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

Presenter:

Anton van Wyk M. Com CA (SA)



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Presenter

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Anton van Wyk is a **chartered accountant** and independent consultant in International Financial Reporting Standards (IFRS and IFRS for SMEs). As former subject head of Financial Accounting at various higher education providers (including the University of Johannesburg and Monash University South Africa), he has gained valuable insights into and understanding of the important principles underlying the International Financial Reporting Standards (IFRS). Anton is a well-known and popular presenter who has presented numerous IFRS updates for several accounting bodies across South Africa. He is known for his ability to simplify and highlight the most important principles contained in IFRS, whilst keeping the learning process enjoyable for attendees.



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Welcome to the webinar

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- Agenda
 1. Introduction to IFRS 5
 2. Classification criteria
 3. Measurement requirements of IFRS 5
 4. Presentation and disclosure i.t.o. IFRS 5
 5. Income tax implications



Objective of IFRS 5

Pervasive

Specify **accounting treatment** for non-current assets held for sale/DGs

Specify **presentation and disclosure** of **discontinued operations**

Two main objectives of IFRS 5

- Assets that meet the criteria to be classified as HFS, must be measured at the lower of carrying amount (CA) and fair value less costs to sell (FV-CTS)
 - depreciation must cease – why?
- Assets that meet the criteria to be classified as HFS, be presented separately in the SoFP and the results of discontinued operations be presented separately in the statement of comprehensive income



What is a 'current asset'?

An entity shall classify an asset as **current** when:

- it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle or
- it holds the asset primarily for the purpose of trading or
- 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 IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

Non-current Current

- IFRS 5 is effectively a mechanism/vehicle to classify, or reclassify, **qualifying** non-current assets as **current assets**, based on meeting certain key criteria



Not what we
typically regard
as current assets

IFRS 5

Classification criteria

Non-current Assets Held for Sale

Non-current Assets Held for Distribution (to owners)

Qualifying non-current asset?

- NCAs: Assets that include amounts expected to be recovered more than 12 months after the reporting period
- Two important aspects:
 - Assets that have been classified as 'non-current' in terms of IAS 1 *Presentation of Financial Statements*, shall not be reclassified as 'current assets' until they meet the criteria to be classified as 'held for sale' in terms of IFRS 5
 - Non-current assets acquired 'exclusively with a view to resale', shall not be classified as 'current assets' unless they meet the criteria to be classified as 'held for sale' in terms of IFRS 5

The criteria for NCAs are therefore very important!

Disposal group (definition)

- 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
- The disposal group includes goodwill acquired in a business combination if the disposal group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of IAS 36 *Impairment of Assets* or if the disposal group is an operation within such a cash-generating unit

Disposal group? (theory)

- Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, **together in a single transaction**

- Such a “**disposal group**” may be:

- a group of cash-generating units,
- a single cash-generating unit, or
- part of a cash-generating unit

Loses its
initial nature
in a DG

- Once the cash flows from an asset (or group of assets) are expected to arise **principally from sale rather than continuing use**, they become less dependent on cash flows arising from other assets, and a disposal group that was part of a cash-generating unit, **becomes a separate cash-generating unit**

Hence, a DG is a separate CGU!!

Disposal group? (theory)

- The group may include **any assets and any liabilities** of the entity, including:

- current assets (e.g. inventory),
- current liabilities (e.g. trade payables) and
- assets excluded from the *measurement* requirements of IFRS 5 (next slide)

*It is becoming clear that
a distinction is necessary between
**recognition, measurement,
presentation and disclosure***

- If a non-current asset within the scope of the **measurement** requirements of this IFRS is part of a disposal group, the **measurement requirements** of this IFRS apply to the group as a whole, so that the **disposal group** is measured at the lower of its carrying amount and fair value less costs to sell

- This means **at least one non-current asset** in the disposal group must fall within the measurement requirements of IFRS 5 before the disposal group will be treated i.t.o. IFRS 5, i.e. a DG consisting of four investment properties subsequently measured at FVTPL, will not be dealt with i.t.o. IFRS 5

Scope of IFRS 5 (measurement exclusions)

The **measurement provisions** of IFRS 5 do **not** apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group:

- deferred tax assets (IAS 12 *Income Taxes*)
- assets arising from employee benefits (IAS 19 *Employee Benefits*)
- financial assets within the scope of IFRS 9 *Financial Instruments*
- non-current assets that are accounted for in accordance with the fair value model in IAS 40 *Investment Property*
- non-current assets that are measured at fair value less costs to sell in accordance with IAS 41 *Agriculture*
- contractual rights under insurance contracts as defined in IFRS 17 *Insurance Contracts*

It is needless to say that the measurement provisions of IFRS 5 do not apply to current assets, and also not to non-current and current liabilities included in a DG

Interesting scope inclusion

- The classification, presentation and measurement requirements in IFRS 5 applicable to a non-current asset (or disposal group) that is classified as held for sale, apply also to a non-current asset (or disposal group) that is classified as **'held for distribution to owners'** acting in their capacity as owners (i.e. not for services rendered)

Classification criteria: NCAHFS

The basic principle

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 *(assuming the asset is not specifically excluded from IFRS 5)*

For this to be the case, the asset (or disposal group) 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) **and** its **sale must be highly probable**



Highly probable = significantly more likely than probable

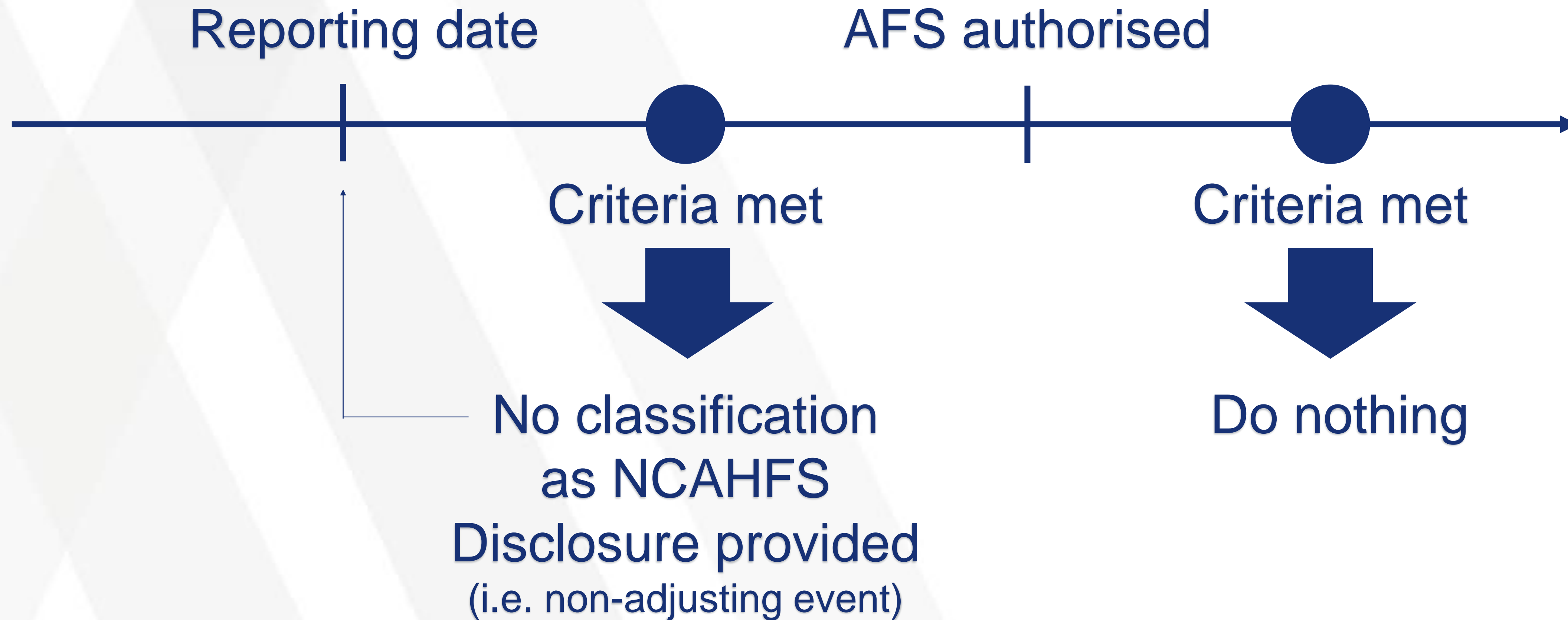
Highly probable sale?

- For the sale to be highly probable:
 - the **appropriate level** of management must be committed to a plan to sell the asset (or disposal group), and
 - an **active programme** to locate a buyer and complete the plan must have been **initiated**
- Further, the asset (or disposal group) must be **actively marketed** for sale at a **price that is reasonable** in relation to its current fair value
- In addition:
 - the sale should be expected to qualify for recognition as a **completed sale within one year from the date of classification**, except as permitted by IFRS 5 exceptions, and
 - actions required to complete the plan should indicate that it is **unlikely that significant changes** to the plan will be made or that the plan will be withdrawn
- *The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable*

Acquired with view to dispose?

- When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if:
 - the **one-year requirement** is met (except as permitted by IFRS 5 exceptions) and
 - it is **highly probable** that any other criteria that are not met at that date, will be met within a short period following the acquisition
 - usually within three months

After reporting period



Classification criteria: NCAHFD

- A non-current asset (or disposal group) is classified as **held for distribution to owners** when the entity is committed to distribute the asset (or disposal group) to the owners
- For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable
- For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification
- Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn
- The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable

Abandonment?

(very interesting!!)

- **An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned**
- This is because its carrying amount will be recovered principally through continuing use
- However, **if** the disposal group to be abandoned meets the criteria in IFRS 5 to be a **discontinued operation**, the entity shall present the results and cash flows of the disposal group as 'discontinued operations' in accordance with IFRS 5 at the date on which it ceases to be used
- 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**
- *An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned*

Quick recap: Classification

1. Identify qualifying non-current asset (NCA) or disposal group (DG)

- DG can include any assets and liabilities, but some may not be subject to IFRS 5's measurement requirements (specific exclusions exist)
- If one NCA in a DG is subject to IFRS 5's measurement requirements, the DG (in total) is measured at lower of carrying amount and FV – CTS
- DG can be CGUs (plural), a CGU (singular) or part of a CGU
- DG then becomes separate CGU for purposes of IFRS 5
- Assets to be abandoned, do not qualify (but could be discontinued operations)

2. Decide if qualifying NCA/DG meets classification criteria

- Asset is recovered principally through sale and not through use
 - Immediate availability in present condition and sale highly probable
 - Sale highly probable when appropriate level of management committed to plan of disposal and active programme to locate buyer and conclude sale
 - Actively marketed at reasonable price
 - Expectation to conclude sale within one year after classification
 - Significant changes to plan unlikely

Now, measurement!!

IFRS 5

Measurement Requirements

Non-current Assets Held for Sale

Non-current Assets Held for Distribution (to owners)

Measurement

(NCAHFS and NCAHFD)

The crux of measurement

An entity shall 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

An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the **lower** of its carrying amount and fair value less costs to distribute, excluding finance costs and income tax expense

Impairment losses

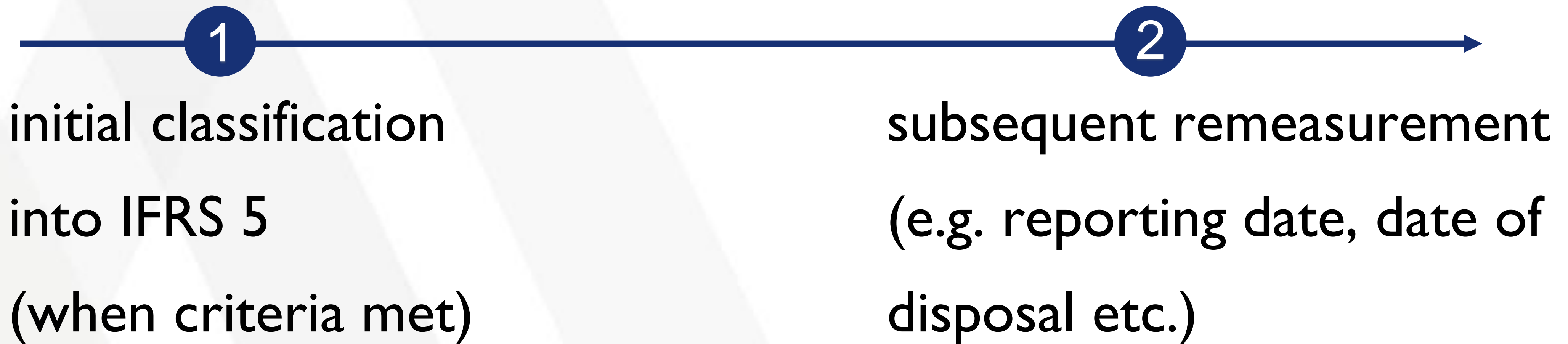
- An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised when the assets and liabilities were measured i.t.o. their applicable standards directly before reclassification into NCAHFS category
- The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, as follows:
 - Goodwill (the impairment loss on goodwill cannot subsequently be reversed)
 - The other assets within the scope of the measurement requirements of IFRS 5, on a pro rata basis

Important principle

- Immediately before application of the IFRS 5 measurement principle, the asset held for sale/distribution must be measured at its carrying amount in terms of the applicable accounting standard
 - Interesting to note: qualifying NCAs acquired with view to resale are initially measured at lower of CA (i.e. its cost) and FV – CTS
 - NCAHFS/D that are acquired in a business combination, are initially measured at FV – CTS (other A&L measured at fair value i.t.o. IFRS 3 *Business Combinations*)
 - If sale > one year, the CTS must be discounted to PV (unwinding = finance costs)
 - On subsequent remeasurement of a DG, assets and liabilities not subject to the measurement requirements of IFRS 5, are remeasured to their CA's before the FV – CTS of the DG is estimated

Something to note

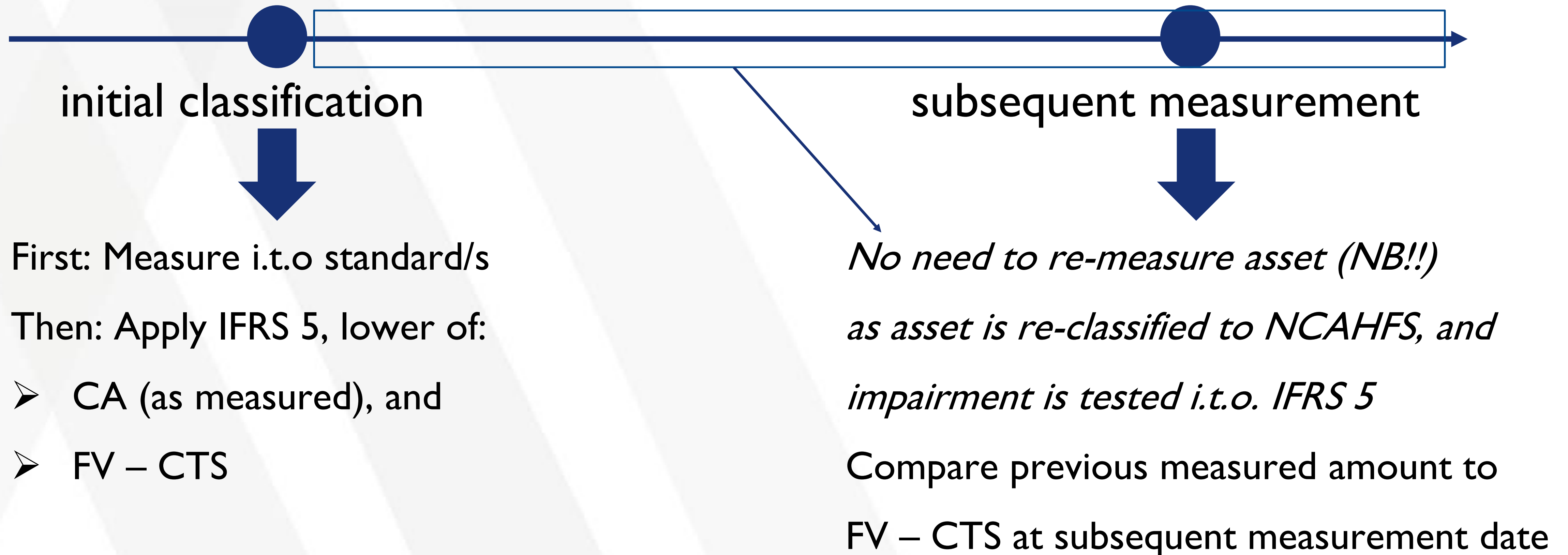
- There are **two measurement stages** relevant to IFRS 5



It is important to keep an open mind when measuring at these different stages (especially focus on DGs which include assets that are not subject to the measurement requirements of IFRS 5)

So, how does it work?

Individual asset held for sale/distribution



Example

ABC Limited correctly classifies machinery as held for sale on 30 September 2020 in terms of IFRS 5.

The machinery had a carrying amount of R800 000 (cost: R1m) on 1 January 2020 and the machinery is depreciated over its useful life of 10 years, with no residual value.

On 30 September 2020, the fair value of the machinery is R700 000 and the costs to sell R10 000.

ABC Ltd's reporting date is 31 December.

At 31 December 2020, the machinery had a fair value of R690 000 and costs to sell increased to R15 000.

Solution

Step 1: On 30 September 2020, ABC Limited recognises depreciation of $R100\ 000 \times 9/12$
 $= R75\ 000$

Step 2: The machinery's carrying amount on 30 September 2020 = $R800\ 000 - R75\ 000$
 $= \mathbf{R725\ 000}$

Step 3: The machinery has a FV – CTS of **R690 000** on 30 September 2020 (i.e. $R700\ 000 - R10\ 000$)

Step 4: The machinery is therefore impaired by **R35 000** on 30 September 2020 and an impairment loss is recognised in P/L

Step 5: At reporting date, the FV – CTS has decreased to **R675 000** (i.e. $R690\ 000 - R15\ 000$)

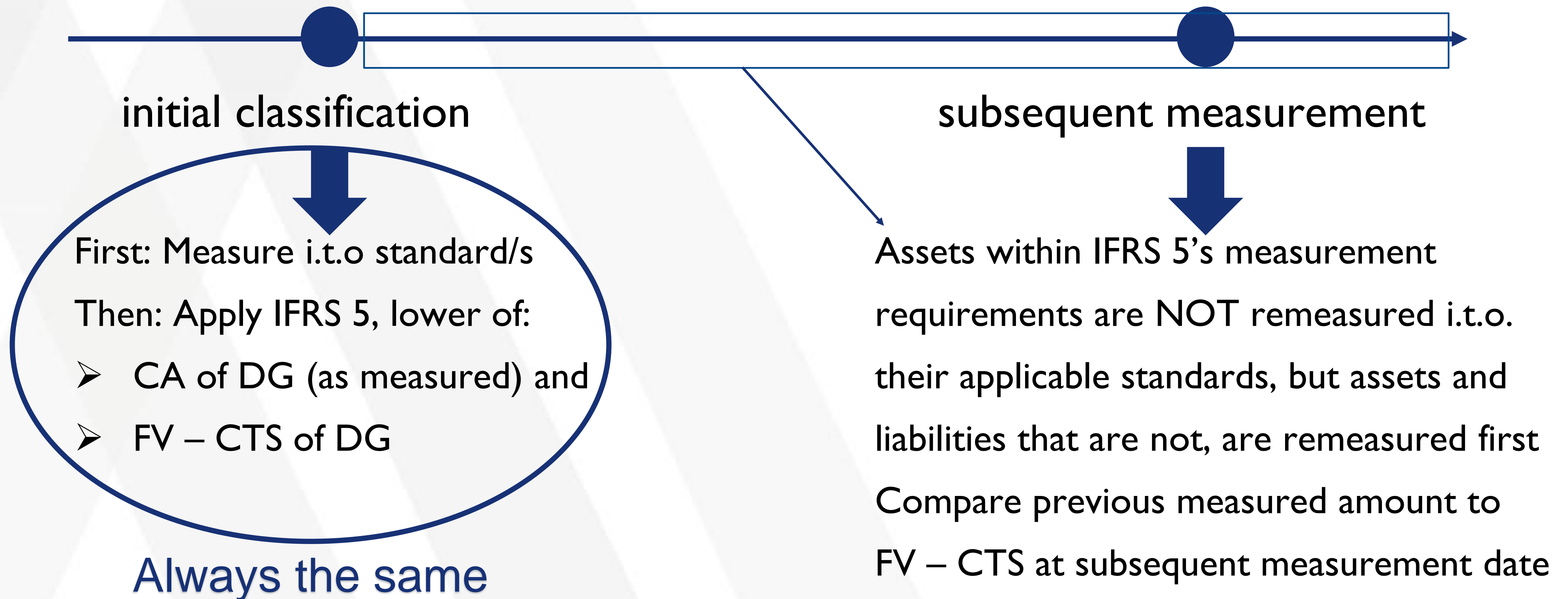
Step 6: At reporting date, machinery is therefore further impaired by **R15 000** (i.e. $R690\ 000 - R675\ 000$)

Note that machinery is not depreciated for the period 1 October 2020 to 31 December 2020

Furthermore: had the asset been revalued before it was classified to IFRS 5, no further revaluations would have been performed after 30 September 2020 as the asset was reclassified from IAS 16/IAS 38 etc., to IFRS 5

So, how does it work?

DG held for sale/distribution



Example

ABC Limited correctly classifies a DG as held for sale on **30 September 2020** in terms of IFRS 5. The DG consists of the following assets and liabilities at this date:

- Depreciable machinery (IAS 16) R800 000 (depreciated up to 30/09/2020)
- Amortised intangibles (IAS 38) R500 000 (amortised up to 30/09/2020)
- Investment property (@FVTPL) R900 000 (fair value as at 30/09/2020)
- Lease liability i.r.o. machinery (R300 000) (correct as at 30/09/2020)

The FV – CTS, on the given dates, is as follows:

- 30 September 2020 R1 600 000
- 31 December 2020 R1 550 000

The investment property's fair value was R940 000 at 31 December 2020.

Depreciation (i.t.o. IAS 16 *Property, Plant and Equipment*) and amortisation (i.t.o. IAS 38 *Intangible Assets*) for the period 1 October 2020 to 31 December 2020 is R50 000 and R30 000 respectively.

The lease liability on 31 December 2020 was R280 000 (correctly measured i.t.o. IFRS 16 *Leases*).

ABC Ltd's reporting date is 31 December.

Solution

Step 1: The CA of the DG on 30 September 2020 is **R1,9m**

Step 2: The FV – CTS of the DG on 30 September 2020 is **R1,6m**

Step 3: Recognise an impairment loss of **R300 000** (R1,9m – R1,6m)

Step 4: The impairment loss is allocated as follows:

- Depreciable machinery $(800 / (800 + 500) \times R300k) = R184\ 615$
- Amortisable intangibles $(500 / (800 + 500) \times R300k) = R115\ 385$

Step 5: The CA of the DG on 31 December 2020 is **R1,66m**
(R615 385 + R384 615 + R940k – R280k)

Step 6: The FV – CTS of the DG on 31 December 2020 is **R1,55m**

Step 7: Recognise an impairment loss of **R110 000** (R1,66m – R1,55m)

Step 8: The impairment loss is allocated as follows:

- Depreciable machinery $(615 / (615 + 384) \times R110k) = R67\ 692$
- Amortisable intangibles $(384 / (615 + 384) \times R110k) = R42\ 308$

Important to note:

1. Machinery and intangibles are not remeasured on 31/12
2. Investment property and lease liability are remeasured on 31/12
3. The impairment loss is only allocated to assets within the scope of IFRS 5's measurement requirements

Reversals of impairment

- An entity shall 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 IFRS 5 or previously in accordance with IAS 36 *Impairment of Assets*
- An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of **a disposal group**:
 - to the extent that it has not been recognised in accordance with the subsequent remeasurement of the DG in terms of the other IFRSs relating to assets and liabilities not within the scope of IFRS 5; but
 - not in excess of the cumulative impairment loss that has been recognised, either in accordance with IFRS 5 or previously in accordance with IAS 36, on the non-current assets that are within the scope of the measurement requirements of IFRS 5

Reversals of impairment

- Two aspects stand out:
 - Take into account any reversals of **IAS 36 impairment losses** that would have been recognised already on assets not within the scope of the measurement requirements of IFRS 5 (i.e. avoid double-counting)
 - Ensure that the **reversal ceiling** is adhered to, i.e. a reversal of the IFRS 5 impairment cannot exceed the cumulative impairment that was recognised on an asset/DG in terms of IFRS 5 itself, and any impairment loss recognised i.t.o. IAS 36

IFRS 5


Presentation and Disclosure

Non-current Assets Held for Sale

Non-current Assets Held for Distribution (to owners)

Discontinued Operations

Definitions

- **Component of an entity**
 - 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
- **Discontinued operation**
 - A discontinued operation is a **component of an entity** that either has been disposed of, or is classified as held for sale, and
 - represents 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 resale*

Presentation (face of AFS)

An entity shall **present (for current year and prior periods in AFS)**:

1. a **single amount** in the **statement of comprehensive income** comprising the total of:

- the 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 the disposal of the assets or disposal group(s) constituting the discontinued operation

2. the **net cash flows attributable** to the operating, investing and financing activities of discontinued operations. These disclosures may be presented or disclosed. These presentations/disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition

Presentation (face of AFS)

3. An entity shall 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 statement of financial position
 - The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position
 - Those assets and liabilities shall not be offset and presented as a single amount
 - The major classes of assets and liabilities classified as held for sale shall be separately presented in the statement of financial position (*or separately disclosed in the notes*)
 - An entity shall 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, presentation/disclosure of the *major classes* of assets and liabilities is not required
4. An entity shall **not** reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position **for prior periods** to reflect the classification in the statement of financial position for the latest period presented

Disclosure (notes to AFS)

An entity shall **disclose** (or present) for current and prior periods:

1. an **analysis of the single amount presented** into:

- the revenue, expenses and pre-tax profit or loss of discontinued operations
 - the related income tax expense as required by IAS 12
- 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 and
 - the related income tax expense as required by IAS 12

2. an entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the above information when the subsidiary is a **disposal group** that meets the definition of a **discontinued operation**

Disclosure (notes to AFS)

- An entity shall **disclose** the following information in the notes 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);
 - a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
 - the gain or loss recognised and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss;
 - if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating Segments*

No longer HFS?

- If an entity **ceases to classify** a component of an entity as **held for sale**, the results of operations of the component previously presented in discontinued operations shall be reclassified and included in *income from continuing operations* for all periods presented
- The amounts for prior periods shall be described as having been re-presented

Continuing operations

- Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does **not** meet the definition of a discontinued operation shall be included in profit or loss from ‘continuing operations’

IFRS 5

Tax implications

Non-current Assets Held for Sale

Non-current Assets Held for Distribution (to owners)

Discontinued Operations

Tax implications

- IFRS 5 represents an **intention** to recover the carrying amount(s) of an asset or the assets included in a disposal group principally through a sales transaction rather than through continued use
- Hence, the intention **CHANGES** from recovery through use to recovery through sale...
- This change in intention, could lead to amended expected future tax consequences, i.e. a change in the deferred tax relating to that asset/disposal group

Example

ABC Ltd correctly classifies an administration building as held for sale on 30 June 2020. Their reporting date is 31 December. The information is as follows on 30 June 2020:

- Carrying amount (revalued) R5 000 000
- Original cost price R3 000 000
- Unclaimed capital allowances R2 000 000
- Residual value R500 000

Question: What would the impact be on the deferred tax balance relating to the building due to the classification into IFRS 5?

Solution

Deferred tax when recovered through USE

$$= [\text{CA less TB (i.e. unclaimed capital allowances)}] \times 28\%$$

$$= [\text{R5m} - \text{R2m}] \times 28\%$$

$$= \mathbf{R840\ 000\ Liability}$$

Deferred tax when recovered through SALE

1. CGT: capital gain equals:

$$= [\text{Proceeds less base cost}] \times 80\% \times 28\%$$

$$= [\text{SP} - \text{recoupment}] \text{ less } [\text{CP} - \text{total allowances claimed}]$$

$$= [\text{R5m} - \text{R1m}] \text{ less } [\text{R3m} - \text{R1m}] \times 80\% \times 28\%$$

$$= \text{R448\ 000 (expected CGT), based on R5m CA (being assumed SP)}$$

2. Recoupment:

$$= [\text{SP limited to CP}] \text{ less } [\text{unclaimed W\&T}] \times 28\%$$

$$= [\text{R5m} - \text{R3m}] \text{ less } [\text{R2m}] \times 28\%$$

$$= \text{R280\ 000}$$

$$\text{Total expected tax consequences based on recovery through sale} = \text{R448\ 000} + \text{R280\ 000} = \mathbf{R728\ 000\ Liability}$$

Dr Deferred tax (SoFP)	R112 000
Cr Revaluation surplus (OCI)	R112 000

**Thank you for your
participation**

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