

ED 4, DISPOSAL OF NON-CURRENT ASSETS AND REPORTING OF DISCONTINUED OPERATIONS

On 24 July 2003, the IASB published for comment ED 4, Disposal of Non-current Assets and Reporting of Discontinued Operations. This is the first IASB exposure draft to be issued as part of the short-term IFRS-US GAAP convergence project that is being undertaken jointly by the IASB and the FASB.

Background

The proposals in ED 4 would achieve substantial convergence of IFRS with the requirements of US SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, with respect to:

- ❑ classifying, measuring, and presenting assets held for sale, and
- ❑ classifying and presenting discontinued operations.

In addition to the foregoing, SFAS 144 also addresses impairment of long-lived assets that are not being disposed of. The impairment recognition and measurement standards in SFAS 144 are significantly different from those in IAS 36, Impairment of Assets, but those differences are not being addressed in the short-term convergence project.

Key features of ED 4: Non-current assets held for sale

- ❑ ED 4 includes criteria for classifying non-current assets as held for sale that are identical to those in SFAS 144. This classification has not been included in IFRS up to now.
- ❑ Non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell.
- ❑ Non-current assets classified as held for sale should not be depreciated.
- ❑ Assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole, and any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group.
- ❑ Non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale, should be presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount.

Key features of ED 4: Discontinued operations

- ❑ A discontinued operation is a component of an entity:
 1. that either has been disposed of or is classified as held for sale,
 2. whose operations and cash flows have been, or will be, eliminated from the ongoing operations of the entity as a result of the disposal transaction, and
 3. in which the entity will have no significant continuing involvement after the disposal transaction.
- ❑ A component of an entity may be a business, geographical, or reportable segment (IAS 14), a cash-generating unit (IAS 36), or a subsidiary (IAS 27).
- ❑ The revenue, expenses, and pre-tax profit or loss of a discontinued operations and the tax expense relating thereto should be presented separately on the face of the income statement.
- ❑ The net cash flows attributable to the operating, investing, and financing activities of a discontinued operation should be presented separately, either on the face of the cash flow statement or in the notes.

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