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IFRS 5 — Non-current Assets Held for Sale and Discontinued Operations

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Overview

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* outlines how to account for non-current assets held for sale (or for distribution to owners). In general terms, assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position. Specific disclosures are also required for discontinued operations and disposals of non-current assets.

IFRS 5 was issued in March 2004 and applies to annual periods beginning on or after 1 January 2005.

History of IFRS 5

Date	Development	Comments
September 2002	Project added to IASB agenda	History of the project
24 July 2003	Exposure Draft ED 4 <i>Disposal of Non-current Assets and Presentation of Discontinued Operations</i> published	Comment deadline 24 October 2003
31 March 2004	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> issued	Effective for annual periods beginning on or after 1 January 2005

22 May 2008	Amended by <i>Improvements to IFRSs 2007</i> (sale of a controlling interest in the subsidiary)	Effective for annual periods beginning on or after 1 July 2009
27 November 2008	Consequential amendments from <i>IFRIC 17 Distributions of Non-cash Assets to Owners</i> (assets held for distribution to owners)	Effective for annual periods beginning on or after 1 July 2009
16 April 2009	Amended by <i>Improvements to IFRSs 2009</i> (disclosure requirements in other standards)	Effective for annual periods beginning on or after 1 January 2010
25 September 2014	Amended by <i>Improvements to IFRSs 2014</i> (changes in methods of disposal)	Effective for annual periods beginning on or after 1 January 2016

Related Interpretations

- None

Amendments under consideration

- [Convergence — Assets held for sale and discontinued operations](#)

Summary of IFRS 5

Background

IFRS 5 achieves substantial convergence with the requirements of US SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* with respect to the timing of the classification of operations as discontinued operations and the presentation of such operations. With respect to long-lived assets that are not being disposed of, the impairment recognition and measurement standards in SFAS 144 are significantly different from those in [IAS 36 Impairment of Assets](#). However those differences were not addressed in the short-term IASB-FASB convergence project.

Key provisions of IFRS 5 relating to assets held for sale

Held-for-sale classification

In general, the following conditions must be met for an asset (or 'disposal group') to be classified as held for sale: [IFRS 5.6-8]

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)

- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

The assets need to be disposed of through sale. Therefore, operations that are expected to be wound down or abandoned would not meet the definition (but may be classified as discontinued once abandoned). [IFRS 5.13]

An entity that is committed to a sale involving loss of control of a subsidiary that qualifies for held-for-sale classification under IFRS 5 classifies all of the assets and liabilities of that subsidiary as held for sale, even if the entity will retain a non-controlling interest in its former subsidiary after the sale. [IFRS 5.8A]

Held for distribution to owners classification

The classification, presentation and measurement requirements of IFRS 5 also apply to a non-current asset (or disposal group) that is classified as held for distribution to owners. [IFRS 5.5A and [IFRIC 17](#)] The entity must be committed to the distribution, the assets must be available for immediate distribution and the distribution must be highly probable. [IFRS 5.12A]

Disposal group concept

A 'disposal group' is a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting impairment loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by IAS 36. [IFRS 5.4]

Measurement

The following principles apply:

- *At the time of classification as held for sale.* Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs. Resulting adjustments are also recognised in accordance with applicable IFRSs. [IFRS 5.18]
- *After classification as held for sale.* Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell (fair value less costs to distribute in the case of assets classified as held for distribution to owners). [IFRS 5.15-15A]
- *Impairment.* Impairment must be considered both at the time of classification as held for sale and subsequently:
 - *At the time of classification as held for sale.* Immediately prior to classifying an asset or disposal group as held for sale, impairment is measured and recognised in accordance with the applicable IFRSs (generally [IAS 16 Property, Plant and Equipment](#), [IAS 36 Impairment of](#)

Assets, [IAS 38 Intangible Assets](#), and [IAS 39 Financial Instruments: Recognition and Measurement/IFRS 9 Financial Instruments](#)). Any impairment loss is recognised in profit or loss unless the asset had been measured at revalued amount under IAS 16 or IAS 38, in which case the impairment is treated as a revaluation decrease.

- *After classification as held for sale.* Calculate any impairment loss based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss that arises by using the measurement principles in IFRS 5 must be recognised in profit or loss [IFRS 5.20], even for assets previously carried at revalued amounts. This is supported by IFRS 5 BC.47 and BC.48, which indicate the inconsistency with IAS 36.
- *Assets carried at fair value prior to initial classification.* For such assets, the requirement to deduct costs to sell from fair value may result in an immediate charge to profit or loss.
- *Subsequent increases in fair value.* A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognised in accordance with IFRS 5 or previously in accordance with IAS 36. [IFRS 5.21-22]
- *No depreciation.* Non-current assets or disposal groups that are classified as held for sale are not depreciated. [IFRS 5.25]

The measurement provisions of IFRS 5 do not apply to deferred tax assets, assets arising from employee benefits, financial assets within the scope of [IFRS 9 Financial Instruments](#), non-current assets measured at fair value in accordance with [IAS 41 Agriculture](#), and contractual rights under insurance contracts. [IFRS 5.5]

Presentation

Assets classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, must be presented separately on the face of the statement of financial position. [IFRS 5.38]

Disclosures

IFRS 5 requires the following disclosures about assets (or disposal groups) that are held for sale: [IFRS 5.41]

- description of the non-current asset or disposal group
- description of facts and circumstances of the sale (disposal) and the expected timing
- impairment losses and reversals, if any, and where in the statement of comprehensive income they are recognised
- if applicable, the reportable segment in which the non-current asset (or

disposal group) is presented in accordance with [IFRS 8 Operating Segments](#)

Disclosures in other IFRSs do not apply to assets held for sale (or discontinued operations, discussed below) unless those other IFRSs require specific disclosures in respect of such assets, or in respect of certain measurement disclosures where assets and liabilities are outside the scope of the measurement requirements of IFRS 5. [IFRS 5.5B]

Key provisions of IFRS 5 relating to discontinued operations

Classification as discontinuing

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: [IFRS 5.32]

- represents either a separate major line of business or a geographical area of operations
- is part of a single co-ordinated 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 and the disposal involves loss of control.

IFRS 5 prohibits the retroactive classification as a discontinued operation, when the discontinued criteria are met after the end of the reporting period. [IFRS 5.12]

Disclosure in the statement of comprehensive income

The sum of the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less cost to sell or fair value adjustments on the disposal of the assets (or disposal group) is presented as a single amount on the face of the statement of comprehensive income. If the entity presents profit or loss in a separate statement, a section identified as relating to discontinued operations is presented in that separate statement. [IFRS 5.33-33A].

Detailed disclosure of revenue, expenses, pre-tax profit or loss and related income taxes is required either in the notes or in the statement of comprehensive income in a section distinct from continuing operations. [IFRS 5.33] Such detailed disclosures must cover both the current and all prior periods presented in the financial statements. [IFRS 5.34]

Cash flow information

The net cash flows attributable to the operating, investing, and financing activities of a discontinued operation is separately presented on the face of the cash flow statement or disclosed in the notes. [IFRS 5.33]

Disclosures

The following additional disclosures are required:

- adjustments made in the current period to amounts disclosed as a discontinued operation in prior periods must be separately disclosed [IFRS 5.35]
- if an entity ceases to classify a component as held for sale, the results of that component previously presented in discontinued operations must be reclassified and included in income from continuing operations for all periods presented [IFRS 5.36]

Special edition of IAS Plus Newsletter on IFRS 5

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