CHAPTER

7

IND AS 105 – NON CURRENT ASSETS HELD FOR SALE & DISCONTINUED OPERATIONS

CONCEPTS COVERED

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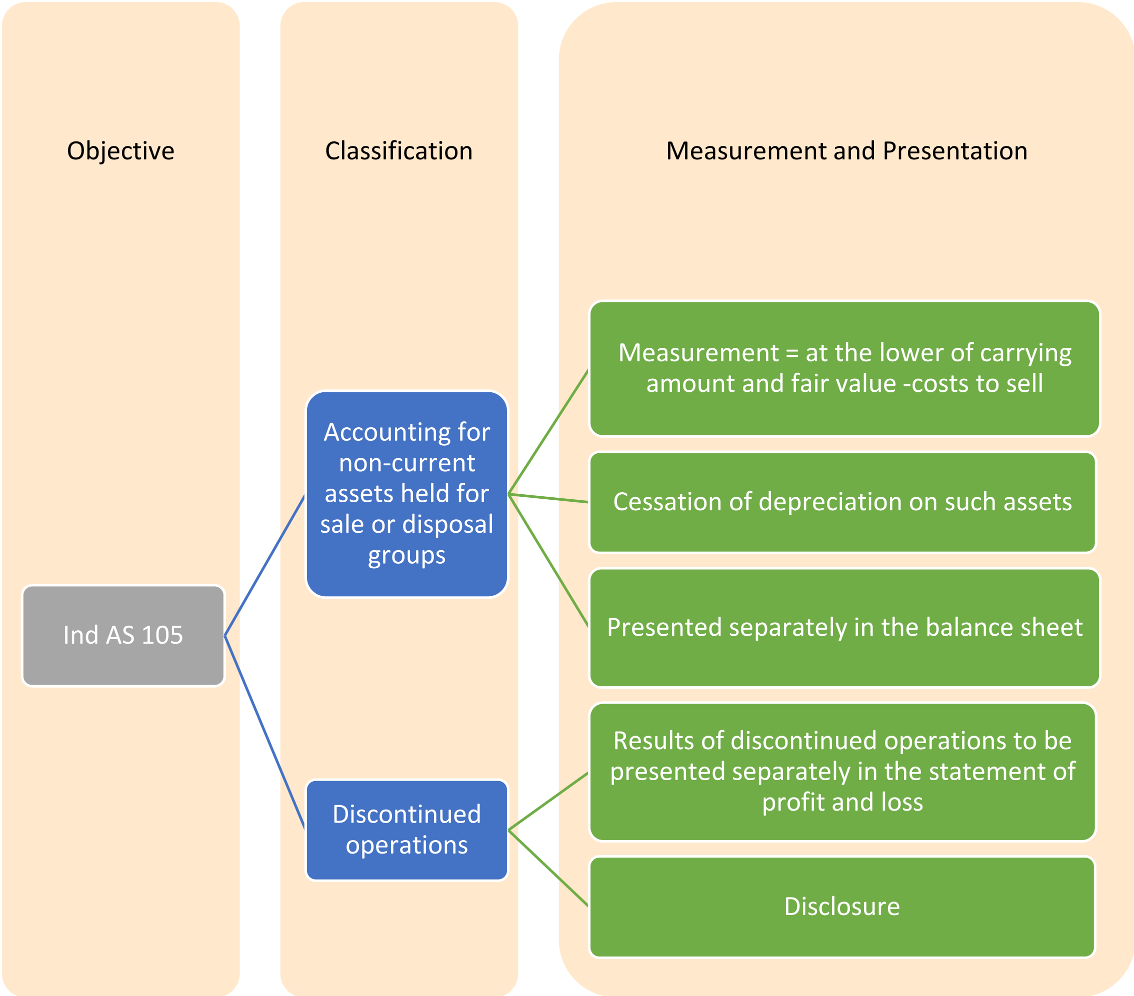
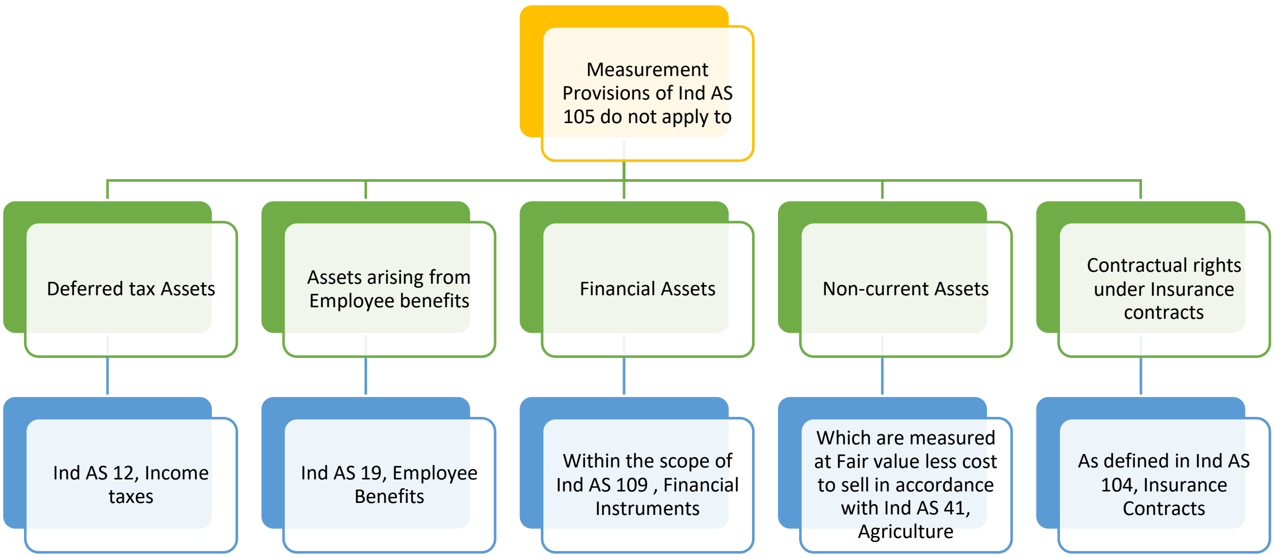
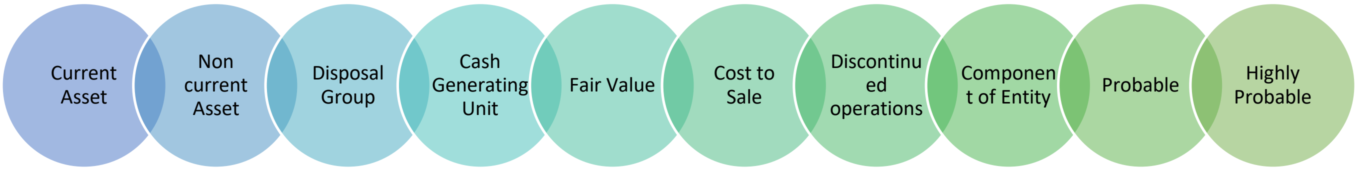
1. OBJECTIVE :



2. SCOPE :



3. DEFINITIONS :



1. **<u>Current Asset :</u>**

   An entity classifies an asset as current when:

   - it expects to realise the asset, or intends to sell or c onsume it, in its normal operating cycle;
   - it holds the asset primarily for the purpose of trading;
   - it expects to realise the asset within twelve months after the reporting period; or
   - the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

2. **<u>Non current Asset :</u>**

   Non-current assets are assets that do not meet the definition of current assets.

3. **<u>Disposal Group :</u>**

   Disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit.

4. **<u>Cash Generating Unit :</u>**

   Cash-generating unit is a smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

5. **<u>Fair Value :</u>**

   Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (Ind AS 113)

6. **<u>Cost to Sale :</u>**

   Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

7. **<u>Discontinued operations :</u>**

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

   (a) represents a separate major line of business or geographical area of operations; or

   (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

   (c) is a subsidiary acquired exclusively with a view to resale.

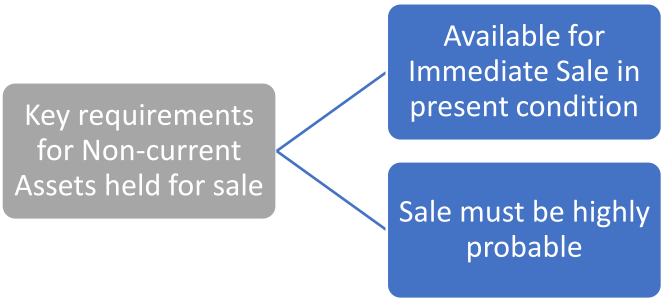
8. **Component of Entity :**
A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

9. **Probable :**
It means more likely than not.

10. **Highly Probable :**
Significantly more likely than probable.

4. CLASSIFICATION :

An entity is required to 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.



Available for Immediate Sale :

- The asset (or disposal group) must be available for immediate sale in its present condition. The terms that are usual and customary for sale of similar assets (or disposal group) doesn't disqualify to being classified as held for sale.
- An asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

Question 1 – Available for Immediate Sale

1. A property being used as a headquarters by the entity needs to be vacated before it can be sold. The time required to vacate the building is usual and customary for sale of such assets. Hence the criteria for classification as held for sale would be met.
2. In above example, if property can be vacated only after a replacement is available then this may indicate that the property is not available for immediate sale, but only after the replacement becomes available.
3. An entity can't classify a manufacturing facility as held for sale if prior to selling the facility it needs to clear a backlog of uncompleted order.
4. In above example, if entity intends to sell the manufacturing facility along with the uncompleted orders it can be classified as held for sale.
5. An entity plans to renovate some of its property to increase its value prior to selling it to a third party. The entity is already searching for a buyer at current

market values. But due to the plans to renovate the property prior to sale, the property may not be meeting condition of available for immediate sale.

6. A company has put a property on the market and expects that all the conditions of classification as held for sale is meeting. Any buyer will undertake searches and valuations before making an offer and exchanging contracts : Such conditions are normal for properties and any delays that might arise from such legal processes do not preclude the property from being classified as held for sale.

Sale must be highly probable :

This Standard defines 'highly probable' as 'significantly more likely than probable' where probable means more likely than not.

1.The appropriate level of management must be committed to a plan to sell the asset (or disposal group).

2. An active programme to trace a buyer and complete the selling plan must have been initiated.

3. The asset (or disposal group) must be marketed for sale at a price that is reasonable in relation to its current fair value.

4. The sale transaction is expected to be completed within one year from the date of classification.

5. Significant changes to or withdrawal from the plan to sell the asset are unlikely.

Loss of control in subsidiary :

An entity which has committed to a sale plan which involves loss of control of subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out above is met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Exception to the period of one year :

An entity can still classify an asset (or disposal group) as held for sale, even if the timeframe of one year to conclude the sale transaction has lapsed.

For this:

(i) the delay must have been caused by the events or circumstances which are beyond the control of the entity; and

(ii) there must be sufficient evidences that the entity is still committed to it selling plan.

Question 2 – An entity

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 met.

Sale includes Exchange :

Sale transaction includes exchange of non-current assets for other non-current assets when the exchange has commercial substance in accordance of Ind AS 16 Property, Plant and Equipment.

Sale includes assets held for distribution to its owner :

An entity shall classify a non-current asset (or disposal group) as held for distribution to its owner on a parallel line as discussed above required for classification as held for sale.

Assets Acquired exclusively with a view to subsequent disposal :

When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, the non-current asset (or disposal group) is classified as held for sale at the acquisition date. This standard provides a short period (usually three months) to meet the classification criteria that don't met at the acquisition except requirement of one year.

Question 3 – An entity

An entity has acquired a building exclusively with a view of its subsequent disposal. The management is highly confident that the property can be sold in one year. The property requires refurbishing it to enhance its value which is highly probable to be completed in less than a period of three months. The building will be classified as held for sale on the date of acquisition itself even though it is not immediately available for sale.

Criteria met after reporting period :

If the criteria of held for sale are met after the reporting period but before the date of authorisation the financial statements, a non-current asset should not classify as held for sale. However, when those criteria are met after the reporting period but before the approval of the financial statements for issue, the entity shall disclose the information.

Non Current Assets to be Abandoned :

Non-current assets (or disposal group) that need to be abandoned will not qualify to classify as held for sale because their carrying amount will be principally recovered through continuing use in the entity's operation rather through the sale. If however, the disposal group to be abandoned meets the criteria as prescribed in Ind AS 105 to be classified as a discontinued operation, then the disclosure regarding discontinued operation must be presented.

Non-current assets (or disposal groups) to be abandoned include 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.

Question 4 – Entity

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.

5. MEASUREMENT OF ASSETS CLASSIFIED AS HELD FOR SALE :

1. An entity should measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
2. Depreciation and amortization shall be immediately stopped from the moment the asset has been classified as held for sale.
3. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.
4. When the sale is expected to occur beyond one year, the entity should measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.
5. Non-current asset (or disposal group) classified as held for distribution are also measured on same line as non-current asset (or disposal group) classified as held for sale.

Question 5 – An item of property

An item of property, plant and equipment that is measured on the cost basis should be measured in accordance with Ind AS 16.

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

31st December, 2011	**Rs.**
Cost	12,00,000
Depreciation	(6,00,000)
Net book value	6,00,000

The asset is depreciated at an annual rate of 10% ie. Rs.1,20,000 p.a.

During July, 2012, entity ABC decides to sell the asset and on 1st August it meets the conditions to be classified as held for sale. Analyse.

Question 6 – A Ltd.

A Ltd. acquired a property for Rs.2,00,000. After few years the cumulative depreciation on the property is of Rs.80,000 has been recognised and subsequently the property is classified as held for sale under Ind AS 105.

The Fair Value less cost of Sale = Rs.100,000
On the next reporting date, the Fair Value less cost of sale is Estimated at Rs 85,000
Subsequently the property was sold at Rs.90,000
Show the Asset shall be measured at various measurement dates.

Recognition of Impairment Losses and Reversals :

- An entity should recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with above.
- An entity should recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36, Impairment of Assets.
- An entity should recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:
  1. to the extent that it has not been recognised in the remeasurement of scoped out noncurrent assets, current assets and liabilities; but
  2. not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Ind AS or previously in accordance with Ind AS 36, on the noncurrent assets that are within the scope of the measurement requirements of this Ind AS.

Question 7 –

Disposal Group	Carrying Amount at the reporting Date before classification as held for Sale	Carrying Amount as remeasured immediately before classification as held for sale
Goodwill	1500	1500
PPE	4600	4000
Building	5700	5700
Inventory	2400	2200
Investment in Equity	1800	1500
Total	**16000**	**14900**

The entity estimated that fair value less costs to sell of the disposal group amounts to Rs 13,000 on the date the disposal group is classified as Held for Sale. On the subsequent measurement date the fair value less cost of sale is measured at 15,500. How would you account for the same.

Changes to Plan of Sale ;

- If an entity has classified an asset (or disposal group) as held for sale, but the held for sale criteria no longer met, the entity should cease to classify the asset (or disposal group) as held for sale.

- The entity shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of: (a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale; and (b) its recoverable amount at the date of the subsequent decision not to sell.
- The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the held for sale criteria no longer met.
- Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.
- If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group will continue to be measured as a group only if the group meets the criteria for classification as held for sale. Otherwise:
- the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amounts and fair values less costs to sell at that date; and
- any non-current assets that do not meet the criteria shall cease to be classified as held for sale.

Question 8 – S Ltd.

S Ltd purchased a property for Rs.6,00,000 on 1st April, 20X1. The useful life of the property is 15 years. On 31st March, 2013, S Ltd classified the property as held for sale. The impairment testing provides the estimated recoverable amount of Rs.4,70,000.

The fair value less cost to sell on 31st March, 2013 was Rs.4,60,000. On 31st March, 2014 management changed the plan, as property no longer met the criteria of held for sale. The recoverable amount as at 31st March, 2014 is Rs.5,00,000.

Value the property at the end of 2013 and 2014.

6. PRESENTATION AND DISCLOSURE OF A NON CURRENT ASSET (OR DISPOSAL GROUP) CLASSFIED AS HELD FOR SALE :

Presentation :

- An entity is required to present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet.
- The liabilities of a disposal group classified as held for sale should be presented separately from other liabilities in the balance sheet. Those assets and liabilities should not be offset and presented as a single amount.

- An entity should present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.
- If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition, disclosure of the major classes of assets and liabilities is not required.
- Comparative amounts for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the balance sheets for prior periods are not reclassified or represented to reflect the classification in the balance sheet for the latest period presented.

Disclosure :

An entity should disclose the following information in the notes to the financial statements in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) Description of the non-current asset (or disposal group);

(b) Description of facts and circumstances of the sale, or leading to the expected disposal and the expected manner and timing of that disposal;

(c) Gain or loss recognised and if not presented separately on the face of the income statement, the caption in the income statement that includes that gain or loss.

(d) If applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance of Ind AS 108 Operating Segments.

(e) If there is a change of plan to sell, a description of facts and circumstances leading to the decision and its effect on results.

7. PRESENTATION AND DISCLOSURE OF DISCONTINUED OPERATIONS :

Ind AS 105 defines Discontinued Operation as: A component of an entity that either has been disposed of or is classified as held for sale and:

a) represents a separate major line of business or geographical area of operations; or

b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

c) is a subsidiary acquired exclusively with a view to resale.

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 cash-generating unit or a group of cash generating units while being held for use.

Question 9 – Company XYZ

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.

Question 10 – A group

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.

Question 11 – A Company

A company carried out a merchandise wholesaling business that it operated from several leasehold premises throughout the country. The business has been closed, all stocks have been disposed of, and employees have been made redundant before the end of three months into the next financial year. At that time, some debtors remain to be collected, and costs will continue to be incurred in respect of the vacated premises until the leases are disposed of. In this case, the former activity of merchandise wholesaling has ceased. The outstanding future transactions do not constitute the continuation of the activity and, consequently, the operation has been discontinued.

Question 12 – XYZ Company

XYZ Company has one business segment, and it operates in the UK, the US and Australia. Each of these operations represents a component of XYZ and a major geographical area of operations. Management has decided to sell the US operation, which met the criteria to be classified as held for sale during the year. The US operation should be disclosed in the XYZ's financial statements as a discontinued operation, despite the fact that there has been no change to the number of business segments.

Question 13 –

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.		

Question 14 – Sun Ltd.

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, 2011. The outlet will be sold in June, 2012.

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

8. SELF PRACTICE QUESTIONS :

Question 15 – Entity X

On November 30, 2011, Entity X becomes committed to a plan to sell a property. However, it plans certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months. Can the property be classified as held for sale at the reporting date i.e. December 31, 2011?

Question 16 – Entity R

On March 1, 2011, entity R decides to sell one of its factories. An agent is appointed and the factory is actively marketed. As on March 31, 2011, it is expected that the factory will be sold by February 28, 2012. However, in May 2011, the market price of the factory deteriorated. Entity R believed that the market will recover and thus did not reduce the price of the factory. The company's accounts are authorised for issue on June 26, 2011. Should the factory be shown as held for sale as on March 31, 2011?

Question 17 – Entity X

On June 1, 2011, entity X plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2011, the Board of Directors approves and becomes committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity Y. However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2011 and the sale is expected to be completed by March 31, 2012. Entity X follows December year end. The assets and liabilities attributable to this manufacturing unit are as under:

Disposal Group	Carrying Value as on December 31, 2010	Carrying value as on July 31, 2011
Goodwill	500	500
PPE	1000	900
Building	2000	1850
Debtors	850	1050
Inventory	700	400
Creditors	(300)	(250)
Loans	(2000)	(1850)
Total	2750	2600

The fair value of the manufacturing unit as on December 31, 2010 is Rs.2,000 and as on July 31, 2011 is Rs.1,850. The cost to sell is 100 on both these dates. The disposal group is not sold at the period end i.e., December 31, 2011. The fair value as on December 31, 2011 is lower than the carrying value of the disposal group as on that date.

Required:

1. Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date?
2. The measurement of the manufacturing unit as on the date of classification as held for sale.
3. The measurement of the manufacturing unit as at the end of the year.

Question 18 – A Ltd.

Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/ (liability)	Carrying amount as on 31st March, 20X1 (In Rs.'000)
Attributed goodwill	200
Intangible assets	950

Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	**2,250**

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	**Carry amount as on 15th September 20X1 (In Rs. '000)**
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1,020
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	(250)
Total	**2,160**

Entity A proposed to sell the disposal group at Rs.19,00,000. It estimates that the costs to sell will be Rs.70,000. This cost consists of professional fee to be paid to external lawyers and accountants.

As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale:	**(In Rs. '000)**
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to Rs. 16,50,000.

Required:

What would be the value of all assets/ labilities within the disposal group as on the following dates in accordance with Ind AS 105?

(a) 15 September, 20X1 and

(b) 31st March, 20X2

Question 19 – CK Ltd.

CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 20X1. During the 3 months ended 30th June, 20X1 following events occurred:

On 1st April, 20X1, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 20X1, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – Rs. 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) - Rs. 20,00,000
- Inventories - Rs. 10,00,000

From 1st April, 20X1, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 20X1 the directors estimated that they would receive Rs. 32,00,000 from the sale of the division. Since 1st April, 20X1, market condition has improved and as on 1st August, 20X1 the Company received and accepted a firm offer to purchase the division for Rs. 33,00,000.

The sale is expected to be completed on 30th September, 20X1 and Rs. 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 20X1. During the period from 1st April to 30th June inventories of the division costing Rs. 8,00,000 were sold for Rs. 12,00,000. At 30th June, 20X1, the total cost of the inventories of the division was Rs. 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale of the division will be reported in the interim financial statements for the quarter ended 30th June, 20X1 giving relevant explanations.

Question 20 – Identify

Identify which of the following is a disposal group at 31 March 20X1:

(1) On 21 March 20X1, XYZ announced the Board's intention to sell its shares in a subsidiary company, Alpha, contingent upon the approval of Alpha's shareholders. It seems unlikely that approval will be granted in the near future and no specific potential buyer has been identified.

(2) PQR has entered into a contract to sell the entire delivery fleet of vehicles operated from its warehouse to a competitor, ABC, on 14 March 20X1. The assets will be transferred on 28 April 20X1 from which date the Group will outsource its delivery activities to another company, LMN.

(3) On 16 January 20X1, DEF's management and shareholders approved a plan to sell its retail business in Mumbai and a consultant is hired to manage the sale. As at 31 March 20X1 heads of agreement had been signed although due diligence and the negotiation of final terms are still in process. The transaction is expected to be completed in April 20X1.

Thanks ….