IFRS 5
Non-current assets held for sale and discontinued operations

1. Objective

IFRS 5 sets out the accounting, presentation and disclosure of both:

- non-current assets held for sale,
- and discontinued operations.

This Standard does not apply to the following assets:

- deferred tax assets (IAS 12);
- assets arising from employee benefits (IAS 19);
- financial assets within the scope IFRS 9;
- non-current assets accounted for at fair value in IAS 40
- non-current assets accounted for at fair value, less estimated costs to point of sale according to IAS 41;
- contractual rights under insurance contracts (IFRS 17).

2. Scope

2.1 Classification of non-current assets

An entity must classify a non-current asset (or a group of assets, referred to as a "disposal group") as held for sale if its carrying value will be recovered principally through a sales transaction rather than through continuing use.
For this to be the case, the asset or disposal group must be available for **immediate** sale **in its present condition**, and its sale must be **highly probable**.
"Highly probable" means that a plan to sell the asset has been undertaken by an **appropriate level of management**, an active program to locate a buyer and finalize the plan has been initiated, and the asset(s) must be actively marketed. Furthermore, the price of the asset for sale must be reasonable in relation to its current fair value, and the sale must be completed within one year of the classification of the asset.

Example 1: Company X has put its company headquarters up for sale. The move will only take place once the future company headquarters building has been completed.
The company cannot classify its present company headquarters as an asset held for sale until its future company headquarters can accommodate its personnel.
If it decides to renovate its current company headquarters before carrying out the sale, it is only after the renovation that it will be able to consider its current headquarters as an asset held for sale.

An asset that is intended to be abandoned may not be classified as an asset held for sale. The same applies to an asset that is temporarily out of use.

2.2 Discontinued operations

A discontinued operation is a component of an entity (with activities and cash flows that can be clearly identified) that has been disposed of by the entity, or that has been classified as held for sale and:

- that represents a separate and significant line of business or geographical area;
- is part of a single, coordinated plan to dispose of a separate, major line of business or geographical area;
- is a subsidiary acquired exclusively with a view to resale.

It should be stipulated that losing control of an entity, following a partial disposal of its interests, may justify classifying the subsidiary's assets and liabilities as assets held for sale, as long as all of the other criteria contained in IFRS 5 are met.

3. Accounting impact

3.1 Measurement of a non-current asset

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

When a non-current asset no longer meets the criteria for being classified as held for sale, it must be measured at the lower of the following two values:

- its carrying amount prior to classification as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized if the asset or disposal group had not been classified as held for sale, and

- its recoverable amount at the date of the subsequent decision not to sell.

The entity must include any adjustments to the carrying amount of a non-current asset that ceases to be classified as held for sale in the profit or loss of the period in which the criteria are no longer met.

3.2 Recognition

An entity must account for an impairment loss related to any initial or later write-down of the asset or disposal group to fair value less costs to sell.
It must recognize a gain for any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss that has been recognized either in accordance with this Standard or previously in accordance with IAS 36.

Any gain or loss on the re-measurement of a non-current asset (or disposal group), classified as held for sale, that does not meet the definition of a discontinued operation, must be included in the profit or loss from continuing operations.

An entity must present a non-current asset classified as being held for sale, separately from the other assets in the balance sheet. The same applies to the components of a disposal group classified as being held for sale. These assets and liabilities must not be offset and presented as a single amount.

Example 2: At the end of the year N-1, company X decided to discontinue its "sports items production" business. This business was made up of two production centres (cash generating units under IAS 36). The machines stopped production at the end of year N and the assets from both centres will be disposed of during year N+1.

Carrying amounts of the assets as of 31 December N immediately after their classification as non-current assets held for sale

Items	**Centre A**	**Centre B**
Goodwill	1,600	2,500
Tangible assets (recognized at adjusted value)	3,250	5,340
Tangible assets (recognized at cost)	6,040	15,400
Stock*	2,110	3,330
Financial assets*	1,900	4,430
Total	14,900	31,000

* Already been adjusted to held-for-sale value

The corresponding liabilities amount to 3,000 for Centre A and 10,000 for Centre B.

The estimated disposal price (less disposal costs) equals 10,000 for Centre A and 25,000 for Centre B.

A certain number of items must be revalued at the end of the reporting period N. In accordance with the Standard, company X is required to measure its assets held for sale at the lowest of their net carrying amount or their fair value less costs to sell.
For Centre A, the net carrying amount stands at 11,900 (14,900 – 3,000), whereas fair value equals 10,000. It is therefore the lower of these two amounts, fair value, that must be used.
As regards Centre B, the net carrying amount equals 21,000 (31,000 – 10,000) and fair value equals 25,000. In this case, the lower of the two amounts, net carrying amount of 21,000 which should be used.
The adjustment of the carrying amount for Centre A equals 1,900 (11,900 – 10,000). This difference will first be allocated to goodwill up to the amount of 1,600 then proportionally to the fixed assets, in accordance with IAS 36.

Centre A items	**Carrying value**	**Impairment**	**Net value**
Goodwill	1,600	1,600	0
Tangible assets (recognized at restated value)	3,250	105	3,145
Tangible assets (recognized at cost)	6,040	195	5,845
Stock	2,110		2,110
Financial assets	1,900		1,900
Total	14,900	1,900	13,000

On this basis, the following should be presented in the balance sheet:

Assets held for sale: 44,000 (13,000 + 31,000)
Liabilities held for sale: 13,000 (3,000 + 10,000).

3.3 Depreciation of a non-current asset

An entity must no longer depreciate a non-current asset once it has been classified as held for sale.

4. Disclosure

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

Discontinued operations should be presented and disclosed as follows:

- a one-line amount in the statement of comprehensive income comprising the total of:
  - ✓ the post-tax profit or loss of the discontinued operations and
  - ✓ the post-tax gain or loss resulting from the measurement to fair value less costs to sell, or on the disposal of the assets or of the disposal group constituting the discontinued operation;
- an analysis of the one-line item referred to immediately above (either in the notes or on the face of the statement of comprehensive income);
- the net cash flows attributable to the operating, investment and financing activities of discontinued operations.

Furthermore, an entity must disclose the following information in the notes for the period during which a non-current asset has been either classified as held for sale or sold:

- a presentation of the non-current asset (or disposal group);
- a description of the facts and circumstances of the sale (terms, payment schedule, etc.);
- the gain or loss recognized;
- if a non-current asset ceases to be classified as being held for sale, disclosure is required of a description of the facts and circumstances leading to the decision on results of the current and previous periods.