

CHAPTER - 25

Ind AS 105: Non-Current Assets Held for Sale and Discontinued Operations

Question 1

On 1st June, 20X1, entity X plans to sell a group of assets and liabilities, which is classified as a disposal group. On 31st July, 20X1, 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 30th November, 20X1 and the sale is expected to be completed by 31st March, 20X2. Entity X follows December year end.

The assets and liabilities attributable to this manufacturing unit are as under: (Amount in ₹)

Particulars	Carrying value as on 31 st December, 20X0	Carrying value as on 31 st July, 20X1
Goodwill	500	500
Plant and Machinery	1,000	900
Building	2,000	1,850
Debtors	850	1,050
Inventory	700	400
Creditors	(300)	(250)
Loans	(2,000)	(1,850)
Total	2,750	2,600

The fair value of the manufacturing unit as on 31st December, 20X0 is ₹ 2,000 and as on 31st July, 20X1 is ₹ 1,850. The cost to sell is 100 on both these dates. The disposal group is not sold at the period end i.e., 31st December, 20X1. The fair value as on 31st December, 20X1 is lower than the carrying value of the disposal group as on that date.

Required:

- Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date?
- Measure the manufacturing unit on the date of classification as held for sale.
- Measurement the manufacturing unit at the end of the year.

Answer

- Assessing whether the manufacturing unit can be classified as held for sale**

The manufacturing unit can be classified as held for sale due to the following reasons:

- The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group must be classified as held for sale is 31st July, 20X1, i.e., the date at which management becomes committed to the plan.
- The sale is highly probable as the appropriate level of management i.e., board of directors

in this case have approved the plan.

- (c) A firm purchase agreement has been entered with the buyer.
- (d) The sale is expected to be complete by 31st March, 20X2, i.e., within one year from the date of classification.

2. Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

Step 1: Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

This has been done and the carrying value of the disposal group as on 31st July, 20X1 is determined at ₹ 2,600. The difference between the carrying value as on 31st December, 20X0 and 31st July 20X1 is accounted for as per the relevant Ind AS.

Step 2: 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.

The fair value less cost to sell of the disposal group as on 31st July, 20X1 is ₹ 1,750 (i.e. 1,850 – 100). This is lower than the carrying value of ₹ 2,600. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value.

Thus, the assets will be measured as under:

Particulars	Carrying value - 31 st July 20X1	Impairment	Carrying value as per Ind AS 105 - 31 st July 20X1
Goodwill	500	(500)	-
Plant and Machinery	900	(115)	785
Building	1,850	(235)	1,615
Debtors	1,050	-	1,050
Inventory	400	-	400
Creditors	(250)	-	(250)
Loans	(1,850)	-	(1,850)
Total	2,600	(850)	1,750

3. Measurement of the manufacturing unit as on the date of classification as at the year end

The measurement as at the year-end shall be on similar lines as done above.

The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective Standards.

The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

Question 2

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 ₹ '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 following amounts immediately prior to reclassification as held for sale.

Asset/(liability)	Carrying amount as on 15th September, 20X1 (in ₹ '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 ₹ 19,00,000. It estimates that the costs to sell will be ₹ 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 ₹ '000)
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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 ₹ 16,50,000.

Compute the value of all assets/liabilities within the disposal group as on the following dates in accordance with Ind AS 105:

- (a) 15th September, 20X1 and
- (b) 31st March, 20X2

Note: Present all calculations in ₹ '000

Answer

(a) As at 15th September, 20X1

The disposal group should be measured at ₹ 18,30,000 (19,00,000 – 70,000). The impairment write down of ₹ 3,30,000 (₹ 21,60,000 – ₹ 18,30,000) should be recorded within profit from continuing operations.

The impairment of ₹ 3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/(liability)	Carrying value as at 15 th September, 20X1	Impairment	Revised carrying value as per IND AS 105
Attributed goodwill	200	(200)	–
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	–	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	–	250
Current assets – inventory, receivables and cash balances	520	–	520
Current liabilities	(870)	–	(870)
Non-current liabilities – provisions	(250)	–	(250)
Total	2,160	(330)	1,830

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard – financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31st March, 20X2:

All of the assets and liabilities, outside the scope of measurement under IFRS 5, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/(liability)	Carrying amount as on 15th September 20X1	Change in value to 31st March 20X2	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230
Current assets - inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities - provisions	(250)	-	-	(250)
Total	1,830	(120)	(60)	1,650

Question 3

A freehold property was originally acquired for ₹ 40,00,000. Some years later, after cumulative depreciation of ₹ 11,00,000 has been recognised, an impairment loss of ₹ 3,50,000 is recognised, taking the carrying amount to ₹ 25,50,000. Shortly thereafter, as a consequence of a proposed move to new premises, the freehold property is classified as held for sale. At the time of classification as held for sale, fair value less costs to sell is assessed at ₹ 25,00,000.

At the next reporting date, the property market has improved and fair value less costs to sell is reassessed at ₹ 26,50,000.

Six months after that, the property market has continued to improve, and fair value less costs to sell is now assessed at ₹ 30,00,000.

Subsequently after some time, the property is sold for ₹ 30,00,000.

What would be the value of property as on the date of classification as held for sale and further reporting dates as per Ind AS 105? Also determine the gain or loss at the time of sale of property.

Answer

At the time of classification as held for sale:

- carrying amount is ₹ 25,50,000; and
- fair value less costs to sell is assessed at ₹ 25,00,000.

Accordingly, the initial write-down on classification as held for sale is ₹ 50,000 and the property is carried at ₹ 25,00,000. Following classification as held for sale, no further depreciation is recognised.

At the next reporting date, the property market has improved and fair value less costs to sell is reassessed at ₹ 26,50,000. The gain of ₹ 1,50,000 is less than the cumulative impairment losses recognised to date (₹ 3,50,000 + ₹ 50,000 = ₹ 4,00,000). Accordingly, it is credited in profit or loss and the property is carried at ₹ 26,50,000.

Six months after that, the property market has continued to improve, and fair value less costs to sell is now assessed at ₹ 30,00,000. This further gain of ₹ 3,50,000 is, however, in excess of the cumulative impairment losses recognised to date (₹ 3,50,000 + ₹ 50,000 - ₹ 1,50,000 = ₹ 2,50,000). Accordingly, a restricted gain of ₹ 2,50,000 is credited in profit or loss and the property is carried at ₹ 29,00,000.

Subsequently, the property is sold for ₹ 30,00,000, at which time a gain of ₹ 1,00,000 is recognised.

Question 4

S Ltd purchased a property for ₹ 6,00,000 on 1st April, 20X1. The useful life of the property is 15 years. On 31st March, 20X3, S Ltd classified the property as held for sale. The impairment testing provides the estimated recoverable amount of ₹ 4,70,000.

The fair value less cost to sell on 31st March, 20X3 was ₹ 4,60,000. On 31st March, 20X4 management changed the plan, as property no longer met the criteria of held for sale. The recoverable amount as at 31st March, 20X4 is ₹ 5,00,000.

Recommend the accounting treatment of events for the year ending 31st March, 20X3 and 31st March, 20X4 and value the property at the end of 20X3 and 20X4.

Answer

- (a) Value of property immediately before the classification as held for sale as per Ind AS 16 as on 31st March, 20X3

	₹	
Purchase Price	6,00,000	
Less: Accumulated Depreciation	80,000	(for two years)
Less: Impairment loss (as per Ind AS 36)	50,000	(5,20,000 - 4,70,000)
Carrying Amount	4,70,000	

On initial classification as held for sale on 31st March, 20X3, the value will be lower of:

Carrying amount after impairment	₹ 4,70,000
Fair Value less Cost to sell	₹ 4,60,000

On 31st March, 20X3, Non-current classified as held for sale will be recorded at ₹ 4,60,000.

Depreciation of ₹ 40,000 and Impairment Loss of ₹ 60,000 (50,000 + 10,000) is charged in profit or loss for the year ended 31st March, 20X3.

- (b) On 31st March, 20X4 held for sale property is reclassified as criteria is not met. The value will be:
- | | |
|-----------------------------------------------------------------------------------|-------------------|
| Carrying amount immediately before classification on 31 st March, 20X3 | ₹ 4,70,000 |
| Less: Depreciation based on 13 years balance life | <u>₹ 36,154</u> |
| Carrying amount had the asset is not classified as held for sale | <u>₹ 4,33,846</u> |
- So, adjustment to the carrying amount of ₹ 26,154 (₹ 4,60,000 - ₹ 4,33,846) is charged to the profit or loss.

The recoverable amount as at 31st March, 20X4 is ₹ 5,00,000. Since, the recoverable amount of the asset exceeds the carrying amount of the asset by ₹ 66,154 (₹ 5,00,000 - ₹ 4,33,846), impairment loss recognised earlier should be reversed. However, reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

Carrying amount as on 31st March, 20X4 had no impairment loss being recognised would have been ₹ 4,80,000 [₹ 6,00,000 - {(₹ 6,00,000/15 years) x 3 years}]. Therefore, the reversal of an impairment loss of ₹ 46,154 (₹ 4,80,000 - ₹ 4,33,846) should be done as on 31st March, 20X4.

Property will be valued at ₹ 4,80,000 on 31st March 20X4.

Question 5

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 - ₹ 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) - ₹ 20,00,000
- Inventories - ₹ 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 ₹ 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 ₹ 33,00,000.

The sale is expected to be completed on 30th September, 20X1 and ₹ 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 ₹ 8,00,000 were sold for ₹ 12,00,000. At 30th June, 20X1, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

Suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 20X1 giving relevant explanations.

Answer

The decision to offer the division for sale on 1st April, 20X1 means that from that date the division has been classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount i.e. ₹ 30,60,000 since it is less than the fair value less cost to sell ₹ 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1st April, 20X1, so its carrying value at 30th June, 20X1 will be ₹ 20,00,000 only. The inventories of the division will be shown at ₹ 9,00,000.

The division will be regarded as discontinued operation for the quarter ended 30th June, 20X1. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.