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

The International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 5 Non-current Assets Held for Sale and Discontinued Operations on 31 March 2004. IFRS 5 replaces IAS 35 Discontinuing Operations (thereby amending certain of its requirements) and creates a "held for sale" category for non-current assets.

Summary of IFRS 5 Requirements

Definition of a discontinued operation	Very much the same as the definition in IAS 35.
Timing of classification as a discontinued operation	When the discontinued operation is disposed of or meets the criteria as "held for sale".
Non-current assets held for sale	Write down to fair value less costs to sell. Depreciation not permitted. Presented separately in the balance sheet.
Results and cash flows of discontinued operations	Presented separately in the income and cash flow statements.

The most significant change from IAS 35 relates to the timing of the classification of an operation as a discontinued operation. Further, IFRS 5 requires the results of discontinued operations to be presented separately in the income statement.

IFRS 5 introduces a "held for sale" category for non-current assets and disposal groups. Such items classified as "held for sale" are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated. The same requirements would apply if an asset or group of assets does not meet the definition of a discontinued operation, but still satisfies the criteria to be classified as "held for sale".

Convergence with U.S. Accounting Principles

IFRS 5 achieves convergence with the requirements of US SFAS 144 Accounting for the Impairment or Disposal of Long-lived Assets with respect to the timing of the classification of operations as discontinued operations and the presentation of such operations. However, due to the different definitions of discontinued operations in IFRS 5 and SFAS 144, there are still inconsistencies that will not be addressed before 2005. Furthermore, with respect to long-lived assets that are held and used, the impairment recognition and measurement provisions in SFAS 144 are significantly different from those in IAS 36. IFRS 5 does not address these differences.

Assets classified as held for sale

IFRS 5 establishes a classification for non-current assets as "held for sale" using the same criteria as those in SFAS 144. The criteria include a consideration of the manner in which the carrying amount will be principally recovered, either through a sale transaction or continued use. An asset or disposal group is classified as held for sale when it is **available for immediate sale** in its present condition and the sale is **highly probable**. The sale is expected to be highly probable if all the following criteria are satisfied:

Strict criteria for held for sale classification.

- management is committed to a plan to sell;
- an active program to locate a buyer has been initiated;
- subject to certain exceptions, the sale is expected within twelve months;
- the asset is being actively marketed at a reasonable price; and
- actions required to complete the sale indicate that the plan will not be significantly changed or withdrawn.

A disposal group is defined as a group of assets and associated liabilities to be disposed of, by sale or otherwise, together in a single transaction. Such a group includes goodwill acquired in a business combination if it is a cash-generating unit to which that goodwill was assigned.

Non-current assets or disposal groups to be abandoned are not classified as held for sale but may be classified as discontinued operations when they are eventually abandoned, provided that at that date they satisfy the definition of discontinued operations.

Measurement at the lower of carrying amount and fair value less costs to sell and not depreciated.

Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the non-current asset, or in the case of a disposal group, the non-current assets in the same order of allocation as required by IAS 36.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

An impairment loss is recognised in profit or loss for any initial and subsequent write down of the non-current asset or disposal group to fair value less costs to sell. For assets carried at fair value prior to initial classification, the requirement to deduct costs to sell from fair value will result in an immediate charge to profit or loss.

A gain for any subsequent increase in fair value less costs to sell may be recognised to the extent that it is not in excess of the cumulative impairment loss that was recognised in accordance with IFRS 5 or previously under IAS 36.

Discontinued operations

The new definition of a discontinued operation is much the same as under IAS 35, except that the timing of classification is now dependent on when the held for sale criteria are satisfied.

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;
- 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.

Components of an entity are any operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes.

IFRS 5 classifies an operation as discontinued at the date when the entity has either (a) actually disposed of the operation, or (b) when the operation satisfies the criteria to be classified as held for sale. IAS 35 classified an operation as discontinuing at the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. This means that the classification under IFRS 5 could occur earlier or later than under the old IAS 35, depending on the circumstances.

IFRS 5 prohibits retroactive classification as a discontinued operation, when the discontinued criteria are met after the balance sheet date.

Presentation and disclosure – held for sale

Separate presentation and disclosures required in both the income statement, balance sheet and cash flow statement.

Non-current assets, or the assets and associated liabilities of a disposal group, classified as held for sale must be presented separately in the balance sheet as current. The assets of a disposal group are presented separately from the associated liabilities and are not offset. Prior periods are not reclassified to reflect the classification of non-current assets and disposal groups as held for sale in the latest period presented. There are several additional disclosures including a description of the nature of assets and liabilities held and the facts and circumstances surrounding the sale.

Gains and losses on fair value adjustments to non-current assets or disposal groups which are classified as held for sale but which do not meet the definition of a discontinued operation are recognised in profit or loss as a part of the entity's continuing operations.

Presentation and disclosure – discontinued operations

An entity must disclose on the face of the income statement a single amount comprising the sum of the post-tax profit or loss of the discontinued operation 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).

An analysis of the single amount above must be presented either on the face of the income statement or in the notes. This analysis must include revenue, expenses, pre-tax profit or loss and related income taxes in a section distinct from continuing operations and prior periods are re-presented so that the disclosures relate to all operations classified as discontinued by the latest balance sheet date.

The net cash flows attributable to the operating, investing, and financing activities of a discontinued operation must be presented separately on the face of the cash flow statement or disclosed in the notes and is required for prior periods.

Subsidiaries acquired with a view to resale

No exclusions from consolidation under IAS 27, IFRS 5 applies to subsidiaries acquired with a view to resale.

In terms of IFRS 5, subsidiaries acquired with a view to resale within twelve months from acquisition are no longer excluded from consolidation under IAS 27 and must now be consolidated. However, if the subsidiary is classified as held for sale it is presented as a disposal group classified as held for sale. In the parent's separate financial statements, the investment in the subsidiary is classified as a non-current asset held for sale when it satisfies the criteria.

The disclosures in the income statement, balance sheet and cash flow statement are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

Transitional provisions and effective date

IFRS 5 shall be applied prospectively for annual periods beginning on or after 1 January 2005, with earlier application permitted if sufficient information is available. In terms of IFRS 1, a first time adopter shall apply IFRS 5 retrospectively unless transition date is prior to 1 January 2005 in which case the transitional provisions of IFRS 5 apply.

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