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SLFRS 5 – Non Current Assets Held for Sale and Discontinued Operations

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Objective

- Accounting for Assets held for sale
- Presentation and disclosure of Discontinued Operations
 - a. Assets classified as HFS to be measured at the lower of CA and FVLCS, and depreciation on such assets to cease
 - b. HFS -separately in the SOFP and result of discontinued operations – separately in SCI

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Scope in

- All recognised non current assets
- All disposal groups

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Scoping of “ NCA held for distribution to owners”

- SLFRS –para 5A
- IFRIC Interpretation 17
- Basis for Conclusion – 60 under IFRIC 17

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Scoping of “NCA held for distribution to owners” Contd.

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Scope Exclusion

- Deferred tax assets
- Assets arising from employee benefits
- Financial assets under LKAS 39
- NCA –accounted under the FV Model in LKAS 40
- NCA that are measured at FVLCS –LKAS 41
- Contractual rights under – SLFRS 4

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“Held for sale” classification

- Basis – “if the asset’s (or disposal Group’s) carrying amount will be recovered principally through *a sale transaction* rather than *through continuing use*”
- Criteria;
 - Available for immediate sale
 - Highly probable
 - Management committed to plan to sell
 - Active programme has been initiated
 - Asset is marketed at a reasonable price compared to fair value
 - Sale expected to be completed within 1 year from date of classification (unless beyond the entity’s control, e.g. regulatory approval required for the sale –[Para.9 and Appendix B](#)).

[Disposal Group](#)

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Availability for Immediate Sale

Example

- An entity is committed to a plan to sell its headquarters building and has initiated actions to locate a buyer.
- **Scenario (a)**
The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion of “*availability for immediate sale*” **would be met** at the plan commitment date.

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Availability for Immediate Sale

Example

- Scenario (b)
The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion –**availability for immediate sale**” would **not be met** until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

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Exception - “Completion of Sales within 1 Year”

- An exception to the one-year requirement in paragraph 8 applies in limited situations in which the period required to complete the sale of a non-current asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity’s control and specified conditions are met (paragraphs 9 and B1)

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Exception - 'Completion of Sales within 1 Year' -

Example

An entity in the power generating industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is highly probable within one year. In that situation, the conditions in paragraph B1(a) for an exception to the one-year requirement in paragraph 8 would be met.

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"Held for sale" measurement

- Measure non-current asset in accordance with applicable SLFRSs/LKs
- Classify as "held for sale" and measure at lower of:
 - carrying amount
 - fair value less costs to sell
- No subsequent depreciation
- Disclose separately

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Disposal group

Disposal group

- A group of assets and liabilities to be disposed of together in a single transaction

“Held for sale” classification

- Same criteria as [single asset held for sale](#)

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Disposal groups – “held for sale” measurement

- Measure assets and liabilities in accordance with applicable SLFRSs
- Classify as “held for sale” and measure at the lower of:
 - carrying amount and
 - fair value less costs to sell
- Impairment allocated to “SLFRS 5” assets
- No subsequent depreciation of “SLFRS 5” assets
- Disclose assets and liabilities separately as single lines – do not net off

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Allocation of an impairment loss on a disposal group

- The impairment loss is allocated to non-current assets to which the measurement requirements of the SLFRS are applicable. The loss is allocated to the assets in the order of allocation set out in paragraphs 104 and 122 of LKAS 36

Example

[Allocation of an impairment loss on a disposal group](#)



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“Distribution of NCA to Owners” -IFRIC 17

- Sometimes an entity distribute assets other than cash (non-current assets) as dividends to its owners acting in their capacity as owners.
- Interpretation applies to Non- reciprocal distributions of assets by an entity to its owners;
 - Distributions of non cash assets (e.g. PPE, Business as defined in SLFRS 3, **Ownership interest in another entity or disposal group as defined in SLFRS 5**) and
 - Distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

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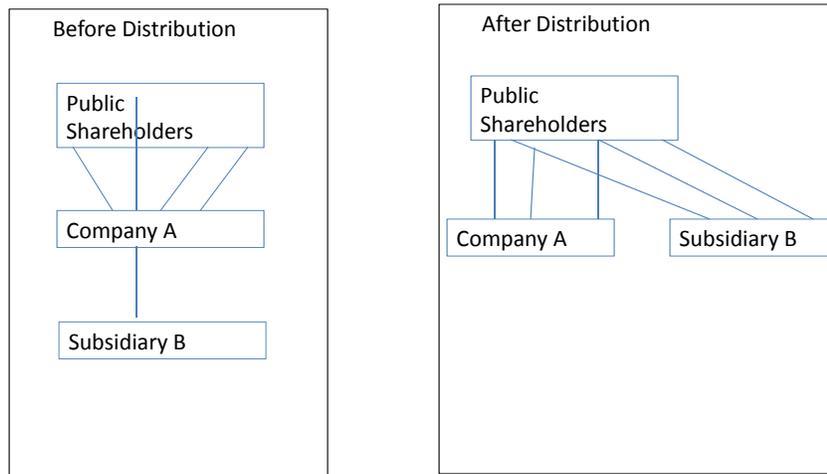
“Distribution of NCA to Owners” -IFRIC 17

- IFRIC 17 applies only to distributions in which all owners of the same class of equity instruments are treated equally.
- Does not apply to a distribution of NCA that is ultimately controlled by the same party or parties before and after the distribution.

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“Distribution of NCA to Owners” -IFRIC 17



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Rational of Scoping – ‘NCA held for Distribution to Owners’

- When an entity has an obligation to distribute assets to its owners, the carrying amount of the assets will no longer be recovered **principally through continuing use**. The IFRIC decided that the information required by IFRS 5 is important to users of financial statements regardless of the form of a transaction

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“Held for distribution to owners” -Classification

- Basis ;
 - when the entity is committed to distribute the asset (or disposal group) to the owners.
- ▶ Criteria
 - Available for immediate distribution
 - Highly probable
 - Actions to complete the distribution must have been initiated
 - Should be expected to be completed within one year from the date of classification.
 - (probability of shareholders’ approval should be considered as part of the assessment of whether the distribution is highly probable)

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“Held for distribution to owners” measurement

- Classify as “held for distribution to owners” and measure at the lower of:
 - carrying amount and
 - fair value less costs to distribute

NCA – to be abandoned

- 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 required criteria, the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with the guidance given in relevant paragraphs in the Standard.

NCA – to be abandoned

Example

- In October 20X9 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 2010. In the financial statements for the year ended 31 December 20X9, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 2010, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by paragraphs 33 and 34 of the SLFRS.

Discontinued operations – definition

- **Component** of an entity that by the balance sheet date:
 - has been disposed of, OR
 - meets “held for sale” criteria
- AND
- represents a separate major line of business or geographical area of operation
- is a part of a single co-ordinated plan to dispose of a separate major line of business OR
- is a subsidiary acquired with a view to re-sell

Discontinued operations - presentation

- A single amount in the statement of comprehensive income comprising post-tax profit/loss of operation and profit/loss on measurement to fair value less costs to sell (or on disposal)
- Further analysis on face or in notes

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Presentation and Disclosure

- Illustrative Example

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Key points

- Disposal group can be held for sale and not be a discontinued operation
- Balance sheet position for assets and disposal groups classified as held for sale not restated in comparative period
- Statement of Comprehensive Income - results of discontinued operations are restated
- Abandoned activity at year end may be discontinued but will not be held for sale

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New Developments

| Standard | Existing Para Reference | Replaced /added paragraph |
|----------|-------------------------|--|
| SLFRS 5 | Not Included | <p>Para 5B</p> <p>This SLFRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other SLFRSs do not apply to such assets (or disposal groups) unless those SLFRSs require:</p> <p>(a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or</p> <p>(b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of SLFRS 5 and such disclosures are not already provided in the other notes to the financial statements.</p> <p>Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of LKAS 1, in particular paragraphs 15 and 125 of that Standard</p> |

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THANK YOU