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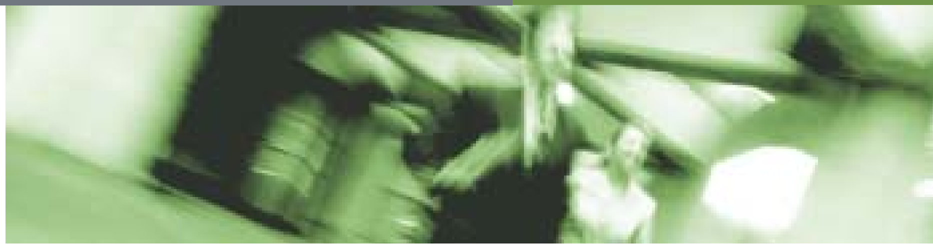
Accounting Alert



Analysis of the latest Accounting developments delivered to you via e-mail

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Exposure Draft on Disposal of Assets and Discontinued Operations Released

The EDs were publicly released on 4 August 2003.

The International Accounting Standards Board (IASB) and Australian Accounting Standards Board (AASB) have released new Exposure Drafts (EDs) on "Disposal of Non-current Assets and Presentation of Discontinued Operations".

This Accounting Alert provides an outline of the proposals in the EDs.

Overview

The EDs result from the IASB's Convergence Project, and propose to largely harmonise accounting between IFRS and the United States in relation to the disposal of assets and discontinued operations.

The main impacts in the Australian context would be as follows:

Changes to definitions, new requirements for assets held for sale and treatment of revalued assets clarified

- Non-current assets held for sale would:
  - be measured at the lower of carrying amount and fair value less costs to sell;
  - not be depreciated; and
  - be presented separately in the statement of financial position, without offsetting assets and liabilities.
- Increments and decrements related to the fair value of revalued assets held for sale would continue be recognised in the asset revaluation reserve (subject to the usual limitations), but the impact of expected costs to sell would be recognised in net profit or loss.
- Discontinued operations would arise more often than under current Standards, but would generally be disclosed as such much later in the disposal process.

Definition of recoverable amount for all assets also proposed to be changed

The EDs also propose to amend the measurement of recoverable amount for all other assets from the higher of "net selling price and value in use" to the higher of "fair value less costs to sell and value in use".

Held for Sale Assets

Classification Criteria

Assets (or a "disposal group") will only be able to be classified as "held for sale" where strict criteria are met, including the following:

Strict held for sale criteria, with assets to be abandoned excluded

- management commits to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as "held for sale" (subject to limited exceptions);
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The EDs also make it clear that the asset needs to be disposed of through sale, meaning that operations that are expected to be wound down would not meet the definition (but may be classified as discontinued once abandoned).

Accounting Treatment

Under the EDs, non-current assets or "disposal groups" that are classified as held for sale would not be depreciated, but would be carried at the lower of their carrying amount and fair value less costs to sell.

The concept of "value in use" is not relevant for assets held for sale

The logical impact of this treatment is that an asset's "value in use" would no longer be relevant in determining whether a write down is required. Deferred taxes would also most likely be impacted by the reclassification if management's expectations change the tax base.

Revaluation Accounting

The EDs potentially change the way in which gains and losses may arise in respect of revalued assets held for sale or sold as part of a discontinued operation.

Revalued assets held for sale may not directly impact net gains or losses recognised on disposal

The EDs require the revaluation immediately before classification as held for sale of any assets carried at a revalued amount. Any impairment loss that arises on reclassification of the asset (due to the requirement to deduct costs to sell from the fair value) is recognised in net profit or loss. Subsequent changes in costs to sell are recognised in net profit or loss, but any changes in fair value are accounted for in accordance with other IFRS requirements.

The net impact of these requirements is that changes in fair values in respect of assets measured on a revaluation basis will not directly impact the net profit or loss on disposal.

Discontinued Operations

Definition

Discontinued operations will be a 'component' of an entity that has either been disposed of, or is classified as held for sale, such that:

- the operations and cash flows have been (or will be) eliminated from the ongoing operations of the entity; and
- the entity has no significant continuing involvement in the component after its disposal.

Discontinued operations will tend to arise more often in practice under the proposals

'Components' of an entity are any operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. 'Components' may therefore be significantly smaller than the current concept of a discontinuing operation, which is a major component representing a separate major activity or geographical area of operations.

When Disclosures are Made

The EDs propose that a component will be classified as discontinued only when the entity has disposed of the operation, or when the revised criteria for classification as 'held for sale' are met.

The timing of classification as a discontinued operation is likely therefore to be later than under the current Australian standards where discontinuance can be disclosed as soon as management has approved and announced a formal plan.

Disclosures Required

Revenues, expenses, pre-tax profits and related income tax expenses associated with discontinued operations must be presented separately on the face of the statement of financial performance.

Separate disclosure relating to assets held for sale as well as details of discontinued operations

The gain or loss recognised on remeasurement to fair value less costs to sell and the related income tax expense may be presented on the face of the statement of financial performance or in the notes.

The carrying amounts of assets or disposal groups held for sale would be presented separately on the face of the statement of financial position, but assets and liabilities would not be permitted to be offset.

Disclosure would be required of the net cash flows attributable to operating, investing and financing activities associated with each discontinued operation.

The classification of assets held for sale as current or non-current is being considered by the IASB as part of the Improvements Project.

Comparative information must be restated to be comparable, but post-balance date events do not result in retrospective reclassification of information on the face of the financial statements.

Feedback and Assistance

We welcome your feedback on the matters covered in this Accounting Alert – please email your comments to **accounting_alerts@deloitte.com.au**

For assistance in applying the requirements outlined in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to **bruporter@deloitte.com.au**