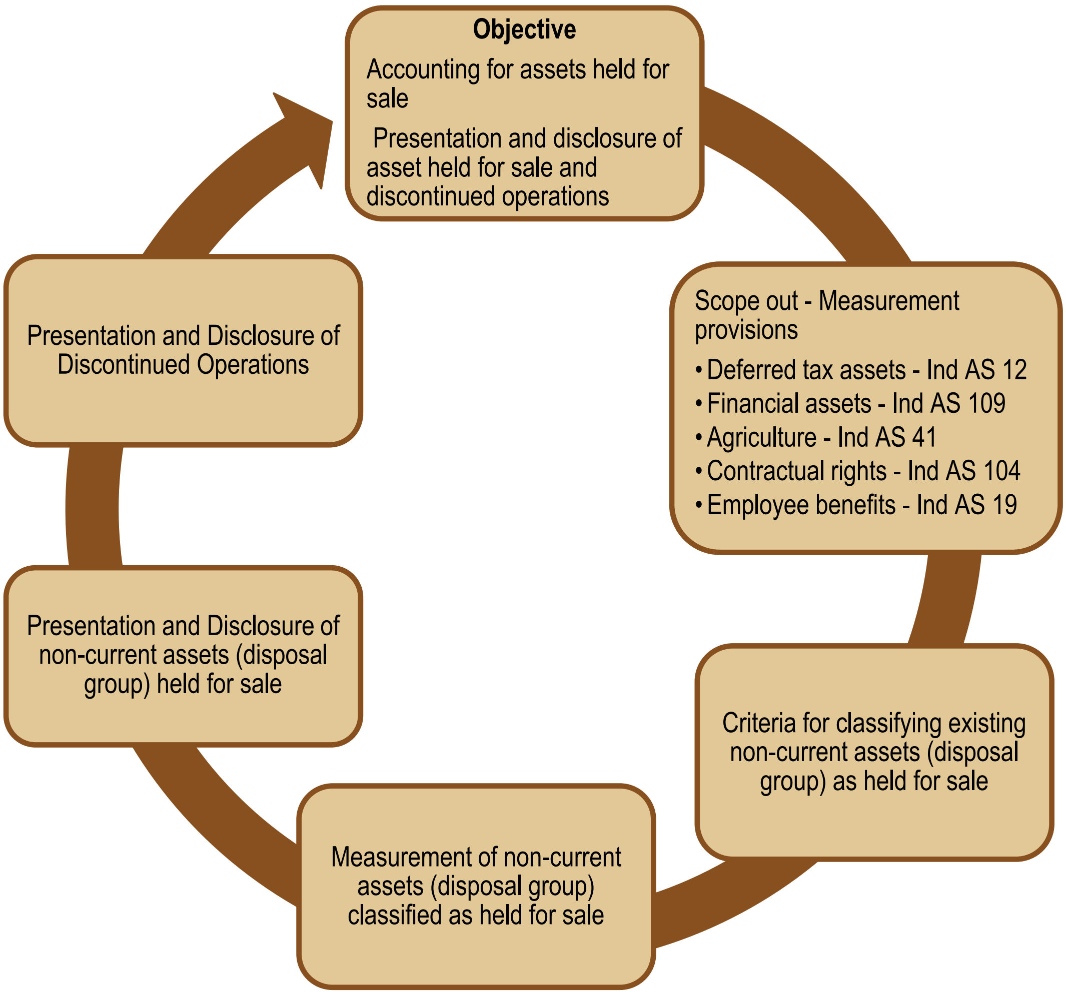
UNIT 7 : INDIAN ACCOUNTING STANDARD 105 : NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

LEARNING OUTCOMES

After studying this unit, you will be able to

- List out the objective and scope of the standard
- Define the terms non-current asset, disposal group, cash generating unit and discontinued operations
- Examine the criteria for classifying non-current assets (or disposal group) as held for sale
- Measure non-current assets (or disposal group) classified as held for sale
- Present and disclose non-current assets (or disposal group) classified as held for sale
- Present and disclose discontinued operations as per the standard.
- Elaborate significant differences between Ind AS 105 and AS 24

UNIT OVERVIEW

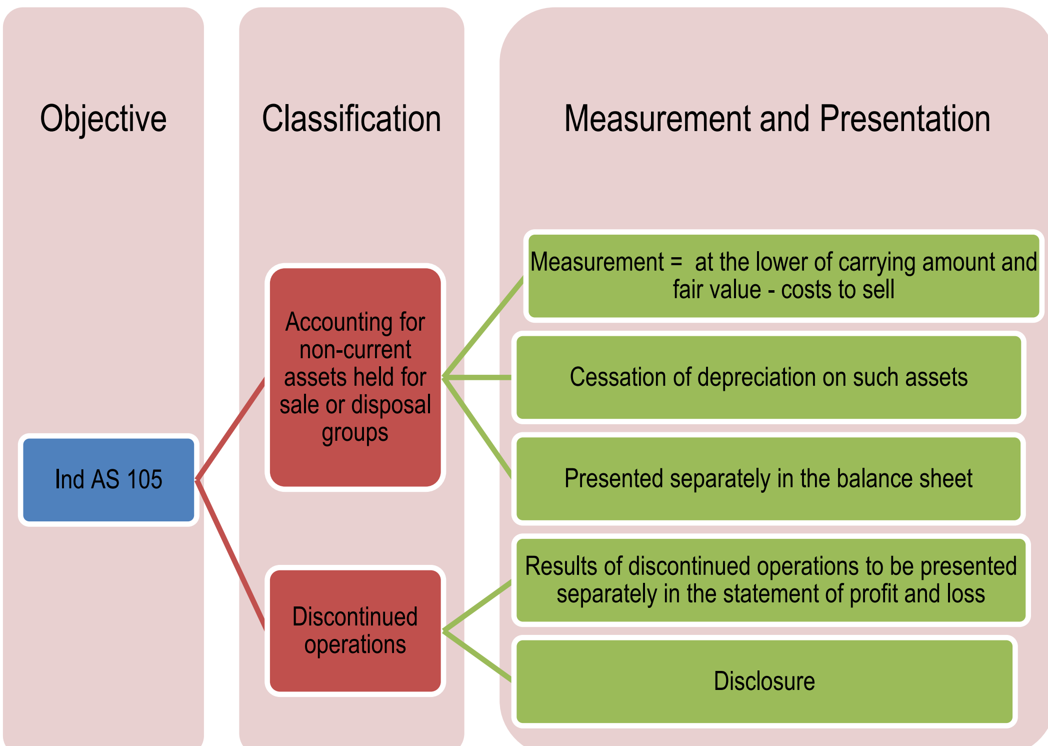


7.1 OBJECTIVE

- Non-Current assets held for sale are presented separately from other assets in the Balance Sheet as their classification will change and the value will be principally recovered through sale transaction rather than through continuous use in operations of the entity. This standard specifies the accounting for assets held for sale.
- Results of Discontinuing Operations should be separately presented in the Statement of Profit and loss as it affects the ability of the entity to generate future cash flows. This standard specifies the presentation and disclosure of discontinued operations.

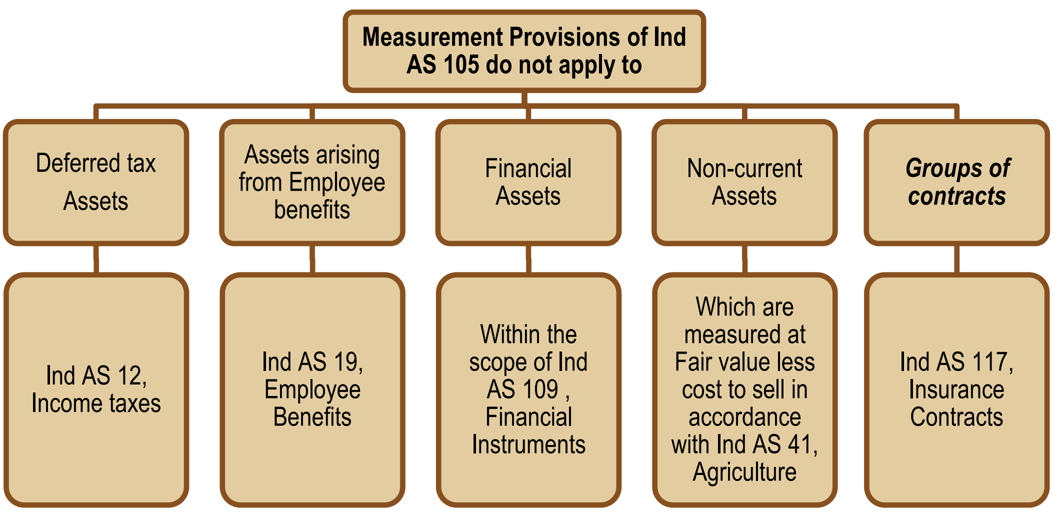
The disclosure information provided in the standard enhances the ability of users of financial statements to make projections of an entity's cash flows, earnings-generating capacity, and financial position by segregating information about held for sale assets and discontinued operations from the information about continuing operations.

Hence, two core objectives of the standard are as follows:



7.2 SCOPE

- The classification and presentation requirements of this Ind AS apply to all recognised non-current assets and to all disposal groups of an entity.
- The measurement requirements of this Ind AS also apply to all recognised non-current assets and to all disposal groups of an entity except few exceptions mentioned below.
- Assets classified as non-current in accordance with Ind AS 1, Presentation of Financial Statements, shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Ind AS.
- The classification, presentation and measurement requirements in this Ind AS applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners.
- Scoped out non-current assets: The measurement provisions of this Ind AS do not apply to the following assets (which are covered by the Ind AS listed either as individual assets or as part of a disposal group):



- Disposal groups may include both scoped-in and scoped-out non-current assets. If a disposal group includes any scoped-in non-current asset(s), the measurement requirements of this Ind AS apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell.

- The disclosure requirements of this Ind AS, for non-current assets held for sale and discontinued operations, remove the need to provide disclosures in accordance with other standards, unless that standard has specific disclosure requirements:
  - for non-current assets (or disposal group) classified held for sale or discontinued operations; or
  - for measurement of assets or liabilities within a disposal group that are not within the measurement scope of Ind AS 105.

However, this does not remove the need to provide additional disclosures to comply with Ind AS.

7.3 RELEVANT DEFINITIONS

The following are the key terms used in this standard:

- **Cash-generating unit is a** smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
- **Component of an entity comprises** operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
- **Costs to distribute** are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.
- **Costs to sell** are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.
- **Current asset -** An entity classifies an asset as current when:
  (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
  (b) it holds the asset primarily for the purpose of trading;
  (c) it expects to realise the asset within twelve months after the reporting period; or
  (d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

- A **discontinued operation** is a component of an entity that either has been disposed of or is classified as held for sale and:

  (a) represents a separate major line of business or geographical area of operations; or

  (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

  (c) is a subsidiary acquired exclusively with a view to resale.

- **Disposal group** is 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. A disposal group may be a group of *cash-generating units*, a single cash-generating unit, or part of a cash-generating unit.

  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 Ind AS 36 'Impairment of Assets', or if it is an operation within such a cash generating unit.

- **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (Ind AS 113)

- **Firm purchase commitment** is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.

- **Highly Probable** Significantly more likely than probable. (Probable means more likely than not)

- **Non-current assets** are assets that do not meet the definition of current assets.

- **Recoverable amount** is the higher of an asset's fair value less costs of disposal and its value in use.

- **Value in use** is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

7.4 CLASSIFICATION OF NON-CURRENT ASSETS (OR DISPOSAL GROUPS) AS HELD FOR SALE OR AS HELD FOR DISTRIBUTION TO OWNERS

An entity is required to 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.

Asset must be

- available for immediate sale in its present condition and
- Sale must be highly probable

are the two key requirements to classify a non-current asset as held for sale.

It may be noted that if an asset is being sold individually, Ind AS 105 applies **only if it is a non-current asset**. A current asset being sold as an individual asset (i.e. not as part of a disposal group) is never classified as held for sale**.** Where a group of assets is being disposed of in a single transaction, its classification and presentation requirements apply to the disposal group as a whole, including current assets and liabilities forming part of the group.

7.4.1 Available for Immediate Sale

The asset (or disposal group) must be available for **immediate sale** in its **present condition**. The terms that are usual and customary for sale of similar assets (or disposal group) doesn't disqualify to being classified as held for sale.

However, they will not be considered as available for immediate sale if they continue to be vital for the entity's ongoing operations or being refurbished to enhance their value. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a **distant future**.

Examples 1- 5- Available for Immediate Sale

1. A property being used as a headquarters by the entity needs to be vacated before it can be sold. The time required to vacate the building is usual and customary for sale of such assets. Hence the property can be considered as available for immediate sale.

However, if property can be vacated only after a replacement is available then this may indicate that the property is not available for immediate sale, but only after the replacement becomes available.

2. An entity can't classify a manufacturing facility as held for sale if prior to selling the facility it needs to clear a backlog of uncompleted orders.

   However, if entity intends to sell the manufacturing facility along with the uncompleted orders it can be considered as available for immediate sale.

3. An entity plans to renovate some of its property to increase its value prior to selling it to a third party. The entity is already searching for a buyer at current market values. But due to the plans to renovate the property prior to sale, the property may not be meeting the condition of available for immediate sale.

4. A company has put a property on the market and expects that all the conditions of classification as held for sale are met. Any buyer will undertake searches and valuations before making an offer and exchanging contracts: Such conditions are normal for properties and any delays that might arise from such legal processes do not preclude the property from being classified as held for sale.

5. When minor pre-selling activities are outstanding, and those activities are usually performed immediately before an asset is transferred, the asset could nevertheless be appropriately treated as available for immediate sale.

   However, when an asset is still in the course of construction, and significant activities will need to be performed before it can be transferred, it is unlikely that it could be regarded as available for immediate sale.

7.4.2 Sale must be highly probable

This Standard defines 'highly probable' as 'significantly more likely than probable' where probable means more likely than not.

Ind AS 105 prescribes following five conditions to be satisfied for the sale to qualify as highly probable:

1. The appropriate level of management must be committed to a plan to sell the asset (or disposal group).

2. An active programme to trace a buyer and complete the selling plan must have been initiated.

3. The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

4. The sale transaction is expected to be completed within one year from the date of classification (subject to exception specified in section 7.4.3.2 below)

5. Significant changes to or withdrawal from the plan to sell the asset are unlikely.

The likelihood of shareholders' approval should also be considered as part of assessment if it is required in the jurisdiction.

Examples 6 & 7- Requiring shareholder's approval

6 At the end of the reporting period, ABC Company's board of directors has approved a plan to sell a non-current asset. The eventual disposal requires approval by a majority of company's shareholders through a formal vote which will take place after the reporting period. At the end of the reporting period, a majority of the company's shareholders have provided the company with signed irrevocable agreements stating that they will vote in favour of the disposal. The 'highly probable' test is met because the shareholders have irrevocably committed to approving the transaction and, therefore, the vote by the shareholders is merely a formality.

7. Company XYZ holds an 85 per cent interest in a subsidiary, Company ABC. At the year end, the board of directors of Company ABC has approved a plan to sell a non-current asset to Company XYZ. The eventual disposal requires approval by a majority of Company ABC's shareholders through a formal vote which will take place after the reporting period. For a transaction with a major shareholder (in this case, the parent), the minority shareholders are given protection in law if the value of the transaction exceeds a specified threshold. The law prevents Company XYZ from participating in the formal vote on such a transaction. Company ABC has not received any undertakings to vote in a particular manner from any of the shareholders. It is possible that the proposed transaction may be controversial, and the outcome of the shareholder vote is uncertain. From Company ABC's perspective, the 'highly probable' test is not met at the end of the reporting period because the outcome of the formal vote by the remaining shareholders is too uncertain.

7.4.3 Other Key Points

7.4.3.1 Loss of Control in Subsidiary

An entity which has committed to a sale plan which involves loss of control of subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale in its consolidated financial statements when the criteria set out above is met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

7.4.3.2 Exception to the period of One year

An entity can still classify an asset (or disposal group) as held for sale, even if the timeframe of one year to conclude the sale transaction has lapsed. For this:

(i) the delay must have been caused by the events or circumstances which are beyond the control of the entity; and

(ii) there must be sufficient evidence that the entity is still committed to it selling plan.

Examples 8 - 10

8. 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 purchase commitment, the buyer's inspection identifies environmental damages not previously known to exist. The entity is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year. 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 will be met.

9. An entity in the mining industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is highly probable within one year. In this situation, the exception to the one-year requirement will be met.

10. A company is committed to a plan to sell a non-current asset and classifies the asset as held for sale. During the initial one-year period, the market conditions deteriorated and, as a result, the asset could not be sold by the end of that period. During that period, the company actively solicited but did not receive any reasonable offers to purchase the asset and, in response, the Company reduced its asking price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions. In this situation, the exception to the one-year requirement will be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

7.4.3.3 Sale includes exchange

Sale transaction includes exchange of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Ind AS 16 Property, Plant and Equipment.

7.4.3.4 Asset acquired exclusively with a view to subsequent disposal

When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, the non-current asset (or disposal group) is classified as held for sale at the acquisition date if both of the following conditions are satisfied:

(a) The one-year requirement is met subject to exceptions mentioned in section 7.4.3.2 above; and

(b) It is highly probable that any other criteria (refer section 7.4.1 and 7.4.2 above) that is not met at the acquisition date will be met within a short period following the acquisition (usually within three months).

Example 11

An entity has acquired a building exclusively with a view of its subsequent disposal. The management is highly confident that the property can be sold in one year. The property requires refurbishing it to enhance its value which is highly probable to be completed in less than a period of three months. The building will be classified as held for sale on the date of acquisition itself even though it is not immediately available for sale.

7.4.3.5 Criteria met after reporting period

If the criteria of held for sale are met after the reporting period, an entity should not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the approval of the financial statements for issue, the entity shall disclose the information specified in section 7.6.3 – Disclosures.

7.4.3.6 Classification as held for distribution

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. The assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn.

The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable. For an entity to classify a non-current asset (or disposal group) as held for distribution to its owner, it is necessary to follow the same criteria as required for classification as held for sale.

7.4.3.7 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, if 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 31st March 20X2. In the financial statements for the year ended 31st March 20X1, results and cash flows of the coal mines are treated as continuing operations. In the financial statements for the year ended 31st 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.

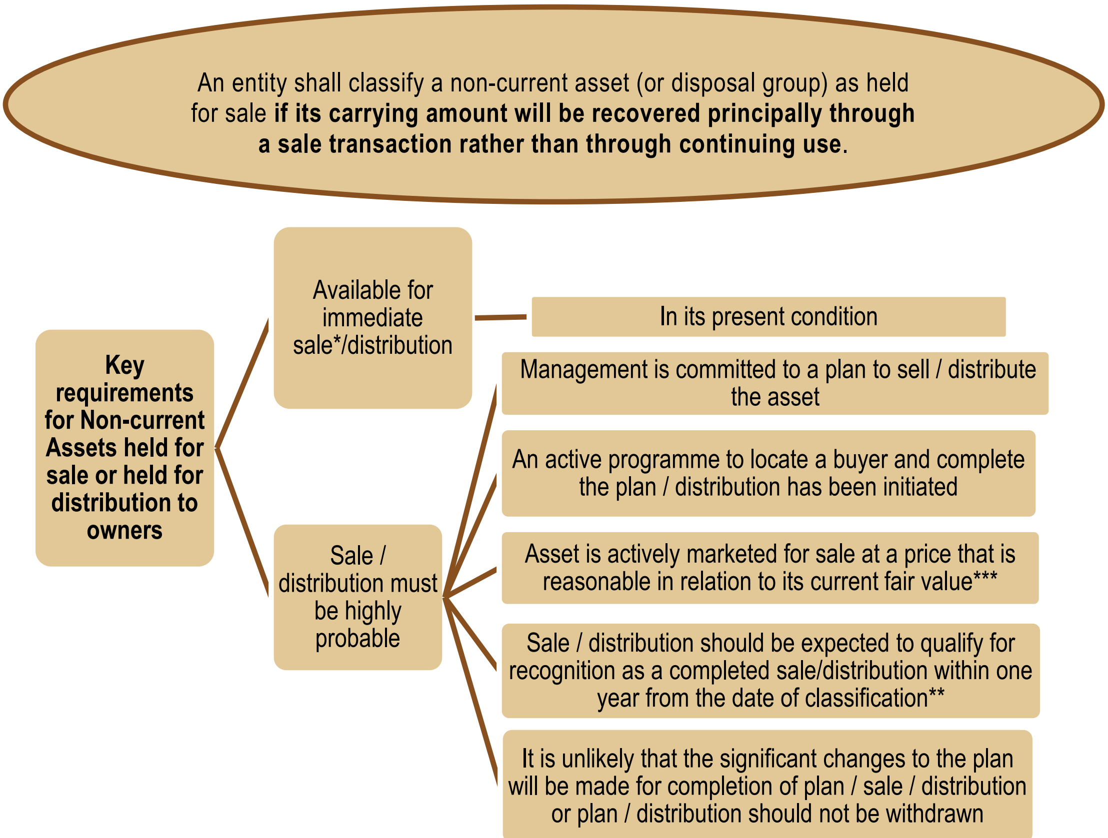
Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

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.



*Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance

** If the entity remains committed to its plan to sell the asset (or disposal group), events or circumstances beyond the entity's control may extend the period to complete the sale beyond one year

*** Not applicable for non-current assets held for distribution to owners.

Note:

S.N.	Particular	Details
1.	Acquisition of non-current asset (or disposal group) with intention to subsequent sale within a year	Classify the non-current asset (or disposal group) as held for sale subject to the conditions specified in the above chart
2.	Non-current assets that are to be abandoned	It shall not be classified as held for sale since its carrying amount will be recovered principally through continuing use and not from sale

7.5 MEASUREMENT OF NON-CURRENT ASSETS (OR DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE

7.5.1 Measurement at the lower of carrying amount and fair value less cost to sell

- An entity should 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**.
- An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.
- If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale, it will be 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 will be measured at fair value less costs to sell.
- 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) is measured in accordance with **applicable Ind AS**.
- 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, should be remeasured in accordance with applicable Ind AS before the fair value less costs to sell of the disposal group is remeasured.
- When the sale is expected to occur beyond one year, the entity should 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.

7.5.2 Recognition of impairment losses and reversals

- An entity should recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with subsequent remeasurement of scoped out assets and liabilities as mentioned above.

- An entity should recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36.
- Depreciation and amortization shall be immediately stopped from the moment the asset has been 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.
- An entity should recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

  (a) to the extent that it has not been recognised in the remeasurement of scoped out non-current assets, current assets and liablities; but

  (b) not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Ind AS or previously in accordance with Ind AS 36, on the non-current assets that are within the scope of the measurement requirements of this Ind AS.
- The impairment loss (or any subsequent gain) recognised for a disposal group should reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Ind AS. The impairment loss shall be allocated to disposal groups in the following order:

  (i) first, to reduce the carrying amount of any goodwill allocated to the disposal group; and

  (ii) then to the other assets of the disposal group pro rata on the basis of the carrying amount of each asset in the group.
- A gain or loss not previously recognised through remeasurement by the date of the sale of a non-current asset (or disposal group) should be recognised at the date of derecognition.

  Requirements relating to derecognition are set out in:

  (a) paragraphs 67–72 of Ind AS 16 *'Property, Plant and Equipment'*; and

  (b) paragraphs 112–117 of Ind AS 38, '*Intangible Assets',* for intangible assets.

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	***₹***
Cost	*12,00,000*
Depreciation	*(6,00,000)*
Net book value	*6,00,000*

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, 20X1, entity ABC decides to sell the asset and on 1st August it meets the conditions to be classified as held for sale.

Analyse what will be the treatment of the property in the books for the year 20X1-20X2.

Solution

At 31st July, entity ABC should ensure that the asset is measured in accordance with Ind AS 16. It should be depreciated by further ₹ 40,000 (₹ 1,20,000 x 4/12) and should be carried at ₹ 5,60,000 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.

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Example 14 - Classification as held for sale

A Ltd. acquired a property for ₹ 2,00,000. After few years, the cumulative depreciation on the property of ₹ 80,000 has been recognised and subsequently the property is classified as held for sale under 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 will be recognised.

Example 15 - Disposal group classified 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	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 entity should recognise the loss of ₹ 1,100 (₹ 16,000 - ₹ 14,900), in accordance with applicable Ind AS, immediately before classifying it as held for sale. This difference of ₹ 1,100 reflects routine accounting entries (such as revaluation). This amount shall not be considered as impairment loss.

The entity estimated that fair value less costs to sell of the disposal group amounts to ₹ 13,000.

Since the 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 which comes to ₹ 13,000.

The entity should recognises an impairment loss of ₹ 1,900 (₹ 14,900 – 13,000) when the disposal group is initially classified as held for sale.

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

This impairment loss of ₹ 1,900 is allocated to remaining assets in the proportion of their carrying value other than inventory and investment in equity instrument.

The allocation of impairment loss can be illustrated as follows:

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	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
Investments in equity instruments	1,500	-	1,500
Total	**14,900**	**(1,900)**	**13,000**

Firstly, the impairment loss reduces the amount of goodwill in the disposal group. Then, the remaining impairment loss is recognised to other assets pro-rata based on the carrying amount of those assets.

Suppose, at the end of reporting period the fair value less cost to sell is increased and estimated at ₹ 15,500.

The maximum impairment loss reversal allowed will be ₹ 1,900 being impairment loss recognised earlier.

Reversal of impairment loss on Goodwill is not allowed under Ind AS 36 ‘Impairment of Assets’.

Example 16 - Reversal of Impairment Losses

A freehold property was originally acquired for ₹ 40,00,000. Some years later, after cumulative depreciation of ₹ 11,00,000 has been recognised, an impairment loss of ₹ 3,50,000 is recognised, taking the carrying amount to ₹ 25,50,000, which represents the estimated value in use of the property. Shortly thereafter, as a consequence of a proposed move to new premises, the freehold property is classified as held for sale.

At the time of classification as held for sale:

carrying amount is ₹ 25,50,000; and

➢ fair value less costs to sell is assessed at ₹ 25,00,000.

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

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

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

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

7.5.3 Changes to a plan of sale

- If an entity has classified an asset (or disposal group) as held for sale, but the held for sale criteria is no longer met, the entity should cease to classify the asset (or disposal group) as held for sale.
- The entity shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

  (a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale; and

  (b) its recoverable amount at the date of the subsequent decision not to sell.
- The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the held for sale criteria is no longer met.
- Financial statements for the periods since classification as held for sale / distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases

to be classified as held for sale / distribution to owners is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.

- If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group will continue to be measured as a group only if the group meets the criteria for classification as held for sale. Otherwise:

    (a) the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amounts and fair values less costs to sell at that date; and

    (b) any non-current assets that do not meet the criteria shall cease to be classified as held for sale.

Example 17: Remeasuring non-current assets that are no longer held for sale

Company ABC has several operations including the manufacture and sale of leisure equipment.

Company ABC financial year ends on 31 March. In April, Company ABC adopts a plan to sell all of the assets and liabilities of the leisure equipment operations. Having met the requirements of Ind AS 105 at the end of the first quarter, Company ABC appropriately classifies those assets and liabilities as a disposal group held for sale.

In September, Company ABC decides not to sell certain existing trademarks and licence arrangements associated with the leisure equipment operations. Subsequent to the sale of the other assets and liabilities, Company ABC will continue to generate revenue (and incur the associated costs) from its trademarks and licences.

Company ABC should reclassify the trademarks and licence arrangements out of assets held for sale and remeasure them at the lower of (1) their carrying amounts before being classified as held for sale less any amortisation expense that would have been recognised if they had not been classified as held for sale, and (2) their recoverable amount at the date of the subsequent decision not to sell.

If this requirement triggers an adjustment to the carrying amounts of the trademarks and licences, assuming that the assets were not revalued in accordance with Ind AS 38 before classification as held for sale, the adjustment should be included in profit or loss from continuing operations in the period in which the held for sale criteria are no longer met. The adjustment should be included in the same caption in the statement of profit and loss used to present other gains or losses, if any, on held for sale items not meeting the definition of discontinued operations.

If the remaining assets and liabilities of the leisure equipment operations continue to meet the conditions to be accounted for as held for sale, Company ABC should continue to classify those remaining assets and liabilities as held for sale.

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.

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

Solution

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

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

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

Carrying amount after impairment	₹ 4,70,000
Fair Value less Cost to sell	₹ 4,60,000
On 31st March, 20X3, Non-current asset classified as held for sale will be recorded at	₹ 4,60,000

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

(b) On 31st March, 20X4, held for sale property is reclassified as criteria is not met. The value will be lower of:

Carrying amount immediately before classification on 31st March, 20X3 ₹ 4,70,000

Less: Depreciation based on 13 years balance life	(₹ 36,154)
Carrying amount had the asset is not classified as held for sale	₹ 4,33,846
Recoverable Amount	₹ 5,00,000

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

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

7.6 PRESENTATION AND DISCLOSURES OF A NON-CURRENT ASSET (OR DISPOSAL GROUP) CLASSIFIED AS HELD FOR SALE

7.6.1 Non – current assets and disposal groups classified as held for sale

- Entity shall present and disclose information about non- current asset (or disposal group) classified as held for sale in such a manner that enable the user of financial statements to evaluate financial effects of non-current asset (or disposal group) classified as held for sale.

7.6.2 Presentation

- An entity is required to present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet.
- The liabilities of a disposal group classified as held for sale should be presented separately from other liabilities in the balance sheet. Those assets and liabilities should not be offset and presented as a single amount.
- The major classes of assets and liabilities classified as held for sale should be separately disclosed either in the balance sheet or in the notes, except when the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition.
- An entity should present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

- If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition, disclosure of the major classes of assets and liabilities is not required.
- Comparative amounts for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the balance sheets for prior periods are not reclassified or re-presented to reflect the classification in the balance sheet for the latest period presented. For example, if an asset qualifies as held for sale during 20X2, it should be classified as such in the balance sheet at the end of 20X2, but not in the 20X1 comparative balance sheet.
- Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.

Example 18: Presentation of Disposal group

Property, Plant and Equipment	4,900
Inventory	1,700
Investment in equity instruments	1,400
Liabilities	(3,300)
Net Carrying Amount	**4,700**

An amount of ₹ 400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.

The presentation of disposal group in entity's Balance Sheet is as follows:

Assets	**20X1-20X2**	**20X2-20X3**
Non –Current Assets		
AAA	X	X
BBB	X	X
CCC	X	X
	X	**X**
Current Assets		
DDD	X	X
EEE	X	X
	X	**X**

Assets Classified as Held for Sale	8,000	-
	X	X
Total Assets	X	X
Equity and Liabilities		
Equity attributable to equity holders of the parent		
FFF	X	X
GGG	X	X
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale	400	-
	X	X
Non-Controlling Interests	X	X
Total Equity	X	X
Non-Current Liabilities		
HHH	X	X
III	X	X
	X	X
Current Liabilities		
KKK	X	X
LLL	X	X
MMM	X	X
Liabilities directly associated with assets classified as held for sale	3,300	-
	X	X
Total liabilities	X	X
Total Equity and liabilities	X	X

7.6.3 Disclosures

An entity should disclose the following information in the notes to the financial statements in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) Description of the non-current asset (or disposal group);

(b) Description of facts and circumstances of the sale, or leading to the expected disposal and the expected manner and timing of that disposal;

(c) Gain or loss recognised and if not presented separately on the face of the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss.

(d) If applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance of Ind AS 108 Operating Segments.

(e) If there is a change of plan to sell, a description of facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

7.7 DISCONTINUED OPERATIONS

7.7.1 Discontinued operation – definition

- Ind AS 105 defines Discontinued Operation as a component of an entity that either has been disposed of or is classified as held for sale and:

  (a) represents a separate major line of business or geographical area of operations; or

  (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

  (c) is a subsidiary acquired exclusively with a view to resale.

Examples 19-22 – Discontinued Operations

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.

20. A group has announced that it is closing an engineering contracting segment. Although no new contracts are being undertaken, all existing contracts will be completed and the business will be run down accordingly. In this situation, the operation will have ceased to be used when the contracting activity has been completed (that is, at the end of the last contract). In the period during which existing contracts are completed, the group is continuing to carry out a revenue-earning activity, albeit that the activity is being wound down, and so it does not qualify as a discontinued operation.

21. A company carried out a merchandise wholesaling business that is 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.

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 XYZ's financial statements as a discontinued operation, despite the fact that there has been no change to the number of business segments.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will be a cash-generating unit or a group of cash-generating units while being held for use.

Illustration 3

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

S. No	***Particulars***
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.*

Solution

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

*****

Illustration 4

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

All criteria mentioned in Ind AS 105 for classification of assets as held for sale were first met on1st 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'.

Analyse the opinion of the management with respect to the accounting treatment of the outlet.

Solution

The Chandani 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.

****

7.7.2 Separate presentation of discontinued operations

An entity should present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

This allows the user to distinguish between the operations which will continue in the future and those which will not and make it more predictable the ability of entity to generate future cash flows.

When the amounts relating to discontinued operations are presented separately, the comparative figures for prior periods are also re-presented, so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

7.7.3 Presentation in the statement of profit and 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.

- In addition, this single amount must be analysed into:

  (a) the revenue, expenses and pre-tax profit or loss of discontinued operations;

  (b) the related income tax expense as required by paragraph 81(h) of Ind AS 12;

  (c) 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

  (d) the related income tax expense as required by paragraph 81(h) of Ind AS 12.

- The analysis may be presented in the notes or in the statement of profit and loss. If it is presented in the statement of profit and loss it should be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.
- Entities are required to disclose the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of profit and loss.

7.7.4 Disclosures in the statement of cash flows

Disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

7.7.5 Disclosures of Earnings per share

Earnings per share amounts should be shown separately when an entity reports discontinued operations. Paragraph 68 of Ind AS 33 requires an entity that reports discontinued operations to present basic and diluted per share amounts for discontinued operations, either in the statement of profit and loss or in the notes to the financial statements. This disclosure is required in addition to the presentation of basic and diluted per share amounts for profit or loss from continuing operations and profit or loss for the year, both of which should be shown in the statement of profit and loss with equal prominence.

7.7.6 Adjustment to prior period disposals

Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period should be classified separately in discontinued operations. The nature and amount of such adjustments are disclosed. Examples of circumstances in which these adjustments may arise include the following:

(a) the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser;

(b) the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller; and

(c) the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

7.7.7 Change to a plan of sale

If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations should be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods should be described as having been re-presented.

7.7.8 Loss of Control in Subsidiary

An entity that is committed to a sale plan involving loss of control of a subsidiary should disclose the information as above when the subsidiary is a disposal group that meets the definition of a discontinued operation.

Example 23: Presentation of Discontinued Operations in the Statement of profit and loss.

Statement of profit and loss for the year ended 31st March, 20X3

	20X1-20X2	**20X2-20X3**
Continuing Operations		
Revenue	XX	XX
Cost of Sales	(XX)	(XX)
Gross Profit	XX	XX
Other Income	XX	XX
Distribution Costs	(XX)	(XX)
Administrative Expenses	(XX)	(XX)
Other Expenses	(XX)	(XX)
Finance Costs	(XX)	(XX)
Share of Profit of Associates	XX	XX
Profit before Tax	XX	XX
Income Tax Expense	(XX)	(XX)
Profit for the period from Continuing Operation	**XX**	**XX**

Discontinued Operations		
Profit for the period from discontinued Operations*	**XX**	**XX**
Profit for the period	XX	XX
Attributable to:		
Owner of the parent		
Profit for the period from continuing operations	XX	XX
Profit for the period from discontinued operations	XX	XX
Profit for the period attributable to owners of the parent	XX	XX
Non-Controlling Interests		
Profit for the period from continuing operations	XX	XX
Profit for the period from discontinued operations	XX	XX
Profit for the period attributable to non-controlling interests	XX	XX
	XX	XX

* the required analysis would be given in the notes.

7.8 EXTRACTS OF FINANCIAL STATEMENTS OF LISTED ENTITY

Following is the extract from the financial statements of the listed entity 'Hindustan Unilever Limited' for the financial year 2021-2022 with respect to 'Assets held for Sale' and its accounting policy thereon.

Standalone Balance Sheet

as at 31st March, 2022

(All amounts in ₹ crores, unless otherwise stated)

Particulars	Note	As at 31st March, 2022	As at 31st March, 2021
ASSETS			
Non-current assets			

Current assets			
Inventories	11	3,890	3,383
Financial assets			
Investments	6	3,510	2,683
Loans	7	34	34
Trade receivables	12	1,932	1,648
Cash and cash equivalents	13	988	1,740
Bank balances other than cash and cash equivalents mentioned above	14	2,630	2,581
Other financial assets	8	1,070	1,116
Other current assets	15	580	438
Assets held for sale	16	13	17
Total - Current assets (B)		**14,647**	**13,640**
TOTAL ASSETS [(A) + (B)]		**69,737**	**68,116**

NOTE 16 ASSETS HELD FOR SALE

Non-current assets or disposal groups comprising of assets and liabilities are classified as 'held for sale' when all the following criteria are met: (i) decision has been made to sell, (ii) the assets are available for immediate sale in its present condition, (iii) the assets are being actively marketed and (iv) sale has been agreed or is expected to be concluded within 12 months of the Balance Sheet date.

Subsequently, such non-current assets and disposal groups classified as 'held for sale' are measured at the lower of its carrying value and fair value less costs to sell. Non-current assets held for sale are not depreciated or amortised.

	As at 31st March, 2022	As at 31st March, 2021
Groups of assets held for sale		
Land	2	3
Buildings	11	14
Plant and equipment	-	0
Furniture and fixtures	0	0
	13	**17**

The Company has sold land with net book value (NBV) of ₹1 crore (31st March, 2021: ₹0 crore), buildings with NBV of ₹3 crores (31st March, 2021: ₹1 crore) and plant & equipment with NBV of ₹0 crore (31st March, 2021: Nil). The gain on such sale has been credited to the standalone statement of profit and loss under exceptional items.

(Source: Annual Report 2021-2022 - 'Hindustan Unilever Limited')

7.9 SIGNIFICANT DIFFERENCES IN IND AS 105 *VIS-À-VIS* AS 24

S.No.	Particular	Ind AS 105	AS 24
1.	*Scope and Objective*	Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of *discontinued operations*. Ind AS 105 applies to all recognised non-current assets and to all disposal groups of an entity. (*Paragraph 1 of Ind AS 105)*	AS 24 establishes principles for reporting information about *discontinuing operations*. But in AS 24, there is no concept of discontinued operations. It does not deal with the non-current assets held for sale; property, plant and equipment retired from active use and held for sale, which are dealt in AS 10 'Property, Plant and Equipment'. *('Objective' of AS 24)*
2.	*Discontinued vs Discontinuing Operations*	Under Ind AS 105, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The standard lays down criteria for classifying an asset as held for sale. *(Paragraph 32 of Ind AS 105)*	Under AS 24, a discontinuing operation is a component of an entity that it is disposing off substantially in its entirety or in piecemeal or abandoning and represents the major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes. *(Paragraph 3 of AS 24)*
3.	*Time Period*	As per Ind AS 105, the sale should be expected to qualify for recognition as a completed sale within one year from the	AS 24 does not specify any time period in this regard as it relates to discontinuing operations

		date of classification with certain exceptions.	
4.	*Initial Disclosure Event*	Ind AS 105 does not mention so as it relates to discontinued operation.	AS 24 specifies about the disclosure information required in respect to a discontinuing operation in financial statements for the period in which the initial disclosure event occurs. *(Paragraph 15 of AS 24)*
5.	*Measurement*	Under Ind AS 105, non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the balance sheet.	AS 24 requires to apply the principles set out in other relevant Accounting Standards, e.g., AS 10 requires that the items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.
6.	*Abandonment of Assets*	Ind AS 105 specifically mentions that abandonment of assets should not be classified as held for sale. *(Paragraph 13 of Ind AS 105)*	In AS 24, abandonment of assets is classified as a discontinuing operation; however, changing the scope of an operations or the manner in which it is conducted is not abandonment and hence not a discontinuing operation. *(Paragraph 7 of AS 24)*
7.	*Guidance Regarding Measurement of Changes to a Plan of Change*	Ind AS 105 provides guidance regarding changes to the plan to sell non-current assets (or disposal groups) which are classified as held for sale. *(Paragraphs 26-29 of Ind AS 105)*	AS 24 does not give any specific guidance regarding this aspect.

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Questions

1. 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.

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

   Recommend whether the factory should be shown as held for sale as on 31st March, 20X1.

3. 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?
2. Measure the manufacturing unit on the date of classification as held for sale.
3. Measure the manufacturing unit at the end of the year.

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

Asset/ (liability)	**Carrying amount as on 31st March, 20X1 (In ₹ '000)**
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1,100

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.

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

(a) 15 September, 20X1 and

(b) 31st March, 20X2

5. CK Ltd. prepares the financial statement under Ind AS for the quarter and the year ended 30th June, 20X1. During the 3 months ended 30th June, 20X1, the following events occurred:

On 1st April, 20X1, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 20X1, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – ₹ 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) - ₹ 20,00,000
- Inventories - ₹ 10,00,000

From 1st April, 20X1, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 20X1 the directors estimated that they would receive ₹ 32,00,000 from the sale of the division. Since 1st April, 20X1, market condition has improved and as on 1st August, 20X1 the Company received and accepted a firm offer to purchase the division for ₹ 33,00,000.

The sale is expected to be completed on 30th September, 20X1 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 20X1. During the period from 1st April to 30th June inventories of the division costing ₹ 8,00,000 were sold for ₹ 12,00,000. At 30th June, 20X1, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

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

Answers

1. 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.

2. 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 31st March, 20X1.

3. **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 31st July, 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 31st March, 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 31st July, 20X1 is determined at ₹ 2,600. The difference between the carrying value as on 31st December, 20X0 and 31st July, 20X1 is accounted for as per the relevant Ind AS.

Step 2: An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The fair value less cost to sell of the disposal group as on 31st July, 20X1 is ₹ 1,750 (i.e. 1,850 - 100). This is lower than the carrying value of ₹ 2,600. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between non-current 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 – 31st July, 20X1	Impairment	Carrying value as per Ind AS 105 – 31st July, 20X1
Goodwill	500	(500)	-
Plant and Machinery	900	(115)	785
Building	1,850	(235)	1,615
Debtors	1,050	-	1,050
Inventory	400	-	400
Creditors	(250)	-	(250)
Loans	(1,850)	-	(1,850)
	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.

4. (a) As at 15th September, 20X1

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

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

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

Non-current liabilities – provisions	(250)	-	(250)
Total	2,160	(330)	1,830

The impairment loss is allocated first to goodwill and then prorata 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 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 15th September, 20X1	Change in value to 31st March 20X2	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230

Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	(250)	-	-	(250)
Total	**1,830**	**(120)**	**(60)**	**1,650**

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

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount 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, 20X1 so its carrying value at 30th June, 20X1 will be ₹ 20,00,000 only. The inventories of the division will be shown at ₹ 9,00,000.

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

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

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