

Ind AS 105 - Non Current Asset held for sale

Scoped out Non Current Asset \Rightarrow This Ind AS Not apply to

1. Deferred tax asset (Ind AS 12)
2. Employee Benefits (Plan Assets)
3. Financial Assets (Ind AS 109)
4. NCA measured at fair value less cost to sell (Biological Assets)
5. Current asset (E.g. Inventories etc)

Ex:

1.1.01

Cost of asset = ₹ 500000 (Life = 5 years)

→ Depⁿ 1st yr = (100000)

C.A. of asset (31.3.02) = ₹ 400000

→ Depⁿ 2nd yr = (100000)

C.A. of asset (31.3.03) = ₹ 300000

On 31.3.03, Entity classified such asset as **held for sale**.

Fair value on such date = 250000, Cost to sell = 15000.

Note: Once Entity classifies asset as held for sale, **Depⁿ ceases** and **impairment as per Ind AS 36 also ceases**. (Impairment loss recognised as per Ind AS 105)

31.3.03 updated C.A. of asset = ₹ 300000
Fair value less cost to sell = ₹ 235000 } lower is ₹ 235000

∴ Impairment loss as per Ind AS 105 = 65000 (No concept of value in use)

Statement of P/L (Extracts) 31.3.03

Impairment loss 65000

Balance sheet (Extracts) 31.3.03

Current Assets

Assets held for sale 235000

31.3.04 → Asset not yet sold due to genuine reasons

Since, asset classified as held for sale, No Depⁿ is recognised.

Fair value = 350000, Cost to sell = 25000

Now,

CA of Asset in Books = 235000

Inc. 90000

F.V. - LTS = 325000

∴ No Impairment loss is recognised.

But, Impairment loss recognised earlier can be reversed.

Journal Entry

ASSET A/c Dr 65000

To Reversal of Imp. loss 65000

No concept of Revaluation model in Ind AS 105

DISPOSAL GROUP

Group of Assets (incl. liabilities associated) to be disposed of, by sale or otherwise together as a group in a single transaction. Eg. ∴ Group of CGU, Single CGU, outlets, Factories

DOMINOS 1	
PPE	= 50000
Furniture	= 7000
Goodwill	= 4000
Intangible	= 3000
Inventories	= 12000
Liabilities	= (75000)
	<u>685000</u>

DOMINOS 2	
PPE	= 40000
Furniture	= 15000
Goodwill	= 7000
Intangible	= 6500
Inventories	= 9000
Liabilities	= (8000)
	<u>695000</u>

DOMINOS 3	
✓ PPE	= 30000
✓ Furniture	= 8000
✓ Goodwill	= 2000
✓ Intangible	= 6000
✗ Inventories	= 5000
✗ Liabilities	= (12000)
	<u>39000</u>

DOMINOS 4	
PPE	= 20000
Furniture	= 16000
Goodwill	= 14000
Intangible	= 3000
Inventories	= 4000
Liabilities	= (9000)
	<u>48000</u>

Suppose Entity Jagati Group has 50 Dominos outlets in Mumbai and wants to sell one of its outlets Dominos 3. Then entire Dominos 3 is a disposal group which should be classified as held for sale and Ind AS 105 provision shall apply.

MEASUREMENT OF NON CURRENT ASSETS (DISPOSAL GROUP) Classified as Held for Sale.

Measure NCA/Disposal Group Held for sale/distr to owners at lower of

Carrying Amount, and fair value less cost to sell

If Asset/Disposal Group acquired as part of business combination, it is measured at

Fair value - cost to sell. (instead of fair value)

Note Immediately before initial classification as Held for Sale, C.A. of All Assets & Liab. in the Group is measured as per applicable Ind AS.

Eg.

Disposal Group
Classified as Held for Sale

31/3/2022

C.A. of D/G

✓ Goodwill	55000
✓ PPE	50000
✓ Furniture	20000
✗ Inventories	8000
✗ DTA	2000
✗ Debtors	3000
✗ Payables	(2000)
	<u>86500</u>

15/07/2022

Adjusted C.A. of D/G as per Relevant Ind AS

Goodwill	55000
✓ PPE (50000 - 5000)	45000
✓ Furniture (20000 - 2000)	18000
✗ Inventories (8000 - 1500)	6500 (Ind AS 2)
✗ DTA (Ind AS 12)	2000
✗ Debtors (Ind AS 109)	1000
✗ Payables	(1500)
	<u>76500</u>

{ Ind AS 105 applies only to PPE and Furniture & depreciation on PPE & Furniture ceases. }

Fair value - Cost to sell of Disposal Group on 15/07/2022 = 65000

Impairment loss = 76500 - 65000 (As per Ind AS 105) = 11500 (PL)

1st Allocated to Goodwill 55000 (Full)

Remaining 60000 PRO-RATA to other NCA to whom Ind AS 105 applies

PPE	$60000 \times \frac{45000}{45000 + 18000}$	Furniture	$60000 \times \frac{18000}{45000 + 18000}$
	= 42857		= 17143

Revised C.A. of Disposal Group on 15/07/2022 as per Ind AS 105

Goodwill	= 55000 - 55000 = 0
PPE	= 45000 - 42857 = 407143 (Ind AS 105)
Furniture	= 18000 - 17143 = 162857 (Ind AS 105)
Inventories	= 65000 - 0 = 65000
DTA	= 2000 - 0 = 2000
Debtors	= 1000 - 0 = 1000
Payables	= 1500 - 0 = (1500)
	<u>65000</u>

Revised C.A. of Disposal Group on 15/07/2022

31/3/2023

At Reporting period end, Depⁿ is not provided on PPE & Furniture & only Ind AS 105 applies.

Items where Ind AS 105 do not apply, C.A. is adjusted as per respective Ind AS.

Apply relevant Ind AS	C.A. of Inventory as per Ind AS 2 = 60000
	DTA as per Ind AS 12 = 18000
	Debtors as per Ind AS 109 = 9000
	Payables = (15000)
Not to apply Ind AS 105	Previous C.A. of PPE = 407143
	Previous C.A. of Furniture = 162857
	<u>642000</u>

Fair value - CTS of Disposal Group = 590000

∴ Imp. loss = 642000 - 590000 (As per Ind AS 105) = 52000 (PL)

PPE	$52000 \times \frac{407143}{570000}$	Furniture	$52000 \times \frac{162857}{570000}$
	= 37142		= 14857

Revised C.A. of D/G on 31/3/23 as per Ind AS 105

Goodwill	= Nil
PPE (407143 - 37142)	= 370000
Furniture (162857 - 14857)	= 148000
Inventories	= 60000
DTA	= 18000
Debtors	= 9000
Payables	= (15000)
	<u>590000</u>

Note Impairment loss as per Ind AS 36 = Recoverable Amount - Carrying Amount
 Higher of value in use and FV - CTS

Impairment loss as per Ind AS 105 = (Fair value - CTS) - Carrying Amount
 No concept of value in use as classified as held for sale.

Note

1. Depreciation & Amortisation immediately stopped from the moment Asset classified as held for sale.
2. Interest/other Expenses attributable to liabilities of a Disposal Group classified as held for sale continue to be recognised.
3. Impairment loss recognised earlier as per Ind AS 105 can be reversed to the extent of cumulative imp. loss recognised earlier and credited to P/L.

Illustration 1 - Measurement prior to classification as held for sale

Entity ABC owns an item of property and it was stated at the following amounts in its last financial statements:

31st March, 20X1 31.3.02	₹
Cost	12,00,000
Depreciation	(6,00,000)
Net book value	6,00,000 → 31.3.2001

The asset is depreciated at an annual rate of 10% i.e., ₹ 1,20,000 p.a.

Entity ABC closes its books as on 31st March each year. During July, 20X2, entity ABC decides to sell the asset and on 1st August it meets the conditions to be classified as held for sale. Analyse.

CA (31.3.2001) — 600000

1st August 2001 → NCA classified as held for sale

C.A. of asset (31.3.2001)	600000
→ Dep ⁿ for 4 months (120000 × 4/12)	(40000)
updated C.A. (1st Aug. 2001)	560000
Fair value less cost to sell (1st Aug 2001)	590000 or 625000

Part 1

F.V. - CTS = 590000, NO impairment loss as per Ind AS 105

∴ C.A. = 560000

Correct F.V. - CTS = 525000 ∴ Impairment loss = 560000 - 525000 = 35000

∴ R.C.A. = 560000 - 35000 = 525000

Illustration 2

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. Provide 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.

Cost (1.4.2001)	= 600000
(-) Dep. (600000 / 15 yrs)	(40000)
C.A. (31.3.02)	560000
(-) Dep.	(40000)
C.A. (31.3.03)	520000
(-) Imp. loss as per Ind AS 36 (520000 - 470000)	(50000)
R.C.A. (31.3.03)	470000

31.3.03 → Asset classified as held for sale.

Updated C.A. (31.3.03)	→	470000
F.V. - CTS	→	460000

∴ Impairment loss as per Ind AS 105 = 470000 - 460000 = 10000

B/Sheet (31.3.03)

Asset held for sale

= 460000

31.3.2004 (Asset no longer held for sale)

Cost (1.4.2001)

= 600000

(-) Dep = 2405

(80000)

(-) Imp. loss as per Ind AS 26

(50000)

P.A. (31.3.03)

470000

(-) Dep = $\frac{470000}{13405}$

(36154)

P.A. (31.3.04)

433846

∴ Amount should be carried down in B.O.A = 433846.

∴ charged to P/L = 460000 - 433846
= 26154

Question 3 (Similar to PP Nov'19)

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 31st December, 20X0	Carrying value as on 31st 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)
	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:

- 1) Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date? Theory
- 2) The measurement of the manufacturing unit as on the date of classification as held for sale.
- 3) The measurement of the manufacturing unit as at the end of the year.

	<u>P.A. (31. July. 01)</u>	<u>Imp. loss</u>	<u>R.C.A.</u>
✓ Goodwill	500	500	-
✓ P/M	900	115 $\left\{ 350 \times \frac{900}{2750} \right\}$	785
✓ Building	1850	235 $\left\{ 350 \times \frac{1850}{2750} \right\}$	1615
x Debtors	1050	-	1050
x Inventory	400	-	400
x Creditors	(250)	-	(250)
x Loans	(1850)	-	(1850)
	<u>2600</u>	<u>850</u>	<u>1750</u>

$$P.A. = 2600$$

$$F.V. - LPS = 1750$$

$$\therefore \text{Imp. loss} = 2600 - 1750$$

$$= \underline{850}$$

Question 4: (RTP May 18)

Master Sum

V.V. Imp

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 x
Property, plant & equipment	1100
Deferred tax asset	250 x
Current assets - inventory, receivables and cash balances	600 x
Current liabilities	(850) x
Non-current liabilities - provisions	(300) x
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 the 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

$$FV - CTS = 1830000$$

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)
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.

Required:

What would be the value of all assets/ liabilities within the disposal group as on the following dates in accordance with Ind AS 105?

- 15 September, 20X1 and
- 31st March, 20X2

P.A. of D/G (15 Sept)

✓ Goodwill	200
✓ I.A.S.E.T	930
✗ FA ✗	360
✓ PPE	1020
✗ DTA ✗	250
✗ Current Asset ✗	520
✗ Current Liab ✗	(870)
✗ Prov. ✗	(250)
	<u>2160</u>

F.Loss

200
62 $(130 \times \frac{930}{1950})$
-
68 $(130 \times \frac{1020}{1950})$
-
-
-
-
<u>330</u>

R.C.A. (15 Sept)

- (Ind AS 105)
868 (Ind AS 105)
360
952 (Ind AS 105)
250
520
(870)
(250)
<u>1830</u>

P.A. = 2160

FV - CTS = 1830

∴ F.Loss = 330

31.7.2002 Reporting Period End

P.A. (31.3.02)

Goodwill

I.A.S. 28

FA updated

PPE

DTA updated

Current Asset update

Current Liab update

Prov. update

-

868

410

452

230

400

(900)

(250)

1710

I.Loss

29 $(60 \times \frac{868}{1820})$

31 $(60 \times \frac{952}{1820})$

60

R.C.A

839

410

921

230

400

(900)

(250)

1650

CA 1710

EV-CTS 1650

I.Loss = 60

Classification of NCA (or D/G) as Held for Sale / Distⁿ to owners.

Classify NCA or D/G as held for sale if its C.A. will be principally recovered through sale transaction rather than continuing use.

Two key requirements to classify NCA/Disposal Group as held for sale

1. Asset must be available for sale in its present condition

However,

NCA/DG cannot be considered available for immediate sale if

⇒ continue to be vital to entity's ongoing operation

⇒ being refurbished to enhance their values.

NCA/DG cannot be considered HFS if

if intends to sell it in a distant future.

2. Sale must be highly probable.

i.e. significantly more likely than not.

Five Conditions to Qualify Highly Probable

1. Committed to a plan to sell the asset.

2. Active programme to trace a buyer and complete selling plan must have been initiated.

3. Marketed for sale at reasonable price.

4. Sale transaction expected to complete within one year.

5. Significant changes or withdrawal from plan unlikely.

Exception to the period of one year

1. Delay caused by events / circumstances which are beyond the control of the entity.
2. Significant evidence that still committed to its selling plan.

Note

- 1) Sales include exchange of NCA if exchange has commercial substance
- 2) NCA/DG that needs to be abandoned will not qualify as held for sale.
- 3) Before vacating property, time reqd. to vacate is usual and customary and hence considered held for immediate sale.

However, if Property can be vacated only after Replacement, then Property not considered held for immediate sale.

Assets acquired exclusively with a view to subsequent Disposal-

When entity acquires NCA/DG exclusively with a view to resale.

classified as held for sale at Acquisition date if both conditions satisfied :-

- a) One year requirement is met.
- b) Highly probable that any criteria which is not met will be met within 3 months.

→ Ind AS 10

Criteria met after Reporting period but before approval of F/S

Should not classify NCA/DG as held for sale but disclose information.

Changes to a plan of sale

If Entity classified NCA/DG as held for sale, but criteria no longer met, the entity should cease to classify NCA/DG as held for sale.

Measure NCA at the lower of :-

(i) C.A. before asset was classified as held for sale adjusted for Depn, Amortisation, revaluation as per relevant Ind AS.

(ii) Recoverable Amount at the Date of Acquisition not to sell.

If Entity removes individual asset/Liabilities from DG classified as held for sale, the remaining assets and liabilities

Continue to be measured as DG only if DG meets held for sale criteria

a) Otherwise the remaining NCA of that DG that individually meet HFS criteria measured at lower of C.A. and FV - CTS.

b) Any NEA that do not meet criteria shall cease to be classified as HFS.

PRESENTATION

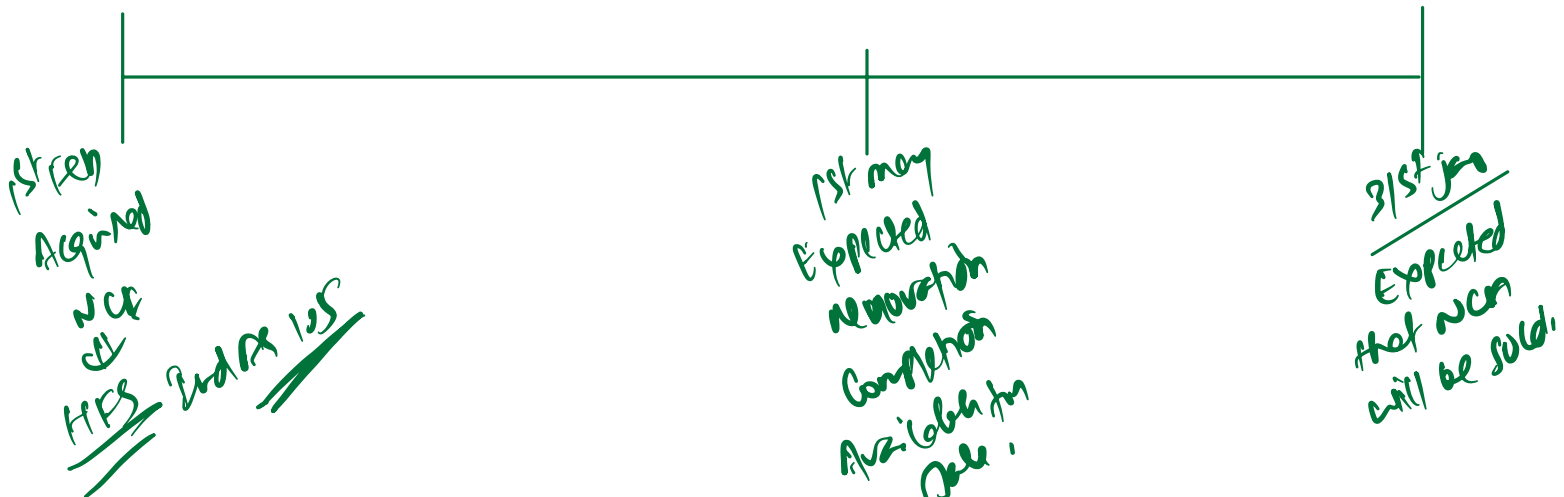
1. Present NEA/DG classified as HFS separately from other asset in the Balance sheet.
2. Present liabilities of a DG classified as HFS separately from other liabilities in the B/sheet.
3. ~~Present separately any cumulative Income/Expenses recognised in OCI relating to NEA/DG classified as Held for sale.~~
4. ~~Comparative amounts for prior periods are not reclassified / represented.~~

1st Feb 2001

NEA acquired with a view to resale → LCM



Renovation completed within 3 months.



Discontinued operation (Component either disposed of or classified as held for sale)

Component of an Entity that represents —

- i) Separate major line of business on geographical area of operation.
- ii) Part of single co-ordinated plan to dispose of a separate major line of business on geographical area of operation.
- iii) Subsidiary acquired exclusively with a view to resale

Major Difference between Disposal Group & Discontinued operation

	<u>Disposal Group</u>	<u>Discontinued operation (D.O.)</u>
Classified as held for sale (Not yet sold)	All assets & liabilities of that unit shall be classified and measured as per Ind AS 105 Disclosure not required	All assets & liabilities of that unit shall be classified and measured as per Ind AS 105. Profit/loss from D.O., EPS, cash flows shown separately in P/L.
Unit disposed of during the year <i>at August year</i>	Classification & measurement as per Ind AS 105 <u>not required</u> .	Classification & measurement as per Ind AS 105 <u>not required</u> . But disclosure is required. Profit/loss from D.O. shown separately EPS from D.O. shown separately Cash flows from D.O. shown separately.

PRESENTATION IN THE STATEMENT OF PROFIT & LOSS

An entity shall disclose a single amount in the statement of profit and loss comprising the total of:

- a) the post-tax profit or loss of discontinued operations; and
- b) 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.

1. In addition, this single amount must be analysed into:

- i. the revenue, expenses and pre-tax profit or loss of discontinued operations;
- ii. the related income tax expense as required by paragraph 81(h) of Ind AS 12;
- iii. 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
- iv. the related income tax expense as required by paragraph 81(h) of Ind AS 12.

This analysis may be presented in the notes to accounts on statement of P/L.

Statement of P/L

Revenue 480 outlet

Other Income 480 outlet

Expenses

Cost of goods sold

Employee Benefit Expenses

Finance cost

Depreciation & Amortization

Other Expenses

} 480 outlet

Profit before tax

XXX

(-) Tax Expenses

Profit/(loss) from continuing operation 480 outlets

XXX 500cn

* Profit/(loss) from discontinued operation (single amount)

XXX 100cn

Profit/(loss) for the period

XXX

EPS from continuing operation (BEPS, DEPS)

* EPS from discontinued operation (BEPS, DEPS)

EPS from both continuing & discontinued operation

Example:19

Company XYZ has 5 different operating segments, one of which solely produces consumer goods. All of the consumer goods production facilities are situated in Central Europe. XYZ also has other operations in Central Europe for other operating segments. In April 20X1, XYZ disposed of its consumer goods segment which meets the definition of a component of a business and represents a separate major line of business and would therefore be considered as a discontinued operation.

Example:21

A company carried out a merchandise wholesaling business that it operated from several leasehold premises throughout the country. The business has been closed, all stocks have been disposed of, and employees have been made redundant before the end of three months into the next financial year. At that time, some debtors remain to be collected, and costs will continue to be incurred in respect of the vacated premises until the leases are disposed of.

In this case, the former activity of merchandise wholesaling has ceased. The outstanding future transactions do not constitute the continuation of the activity and, consequently, the operation has been discontinued.

Example:22

XYZ Company has one business segment, and it operates in the UK, the US and Australia. Each of these operations represents a component of XYZ and a major geographical area of operations. Management has decided to sell the US operation, which met the criteria to be classified as held for sale during the year. The US operation should be disclosed in the XYZ's financial statements as a discontinued operation, despite the fact that there has been no change to the number of business segments.

NON-CURRENT ASSETS TO BE ABANDONED

Non-current assets (or disposal group) that need to be abandoned will not qualify to classify as held for sale because their carrying amount will be principally recovered through continuing use in the entity's operation rather through the sale.

However, the disposal group to be abandoned meets the criteria as prescribed in Ind AS 105 to be classified as a discontinued operation, then the disclosure regarding discontinued operation must be presented.

Example:12

In February 20X2, PQR Limited decides to abandon all of its coal mines, which constitute a major line of business. All work stops at the coal mines during the year ended 31 March 20X2. In the financial statements for the year ended 31 March 20X1, results and cash flows of the coal mines are treated as continuing operations. In the financial statements for the year ended 31 March 20X2, the results and cash flows of the coal mines are treated as discontinued operations and PQR Limited is required to make the disclosures as per Ind AS 105.

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. Assets that are temporarily taken out of use are not to be accounted for as abandoned.

Example:13

Entity ceases to use a manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it is expected to be brought back into use in future when demand picks up.

It is neither to be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use, therefore the entity will not stop charging depreciation or treat it as held for sale. This is because its carrying amount will be recovered principally through continuing use to the end of its economic life.

Dominos 50 outlet



one outlet classify as Held

600 sale



Disposal Group



Not a major component of entity

Dominos 50 outlet



6-7 outlet



South region

HFS?

Discontinued operation

major component of Entity

500 outlet-

South region

20 outlets



HFS

1 outlet

TYCO'S

1st April 2001

Classify D.O.
as IFS

Goodwill → 60000 (Ind AS 105)
PPE → 2000000 (Ind AS 105)
Inventories → 1000000 (Ind AS 2)
C.A. 3060000

FV - CF → 3200000

∴ No Imp. loss

∴ C.A. = 3060000

30th June

Goodwill - 60000

PPE → 2000000

Inventories
(unpacked) → 900000

C.A. → 2960000

FV - CF → 3300000

↓

No Impairment loss

C.A. (30th June) → 2960000