Therefore, the interest cost is a component of net periodic pension cost and should be recognised as a period cost. Net periodic pension cost is comprised of a number of different components that should be included in the determination of net income from continuing operations.

6.2.4 Changes to a plan of sale

As discussed in section 4.6 of this guide, sometimes an entity's plans will change so that a component ceases to qualify as held for sale. When this occurs, the results of that operation should be reclassified from discontinued operations to continuing operations, both for the current and prior periods. The amounts for prior periods should be described as having been re-presented. [IFRS 5(36)]

7. Other presentation and disclosure requirements

7.1 Gains or losses relating to continuing operations

Gains or losses on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation are included in profit or loss from continuing operations. [IFRS 5(37)]

Where a non-current asset ceases to qualify as held for sale, IFRS 5(28) requires any resulting measurement adjustment (see section 4.6.1 of this guide) to be presented 'in the same caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37'. The intention appears to be that all gains and losses relating to any particular asset (or disposal group) should be presented within the same caption in the statement of comprehensive income – not that gains and losses on all items held for sale should be aggregated within a single caption. Thus, for example, gains and losses relating to properties held for sale might be presented in a different caption in the statement of comprehensive income from those relating to subsidiaries acquired exclusively with a view to resale.

7.2 Non-current assets and disposal groups classified as held for sale

7.2.1 Presentation of non-current assets and disposal groups held for sale

Non-current assets held for sale and the assets of a disposal group held for sale are presented separately from other assets in the statement of financial position. Similarly, the liabilities of a disposal group held for sale are presented separately from other liabilities in the statement of financial position. Those assets and liabilities should not be offset and presented as a single amount. [IFRS 5(38)]

There should be separate disclosure, either in the statement of financial position or in the notes, of the major classes of assets and liabilities classified as held for sale (except where the disposal group is a newly-acquired subsidiary that meets the criteria to be classified as held for sale on acquisition). Any cumulative income or expense recognised directly in equity relating to a non-current asset (or disposal group) classified as held for sale (for example, fair value changes on a financial asset classified as available for sale under IAS 39) should also be presented separately. [IFRS 5(38)]

Where the disposal group is a newly-acquired subsidiary that meets the criteria to be classified as held for sale on acquisition (see section 5 of this guide), disclosure of the major classes of assets and liabilities is not required. [IFRS 5(39)]

Comparative figures for non-current assets or for the assets and liabilities of disposal groups held for sale in the statements of financial position for prior periods are not reclassified or re-presented to reflect the classification in the statement of financial position for the latest period presented. [IFRS 5(40)]

The Implementation Guidance accompanying the Standard includes the following illustration of presentation on the face of the statement of financial position.

Example 7.2

[Guidance on Implementing IFRS 5 (Example 12)]

At the end of 20-5, an entity decides to dispose of part of its assets (and directly associated liabilities). The disposal, which meets the criteria in IFRS 5(7)&(8) to be classified as held for sale, takes the form of two disposal groups, as follows:

	Carrying amount after classification as held for sale	
	Disposal group I:	Disposal group II:
	CU	CU
Property, plant and equipment	4,900	1,700
[Available for sale] financial asset	1,400[(a)]	–
Liabilities	(2,400)	(900)
Net carrying amount of disposal group	3,900	800

(a) An amount of CU400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.

The presentation in the entity's statement of financial position of the disposal groups classified as held for sale can be shown as follows:

	20-5	20-4
ASSETS		
Non-current assets		
AAA	X	X
BBB	X	X
CCC	X	X
	X	X
Current assets		
DDD	X	X
EEE	X	X
	X	X
Non-current assets classified as held for sale	8,000	–
	X	X
Total assets	X	X

	20-5	20-4
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
FFF	X	X
GGG	X	X
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	400	–
	X	X
Minority interest	X	X
Total equity	X	X
Non-current liabilities		
HHH	X	X
III	X	X
JJJ	X	X
	X	X
Current liabilities		
KKK	X	X
LLL	X	X
MMM	X	X
	X	X
Liabilities directly associated with non-current assets classified as held for sale	3,300	–
	X	X
Total liabilities	X	X
Total equity and liabilities	X	X

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative statements of financial position for any previous periods are therefore not re-presented.

7 .2.2 Disclosures required for non-current assets and disposal groups held for sale

The IASB is currently considering the disclosure requirements for non-current assets and disposal groups held for sale as part of its 2008 Annual Improvements Process. In particular, it is considering whether the disclosure requirements of other Standards, in the absence of specific exclusion, would apply to non-current assets (or disposal groups) classified as held for sale. The Board has considered two potential alternative approaches to addressing this issue:

- View A: IFRS 5 and other Standards that specifically relate to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Disclosures required by other Standards do not apply to such assets (or disposal groups).
- View B: Disclosures required by IFRSs, whose scope does not exclude non-current assets (or disposal groups) classified as held for sale or discontinued operations, continue to apply to such assets (or disposal groups).

At its January 2008 meeting, the Board tentatively decided to add a paragraph in the scope section of IFRS 5 to clarify that:

- IFRS 5 specifies disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those other IFRSs specifically require disclosure in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; and
- additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1 *Presentation of Financial Statements*.

The Board noted that this clarification would imply that any information relating to the assets and liabilities within a disposal group would be pulled out from the general notes and disclosed in a single note.

The Exposure Draft for the 2008 Annual Improvements, which is expected to be issued in the fourth quarter of 2008, will include proposed changes to IFRS 5 to clarify these points.

7.3 Additional disclosures

In any period in which a non-current asset (or disposal group) has been either classified as held for sale or sold, the following information should be provided in the notes to the financial statements:

[IFRS 5(41)]

(a) a description of the non-current asset (or disposal group);

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) the gain or loss recognised in accordance with IFRS 5(20-22) (see section 4 of this guide) and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss; and

(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating Segments*. (For entities that have not yet adopted IFRS 8, the requirement is to disclose, if applicable, the segment in which the non-current asset or disposal group is presented in accordance with IAS 14 *Segment Reporting*).

IFRS 5(42) requires certain disclosures where there has been a change to a plan of sale, such that either an asset (or disposal group) previously classified as held for sale no longer meets the criteria, or an individual asset or liability has been removed from a disposal group classified as held for sale. In the period of the decision to change the plan to sell the non-current asset (or disposal group), the financial statements should disclose:

- a description of the facts and circumstances leading to the decision; and
- the effect of the decision on the results of operations for the period and any prior periods presented.

8. First-time adoption of IFRSs

IFRS 1(34B) requires an entity with a date of transition to IFRSs on or after 1 January 2005 to apply the provisions of IFRS 5 retrospectively.

Consequently, in addition to identifying non-current assets and disposal groups meeting the held-for-sale criteria at the current reporting date, first-time adopters will need to identify such assets and disposal groups at comparative reporting dates and to represent the comparative statement(s) of financial position where necessary.

Appendix 1

Comparison between IFRSs and US GAAP

The following is a very brief comparison of the requirements of IFRS 5 with those of US standard SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. The key differences are highlighted. The summary does not attempt to capture all the differences that exist or that may be material to a particular entity's financial statements. Our focus is on differences that are commonly found in practice.

Topic	IFRS 5	US GAAP
Definition of a discontinued operation	A component that represents a major line of business or geographical area, or is part of a single plan to dispose of a major line of business or geographical area, or is a subsidiary acquired for resale.	A component which may be an operating segment, a reporting unit, a subsidiary, or an asset group (less restrictive than the IFRS 5 definition).
Definition of a discontinued operation – continuing involvement	Not addressed.	There should be no significant direct continuing cashflows or significant continuing involvement between the disposed component and the ongoing entity.
Presentation of discontinued operations	Post-tax profit or loss is required in the statement of comprehensive income.	Pre-tax and post-tax profit or loss are required in the statement of comprehensive income.
Accumulated foreign currency translation adjustment (CTA)	CTA is removed from equity to profit or loss as a reclassification adjustment at the time of disposal of the operation. The CTA is not taken into account in assessing impairment losses.	CTA is removed from equity to profit or loss as a reclassification adjustment at the time of disposal of the operation. The CTA is taken into account in assessing impairment losses.
Recovery of fair value of asset (disposal group) held for sale	Recognise gain, not to exceed the cumulative loss for the asset (disposal group), including losses recognised prior to the asset's (disposal group's) classification as held for sale.	Recognise gain, not to exceed the cumulative loss recognised previously to recognise the asset (disposal group) at fair value less costs to sell or subsequent to the time the asset (disposal group) was classified as held for sale.

Appendix 2

IFRS 5 Presentation and disclosure checklist

Reference	Presentation/disclosure requirement
	Presentation of increase in the present value of costs to sell that arises from the passage of time
IFRS 5(17)	Any increase in the present value of costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.
	Note: A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. When the sale is expected to occur beyond one year, the entity measures the costs to sell at their present value. This present value may increase as a result of the passage of time, and paragraph 17 of IFRS 5 (see above) specifies that any such increase should be presented as a financing cost.
	Assets that cease to be classified as held for sale
IFRS 5(28)	Where a non-current asset or disposal group is remeasured in accordance with paragraph 27 of IFRS 5 (when it ceases to be classified as held for sale on the basis that it no longer meets the criteria in paragraphs 7 to 9 of IFRS 5 for classification as held for sale): a) if the asset is property, plant and equipment or an intangible asset that had been revalued in accordance with IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets* before classification as held for sale, the adjustment to the carrying amount of the asset shall be treated as a revaluation increase or decrease; b) otherwise, the entity shall: i) include any required adjustment to the carrying amount of the asset in profit or loss from continuing operations in the period in which the criteria in paragraphs 7 to 9 of IFRS 5 are no longer met; and ii) present that adjustment in the same caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37 of IFRS 5 (see below).

Reference	Presentation/disclosure requirement
IFRS 5(42)	If either paragraph 26 or paragraph 29 of IFRS 5 applies (reclassification of assets or disposal groups that previously were classified as held for sale), an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.
	Information regarding the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)
IFRS 5(30)	An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).
	Note: Paragraphs 33 to 42 of IFRS 5, set out below, specify the minimum disclosures required to satisfy this requirement.
	Presenting discontinued operations
IFRS 5(33)(a)	An entity shall disclose a single amount in the statement of comprehensive income comprising the total of (i) the post-tax profit or loss of discontinued operations, and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
	Note: Example 11 in the Implementation Guidance accompanying IFRS 5 illustrates how this disclosure requirement might be met.
IFRS 5(33)(b)	An entity shall provide an analysis of the single amount disclosed in accordance with paragraph 33(a) of IFRS 5 (see above) into the following: a) the revenue, expenses and pre-tax profit or loss of discontinued operations; b) the related income tax expense as required by paragraph 81(h) of IAS 12 *Income Taxes*; c) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and d) the related income tax expense as required by paragraph 81(h) of IAS 12.

Reference	Presentation/disclosure requirement
IFRS 5(33)(b)	*Note: The analysis required by paragraph 33(b) of IFRS 5 (see above) may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income, it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations. The analysis is not required for disposal groups that are newly-acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11 of IFRS 5).*
IFRS 5(33)(c)	An entity shall disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations.
IFRS 5(33)(c)	*Note: The disclosures required by paragraph 33(c) of IFRS 5 (see above) may be presented either in the notes or in the financial statements These disclosures are not required for disposal groups that are newly-acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11 of IFRS 5).*
IFRS 5(34)	The entity shall re-present the disclosures in paragraph 33 of IFRS 5 (see above) for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.
IFRS 5(35)	Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations.
	Notes:
IFRS 5(35)	*1) The nature and amount of the adjustments required by paragraph 35 of IFRS 5 (see above) shall be disclosed.*
IFRS 5(35)	*2) Examples of circumstances in which these adjustments may arise include the following:* • the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser; • the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller; and • the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

Reference	Presentation/disclosure requirement
IFRS 5(36)	If an entity ceases to classify a component of an entity as held for sale: a) the results of operations of the component previously presented in discontinued operations in accordance with paragraphs 33 to 35 of IFRS 5 (see above) shall be reclassified and included in income from continuing operations for all periods presented; and b) the amounts for prior periods shall be described as having been re-presented.
	Gains or losses relating to continuing operations
IFRS 5(37)	Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.
	Presentation of a non-current asset or disposal group classified as held for sale
IFRS 5(38)	An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position.
IFRS 5(38)	The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position.
IFRS 5(38)	Assets and liabilities classified as held for sale shall not be offset and presented as a single amount.
IFRS 5(38)	The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes (except as permitted by paragraph 39 of IFRS 5 – see below).
	Notes:
IFRS 5(39)	*1) If the disposal group is a newly-acquired subsidiary that meets the criteria to be classified as held for sale on acquisition (see paragraph 11 of IFRS 5), disclosure of the major classes of assets and liabilities is not required.* *2) Example 12 in the Implementation Guidance accompanying IFRS 5 illustrates how the requirements of paragraph 38 of IFRS 5 might be met.*
IFRS 5(38)	Any cumulative income or expense recognised directly in equity relating to a non-current asset (or disposal group) classified as held for sale shall be presented separately.

Reference	Presentation/disclosure requirement
IFRS 5(40)	An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.
	Additional disclosures
	An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:
IFRS 5(41)(a)	a) a description of the non-current asset (or disposal group);
IFRS 5(41)(b)	b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
IFRS 5(41)(c)	c) the gain or loss recognised in accordance with paragraphs 20 to 22 of IFRS 5 (impairment losses and reversals) and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss; and
IFRS 5(41)(d)	d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating Segments*. (Prior to adoption of IFRS 8 – IAS 14 *Segment Reporting*).
	Non-current assets (or disposal groups) meeting the criteria for classification as held for sale after the reporting period
IFRS 5(12)	When the criteria in paragraphs 7 and 8 of IFRS 5 for classification as held for sale are met after the reporting period but before the authorisation of the financial statements for issue, the entity shall disclose the information specified in paragraphs 41(a), (b) and (d) of IFRS 5 (see above) in the notes to the financial statements.
IFRS 5(12)	*Note: If the criteria in paragraphs 7 and 8 of IFRS 5 are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued.*
	Disposal groups that are to be abandoned
IFRS 5(13)	If a disposal group to be abandoned meets the criteria for identification of a discontinued operation in paragraphs 32(a) to 32(c) of IFRS 5, the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 of IFRS 5 (see above) at the date on which it ceases to be used.

Reference	Presentation/disclosure requirement
IFRS 5(13)	*Note: Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold. An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. Nevertheless, where a disposal group to be abandoned meets the criteria for a discontinued operation, its results and cash flows are included within the results and cash flows of discontinued operations at the date on which it ceases to be used. Example 9 included in the Implementation Guidance accompanying IFRS 5 illustrates this principle.*

Deloitte IFRS resources

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www.iasplus.com	Updated daily, iasplus.com is your one-stop shop for information related to IFRSs.
Deloitte's IFRS e-Learning Modules	e-Learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at **www.iasplus.com**
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. In addition, special editions are issued for important developments. To subscribe, visit **www.iasplus.com**
IFRSs in your Pocket	Published in English, French, Spanish, Polish, Finnish, Chinese, Czech, Turkish, Russian and other languages, this pocket-sized guide includes summaries of all IASB Standards and Interpretations, updates on agenda projects, and other IASB-related information.
IFRSs and US GAAP: A pocket comparison	A summary of the principal differences in pocket-sized format, including a status report as to what is being done about each difference.
Presentation and disclosure checklist	Checklist incorporating all of the presentation and disclosure requirements of Standards.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2007 Financial instruments: IAS 32, IAS 39 and IFRS 7 Explained	3rd edition (March 2007). Guidance on how to apply these complex Standards, including illustrative examples and interpretations.
First-time adoption: A guide to IFRS 1	Application guidance for the "stable platform" Standards effective in 2005.
Share-based payments: A guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business combinations: A guide to IFRS 3	Supplements the IASB's own guidance for applying this Standard.
Interim financial reporting: A guide to IAS 34	3rd edition (June 2007). Guidance on applying the interim reporting Standard, including a model interim financial report and an IAS 34 compliance checklist.

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