

Chapter 4

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IFRS5 – DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Objective

- to require entities to disclose information about operations which have been discontinued during the accounting period
- improves the reader's ability to interpret the results and to make meaningful projections
- a non-current asset held for sale is one where the carrying amount will be recovered principally through sale rather than through continuing use
- a disposal group is a group of (net) assets to be disposed of in a single sale transaction
- **to be classified as ' held for sale '**
 - it must be available for immediate sale in its present condition . . .
 - ...subject only to terms that are usual and customary for sales of such assets, and
 - its sale must be highly probable (see next)
- for a sale to be highly probable
 - management must be committed to a plan to sell the asset
 - an active programme to locate a buyer must have been started
 - as also must be a programme to complete the plan
 - the asset must be being actively marketed at a price that is reasonable in relation to its current fair value
 - the sale should be expected to take place within twelve months from the date of classification as 'held for sale'
 - it should be unlikely that significant changes to the plan will be made or that the plan will be withdrawn
- measurement – lower of carrying value and fair value less costs to sell
- impairment loss to be recognised if fair value is less than carrying value
- held for sale assets should not be depreciated even though they may still be in use



Discontinued operation

- a discontinued operation is a component of an entity that has either
- ..been disposed of, or...
- ...has been classified as held for sale
- additionally it should
 - represent a separate major line of business or geographical area of operations, or...
 - ...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 re-sell
- a 'component' of an entity comprises operations and cash flows which can be clearly distinguished from the rest of the entity, both operationally and for financial reporting purposes
- in order to be classified as discontinued the sale or termination must actually have taken place by the end of the accounting period

IFRS 5 – presentation

- assets and liabilities held for sale should be presented separately from other assets and liabilities in the statement of financial position
- assets and liabilities should not be off-set
- the major classes of assets and liabilities must be separately disclosed on the face of the statement of financial position or in the notes
- presentation of discontinued operations on the Statement of Profit or Loss and Other Comprehensive Income:-
 - post tax profit or loss from discontinued operations
 - post tax impairment to bring the discontinued operations to their recoverable amount
- by way of note (or on the Statement of Profit or Loss and Other Comprehensive Income)
 - revenue, expenses and pre-tax profit or loss from discontinued operations
 - related tax expense
 - gross amount of impairment to bring the discontinued operations to their recoverable amount, and
 -the related tax expense
- on the statement of cash flows, must show the cash flows from operating, investing and financing activities attributable to the discontinued operations



Additional disclosures

- description of the non-current asset (or disposal group)
- description of the facts and circumstances of the sale or disposal and
- . . .the expected manner and timing of the disposal
- details of any impairment loss recognised when the asset was classified as held for sale
- if applicable, disclose the segment in which the asset held for sale is included
- where classification as held for sale is after the accounting period end but before the date of approval of the financial statements, it should be disclosed as a non-adjusting event
- most of the additional disclosures apply also where an operation has been discontinued during the year

Proforma disclosure as a note

• on 1 January, 2009 the entity announced its intention to sell its building operations. The sale was completed on 31 July, 2009 and the building activities are reported as a discontinued operation.

• the results and cash flows of the discontinued operation for the current period at the date of disposal were as follows:

| | |
|---|-------------|
| Revenue | 60 |
| Operating expenses | (55) |
| Costs of discontinuance | (45) |
| Loss from operations | (40) |
| Interest expense | (15) |
| Loss before tax | (55) |
| Income tax | 16 |
| Loss after tax | <u>(39)</u> |
| Operating cashflows | (X) |
| Investing cashfows | X |
| Financing cashflows | (X) |
| | <u>X</u> |
| The assets and liabilities disposed of were as follows: | |
| Property, plant and equipment | X |
| Current assets | X |
| Total assets | <u>X</u> |
| Total liabilities | <u>(X)</u> |
| Loss on disposal before tax | (X) |
| Tax charge thereon | X |
| | <u>(X)</u> |



