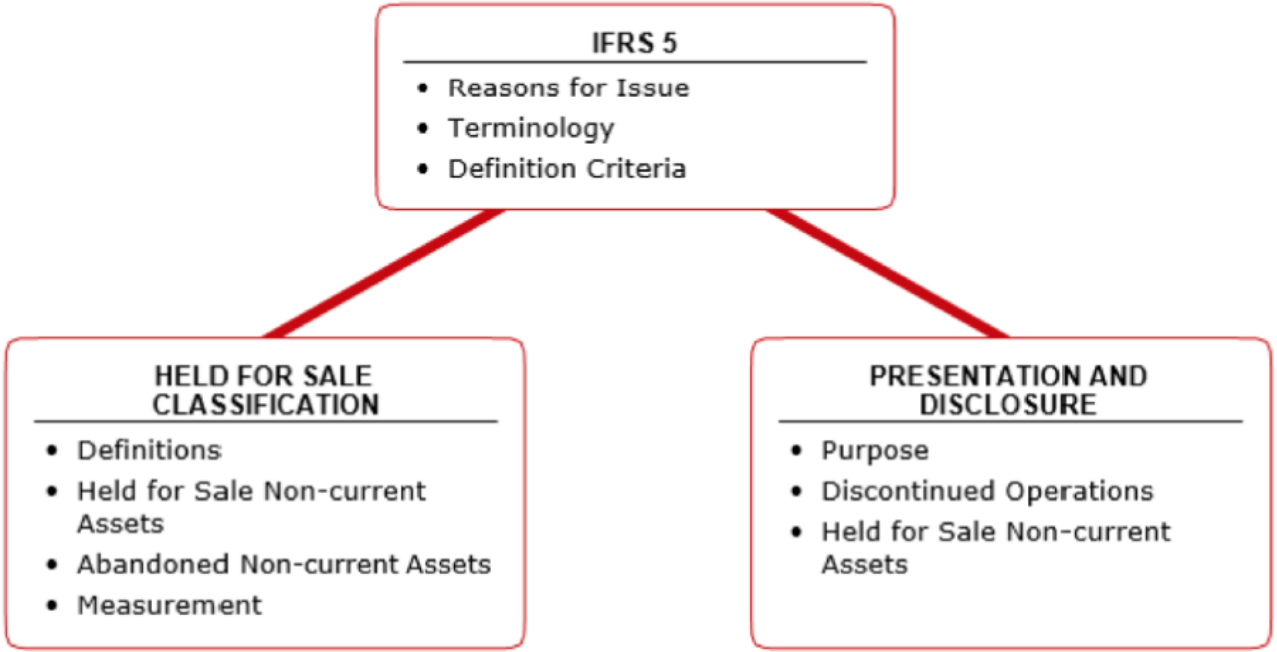


IFRS 5

Non-current Assets Held for Sale and Discontinued Operations

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CHAPTER 12: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations



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IFRS 5 Non-current Assets Held for Sale

Held for sale: the carrying amount will be recovered principally through sale rather than through continuing use.

Asset available for immediate sale in present condition

criteria

Sale is highly probable

- Management committed to sale plan
- Active programme to locate buyer
- Marketed at reasonable price compared to FV
- Sale expected <12m of classification
- Changes to plan unlikely

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Measurement of non-current assets held for sale

1

- Immediately before transfer measure in accordance with relevant IFRS

2

- On transfer to held for sale measure at lower of:
  - Carrying amount
  - Fair value less costs to sell

3

- Present as current
- Do not depreciate
- Remeasure at lower of carrying amount and fair value less costs to sell at reporting date if unsold

Any losses in P/L

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Activity: asset held for sale

An asset has a carrying amount of $600,000. It is classified as held for sale on 30 September 20X6. At that date its fair value less costs to sell is estimated at $550,000. The asset was sold for $555,000 on 30 November 20X6. The entity's reporting date is 31 December 20X6.

Required:

(a) Describe how the classification as held for sale and subsequent disposal should be treated in the 20X6 financial statements.

(b) State how the answer to (a) would differ if the carrying amount of the asset at 30 September 20X6 was $500,000, assuming all other figures remain the same.

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Answer: asset held for sale

(a) Carrying amount $600,000

On 30 September 20X6, the asset would be written down to its fair value less costs to sell of $550,000 and an impairment loss of $50,000 recognised. It would be removed from non-current assets and presented in "non-current assets held for sale".

On 30 November 20X6 a profit on sale of $5,000 would be recognised.

(b) Carrying amount $500,000

The asset would be now be transferred to non-current assets held for sale at its existing carrying amount of $500,000. When sold, a profit on sale of $55,000 would be recognised.

In current assets

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Activity: revalued asset held for sale

A property is classified as held for sale on 1 August 20X9 when it has a carrying amount of $960,000 and a fair value of $1.04 million. Costs to sell the property are 5% of the selling price and the property is held under the revaluation model. The fair value of the property has increased steadily since purchase.

How is the transfer to held for sale accounted for?

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Answer: asset held for sale

1. Revalue property to $1.04m in line with IAS 16

Dr	PPE	$80,000
Cr	OCI	$80,000

2. Transfer to held for sale category at FV less costs to sell of $988,000 (1.04m x 95%)

Dr	Asset HFS	$988,000
Dr	P/L	$52,000
Cr	PPE	$1,040,000

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Question 1

Asset held for sale

On 1 January 20X4 Jamie purchased a machine for $60,000. The machine is depreciated on a straight line basis over 4 years, with nil residual value.

On 31 October 20X5, following a decline in demand for its products, Jamie decides to sell the machine and advertises it for sale at its fair value of $33,000. A commission of 5% will be payable on the sale.

At 31 December 20X5, Jamie's financial year-end, the machine remains unsold.

Show the impact of the above on Jamie's financial statements for the year ended 31 December 20X5.

Solution

Solution

The machine is depreciated during the year up to the date of reclassification. At this date depreciation ceases, and the asset is then valued at the lower of carrying amount and fair value less costs to sell.

Statement of profit or loss year ended 31 December 20X5

		$
Depreciation	(W1)	(12,500)
Impairment	(W2)	(1,150)

Statement of financial position 31 December 20X5

	$
Current assets: Asset held for sale (W2)	31,350

Workings

(W1) Carrying Amount

	$
1 January 20X4 Cost	60,000
Depreciation: 20X4 $60,000 × ¼	(15,000)
20X5 $60,000 × ¼ × $^{10}/_{12}$	(12,500)
31 October 20X5 Carrying Amount	32,500

(W2) Impairment

	$
Carrying Amount (W1)	32,500
Fair value less cost to sell ($33,000 less 5% commission)	(31,350)
Impairment	1,150

Disposal groups

Definition

Disposal group – a group of assets to be disposed of collectively in a single transaction, and directly associated liabilities which will be transferred in the transaction.

Meets held for sale definition

Measurement

Lower of carrying amount and FV less costs to sell; loss allocated across non-current assets of disposal group

Presentation

All assets of the group are presented as a single line item; all liabilities are presented as a single line item

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IFRS 5 – definition of discontinued operations

Clearly distinguishable operations and cash flows

Component of an entity that has been disposed of or classified as held for sale

and

- Represents separate major line of business/geographical area of operations
- Is part of a single coordinated disposal plan, or
- Is a subsidiary acquired exclusively with a view to resale

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Presentation of discontinued operations

Profit or loss	• Single line entry • Post tax profit/loss plus gain/loss on sale or transfer to held for sale • Analysis in notes
Cash flows	• Operating, investing and financing
Financial position	• Held for sale (Chapter 6)

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Minimum Disclosure on the Face:

XYZ group – statement of profit or loss and other comprehensive income for the year ended 31 December 20x3

	20X3	*20X2*
	$'000	$'000
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Profit before tax	X	X
Income tax expense	(X)	(X)
Profit for the year from continuing operations	X	X
Loss for the year from discontinued operations	(X)	(X)
PROFIT FOR THE YEAR	X	X
Other comprehensive income for the year, net of tax	X	X
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	X	X

Question 2

Discontinued operation

On 30 June 20X2 Star closed its polishing division. It sold all the assets, making a loss of $230,000, and made all the staff redundant at a cost of $700,000.

During the year to 30 June 20X2 Star made a profit after tax of $350,000 after charging the above expenses.

This also included the results of the polishing division, which had made a trading profit of $10,000.

Show how the above results would appear in Star's statement of profit or loss for the year ended 30 June 20X2.

Solution

Solution

Star Statement of profit or loss extract for the year ended 30 June 20X2

	$000
Profit for the year from continuing operations (W1)	1,270
Loss for the year from discontinued operations (W1)	(920)
Total profit for the year	350

Workings

(W1) Continuing/discontinued operations		
		$000
Star profit after tax		350
Profit of discontinued polishing division	10	
Loss on disposal of polishing division	(230)	
Redundancy costs	(700)	
Add back: total loss from discontinued operation		920
Profit for the year from continuing operations		1,270

Real world example: discontinued operations

Consolidated income statement

For the year ended 31 December Million US dollar, except earnings per shares in US dollar	Notes	2020	2019
Revenue		**46 881**	**52 329**
Cost of sales		(19 634)	(20 362)
Gross profit		**27 247**	**31 967**
Distribution expenses		(5 104)	(5 525)
Sales and marketing expenses		(6 861)	(7 348)
Administrative expenses		(3 404)	(3 548)
Other operating income/(expenses)	7	845	875
Profit from operations before non-recurring items		**12 723**	**16 421**
Impairment of goodwill	8	(2 500)	-
COVID-19 costs	8	(182)	-
Restructuring	8	(157)	(170)
Business and asset disposal (including impairment losses)	8	(239)	(50)
Acquisition costs business combinations	8	(25)	(23)
Brazil state tax regularization program	8	-	(74)
Cost related to public offering of minority stake in Budweiser APAC	8	-	(6)
Profit from operations		**9 620**	**16 098**
Finance cost	11	(6 601)	(4 873)
Finance income	11	642	518
Non-recurring net finance income/(cost)	11	(1 738)	882
Net finance income/(cost)		**(7 697)**	**(3 473)**
Share of result of associates and joint ventures	16	156	152
Profit before tax		**2 079**	**12 776**
Income tax expense	12	(1 932)	(2 786)
Profit from continuing operations		**147**	**9 990**
Profit from discontinued operations	22	2 055	424
Profit of the period		**2 202**	**10 414**

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Real world example: discontinued operations

Consolidated statement of financial position

As at Million US dollar	Notes	31 December 2020	31 December 2019
Current assets			
Investment securities	17	396	92
Inventories	19	4 482	4 427
Income tax receivables		655	627
Derivatives	29	827	230
Trade and other receivables	20	4 833	6 187
Cash and cash equivalents	21	15 252	7 238
Assets classified as held for sale	22	74	10 013
Total current assets		**26 519**	**28 814**
Current liabilities			
Bank overdrafts	21	5	68
Interest-bearing loans and borrowings	24	3 081	5 410
Income tax payables		1 036	1 346
Derivatives	29	5 046	3 799
Trade and other payables	28	22 965	22 864
Provisions	27	219	210
Liabilities associated with assets held for sale	22	-	1 145
Total current liabilities		**32 352**	**34 841**

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Exam focus

Sections A and B

- Classification
- Measurement

Section C

- Preparation of F/S including assets held for sale or discontinued operations
- Analysis of F/S

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Thank you

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