



**Virtual COACHING Classes
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**Final Level
Paper 1: Financial Reporting**

**Topic: Ind AS 105
Non Current Asset Held for Sale and Discontinued
Operations**

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Objective

The objective of this Ind AS is to specify the:

accounting for assets held for sale and

presentation and disclosure of *discontinued operations*.



Scope

- The classification and presentation requirements of this Ind AS apply to
- all recognised *non-current assets* and to all *disposal groups* of an entity.
- The measurement requirements of this Ind AS apply to all recognised non-current assets and disposal groups
- except for scoped out assets



Scoped out Assets

Deferred tax assets (Ind AS 12, *Income Taxes*)

Assets arising from employee benefits (Ind AS 19, *Employee Benefits*)

Financial assets within the scope of Ind AS 109, *Financial Instruments*

Non-current assets that are measured at fair value less costs to sell in accordance with Ind AS 41, *Agriculture*.

Contractual rights under insurance contracts as defined in Ind AS 104, *Insurance Contracts*

Classification as non current

- Assets classified as non-current in accordance with Ind AS 1,
- *shall not be reclassified as current assets* until they meet the criteria to be classified as held for sale in accordance with this Ind AS.
- Assets of a class that an entity would normally regard as non-current
- that are acquired exclusively with a view to resale shall not be classified as current
- unless they meet the criteria to be classified as held for sale in accordance with this Ind AS.

Non Current Assets Held For Sale

- The term refers to an *individual asset* or *group of assets*
- An **individual non-current asset** is regarded as 'held for sale' if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- A **disposal group** is a group of assets to be disposed of together as a single transaction together with liabilities directly associated with those assets that will be transferred in the transaction.
- The group includes goodwill acquired in a business combination if the group is a cash-generating unit
- Financial reporting implications arise in terms of how the asset / disposal group is **presented and measured**

Classification as HFS

An 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
- Asset or disposal group must be available for **immediate sale** in its **present condition** and the sale must be **highly probable** (i.e. management must be committed to the disposal)
- Can not** be classified as held for sale, if the entity intends to sell it in a **distant future**.

Available for Immediate Sale

- ❑ To qualify for classification as held for sale,
 - 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).
 - This is taken to mean that an entity currently has the **intention and ability** to transfer the asset (or disposal group) to a buyer in its present condition

Highly Probable Sale - criteria

- ❑ Sale is highly probable when



- Management **committed to a plan** to sell the asset
- Active programme to **locate a buyer** initiated
- Actively marketed for sale at a **price that is reasonable** in relation to its fair value
- Sale should be expected to qualify for recognition as a completed sale within **one year from date of classification** (subject to events outside entity's control)
- Actions required to complete the plan indicate that it is **unlikely** that plan will be **significantly changed or withdrawn**

Available for Sale

Case Study :

An entity is committed to a plan to sell a factory. The production cycle is six months and pollutants are involved. The company must meet its existing orders. Dismantling the equipment and cleaning up the pollution will put the facility out of action for six months. Does the factory meet the criterion of “availability for immediate sale”?

Solution :

No. The fact that several months must be spent fulfilling existing orders and then dismantling and cleaning the factory means that it is not available for immediate sale in its present condition. Therefore, the factory cannot be classified as held for sale at the date of the decision to sell.

Plan to sell – time to vacate

An entity is committed to a plan to sell its HQ and has initiated action to find a buyer.

Situation 1

The entity intends to transfer the building to a buyer after it vacates the building. The time to vacate is normal.

Ans : The condition is met at the plan commitment date.

Situation 2

The entity will continue to use the building until a new HQ is built. The building will not be transferred until construction is completed.

Ans : The delay demonstrates that the building is not available for immediate sale and thus the criterion is not met, even if a firm purchase commitment has already been entered into.

Plan to sell – backlog of customers

An entity is committed to a plan to sell a manufacturing facility and has initiated action to locate a buyer, but there is a backlog of customer orders.

Situation 1

The entity intends to sell the manufacturing facility with its operations and any uncompleted orders will transfer to the buyer.

Ans : The condition will be met at the plan commitment date.

Situation 2

The entity intends to sell the manufacturing facility but without its operation and it does not intend to transfer it until it eliminates the backlog of orders.

Ans : The delay means that the facility is not available for immediate sale and thus the criterion is not met until the operations cease, even if a firm purchase commitment were obtained before operations ceased.

Highly Probable Sale-Requiring Shareholder's approval

Examples 6 & 7- Requiring shareholder's approval

- 6 At the end of the reporting period, ABC Company's board of directors has approved a plan to sell a non-current asset. The eventual disposal requires approval by a majority of company's shareholders through a formal vote which will take place after the reporting period. At the end of the reporting period, a majority of the company's shareholders have provided the company with signed irrevocable agreements stating that they will vote in favour of the disposal. The 'highly probable' test is met because the shareholders have irrevocably committed to approving the transaction and, therefore, the vote by the shareholders is merely a formality.

Exception to one year rule

- ❑ An extension of the period to complete sale may extend beyond 1 year due to circumstances outside the entity's control
 - Unexpected condition imposed by buyer or third party after the firm purchase commitment is obtained
 - Unexpected circumstances delayed the sale or disposal of asset or disposal group held for sale

In Such circumstances, Asset or disposal group will be still classified as Held for Sale

Sale period beyond one year (A)

Kejri Vidyut Ltd an energy sector company is committed to selling one of its business lines. This requires regulatory approval. It could take more than 12 months to obtain this approval. However, a firm purchase commitment must have been signed before approval can be obtained. In the present case, Sale is highly probable within a year.

In this situation, the conditions for an exception to the one-year limit would apply. As the sale is highly probable, it may be classified as held for sale even though it extends beyond one year.

Sale period beyond one year (B)

An entity is committed to sell a manufacturing facility but, after a firm purchase commitment is obtained, the buyer's inspection identifies environmental damage that must be made good and this will extend beyond one year. However, the entity has initiated appropriate procedures to repair the environmental damage and the sale remains highly probable.

As the sale is highly probable, it can be classified as held for sale.

Exception to One year rule

Examples 8 - 10

8. An entity is committed to its selling plan of a manufacturing facility in its present condition and so classifies it as held for sale. After a firm purchase commitment, the buyer's inspection identifies environmental damages not previously known to exist. The entity is required by the buyer to make good the damage, which will extend the timeframe of one year to complete the sale within one year. However, the entity has initiated actions to make good the damage and satisfactory rectification is highly probable. In this situation, exception to one-year requirement will be met.
9. An entity in the mining 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 this situation, the exception to one-year requirement will be met.

Non Current assets - Abandoned

- A non-current asset (or disposal group) that is to be abandoned should not be classified as held for sale.
- This includes 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.
- Because its carrying amount will be recovered principally through continuing use.

Case Study – Abandoned Assets

Example 13

Entity ceases to use a manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it is expected to be brought back into use in future when demand picks up.

It is neither to be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use, therefore the entity will not stop charging depreciation or treat it as held for sale. This is because its carrying amount will be recovered principally through continuing use to the end of its economic life.

Measurement immediately prior to reclassification as held for sale

- ❑ Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable Ind AS (e.g. Ind AS 16, Ind AS 38, Ind AS 40)
- ❑ Any impairment loss is recognised in P&L unless the asset had been measured at a revalued amount under Ind AS 16 or Ind AS 38, in which case the impairment is accounted for as a revaluation decrease.

Measurement upon reclassification as HFS

Measure at lower of (a) carrying value and (b) Fair value *less* cost to sell

Any impairment arising upon re-classification as held for sale as a result of (b) being less than (a) is recognised in Profit and loss.

Gains are recognised for increases in FVLCS but not in excess of cumulative impairment losses recognised in accordance with Ind AS 105 or previously in accordance with Ind AS 36.

When the sale is expected to occur > 1 year, costs to sell must be measured at their present value

Depreciation or amortisation ceases at the moment it classified as held for sale

Case Study – Measurement prior to classification as HFS

Illustration 1 - Measurement prior to classification as held for sale

Entity ABC owns an item of property and it was stated at the following amounts in its last financial statements:

31 st March, 20X1	₹
Cost	12,00,000
Depreciation	<u>(6,00,000)</u>
Net book value	<u>6,00,000</u>

The asset is depreciated at an annual rate of 10% i.e. ₹ 1,20,000 p.a.

Entity ABC closes its books as on 31st March each year. During July, 20X1, entity ABC decides to sell the asset and on 1st August it meets the conditions to be classified as held for sale. Analyse.

Solution – Measurement prior to classification as HFS

Solution

At 31st July, entity ABC should ensure that the asset is measured in accordance with Ind AS 16. It should be depreciated by further ₹ 40,000 ($₹ 1,20,000 \times 4/12$) and should be carried at ₹ 5,60,000 before it is measured in accordance with Ind AS 105.

Note: From the date the asset is classified as held for sale no further depreciation will be charged.

Quick Questions??

What is meant by Non Current Assets held for sale?

What are criteria for classifying the asset or disposal group as held for sale?

Whether Asset temporarily taken out of use is termed as abandoned or classified as Held for Sale?

What are the measurement provisions for Assets which are classified as HFS?

Case study -1

A property is purchased for Rs 500,000 on 1 April 2013. The useful life of the property is 20 years (zero residual value). The property is measured subsequently at depreciated historical cost.

On 30 September 2015, it is decided that the property is to be classified as held for sale (classification criteria are met).

An impairment assessment on 30 September 2015 determines the recoverable value (based on value in use) to be Rs 400,000.

The fair value less costs to sell on 30 September 2015 is Rs. 390,000.

Requirement

- a) What is the carrying value of the property immediately before re-classification as held for sale on 30 September 2015?
- b) What are the required accounting entries in 2015 in respect of the re-classification of the asset as held for sale?

Solution

• Cost	500,000
• Depreciation 2013	(25,000)
• Depreciation 2014	(25,000)
• Depreciation six months 2015	<u>(12,500)</u>
• Carrying value at 30 September 2015 prior to impairment assessment	437,500
• Impairment charge 2015	<u>(37,500)</u>
	<u>400,000</u>

Solution

• Carrying value at date of re-classification as held for sale	400,000
• Fair value less costs to sell	<u>390,000</u>
• Impairment charge 2015	<u>10,000</u>

Disposal group

Following details are given for entity A.

	Carrying value at 31 Dec 2014 (\$m)
Goodwill	16
Property, plant and equipment	28
Inventory	20
Financial assets (profit of \$4m recognised in equity)	17
Financial liabilities	(14)
	67

Under Ind AS, property, plant and equipment would be stated at \$26m, and inventory stated at \$18m. The fair value less costs to sell of the disposal group is \$47m. Assume that the disposal group qualifies as held-for-sale.

Show how the disposal group would be accounted for in the financial statements for the year ended 31 December 2014.

Solution – working

	Carrying value \$m	Re- measured \$m	Impairme nt \$m	Fair value less costs to sell \$m
Goodwill	16	16	-16	-
Property, plant and equipment	28	26		26
Inventory	20	18		18
Financial assets	17	17		17
Financial liabilities	-14	-14		-14
	67	63	-16	47

Ind AS 105 requires that immediately before the initial classification of the disposal group as held-for-sale, the carrying amounts of the disposal group be measured in accordance with applicable Ind AS, and any profit or loss dealt with under that Ind AS.

The reduction in the carrying amount of PPE will be dealt with in accordance with Ind AS 16, and that of the inventory in accordance with Ind AS 2.

After the re-measurement, the entity will recognise an impairment loss of \$16m on re-measurement to the lower of carrying amount and fair value less cost to sell. This loss is allocated to goodwill in accordance with Ind AS 36.

Thus, goodwill will be reduced to zero. The loss will be charged against profit or loss.

Solution – Presentation

In the balance sheet, the major classes of assets and liabilities classified as held-for-sale should be separately disclosed on the face of the balance sheet or in the notes. Thus, in this case, there would be separate disclosure of the disposal group as follows.

	\$m
Assets	
Non-current assets	
Current assets	
Non-current assets classified as held-for-sale	61
Equity and liabilities	
Equity attributable to parent	
Amounts recognised directly in equity relating to non-current assets held-for-sale	
Minority interest	
Total equity	
Non-current liabilities	
Current liabilities	
Liabilities directly associated with non-current assets classified as held-for-sale	14
Total liabilities	
Total equity and liabilities	

Case Study 3

At 30 June 2013, a decision was taken to classify property as held for sale (criteria are met). The property was originally acquired for 400,000. Cumulative depreciation to 30 June 2013 amounted to 110,000. An impairment loss of 35,000 was also recognised at 30 June 2013 because VIU was determined at that date to be 255,000.

Upon re-classification as held for sale, the FVLCS was assessed at 250,000. An additional impairment charge therefore arose under Ind AS 105 and the carrying value of the property was 250,000.

At the next reporting date, 31 December 2013, the FVLCS is reassessed at 265,000. The full amount of the gain, 15,000, is recognised in profit and loss because it is less than the cumulative impairment losses recognised to date (40,000).

Case study 3

If however, at 31 December 2013, the FVLCS was 300,000, then the gain of 50,000 would exceed the cumulative impairment losses (40,000).

In this circumstance, only 40,000 of the gain could be recognised in profit and loss and the carrying value of the property would be 290,000. If the property was subsequently sold for 300,000, a gain on disposal of 10,000 would be recognised at that point.

Changes to a plan of sale

- When the 'held for sale' criteria are no longer met, the asset should be removed from the held for sale category.

- Re-classify and re-measure at lower of:
 - Carrying amount before the asset was classified as HFS adjusted for depreciation, amortisation, revaluations that would have been recognised had the asset not been classified as held for sale; and
 - Recoverable amount at the date of change to plan

Case study 4

A property is purchased for 500,000 on 1 January 2011. The useful life of the property is 20 years (zero residual value). The property is measured subsequently at depreciated historical cost.

On 31 December 2012, it is decided that the property is to be classified as held for sale (classification criteria are met).

An impairment assessment on 31 December 2012 determines the recoverable value (based on VIU) to be 400,000.

The FVLCS on 31 December 2012 is 390,000.

At 31 December 2013, there is a change in plans and the property no longer meets the criteria to be classified as held for sale.

There is no change in the useful life of the property at any point. The recoverable value at 31 December 2013 is 385,000.

Requirement

Show how the property would be accounted for in 2012 and 2013.

Solution to Case study 4

2012

Cost 1 January 2011	500,000
Depreciation 2011	(25,000)
Depreciation 2012	<u>(25,000)</u>
Carrying value prior to impairment	450,000
Impairment charge at 31 December 2012	<u>(50,000)</u>
Carrying value prior to re-classification as held for sale	400,000
Impairment charge after re-classification as held for sale	<u>(10,000)</u>
Carrying value at 31 December 2012 (classified as held for sale)	<u>390,000</u>

Case study 4

2013

Carrying value prior to re-classification as held for sale at 31 December 2012	400,000
Depreciation charge for 2013 would have been	(22,222)
Carrying value at 31 December 2013 would have been	377,778
Recoverable value as at 31 Dec 2013	385,000
Lower value will be recognised	377,778

Discontinued Operations

- 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 CGU or a group of CGU while being held for use.
- A discontinued operation is a component of an entity that has 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.

Examples

Examples 19-22 – Discontinued Operations

- 19) Company XYZ has 5 different operating segments, one of which solely produces consumer goods. All of the consumer goods production facilities are situated in Central Europe. XYZ also has other operations in Central Europe for other operating segments. In April 20X1, XYZ disposed of its consumer goods segment which meets the definition of a component of a business and represents a separate major line of business and would therefore be considered as a discontinued operation.
- 20) A group has announced that it is closing an engineering contracting segment. Although no new contracts are being undertaken, all existing contracts will be completed and the business will be run down accordingly. In this situation, the operation will have ceased to be used when the contracting activity has been completed (that is, at the end of the last contract). In the period during which existing contracts are completed, the group is continuing to carry out a revenue-earning activity, albeit that the activity is being wound down, and so it does not qualify as a discontinued operation.

Case Study

Sun Ltd is a retailer of takeaway food like burger and pizzas. It decides to sell one of its outlets located in Chandni Chowk in New Delhi. The company will continue to run 200 other outlets in New Delhi. All Ind AS 105 criteria for held for sale classification were first met at 1st October 2016. The outlet will be sold in June 2017.

Management believes that outlet is a discontinued operation and wants to present the results of outlet as 'discontinued operations'.

Analysis:

The Chandni Chowk outlet is a disposal group; it is not a discontinued operation as it is only one outlet. It is not a major line of business or geographical area, nor a subsidiary acquired with a view to resale.

Case Study

Illustration 3

Identify whether each of the following scenarios gives rise to a discontinued operation and/or classification of assets as held for sale:

S. No	Particulars	Discontinued operation Yes/No	Assets held for sale Yes/No
1	MNO disposes of a component of the entity by selling the underlying assets. The sales transaction is incomplete at the reporting date.		
2	PQR has ceased activities that meet the definition of a discontinued operation without selling any assets.		
3	STU ceases activities and has already completed the sale of the underlying assets at the reporting date.		
4	VWX will sell or has sold assets that are within the scope of Ind AS 105, but does not discontinue any of its operations.		

Solution

Solution

Discontinued operations and assets held for sale

S. No	Particulars	Discontinued operation Yes/No	Assets held for sale Yes/No
1	MNO disposes of a component of the entity by selling the underlying assets. The sales transaction is incomplete at the reporting date.	Yes	Yes
2	PQR has ceased activities that meet the definition of a discontinued operation without selling any assets.	Yes	No
3	STU ceases activities and has already completed the sale of the underlying assets at the reporting date.	Yes	No
4	VWX will sell or has sold assets that are within the scope of Ind AS 105, but does not discontinue any of its operations.	No	Yes

Presentation and disclosure

An entity shall disclose:

- (a) a single amount in the statement of profit and loss 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.
- (b) an analysis of the single amount in (a) into:
 - (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;
 - (ii) the related income tax expense as required by Ind AS 12; and
 - (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.
 - (iv) the related income tax expense as required by Ind AS 12.

The analysis may be presented in the notes or in the statement of P&L.

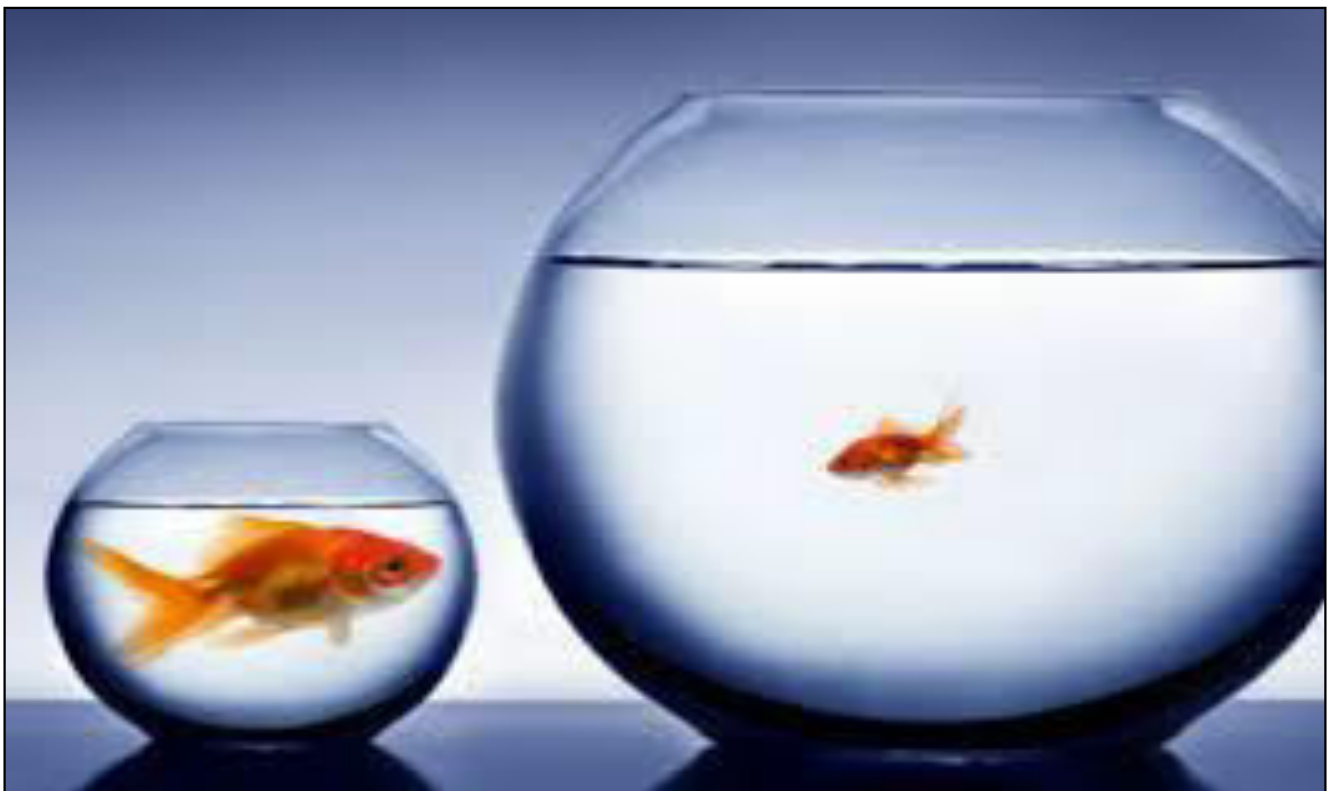
Presentation of Asset/ disposal group held for sale

	2012	2013
ASSETS		
Non current assets		
AAA	X	X
BBB	X	X
CCC	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>
Current assets		
DDD	X	X
EEE	<u>X</u>	<u>X</u>
	X	X
Non-current assets classified as held for sale	<u>1,000</u>	-
	<u>X</u>	<u>X</u>
Total assets	<u>X</u>	<u>X</u>

Presentation in Statement of Profit and loss

	Rs. mn
Continuing Operations	
Revenue	x
Cost of sales	(x)
Gross profit	x
Other operating income	x
Distribution costs	(x)
Administrative expenses	(x)
Other expenses	(x)
Finance costs	(x)
Share of profit of associates	x
Profit before tax	x
Income tax expense	(x)
Net profit for period for continuing operations	x
Discontinued Operations	
Net profit for period for discontinued operations*	x
Net profit for period	x
Attributable to:	
Equity holders of the parent	x
Non-controlling interest	x
	x

**Required analysis would be given in notes. Alternatively, profit from discontinued operations could be analysed in separate column on the face of Statement of P&L.*



Comparison – Ind AS Vs AS

Key Differences

Particulars	Ind AS	AS
Applicable Guidance	Ind AS 105 : Non-current Assets Held for Sale and Discontinued Operations	AS 24 : <i>Discontinuing Operations</i>
Scope	Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of <i>discontinued operations</i> .	AS 24 establishes principles for reporting information about <i>discontinuing operations</i> . It does not deal with the non-current assets held for sale; fixed assets retired from active used and held for sale, are dealt in existing AS 10, <i>Property, plant & Equipment</i>
Measurement and presentation	Under Ind AS 105, non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the balance sheet.	AS 24 requires to apply the principles set out in other relevant AS, e.g., the existing AS 10 requires that the fixed assets retired from active use and held for disposal should be stated at the lower of their net book value and NRV and shown separately in the FS.

MCQ – True/ False

- An entity can continue to depreciate an asset even if it classifies it as Non-Current Assets held for Sale as per Ind AS 105?
 - True
 - False

- Assets classified as held for sale, must be presented under the appropriate Asset head with a separate disclosure in the note.
 - True
 - False

MCQ

3. Under Ind AS 105, an entity is 'committed to distribute' the asset (or disposal group) to the owners i.e. the assets must be _____:

- (a) Available for immediate distribution in their present condition and the distribution must be "highly probable".
- (b) Available for immediate distribution in their existing condition and the distribution must be "virtually certain"
- (c) Available for immediate distribution in their existing condition and the distribution must be "reasonably certain"
- (d) Available for immediate distribution in their present condition and the distribution must be "virtually certain"

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MCQ

4. How to measure a non-current asset (or disposal group) that ceases to be classified as held for sale?

- (a) lower of carrying amount which would have been had the asset not been classified as HFS and recoverable amount
- (b) lower of carrying amount on the date asset ceased to be classified as HFS and recoverable amount
- (c) lower of carrying amount and fair value less cost to disposal
- (d) lower of carrying amount and the amount which would have been, had the asset not been classified as HFS.

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THANK YOU

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