

Accounting Alert

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

Non-current assets held for sale and discontinued operations

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard 5 '*Non-current Assets Held for Sale and Discontinued Operations*' (IFRS 5). IFRS 5 addresses the accounting for non-current assets that are held for sale and the presentation of discontinued operations in financial reports. It replaces IAS 35 '*Discontinuing Operations*'.

This *Accounting Alert* provides an overview of the requirements of IFRS 5 and some analysis of the issues arising.

The Australian Accounting Standards Board (AASB) is expected to issue an Australian equivalent to this Standard in due course.

Overview

IFRS 5 has been issued as a result of the IASB and the US Financial Accounting Standards Board (FASB)'s joint convergence project aimed at reducing the differences between IFRS and US GAAP. Accordingly, the requirements of IFRS 5 achieve substantial convergence with the requirements of FASB Statement No. 144 '*Accounting for the Impairment or Disposal of Long-Lived Assets*' (SFAS 144) relating to assets held for sale, the timing of the classification of operations as discontinued and the presentation of such operations. There still remain significant differences between IFRS and SFAS 144 in respect of the impairment of long-lived assets to be held and used.

Main Impacts

The main expected impacts of IFRS 5 in the Australian context will be as follows:

- non-current assets that are expected to be sold and meet strict criteria would:
 - be measured at the lower of their carrying amount and fair value less costs to sell
 - not be depreciated
 - be presented separately in the balance sheet
- the results of a discontinued operation will be shown separately on the face of the income statement
- discontinued operations will arise more often than under current Standards but will generally be disclosed as such much later in the disposal process.

Substantial convergence between IFRS and US requirements

New measurement and disclosure requirements for non-current assets held for sale

Results for discontinued operations to be shown separately on face of income statement

Key Requirements of IFRS 5

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

Held for Sale Assets

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

- 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
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

A 'disposal group' is a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction.

The assets need 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).

Under IFRS 5, 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.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs.

An impairment loss is recognised in the profit or loss for any initial and subsequent write-down of the asset or disposal group to fair value less costs to sell. For assets 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.

A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognised in accordance with IFRS 5 or previously in accordance with IAS 36 *Impairment of Assets*.

Discontinued Operations

New definition of discontinued operation which is likely to result in more operations being classified as discontinued than under the previous standard

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

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

'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.

Disclosures Required

Non-Current Assets and Disposal Groups

Separate disclosure of assets held for sale on the balance sheet

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale must be disclosed separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale must also be disclosed separately from other liabilities in the balance sheet.

There are also several other additional disclosures including a description of the nature of assets held and the facts and circumstances surrounding the sale.

Results of discontinued operations may be presented as a single amount on the face of the income statement with further analysis in the notes

Discontinued Operations

An entity must disclose on the face of its income statement a single amount comprising the total of post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on disposal of the assets or disposal group constituting the discontinued operation.

An analysis of the amount disclosed above must be presented either in the notes or on the face of the income statement. The analysis must be presented for prior periods disclosed in the financial report so that the disclosures relate to all operations that have been discontinued by the balance sheet date of the latest period presented. Further, where an entity ceases to classify a component as held for sale, the results of that component previously presented in discontinued operations must be reclassified and included in income from continuing operations for all periods presented.

The net cash flows attributable to operating, investing and financing activities associated with each discontinued operation must also be disclosed.

Adjustments made in the current period to amounts disclosed as a discontinued operation in prior periods must be separately disclosed.

Changes from Exposure Draft 4

Most of the proposals contained in Exposure Draft 4 '*Disposal of Non-current Assets and Presentation of Discontinued Operations*' (ED 4) have been incorporated in IFRS 5. However, the following key changes from the proposals contained in ED 4 are included in the Standard:

- the scope of the Standard has been amended to include goodwill and financial assets under leases and to exclude non-current assets carried at fair value with changes recognised in profit or loss from the measurement provisions of the Standard
- ED 4 proposed that increments and decrements relating to the fair value of revalued assets classified as held for sale would continue to 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. Under IFRS 5, impairment adjustments in respect of assets previously measured on the fair value basis, now classified as held for sale, are treated on a consistent basis to assets that had not previously been revalued
- ED 4 proposed that where there is an impairment loss relating to a disposal group, any loss or gain recognised on adjusting the carrying amount of the disposal group is allocated to the carrying amount of the long-lived assets of the group. IFRS 5 requires that the allocation of an impairment loss on a disposal group be carried out in accordance with IAS 36 Impairment of Assets, that is any impairment loss is initially taken to goodwill and the remaining amount allocated pro-rata across other assets within the group
- the definition of a discontinued operation in ED 4 did not specify that the operations had to be a major line of business or an area of geographical operations. This requirement has now been included in IFRS 5
- discontinued operations can be presented on the face of the income statement as a single amount.

Feedback and Assistance

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