

Ind AS 105 — Non-current Assets Held for Sale and Discontinued Operations

SYNOPSIS

1. Objective	598
2. Scope	598
3. Disposal group	599
4. Abandonment	601
5. Measurement of non-current assets held for sale/distribution to owners	602
6. Gain or Loss on sale of non-current asset/disposal group	605
7. Presenting discontinued operations	612
8. Discontinued operations ceasing to be classified as held for sale	615
9. Additional disclosure	617
10. Loss of Control in Subsidiary	617
11. First adoption of this Ind-AS	617
QUESTIONS & ANSWERS	618

Students are expected to have basic understanding of Ind-AS 36 – Impairment of assets, Ind-AS 16 – Property Plant and Equipment & Ind-AS 38 – Intangible assets. Go through Ind-AS 36 & 16 for better understanding of this Ind-AS.

When an entity plans to sell an asset and/or stop some part of its business, then it might affect its future cash flows, profitability and overall financial situation.

Therefore, the users of financial statements, mainly investors, should be informed about these events.

That's why the standard Ind-AS 105 'Non-Current Assets Held for Sale and Discontinued Operations was issued' – to **highlight the results of discontinued operations** and **to separate them from the results of ongoing or continuing activities**.

1. Objective

Ind-AS 105 focuses on two main areas:

1. It specifies the accounting treatment for assets (or disposal groups) held for sale, and
2. It sets the presentation and disclosure requirements for discontinued operations.

2. Scope

Ind-AS 105 is applicable for ALL recognised non-current assets and disposal groups with some exceptions (Refer definition of Non-current in Ind-AS 1).

The standard is NOT applicable

- (a) Deferred tax assets (dealt with by Ind-AS 12 - Income taxes)
- (b) Assets arising from employee benefits (dealt with by Ind-AS 19 - Employee Benefits)
- (c) Financial assets within the scope of Ind-AS 109 - *Financial Instruments*.
- (d) Non-current assets that are measured at fair value *less* costs to sell in accordance with Ind-AS 41 - *Agriculture*.
- (e) Contractual rights under insurance contracts as defined in Ind-AS 104 - *Insurance Contracts*.

This standard applies to a non-current asset (or disposal group) that is **classified as held for distribution to owners** acting in their capacity as owners (held for distribution to owners).

This standard specifies the disclosure requirement for non-current assets held for sale or discontinued operations. Disclosure requirement in other Ind-AS are generally not applicable to these items unless specifically mentioned in that Ind-AS. These assets may need to comply with general requirements as per Ind-AS 1.

Let us try to understand the following words

3. Disposal group

A group of assets to be disposed off together as a group in a single transaction **and** liabilities directly associated with such assets that will be transferred in the transaction.

Read carefully

Disposal group can have all assets i.e. current & non-current and liabilities (remember actually this standard deals with only non-current assets).

The group can be a cash generating unit (CGU as per Ind-AS 36) which will have assets and liabilities along with goodwill acquired in a business combination. The group can be an operation within such a cash generating unit.

Probable - More likely than not (*more than 50% chances to occur*).

Highly probable - Significantly more likely than probable (*more than 90% chances to occur*).

Classification of non-current assets (or disposal groups) as held for sale OR as held for distribution to owners

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. It should satisfy the following **criteria** to be classified:

- ✓ the asset or disposal group must be **available for immediate sale** in its present conditions and the sale must be **highly probable**;
- ✓ Management must be **committed to a plan to sell** the asset (with necessary approval);
- ✓ An **active program to find a buyer** must have been initiated;
- ✓ The asset must be **actively marketed for sale** at a **price reasonable** to its current fair value;
- ✓ The sale is **expected to be completed within ONE year** from the date of classification; (*exception to this is discussed later*)
- ✓ Significant **changes** to the plan are **unlikely**.

ALL THE ABOVE conditions are applicable when the assets or group of assets are held for **distributing to the owners**.

Concept capsule 1

On November 30, 2017, 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.

Can the property be classified as held for sale at the reporting date i.e. December 31, 2017?

Suggested answer

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 of 2 months, this fact is not relevant for classification.

However, if the PPE meets the criteria for held for sale by January 31, 2018 (i.e., 2 months from November 30, 2017) and the accounts are not authorised by that date, then necessary disclosures need to be given in the financial statements. (non-adjusting event as per Ind-AS 10)

If the entity is committed to sell (subject to the above conditions) the control in a subsidiary – It should classify ALL assets and liabilities of the subsidiary as held of sale. This will remain same, even if the entity retains non-controlling interest after such sale.

The period can be more than ONE year, only if the delay is caused by events or circumstances **beyond the entity's control** and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).

Example

An entity is committed to its selling plan of a manufacturing facility in its present condition and so classifies it as held for sale. After a firm's purchase commitment, the buyer's inspection identifies environmental damages which **do not previously exist**. The entity is required to make the asset good, which will extend the timeframe of one year to complete the sale. However, the entity has initiated actions to make good the damage and satisfactory rectification is highly probable. In this situation exception to one year requirement is met.

Exchange of assets also considered as sale transaction when there is a commercial substance as per Ind-AS 16 - PPE.

If the entity acquired any asset or group of assets with an intention to subsequent disposal, it should be classified as 'held for sale' from the date of acquisition subject to one year condition. It will be classified as 'held for sale', even if all other conditions are met **within three months** from the date of acquisition.

Concept capsule 2

Ram Ltd decided to sell a group of assets and other criteria also satisfied on 30th April, 2018, where the financial year end is 31st March, 2018. How will this be treated as on the balance sheet date?

Suggested answer

If the criteria explained above met after the balance sheet, an entity shall **not classify** a non-current asset (or disposal group) as held for sale in those financial statements when issued. It is a non-adjusting event as per Ind-AS 10.

However, when those criteria are met after the reporting period but before the approval of the financial statements, the entity shall disclose the description, expected manner and timing of the disposal and operating segment in the notes.

Concept capsule 3

Identify which of the following is a disposal group at 31st March, 20X1:

- (1) On 21st 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 14th March 20X1. The assets will be transferred on 28th April 20X1 from which date the Group will outsource its delivery activities to another company, LMN.
- (3) On 16th 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 31st 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

Suggested answer**Point (1)**

It is not presented as held for sale as the assets are not ready for immediate sale as shareholder's approval is not ready and no specific potential buyer has been identified.

Point (2)

It is presented as held for sale as the group of assets are ready for immediate sale and sale is highly probable as contract is entered.

Point (3)

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.

Concept capsule 4

Entity A acquired non-current assets with an intention to sell. Can these non-current assets be classified as 'held for sale'?

Suggested answer

The Assets acquired which are exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Ind-AS.

4. Abandonment

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. If 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.

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.

Example

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. (*Temporarily stopping but there is no intention to sell*)

It is to be treated as abandoned asset rather 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. Because its carrying amount will be recovered principally through continuing use to the end of its economic life.

5. Measurement of non-current assets held for sale/distribution to owners

An entity shall measure

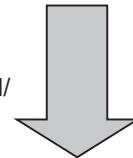
Non-current assets/group of assets

- held for sale
- even held for distribution to owners

at

Carrying amount; **or**

Fair value *less* costs to sell/
distribute;



If the non-current assets held for distribution to owners – it will be valued at the lower of carrying amount **or** fair value *less* costs to distribute;

Other points:

If a newly acquired asset/disposal group meets the above criteria, it should be **initially recognised** at its value (which is supposed to be accounted for) **or** Fair value less selling costs whichever lower.

If assets are acquired as part of business combination – generally as per Ind-AS 103, assets should be recognised at its fair value. If such assets satisfy the criteria for 'held for sale' – those should be measured at 'Fair value *less* selling costs'.

If the sale is expected to occur **BEYOND ONE YEAR**, the selling costs should be **brought down to present value**. This is assuming the delay is due to **beyond the entity's control** and the entity is committed to sell.

Say the asset is expected to sell after 2 years from the balance sheet date – expected selling costs are ₹ 1,000 at the end of second year. This future value of ₹ 1,000 should be brought into present value. Assume relevant discounting rate = 10%. The Present value = $1,000 \times 0.826 = ₹ 826$. This amount should be unwinded, that is increased to ₹ 1,000 over these two years by adding 10% p.a. first year we add ₹ 83 i.e. $826 \times 10\%$. Such increase should be recorded as **finance cost** in the statement of P&L.

Till the date of classification of non-current assets for the first time, it should be measured using the respective Ind-AS applicable. *For example* if the asset was previously an item of property, plant and equipment that was measured using

- *Cost model*: Depreciate till the date of reclassification; or
- *Revaluation model*: Depreciate till the date of reclassification, revalue if appropriate;

On reclassifying the asset held for sale

- ✓ Re-measure the asset to the lower of 'carrying amount' and 'fair value less costs to sell'; and
- ✓ **NO DEPRECIATION** from that date onwards.

Concept capsule 5

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 March, 2018	₹
Cost	12,00,000
Less: Accumulated depreciation	6,00,000
Net book value	6,00,000

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

During October 2018, entity ABC decides to sell the asset and on 1st November it meets the conditions to be classified as held for sale. Analyse.

Suggested answer

As per Ind-AS 105, **Till** the date of classification of non-current assets for the first time, it should be measured using the respective Ind-AS applicable.

At 31st October, entity ABC should ensure that the asset is measured in accordance with Ind-AS 16. It should be depreciated by a further ₹70,000 (7 months × 10,000) 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.

Concept capsule 6

A Ltd acquired a property for ₹ 2,00,000. After few years the cumulative depreciation on the property is of ₹ 80,000 has been recognised and subsequently the property is classified as held for sale under Ind-AS 105. The fair value is estimated is ₹ 1,00,000 at the time of classification. What would be the accounting treatment if the fair value changes to ₹ 85,000 in the next reporting period and changes to ₹ 90,000 in the subsequent period and sold?

Suggested answer

As per Ind-AS 105, at the time of classification as held for sale it will be measured at lower of its carrying amount which is ₹ 1,20,000 (2,00,000 – 80,000) and fair value less costs to sell as estimated at ₹ 1,00,000.

Accordingly, there is a write-down on initial classification of property as held for sale and accordingly the property is carried at ₹ 1,00,000. A loss of ₹ 20,000 is recognised in profit or loss.

On next reporting date, the property's fair value less costs to sell is estimated at ₹ 85,000. Accordingly, a loss of ₹ 15,000 is recognised in profit or loss and the property is carried at ₹ 85,000.

Subsequently, the property is sold for ₹ 90,000. A gain of ₹ 5,000 is recognised.

Read this carefully

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 Ind-AS, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable Ind-AS **before** the fair value less costs to sell of the disposal group is remeasured.

As you know, this standard discusses about only NON CURRENT ASSETS but not current assets or any liabilities i.e. current or non-current liabilities.

This is a situation, where the entity decided to sell a group of assets and liabilities which includes ALL. At first, entity should apply the respective standards to current assets and liabilities like Ind-AS 37 – for provisions and later it should apply this Ind-AS for the entire group of disposal assets – i.e. comparing, carrying amount and fair value less selling costs.

Recognition of impairment losses and reversals (Requires Ind-AS 36 – 'Impairment' knowledge)

Impairment loss should be recognised at the initial or subsequent writing down of assets to **Fair value less selling costs**. It means, impairment loss on non-current assets should be allocated first to the goodwill of the group of assets (if any) and the remaining impairment loss should be allocated to the non-current assets in proportion to its carrying amount (Refer Ind-AS 36 for detailed discussion).

If there is any subsequent increase in Fair value less selling costs, it will be either dealt with by this Ind-AS or Ind-AS 36 – impairment of assets. The gain should not be recognised in excess of the cumulative impairment loss.

Let us discuss with respect to disposal group (which includes current & non-current assets and liabilities)

If there is a gain i.e. increase in disposal group 'Fair value less selling costs' compared to its original carrying amount. The entity should assess, is there an increase in the carrying amount of assets and liabilities

which are part of this Ind-AS i.e. current assets and liabilities. If the increase in more than the increase of carrying amount of current assets and liabilities, that increase should be allocated to NON CURRENT assets subject to Ind-AS 36 – Impairment loss.

Concept capsule 7

The following number are related to a disposal group of an entity

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	1,500	1,500
Property, Plant and Equipment (carried at revalued amounts)	4,600	4,000
Building (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investment in Equity Instruments	1,800	1,500
Total	16,000	14,900

The above disposal group is held for sale as on the balance sheet date. How to treat the loss of ₹ 1,100 (₹ 16,000 – ₹ 14,900) on the balance sheet date?

Suggested answer

As per Ind-AS 105, Till the date of classification of non-current assets for the first time, it should be measured using the respective Ind-AS applicable.

Hence the loss of ₹ 1,100 should be dealt with by the respective Ind-AS.

If you observe there is a loss of ₹ 600 related to PPE – this reduction will be accounted as per Ind-AS 16 i.e. if revaluation reserve exists in the balance sheet, the loss will be debited to revaluation reserve to the extent available and the remaining amount should be charged to P&L.

The loss of ₹ 200 in inventory will be charged to P&L as per Ind-AS 2.

The loss of ₹ 300 in Investment in equity will be charged to P&L if the investment is classified as FVTPL as per Ind-AS 109 or it will be charged to OCI if classified as FVTOCI.

After performing the above, the new carrying amount i.e. ₹ 14,900 should be compared to Fair value less selling costs.

Concept capsule 8

Continuation to the above concept capsule, the entity estimated that fair value less costs to sell of the disposal group amounts to ₹ 13,000 on the date of classification. How will this be accounted as per Ind-AS 105? **(CA Final Nov 2019)**

Suggested answer

As per Ind-AS 105, when an entity has classified a disposal group as held for sale it should measure it at the lower of its carrying amount ₹ 14,900 and fair value less costs to sell ₹ 13,000. The entity should recognise an impairment loss of ₹ 1,900 (₹ 14,900 – 13,000) when the disposal group is initially classified as held for sale.

As discussed in Ind-AS 36, impairment loss will be adjusted to the goodwill of the group and the remaining loss will be adjusted to other non-current assets in **proportion** to their carrying amount on that date. (4,000 : 5,700)

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. (These are scoped out of the standard)

The allocation of impairment loss can be illustrated as follows:

Disposal Group	Carrying amount as REMEASURED immediately before classification as held for sale (₹)	Allocated impairment loss (₹)	Carrying amount as REMEASURED immediately before classification as held for sale (₹)
Goodwill	1,500	-1,500	–
Property, Plant and Equipment (carried at revalued amounts)	4,000	-165	3,835
Building (carried at cost)	5,700	-235	5,465
Inventory	2,200		2,200
Investment in Equity Instruments	1,500		1,500
Total	14,900	-1,900	13,000

Concept capsule 9

Continuation to the above concept capsule, suppose, at the end of next reporting period the fair value less cost to sell is increased and estimated at ₹ 15,500. What would be the accounting treatment?

Suggested answer

The maximum impairment loss reversal allowed will be ₹ 1,900 being cumulative impairment loss recognised earlier. Out of this, the impairment loss actual reversal shall be limited to ₹ 400 i.e. ₹ (1900 – 1,500).

Reversal of impairment loss is not allowed on Goodwill as it will lead to recognition of Self generated goodwill which is **prohibited** under Ind-AS 38, Intangible Assets.

6. Gain or Loss on sale of non-current asset/disposal group

Gain or loss on sale of Non-current assets or disposal group of assets should be transferred to P&L like Ind-AS 16 - PPE & Ind-AS 38-Intangible assets. The accounting treatment mentioned in Ind-AS 16 & 38 should be followed.

An entity shall **not depreciate (or amortise)** a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised in P&L.

Concept capsule 10

An item of plant, measured using the **cost model**, has a carrying amount of ₹ 80,000. The cost of the plant is ₹ 1,00,000 and the accumulated depreciation is ₹ 20,000. On 1st April, 2018 all criteria for separate classification as a 'non-current asset held for sale' are met.

You are required to:

Show the journal entries relating to the reclassification of the plant assuming that:

- (1) The fair value is ₹ 70,000 and the expected costs to sell are ₹ 5,000 on 1st April, 2018.
- (2) On 30th Sep, 2018 (6-months later), the fair value is ₹ 70,000 and expected costs to sell are ₹ 2,000.
- (3) If on 30th Sep, 2018 (6-months later), the fair value is ₹ 90,000 and expected costs to sell are ₹ 5,000.

Suggested answer

A. When carrying amount > 'fair value less costs to sell' we should recognise an 'impairment loss' (expense)

Workings:

	₹
Carrying amount (given)	80,000
Fair value less costs to sell: (70,000 – 5,000)	65,000
Decrease in Value (Impairment loss) (80,000 – 65,000)	15,000

1st April, 2018	Debit	Credit
Impairment loss (expense) a/c	15,000	
To Plant (accumulated impairment loss) a/c		15,000
[Being impairment loss before initial classification as 'held for sale' recorded]		
Note: There is no depreciation on this asset.		

B. If 'fair value less costs to sell' subsequently increases: recognise a 'reversal of impairment loss'. Such reversal is limited to accumulated impairment losses.

	₹
New fair value less costs to sell (70,000 – 2,000)	68,000
Prior fair value less costs to sell: (carrying amount) {1,00,000 (cost) – 20,000 (accumulated depreciation) – 15,000 (impairment loss)}	(65,000)
Impairment loss reversed (68,000 – 65,000) *	3,000

* **Note:** The 'accumulated impairment loss' is ₹15,000 before the reversal, thus the reversal of ₹3,000 is not limited (the previous accumulated impairment loss is bigger: ₹15,000 is bigger than ₹3,000).

30th Sep. 2018	Debit	Credit
Plant (accumulated impairment loss) a/c	3,000	
To impairment loss reversed (income) a/c		3,000
[Being reversal of impairment loss on re-measurement of 'NCA held for sale']		
Note: There is no depreciation on this asset. The impairment till date is ₹12,000 (15,000 – 3,000)		

C. If 'fair value less costs to sell' subsequently increases: Recognise a 'reversal of impairment loss' (income) limited to accumulated impairment losses.

	₹
New fair value less costs to sell: 90,000 – 5,000	85,000
Prior fair value less costs to sell: {1,00,000 (cost) – 20,000 (accumulated depreciation) – 15,000 (impairment loss)}	(65,000)
Increase in value	20,000
Limited to prior cumulative impairment losses	15,000
Impairment loss reversed*: 85,000 – 65,000 = 20,000 limited to 15,000	15,000
* Note: The difference between the latest 'fair value less costs to sell' (85,000) and the prior 'fair value less costs to sell' (65,000) of 20,000 is limited to the previous 'Accumulated impairment loss' of ₹15,000;	