

## CHAPTER 15

# NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (IND AS 105)

### QUESTIONS FROM ICAI STUDY MATERIAL

**Q1:** On 28th February, 20X1, Entity X becomes committed to a plan to sell a property. However, it plans certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months.

Comment whether the property can be classified as held for sale at the reporting date i.e. 31st March, 20X1.

**Ans:** The property cannot be classified as held for sale at the balance sheet date as it is not available for sale immediately in its present condition. Although the renovations are expected to be completed within a short span 2 months, this fact is not relevant for classification. The delay in the timing of the transfer of the property imposed by the Entity X demonstrates that the property is not available for immediate sale.

However, if the PPE meets the criteria for held for sale by 30th April, 20X1 (i.e., 2 months from 28th February, 20X1) and the accounts are not authorised by that date, then necessary disclosures need to be given in the financial statements.

**Q2:** On March 1, 20X1, entity R decides to sell one of its factories. An agent is appointed and the factory is actively marketed. As on March 31, 20X1, it is expected that the factory will be sold by February 28, 20X2. However, in May 20X1, the market price of the factory deteriorated. Entity R believed that the market will recover and thus did not reduce the price of the factory. The company's accounts are authorised for issue on June 26, 20X1. Should the factory be shown as held for sale as on March 31, 20X1?

**Ans:** In this example, the factory ceases to meet the definition of held for sale post the balance sheet date but before the financial statements are authorised for issue, as it is not actively marketed at a reasonable price. But, since the market conditions deteriorated post the balance sheet date, the asset will be classified as held for sale as at March 31, 20X1.

**Q3:** Sun Ltd is a retailer of takeaway food like burger and pizzas. It decides to sell one of its outlets located in Chandni Chowk in New Delhi. The company will continue to run 200 other outlets in New Delhi.

All Ind AS 105 criteria for held for sale classification were first met at 1st October 20X1. The outlet will be sold in June 20X2.

Management believes that outlet is a discontinued operation and wants to present the results of outlet as 'discontinued operations'. Analysis

**Ans:** The Chandni Chowk outlet is a disposal group; it is not a discontinued operation as it is only one outlet. It is not a major line of business or geographical area, nor a subsidiary acquired with a view to resale.

**Q4:** An item of property, plant and equipment that is measured on the cost basis should be measured in accordance with Ind AS 16.

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

31st December, 20X1	₹
Cost	12,00,000
Depreciation	(6,00,000)
Net book value	6,00,000

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

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.

**Ans:** At 31st July, entity ABC should ensure that the asset is measured in accordance with Ind AS 16. It should be depreciated by further ₹ 70,000 ( $₹1,20,000 \times 7/12$ ) and should be carried at ₹ 5,30,000 before it is measured in accordance with Ind AS 105.

Note: From the date the asset is classified as held for sale no further depreciation will be charged.

**Q5:** S Ltd purchased a property for ₹ 6,00,000 on 1 April 20X1. The useful life of the property is 15 years. On 31 March 20X3 S Ltd classify 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 31 March 20X3 was ₹ 4,60,000. On 31 March 20X4 management change the plan as property no longer met the criteria of held for sale. The recoverable amount as at 31 March 20X4 is ₹ 5,00,000.

You are required to 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 31st March, 20X3 and 31st March, 20X4.

[MTP Nov 2023; Exam May 2024 (5 Marks); IBS CS11]

**Ans:** (a) Value of property immediately before the classification as held for sale as per Ind AS 16 as on 31 March 20X3 ₹

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

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

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

On 31 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 31 March 20X3.

- (b) On 31 March 20X4 held for sale property is reclassified as criteria doesn't met. The value will be lower of:

Carrying amount had the asset is not classified as held for sale

Carrying amount immediately before classification

on 31 March 20X3	₹ 4,70,000	
Less Depreciation based on 13 years balance life	₹ 36,154	₹ 4,33,846
Recoverable Amount		₹ 5,00,000

Property will be valued at ₹ 4,33,846 on 31 March 20X4

Adjustment to the carrying amount of ₹ 26,154 (₹ 4,60,000 - 4,33,846) is charged to the profit or loss.

**Q6:** Identify whether each of the following scenarios gives rise to a discontinued operation and/or classification of assets as held for sale

S. No	Particulars	Discontinued operation Yes/No	Assets held for sale Yes/No
1	MNO disposes of a component of the entity by selling the underlying assets. The sales transaction is incomplete at the reporting date.		
2	PQR has ceased activities that meet the definition of a discontinued operation without selling any assets.		
3	STU ceases activities and has already completed the sale of the underlying assets at the reporting date.		
4	VWX will sell or has sold assets that are within the scope of Ind AS 105, but does not discontinue any of its operations.		

**Ans:** Discontinued operations and assets held for sale

S. No	Particulars	Discontinued operation Yes/No	Assets held for sale Yes/No
1	MNO disposes of a component of the entity by selling the underlying assets. The sales transaction is incomplete at the reporting date.	Yes	Yes
2	PQR has ceased activities that meet the definition of a discontinued operation without selling any assets.	Yes	No
3	STU ceases activities and has already completed the sale of the underlying assets at the reporting date.	Yes	No
4	VWX will sell or has sold assets that are within the scope of Ind AS 105, but does not discontinue any of its operations.	No	Yes

**Q7:** On June 1, 20X1, entity X plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 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 November 30, 20X1 and the sale is expected to be completed by March 31, 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 December 31, 20X0	Carrying value as on July 31, 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 December 31, 20X0 is ₹ 2,000 and as on July 31, 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., December 31, 20X1. The fair value as on December 31, 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?

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.

**[Exam NOV 19; MTP Nov 2021; Nov 2024]**

**Ans: 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:

- (a) 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 July 31, 20X1, i.e., the date at which management becomes committed to the plan.
- (b) 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 March 31, 20X2, i.e., within one year from the date of classification.

**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 July 31, 20X1 is determined at ₹ 2,600. The difference between the carrying value as on December 31, 20X0 and July 31, 20X1 is accounted for as per the relevant Ind AS i.e., (Ind AS 2 for inventory and Ind AS 39 for debtors, creditors and loans).

**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 July 31, 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 – July 31, 20X1	Impairment	Carrying value as per Ind AS 105 – 31 July 31, 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)
	2,600	(850)	1,750

### 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.

**Q8:** Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/(liability)	Carry 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 the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	Carry 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)
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?

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

[RTP Nov 2018]

**Ans: (a) As at 15 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 June 2004	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)
<b>Total</b>	<b>2,160</b>	<b>(330)</b>	<b>1,830</b>

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 31 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 15 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)
<b>Total</b>	<b>1,830</b>	<b>(120)</b>	<b>(60)</b>	<b>1,650</b>

PB Limited purchased a plastic bottle manufacturing plant for ₹ 24 lakh on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017, PB Limited temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

**Q9:** CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:

On 1st April, 2018, 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, 2018, 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, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018 the directors estimated that they would receive ₹ 32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 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, 2018 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. 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, 2018, 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.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 2018 giving relevant explanations.

**[RTP May 2019; May 2023]**

**Ans:** The decision to offer the division for sale on 1st April, 2018 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 ie ₹ 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, 2018 so its carrying value at 30th June, 2018 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, 2018. 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.

**Q10:** Identify which of the following is a disposal group at 31 March 20X1:

1. On 21 March 20X1, XYZ announced the Board's intention to sell its shares in a subsidiary company, Alpha, contingent upon the approval of Alpha's shareholders. It seems unlikely that approval will be granted in the near future and no specific potential buyer has been identified.
2. PQR has entered into a contract to sell the entire delivery fleet of vehicles operated from its warehouse to a competitor, ABC, on 14 March 20X1. The assets will be transferred on 28 April 20X1 from which date the Group will outsource its delivery activities to another company, LMN.
3. On 16 January 20X1, DEF's management and shareholders approved a plan to sell its retail business in Mumbai and a consultant is hired to manage the sale. As at 31 March 20X1 heads of agreement had been signed although due diligence and the negotiation of final terms are still in process. The transaction is expected to be completed in April 20X1.

**Ans: Presented as held for sale**

- PQR's fleet is classified as held for sale because it constitutes a group of assets to be sold in their present condition and the sale is highly probable at the reporting date (as a contract has been entered into).
- DEF's sale of its retail business will not be completed until the final terms (e.g. of purchase price) are agreed. However, the business is ready for immediate sale and the sale is highly probable unless other evidence after the reporting date but before the financial statements are approved for issue, comes to light to indicate the contrary.

**Not presented as held for sale**

- XYZ's shares in Alpha are not available for an immediate sale as shareholders' approval is required. Also no specific potential buyer has been identified. In taking these fact into

consideration for the assessment of whether the sale is highly probable, it is clearly not highly probable.

### QUESTIONS FROM RTP/MTP/EXAMS

**Q11:** The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was ₹ 13.5 lakh and ₹ 12 lakh respectively.

**The accountant has made the following working:**

Carrying amount on initial classification as held for sale	₹	₹
Purchase price of Plant	24,00,000	
Less: Accumulated Depreciation [(₹ 24,00,000/8)x2.5 years]	7,50,000	16,50,000
Fair value less cost to sell as on 31st March, 2017		12,00,000
The value lower of the above two		12,00,000

**Balance Sheet extracts as on 31st March, 2018**

Particulars	₹
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	12,00,000

**Required:**

Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings.

[Exams Nov 2018 (8 Marks); May 23 (8 Marks)]

**Ans:** As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. In such a situation, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in a distant future.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to

qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Further Ind AS 105 also states that an entity shall not classify as held for sale a non-current asset that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

In addition to Ind AS 105, Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Accountant of PB Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. PB Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet will be as follows:

Calculation of carrying amount as on 31stMarch, 2018	₹
Purchase Price of Plant	24,00,000
Less: Accumulated depreciation (24,00,000/ 8 years) x 3 years	(9,00,000)
Carrying amount before impairment	15,00,000
Less: Impairment loss (Refer Working Note)	(3,00,000)
Revised carrying amount after impairment	12,00,000

Balance Sheet extracts as on 31stMarch 2018

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	12,00,000

#### Working Note:

Fair value less cost to sell of the Plant = ₹ 12,00,000

Value in Use (not given) or = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. ₹ 12,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = ₹ 15,00,000 - ₹ 12,00,000 = ₹ 3,00,000.

**Q12:** On February 28, 20X1, Entity X is committed to the following plans:

- a) To sell a property after completion of certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months.
- b) To sell a commercial building to a buyer after the occupant vacates the building. The time required for vacating the building is usual and customary for sale of such commercial property. The entity considers the sale to be highly probable.

Can the above-mentioned property and commercial building be classified as non-current assets held for sale at the reporting date i.e., 31st March, 20X1? **[RTP Nov 2021]**

**Ans:** Ind AS 105 provides guidance on classification of a non-current asset held for sale in paragraph 7 which states that, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

(a) In respect of Entity X's plan to sell property which is being renovated and such renovation is incomplete as at the reporting date. Although, the renovations are expected to be completed within 2 months from the reporting date i.e., March 31, 20X1, the property cannot be classified as held for sale at the reporting date as it is not available for sale immediately in its present condition.

(b) In case of Entity X's plan to sell commercial building, it intends to transfer the commercial building to a buyer after the occupant vacates the building and the time required for vacating such building is usual and customary for sale of such non-current asset. Accordingly, the criterion of the asset being available for immediate sale would be met and hence, the commercial building can be classified as held for sale at the reporting date.

**Q13:** Black Ltd. is a manufacturing company. The following balances as at 31st March, 2021 are from the audited Financial Statements and as at 30th September, 2021 & 31st March, 2022 are provided by the accountant of Black Ltd:

Asset / (Liability)	Carrying Amount as at (₹ in lakh)		
	31.3.2021	30.9.2021	31.3.2022
Attributed goodwill	2,560	2,560	
Intangible assets	12,680	11,080	
Financial assets measured at Fair Value through Other Comprehensive Income (FVTOCI)	4,310	5,260	7,310
Property, plant & equipment	16,820	18,670	
Deferred tax assets	3,120	3,120	2,970
Current assets: inventory, receivables, cash & cash equivalents	8,640	7,040	4,860
Current liabilities	(11,110)	(13,230)	(16,190)
Non-current liabilities: Provisions	(3,670)	(4,610)	(4,610)
<b>Total</b>	<b>33,350</b>	<b>29,890</b>	<b>(5,660)</b>

Black Ltd. decided to sell the business on 30th September, 2021. 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 Ind AS 105. Black Ltd. proposed to sell the disposal group at ₹ 26,000 lakh. The costs to sell is estimated at ₹ 200 lakh.

As at 31st March, 2022, there has been no change to the plan to sell the disposal group and Black Ltd. still expects to sell it within one year of initial classification. The disposal group has not been trading well and its fair value less costs to sell has fallen to ₹ 19,738 lakh.

You are asked to calculate the value of all assets / liabilities within the disposal group as at 30th September, 2021 and 31st March, 2022 in accordance with Ind AS 105.

[Exam May 22 (8 Marks)]

Ans: (i) As at 30th September, 2021

The disposal group should be measured at ₹ 25,800 lakh (₹ 26,000 lakh - ₹ 200 lakh). The impairment write down of ₹ 4,090 lakh (₹ 29,890 lakh – ₹ 25,800 lakh) should be recorded within profit from continuing operations.

The impairment of ₹ 4,090 should be allocated to the carrying values of the appropriate non-current assets.

Asset / (liability)	Carrying value as at 30th September, 2021	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	2,560	(2,560)	-
Intangible assets	11,080	(570)*	10,510
Financial asset measured at fair value through other comprehensive income	5,260	-	5,260
Property, plant & equipment	18,670	(960)**	17,710
Deferred tax asset	3,120	-	3,120
Current assets – inventory, receivables and cash balances	7,040	-	7,040
Current liabilities	(13,230)	-	(13,230)
Non-current liabilities	-	-	-
provisions	(4,610)	-	(4,610)
Total	29,890	(4,090)	25,800

$$*[(4,090 - 2,560) \times \{11,080 / (11,080 + 18,670)\}]$$

$$**[(4,090 - 2,560) \times \{18,670 / (11,080 + 18,670)\}]$$

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 this 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.

**(ii) As on 31st March, 2022**

All the assets and liabilities, outside the scope of measurement under Ind AS 105, 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 30th September, 2021	Change in value to 31st March, 2022	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	10,510	-	(1,051)*	9,459
Financial asset measured at fair value through other comprehensive income	5,260	2,050	-	7,310
Property, plant & equipment	17,710	-	(1,771)**	15,939
Deferred tax asset	3,120	(150)	-	2,970
Current assets – inventory, receivables and cash balances	7,040	(2,180)	-	4,860
Current liabilities	(13,230)	(2,960)	-	(16,190)
Non-current liabilities – provisions	(4,610)	-	-	(4,610)
<b>Total</b>	<b>25,800</b>	<b>(3,240)</b>	<b>(2822)</b>	<b>19,738</b>

\*[2,822 x {10,510 / (10,510 + 17,710)}]

\*\*[2,822 x {17,710 / (10,510 + 17,710)}]

**Q14:** X Ltd. acquires B Ltd. exclusively with a view to sale and it meets the criteria to be classified as discontinued operation as per Ind AS 105. Further, following information is available about B Ltd.:

Fair value of total assets excluding liabilities on acquisition – ₹ 360

Costs to sell as on acquisition and on reporting date – ₹ 10

Fair value of liabilities on acquisition and reporting date – ₹ 80

Fair value of total assets excluding liabilities on the reporting date – ₹ 340

How discontinued operation pertaining to B Ltd. should be measured in consolidated financial statements of X Ltd. on acquisition date and reporting date? **[RTP May 2022]**

**Ans:** Ind AS 105 defines a disposal group as 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. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash-generating unit.

In the given case, B Ltd. is acquired exclusively with a view to sell and meets the criteria to be classified as discontinued operation.

The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105

As per para 15, 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.

As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

Therefore, on acquisition date, in line with paragraph 16, X Ltd. will measure B Ltd. as a disposal group at fair value less costs to sell which will be calculated as Fair value of total assets excluding liabilities on acquisition – Costs to sell = ₹ 360 – ₹ 10 = ₹ 350.

Fair value of liabilities on acquisition = ₹ 80.

At the reporting date, in line with paragraph 15, X Ltd. will remeasure the disposal group at the lower of its cost and fair value less costs to sell which will be calculated as:

Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell

= ₹ 340 – ₹ 10 = ₹ 330

Fair value of liabilities on reporting date = ₹ 80.

At the reporting date, X Ltd. shall present these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, X Ltd. shall recognise loss on subsequent measurement (of net assets at fair value) of B Ltd. which equals to ₹ 20 (₹ 270 – ₹ 250).

**Q15:** Company A has financial year ending 31st March, 20X0. On 1st June, 20X0, the Company has classified its Division B as held for sale in accordance with Ind AS 105. How property, plant and equipment (PPE) for which the company has adopted cost model shall be measured immediately before the classification as held for sale on 1st June, 20X0? [RTP Nov 2022]

**Ans:** Paragraph 18 of Ind AS 105 provides that 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.

In the instant case, Company A should measure the property, plant and equipment (for which it has adopted cost model), in accordance with Ind AS 16, Property, Plant and Equipment. Hence, depreciation should be provided upto 31st May, 20X0.

**Q16:** Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on 30th September, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be ₹ 10 crores (to be incurred in March, 20X3). The fair value of the division is ₹ 400 crores (on 30th September, 20X1 and 31st March, 20X2) and carrying value is ₹ 500 crores.

How shall such a division (disposal group) be measured under Ind AS 105 on following reporting dates:

- A. 30th September, 20X1
- B. 31st March, 20X2

Consider the discounting factor @ 10% for 1 year to 0.909 and for 1.5 years to be 0.867.

[RTP Nov 2023; MTP SEP 2025; JAN 2026]

**Ans.** Paragraph 15 of Ind AS 105 states that 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.

Further, paragraph 17 of Ind AS 105 states that when the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

- A. **On 30th September, 20X1**

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 8.67 crores)	(₹ 10 crores x 0.867)
Total:	₹ 391.33 crores	

**B. On 31st March, 20X1**

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 9.09 crores)	(10 x 0.909)
Total:	₹ 390.91 crores	

The increase in costs to sell the division by ₹ 0.42 crore (₹ 9.09 crores – ₹ 8.67 crores) will be recognised in profit and loss as financing cost in accordance with paragraph 17 of Ind AS 105.

**Q17:** The following details are available for Hydra Limited as at 31st March 2023:

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Disposal Group	Carrying Amount at the reporting data before classification as held for sale (Amount in ₹)	Carrying amount as remeasured immediately before classification as held for sale (Amount in ₹)
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000

Hydra Limited estimates that the fair value less costs to sell of the disposal group is ₹ 65,00,000.

State, as per applicable Ind AS, how and at what amount of loss should Hydra Limited recognize 'disposal group' before classifying it as held for sale. Also compute the impairment loss if any, and how it should be allocated by Hydra Limited. **[Exam Nov 23 (8 Marks)]**

**Ans:** Statement showing calculation of disposal group immediately before classifying it as held for sale

Disposal Group	Carrying amount at the reporting date before classification as held for sale ₹	Carrying amount as remeasured immediately before classification as held for sale ₹
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000
Total	80,00,000	74,50,000

The entity should recognise the loss of ₹ 5,50,000 (₹ 80,00,000 - ₹ 74,50,000), in accordance with applicable Ind AS, immediately before classifying it as held for sale.

#### Computation and allocation of impairment loss

The entity estimated that fair value less costs to sell of the disposal group amounts to ₹ 65,00,000.

Since the entity has classified a disposal group as held for sale it should measure it at the lower of its carrying amount ₹ 74,50,000 and fair value less costs to sell ₹ 65,00,000 which comes to ₹ 65,00,000.

The entity should recognise an impairment loss of ₹ 9,50,000 (₹ 74,50,000 – ₹ 65,00,000) when the disposal group is initially classified as held for sale.

The Inventory and Investment are remeasured as per Ind AS 2 and Ind AS 109 at not more than fair value at the date of remeasurement immediately classified as held for sale.

Therefore, this impairment loss of ₹ 9,50,000 is allocated to remaining assets in the proportion of their carrying value other than inventory and investment in equity instrument. Firstly, the impairment loss reduces the amount of goodwill in the disposal group. Then, the remaining impairment loss of ₹ 2,00,000 (₹ 9,50,000 – ₹ 7,50,000) is used to other assets pro-rata based on the carrying amount of those assets as follows:

#### Table showing the allocation of impairment loss

Disposal Group	Carrying amount as remeasured immediately before classification as held for sale (as per applicable Ind AS) ₹	Allocated Impairment Loss ₹	Carrying amount after allocation of Impairment Loss ₹
Goodwill	7,50,000	(7,50,000)	-
Property, Plant and Equipment (carried at revalued amounts)	20,00,000	(82,474)	19,17,526
Building (carried at cost)	28,50,000	(1,17,526)	27,32,474
Investment in Equity Instruments	11,00,000	-	11,00,000
Inventory	7,50,000	-	7,50,000
Total	74,50,000	(9,50,000)	65,00,000