CL 02 – Financial Reporting and Governance

Corporate Level

(SLFRS 05 – Non-current Assets Held for Sale and Discontinued Operations)

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Non-current Assets Held for Sale and Discontinued Operations

Topic No 13

01. OBJECTIVE

The **objective** of this SLFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations.

Therefore, this SLFRS requires:

1. assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease
2. assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income

02.NON-CURRENT ASSETS HELD FOR SALE

SLFRS 5 requires assets 'held for sale' to be presented separately in the statement of financial position.

✓ *Assets and groups of assets that are 'held for sale' or 'held for distribution to owners' are presented separately in the statement of financial position*

✓ *The results of discontinued operations are presented separately in the statement of profit or loss and other comprehensive income*

This is required so that users of financial statements will be better able to make projections about the financial position, profits and cash flows of the entity.

- If an asset (or group of assets) is to be sold or distributed to owners, then it will not contribute to future revenues; equally if part of a business is to be discontinued, then its results will not contribute to overall results in the future.
- By reporting these amounts separately, SLFRS 5 provides users of financial statements with better and more relevant information for decision-making purposes

2.1 Classification as Assets held for sale

A non-current asset is classified as held for sale **if its carrying amount** will be **recovered principally through a sale transaction** rather than through continuing use ***(Para 06)***.

For this to be the case:

- The asset must be **available for immediate** sale in its present condition.
- Its sale must be **highly probable**.

For the **sale to be highly probable**, the following must apply.

- Management must be **committed** to a plan to sell the asset.
- There must be an active programme to **locate a buyer**.
- The asset must be **marketed** for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to take place **within one year** from the date of classification.
- It is **unlikely** that significant change to the plan will be made or that the **plan will be withdrawn**.
    - *To assess this a shareholder approval can be considered.*

An asset can still be classified as held for sale, even if the sale has not actually taken place within one year. However, the delay must have been caused by events or circumstances beyond the entity's control and there must be sufficient evidence that the entity is still committed to sell the asset. Otherwise, the entity must cease to classify the asset as held for sale.

If an entity acquires an asset exclusively with a view to its subsequent disposal, it can classify the asset as held for sale only if the sale is expected to take place within one year and it is highly probable that all the other criteria will be met within a short time (normally three months).

2.2 Classification of assets as held for distribution

A non-current asset is classified as held for distribution to owners when an entity is committed to distribute the asset to the owners ***(Para 12A)***.

For this to be the case:

- The asset must be **available for distribution** in its present condition.
- The distribution must be **highly probable**.

For the distribution to be **highly probable**:

- **Actions to complete** the distribution must have been initiated.

- The distribution should be expected to be **completed within one year** of the date of classification.
- It is **unlikely that significant changes** to the plan will be made or the distribution will be withdrawn.
- An assessment of whether a distribution is 'highly probable' should also include consideration of the probability of **shareholder approval** (if required).

2.3 Assets that are to be abandoned

A non-current asset that is to be abandoned **shall not be classified as held for sale**, as its carrying amount will be recovered principally through continuing use. A non-current asset that is to be used to the end of its economic life is an example of an asset that is to be abandoned.

2.4 Disposal groups

In the previous section we referred to individual assets held for sale or held for distribution. SLFRS 5 and the classification rules above are also relevant to groups of assets, known as 'disposal groups' and defined as follows.

A disposal group	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.

In practice, a disposal group could be a subsidiary, an LKAS 36 cash-generating unit or a single operation within an entity.

Question 01 – Identifying NCAHFS

1. On 1 December 2013, a company became committed to a plan to sell a manufacturing facility and has already found a potential buyer. The company does not intend to discontinue the operations currently carried out in the facility. At 31 December 2013 there is a backlog of uncompleted customer orders. The company will not be able to transfer the facility to the buyer until after it ceases to operate the facility and has eliminated the backlog of uncompleted customer orders. This is not expected to occur until Spring 2014.

2. Badulla Industries PLC is committed to a plan to sell its head office building, and at 31 December 2013 has engaged the services of an agent to locate a buyer. Badulla Industries is having a new head office constructed and will use the existing building until the completion of its new premises. When Badulla Industries vacates the property, the existing head office will be transferred to a buyer.

3. A company plans to renovate a property in order to increase its value prior to selling it to a third party. The company is already working to locate a buyer at current market values.

4. A company is committed to a plan to sell a factory and its operations and had started work to identify a buyer. At the date on which the company becomes committed to the sale plan there is a backlog of orders.

5. A company is committed to a plan to sell a machine and has classified it as held for sale. During the initial one-year period market conditions deteriorated and as a result the asset has not been sold. During the year the company actively marketed the machine but did not receive any reasonable offers and so reduced the price. The asset continues to be marketed at a reasonable price 14 months after classification as held for sale.

6. A subsidiary of Hyssop, B, is for sale at a price of Rs. 3 million. There has been some interest from prospective buyers but no sale as of yet. One buyer has made an offer of Rs. 2 million but the Directors of Hyssop rejected the offer. The Directors have just received advice from their accountants that the fair value of the business is Rs. 2.5 million. They have decided not to reduce the sale price of B at the moment.

Required:

Assess whether the above assets or group of assets can be classified as 'held for sale'.

2.5 Scoped Out Assets

A number of assets are scoped out of the SLFRS 5 measurement requirements. These assets are subject to the classification and presentation requirements of SLFRS 5; however, they continue to be measured in accordance with the relevant standard.

- Deferred tax assets (LKAS 12)
- Assets arising from employee benefits (LKAS 19)
- Financial assets (LKAS 39/SLFRS 9)
- Investment properties accounted for in accordance with the fair value model (LKAS 40)
- Agricultural and biological assets (LKAS 41)
- Insurance contracts (SLFRS 4)

2.6 Measurement of assets held for sale

The measurement requirements of SLFRS 5 are relevant to assets and disposal groups held for sale or held for distribution to owners.

2.6.1 Initial measurement requirements

- Immediately prior to classification as held for sale or distribution, the **carrying amount** of an asset (or the assets and liabilities of a disposal group) is measured **according to the previously applicable** accounting **standard**.
- On transfer to the held for sale category, a non-current asset or disposal group is measured at the **lower of its carrying amount and fair value less costs to sell**.
- On transfer to the held for distribution category, a non-current asset or disposal group classified is measured at the **lower of its carrying amount and fair value less costs to distribute**.

The following definitions provided in SLFRS 5 are relevant to measurement.

Fair value	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 (SLFRS 13)
Costs to sell	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense

2.6.2 Impairment losses

An impairment loss should be recognized where the **fair value less costs to sell** is **lower than carrying amount** at the point of transfer to held for sale. This is **charged to profit or loss**.

An impairment loss recognized on a disposal group is allocated to the non-current assets of the disposal group that are within the measurement requirements of SLFRS 5 in the following order:

- To reduce the carrying amount of any goodwill
- Then, to the other assets of the disposal group on a pro-rata basis related to carrying amounts

If a non-current asset is measured using a **revaluation model** and it meets the criteria to be classified as being held for sale, it should be revalued to fair value immediately before it is classified as held for sale. It is then revalued again at the lower of the carrying amount and the fair value less costs to sell. The difference is the selling costs, and these should be charged against profits in the period.

A gain can be recognized for any **subsequent increase in fair value less costs to sell**, but not in excess of the cumulative impairment loss that has already been recognized, either when the assets were written down to fair value less costs to sell or previously under LKAS 36.

2.6.3 Subsequent measurement

Non-current assets held for sale **should not be depreciated**, even if they are still being used by the entity.

At each reporting date subsequent to classification as held for sale (or distribution), an asset or disposal group **must be remeasured at the lower of carrying amount and fair value less costs to sell** (distribute).

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this SLFRS but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable SLFRSs before the fair value less costs to sell of the disposal group is remeasured.

Question 02 – Measurement

Aptus Manufacturing PLC has owned a packaging machine for a number of years. The machine cost Rs. 1 and has a carrying amount of Rs. 800,000 at 1 January 2023 with a remaining useful life of eight years. On 1 July 2023, the management of Aptus Manufacturing decided to sell the machine and immediately advertised it as being for sale in relevant trade publications. The market value of the machine at 1 July 2023 is Rs. 760,000 and Aptus Manufacturing has agreed to transport the machine to the purchaser at a cost of Rs. 20,000. At the year end of 31 December 2023, the machine remains unsold although the criteria to classify it as held for sale are still met. At this date, the market value of the machine is unchanged at Rs. 760,000.

Required:

Calculate the value at which the machine should be included in the statement of financial position at 31 December 2023 and **record** the amounts recognized in profit or loss during the year in respect of the machine.

Question 03 – Measurement – Reversal of impairment

Mannar Manufacturing PLC has owned a piece of equipment for a number of years. The equipment has a carrying amount of Rs. 3.25 million at 1 July 2023, on which date it was classified as held for sale. The market value of the machine at 1 July 2023 is Rs. 3.1 million and Mannar Manufacturing expect transaction costs to amount to Rs. 100,000. At the year-end of 31 December 2023 the equipment remains unsold although the criteria to classify it as held for sale are still met. At this date the market value of the asset is Rs. 3.2 million.

Required: **Calculate** at what value should the equipment be included in the statement of financial position at 31 December 2023 and what amounts are recognized in the statement of profit or loss during the year in respect of it (insofar as the information allows)?

2.6.4 Presentation of assets and disposal groups held for sale

- **Non-current assets and the assets of disposal groups** classified as held for sale or distribution **should be presented separately** from other assets in the statement of financial position.
- The **liabilities of a disposal group** classified as held for sale should be **presented separately** from other liabilities in the statement of financial position.
- Assets and liabilities held for sale/distribution **should not be offset** and presented as a single amount.
- The major classes of assets and liabilities held for sale should be separately disclosed either on the face of the statement of financial position or in the notes, unless a disposal group is a newly acquired subsidiary.
- SLFRS 5 requires non-current assets or disposal groups held for sale to be shown as a **separate component of current assets/current liabilities**.

Note that assets held for sale and the assets and liabilities of disposal groups are not reclassified in the comparative statement of financial position presented within a set of financial statements.

Refer following illustrative presentation:

Current assets				
Inventories	22	26,027	23,830	24,296
Right of return assets	4	1,124	929	856
Trade receivables	4,23	25,672	22,290	25,537
Contract assets	4,23	4,541	5,180	3,450
Prepayments		244	165	226
Other current financial assets	21	551	153	137
Cash and short-term deposits	24	17,528	14,916	11,066
		75,687	67,463	65,568
Assets held for sale	14	13,554	–	–
		89,241	67,463	65,568
Total assets		**147,377**	**110,665**	**101,100**

Current liabilities				
Trade and other payables	30	16,969	20,023	18,248
Contract liabilities	4,29	2,880	2,486	1,836
Refund liabilities	4	6,242	5,844	3,796
Interest-bearing loans and borrowings	21	2,832	3,142	4,834
Other current financial liabilities	21	2,953	254	303
Government grants	28	149	151	150
Income tax payable		3,511	3,563	4,625
Provisions	27	922	156	85
Dividends payable	26	410	–	–
		36,868	35,619	33,877
Liabilities directly associated with the assets held for sale	14	13,125	–	–
		49,993	35,619	33,877
Total liabilities		**86,610**	**64,823**	**60,548**

2.6.5 Additional disclosures

The following should be disclosed in the notes to the financial statements in the period in which a non-current asset or disposal group has been 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 timing and manner of disposal
- The loss recognized on transfer to held for sale and the caption in the statement of comprehensive income that includes that amount
- If applicable, the reporting segment in which the asset or disposal group is presented in accordance with SLFRS 8 *Operating segments*

03. Discontinued Operations

SLFRS 5 defines discontinued operations and sets out the required disclosures in respect of such operations.

A discontinued operation	A **component** of an entity that **has either 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

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.

3.1 Presentation of discontinued operations

An entity should present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations.

This allows users to distinguish between operations which will continue in the future and those which will not, and makes it more possible to predict future results.

3.1.1 Statement of comprehensive income

An entity should disclose a single amount in the statement of comprehensive income comprising the total of:

- The post-tax profit or loss of discontinued operations
- The post-tax gain or loss recognized on the measurement to fair value less costs of disposal or on the disposal of the assets or disposal group(s) constituting the discontinued operation

An entity should **also disclose an analysis** of this single amount into:

- The revenue, expenses and pre-tax profit or loss of discontinued operations
- The related income tax expense
- The gain or loss recognised on the measurement to fair value less costs of disposal or on the disposal of the assets of the discontinued operation
- The related income tax expense

This may be **presented either in the statement** of comprehensive income or in the **notes**.

- If it is presented in the statement of comprehensive income, **it should be presented in a section identified as relating to discontinued operations**, ie *separately from continuing operations*.
- Gains and losses on the remeasurement of a disposal group that is not a discontinued operation but is held for sale should be included in profit or loss from continuing operations.

This **analysis is not required** where the discontinued operation is a **newly acquired subsidiary** that has been classified as held for sale.

3.1.2 Statement of cash flows

An entity should disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either on the face of the statement of cash flows or in the notes.

Again, this **analysis is not required** where the discontinued operation is a **newly acquired subsidiary** that has been classified as held for sale.

Refer below illustrative presentation:

Consolidated statement of profit or loss

for the year ended 31 December 2024

	Notes	2024 €000	2023 €000 Restated (Note 2.5)
Continuing operations			
Revenue from contracts with customers	4	179,058	159,088
Rental income	18	1,404	1,377
Revenue		**180,462**	**160,465**
Cost of sales		(136,569)	(128,386)
Gross profit		**43,893**	**32,079**
Other operating income	13.1	2,435	2,548
Selling and distribution expenses		(14,001)	(12,964)
Administrative expenses	13.9	(18,290)	(12,011)
Other operating expenses	13.2	(2,554)	(353)
Operating profit		**11,483**	**9,299**
Finance costs	13.3	(1,366)	(1,268)
Finance income	13.4	202	145
Other income	13.5	98	66
Share of profit of an associate and a joint venture	10,11	671	638
Profit before tax from continuing operations		**11,088**	**8,880**
Income tax expense	15	(3,092)	(2,233)
Profit for the year from continuing operations		**7,996**	**6,647**
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations	14	220	(188)
Profit for the year		**8,216**	**6,459**

A detailed note is provided in relation to the discontinued operations as follows:

	2024	2023
	€000	€000
Revenue from contracts with customers	42,809	45,206
Expenses	(41,961)	(44,880)
Operating income	848	326
Finance costs	(525)	(519)
Impairment loss recognised on the remeasurement to fair value less costs to sell	(110)	-
Profit/(loss) before tax from discontinued operations	213	(193)
Tax benefit/(expense):		
Related to pre-tax profit/(loss) from the ordinary activities for the period	(26)	5
Related to remeasurement to fair value less costs to sell	33	-
Profit/(loss) for the year from discontinued operations	**220**	**(188)**
Gain/(loss) on equity instruments designated at fair value included in OCI	-	4
Other comprehensive income for the year from discontinued operations	**-**	**4**

Question 04 – Disposal Group

On 20 October 2023, the directors of a parent company made a public announcement of plans to close a steel works. The closure means that the group will no longer carry out this type of operation, which until recently has represented about 10% of its total revenue. The works will be gradually shut down over a period of several months, with complete closure expected in July 2024. At 31 December, output had been significantly reduced and some redundancies had already taken place. The cash flows, revenues and expenses relating to the steel works can be clearly distinguished from those of the subsidiary's other operations.

Required: Explain how the closure should be treated in the financial statements for the year ended 31 December 2023.

Question 05 – Past Paper

Oshan (Pvt) Limited (OPL) is a subsidiary of Zameel PLC. It has a 31 March year-end. OPL was classified as held for sale on 31 December 2021 in the consolidated financial statements of Zameel PLC and its operations were treated as discontinued from that date onwards. The carrying value and fair value less cost to sell of OPL as at that date was Rs. 125 million and Rs. 115 million respectively. The net loss of OPL for the first 9 months and the balance 3 months for the year ended 31 March 2022 was Rs. 7.5 million and Rs. 1.5 million respectively.

The correct single amount which should be disclosed in the consolidated profit or loss of Zameel PLC in respect of the discontinued operation for the year ended 31 March 2022 is a loss of:

A. Rs. 1.5 million **B**. Rs. 9.0 million **C**. Rs. 11.5 million **D**. Rs. 19.0 million