

Guidance on Implementing
**Non-current Assets Held for Sale and
Discontinued Operations**

This Guidance is applicable for annual reporting period beginning on
1 January 2023.

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Guidance on implementing FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

This guidance accompanies, but is not part of, FRS 105.

Availability for immediate sale (paragraph 7)

To qualify for classification as held for sale, a non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) (paragraph 7). A non-current asset (or disposal group) is available for immediate sale if an entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition. Examples 1–3 illustrate situations in which the criterion in paragraph 7 would or would not be met.

Example 1

An entity is committed to a plan to sell its headquarters building and has initiated actions to locate a buyer.

- (a) The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 7 would be met at the plan commitment date.
- (b) The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 7 would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

Example 2

An entity is committed to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders.

- (a) The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date will be transferred to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 7 would be met at the plan commitment date.
- (b) The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in paragraph 7 would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility were obtained earlier.

Example 3

An entity acquires through foreclosure a property comprising land and buildings that it intends to sell.

- (a) The entity does not intend to transfer the property to a buyer until after it completes renovations to increase the property's sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 7 would not be met until the renovations are completed.
- (b) After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 7 would not continue to be met. The property would be reclassified as held and used in accordance with paragraph 26.

Completion of sale expected within one year (paragraph 8)

Example 4

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (paragraph 7), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph 8). That criterion would not be met if, for example:

- (a) an entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently ceased to be leased and the ultimate form of a future transaction (sale or lease) has not yet been determined.
- (b) an entity is committed to a plan to 'sell' a property that is in use as part of a sale and leaseback transaction, but the transfer does not qualify to be accounted for as a sale in accordance with paragraph 99 of FRS 116 *Leases* and, instead, will be accounted for in accordance with paragraph 103 of FRS 116.

Exceptions to the criterion that the sale should be expected to be completed in one year (paragraphs 8 and B1)

An exception to the one-year requirement in paragraph 8 applies in limited situations in which the period required to complete the sale of a non-current asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity's control and specified conditions are met (paragraphs 9 and B1). Examples 5–7 illustrate those situations.

Example 5

An entity in the power generating 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 that 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 that situation, the conditions in paragraph B1(a) for an exception to the one-year requirement in paragraph 8 would be met.

Example 6

An entity is committed to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage 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 of the damage is highly probable. In that situation, the conditions in paragraph B1(b) for an exception to the one-year requirement in paragraph 8 would be met.

Example 7

An entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date.

- (a) During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraphs 7 and 8 are therefore met. In that situation, the conditions in paragraph B1(c) for an exception to the one-year requirement in paragraph 8 would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.
- (b) During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by paragraph 7. In addition, paragraph 8 also requires an asset to be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph B1(c) for an exception to the one-year requirement in paragraph 8 would not be met. The asset would be reclassified as held and used in accordance with paragraph 26.

Determining whether an asset has been abandoned

Paragraphs 13 and 14 of the FRS specify requirements for when assets are to be treated as abandoned. Example 8 illustrates when an asset has not been abandoned.

Example 8

An entity ceases to use a manufacturing plant because demand for its product has declined. However, the plant is maintained in workable condition and it is expected that it will be brought back into use if demand picks up. The plant is not regarded as abandoned.

Presenting a discontinued operation that has been abandoned

Paragraph 13 of the FRS prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned are a major line of business or geographical area of operations, they are reported in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

Example 9

In October 20X5 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the cotton mills are

treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by paragraphs 33 and 34 of the FRS.

Allocation of an impairment loss on a disposal group

Paragraph 23 of the FRS requires an impairment loss (or any subsequent gain) recognised for a disposal group to reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of the FRS, in the order of allocation set out in paragraphs 104 and 122 of FRS 36 (as revised in 2004). Example 10 illustrates the allocation of an impairment loss on a disposal group.

Example 10

An entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	CU ¹	CU
Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
Total	16,000	14,900

The entity recognises the loss of CU1,100 (CU16,000 – CU14,900) immediately before classifying the disposal group as held for sale.

The entity measures the fair value less costs to sell of the disposal group as CU13,000. Because an entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the entity recognises an impairment loss of CU1,900 (CU14,900 – CU13,000) when the group is initially classified as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirements of the FRS are applicable. Therefore, no impairment loss is allocated to inventory and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of FRS 36 (as revised in 2004).

¹ In this guidance, monetary amounts are denominated in 'currency units (CU)'.

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	CU	CU
Goodwill	1,500	(1,500)	0
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (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

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets pro rata based on the carrying amounts of those assets.

Presenting discontinued operations in the statement of comprehensive income

Paragraph 33 of the FRS requires an entity to disclose a single amount in the statement of comprehensive income for discontinued operations with an analysis in the notes or in a section of the statement of comprehensive income separate from continuing operations. Example 11 illustrates how these requirements might be met.

Example 11

XYZ GROUP - STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

(in thousands of currency units)	20X2	20X1
Continuing operations		
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	<u>X</u>	<u>X</u>
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Share of profit of associates	<u>X</u>	<u>X</u>
Profit before tax	X	X
Income tax expense	<u>(X)</u>	<u>(X)</u>
Profit for the period from continuing operations	<u>X</u>	<u>X</u>
Discontinued operations		
Profit for the period from discontinued operations ²	<u>X</u>	<u>X</u>
Profit for the period	<u>X</u>	<u>X</u>

continued...

² The required analysis would be given in the notes.

...continued

Attributable to:

Owners of the parent

Profit for the period from continuing operations	X	X
Profit for the period from discontinued operations	X	X
Profit for the period attributable to owners of the parent	X	X

Non-controlling interests

Profit for the period from continuing operations	X	X
Profit for the period from discontinued operations	X	X
Profit for the period attributable to non-controlling interests	X	X
	X	X

Presenting non-current assets or disposal groups classified as held for sale

Paragraph 38 of the FRS requires an entity 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 statement of financial position. The liabilities of a disposal group classified as held for sale are also presented separately from other liabilities in the statement of financial position. Those assets and liabilities are not offset and presented as a single amount. Example 12 illustrates these requirements.

Example 12

At the end of 20X5, an entity decides to dispose of part of its assets (and directly associated liabilities). The disposal, which meets the criteria in paragraphs 7 and 8 to be classified as held for sale, takes the form of two disposal groups, as follows:

	Carrying amount after classification as held for sale	
	Disposal group I: CU	Disposal group II: CU
Property, plant and equipment	4,900	1,700
Investments in equity instruments	1,400 ³	–
Liabilities	(2,400)	(900)
Net carrying amount of disposal group	3,900	800

³ An amount of CU400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.

The presentation in the entity's statement of financial position of the disposal groups classified as held for sale can be shown as follows:

	20X5	20X4
ASSETS		
Non-current assets		
AAA	X	X
BBB	X	X
CCC	X	X
	<u>X</u>	<u>X</u>
Current assets		
DDD	X	X
EEE	X	X
	<u>X</u>	<u>X</u>
Non-current assets classified as held for sale	8,000	–
	<u>X</u>	<u>X</u>
Total assets	<u>X</u>	<u>X</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
FFF	X	X
GGG	X	X
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	400	–
	<u>X</u>	<u>X</u>
Non-controlling interests	X	X
Total equity	<u>X</u>	<u>X</u>
Non-current liabilities		
HHH	X	X
III	X	X
JJJ	X	X
	<u>X</u>	<u>X</u>
Current liabilities		
KKK	X	X
LLL	X	X
MMM	X	X
Liabilities directly associated with non-current assets classified as held for sale	3,300	–
	<u>X</u>	<u>X</u>
Total liabilities	<u>X</u>	<u>X</u>
Total equity and liabilities	<u>X</u>	<u>X</u>

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative statements of financial position for any previous periods are therefore not re-presented.

Measuring and presenting subsidiaries acquired with a view to resale and classified as held for sale

A subsidiary acquired with a view to sale is not exempt from consolidation in accordance with FRS 110 *Consolidated Financial Statements*, unless the acquirer is an investment entity, as defined in FRS 110, and is required to measure the investment in that subsidiary at fair value through profit or loss. However, if it meets the criteria in paragraph 11, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

Entity A acquires an entity H, which is a holding company with two subsidiaries, S1 and S2. S2 is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. In accordance with paragraph 32(c), S2 is also a discontinued operation.

The fair value less costs to sell of S2 is CU135. A accounts for S2 as follows:

- initially, A measures the identifiable liabilities of S2 at fair value, say at CU40
- initially, A measures the acquired assets as the fair value less costs to sell of S2 (CU135) plus the fair value of the identifiable liabilities (CU40), ie at CU175
- at the end of the reporting period, A remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at CU130. The liabilities are remeasured in accordance with applicable FRSs, say at CU35. The total assets are measured at CU130 + CU35, ie at CU165
- at the end of the reporting period, A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12 *Presenting non-current assets or disposal groups classified as held for sale*, and
- in the statement of comprehensive income, A presents the total of the post-tax profit or loss of S2 and the post-tax gain or loss recognised on the subsequent remeasurement of S2, which equals the remeasurement of the disposal group from CU135 to CU130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.