UNIT 8:
INDIAN ACCOUNTING STANDARD 105: NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

LEARNING OUTCOMES

After studying this unit, you will be able to

- Understand the objective and scope of this standard
- Define the terms non-current asset, disposal group, cash generating unit and discontinued operation
- Examine the criteria for classifying existing assets 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.
7.342 FINANCIAL REPORTING

UNIT OVERVIEW

Objective
Accounting for assets held for sale
Presentation and disclosure of asset held for sale and discontinued operations

Presentation and Disclosure of Discontinued Operations

Scope out - Measurement provisions
- Deferred tax assets - Ind AS 12
- Financial Assets - Ind AS 109
- Agriculture - Ind AS 41
- Contractual rights - Ind AS 104
- Employee benefits - Ind AS 19

Criteria for classifying existing assets as held for sale

Measurement of assets classified as held for sale

Presentation and Disclosure of Non-current asset held for sale

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8.1 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.

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

- **Accounting for Assets held for sale**
  - Measured at Fair Value less Cost to sell; Depreciation on such assets to cease
  - Presented separately in the Balance Sheet

- **Presentation and Disclosure of Discontinued Operations**
  - Results to be presented separately in the Statement of Profit & Loss

8.2 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.

The measurement provisions of this Ind AS do not apply to the following assets (which are covered by the Ind ASs 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.

8.3 RELEVANT DEFINITIONS

The following are the key terms used in this standard:

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

- **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.

- **Cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

- **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)

- **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.

- 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 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.

- 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.

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

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**8.4 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.

- **Key requirements for Non-current Assets held for sale**
  - Available for Immediate Sale in present condition
  - Sale must be highly probable

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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.

**8.4.1 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 - 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 criteria for classification as held for sale would be met.

2. In above example, 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.

3. 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 order.

4. In above example, if entity intends to sell the manufacturing facility along with the uncompleted orders it can be classified as held for sale.

5. 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 condition of available for immediate sale.

6. A company has put a property on the market and expects that all the conditions of classification as held for sale is meeting. 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.

**8.4.2 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 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.
5. Significant changes to or withdrawal from the plan to sell the asset are unlikely.

**8.4.3 Other Key Points**

**8.4.3.1 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 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.

**8.4.3.2 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 evidences that the entity is still committed to it selling plan.

**Example**

An entity is committed to its selling plan of a manufacturing facility in its present condition and so classifies it as held for sale. After a firm 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 timeframe of one year to complete the sale within 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 met.

### 8.4.3.3 Sale includes exchange

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

### 8.4.3.4 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. This standard provides a short period (usually three months) to meet the classification criteria that don’t met at the acquisition except requirement of one year.

#### Example:

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.

### 8.4.3.5 Criteria met after reporting period

If the criteria of held for sale are met after the reporting period but before the date of authorisation the financial statements, a non-current asset should not classify as held for sale. 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 paragraph 41(a), (b) and (d) in the notes.

### 8.4.3.6 Classification as held for distribution

An entity shall classify a non-current asset (or disposal group) as held for distribution to its owner on a parallel line as discussed above required for classification as held for sale.

### 8.4.3.7 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. If however, the disposal group to be abandoned meets the criteria as prescribed in Ind AS 105 to be classified as a discontinued operation, then the disclosure regarding discontinued operation must be presented.
Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

**Example:**

Entity ceases to use a manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it is expected to be brought back into use in future when demand picks up.

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.

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

#### 8.5.1 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**.

- 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 Ass before the fair value less costs to sell of the disposal group is remeasured.

- 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.

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.

Non-current asset (or disposal group) classified as held for distribution are also measured on same line as non-current asset (or disposal group) classified as held for sale.

**Illustration 1 - Measurement prior to classification as held for sale**

An item of property, plant and equipment that is measured on the cost basis should be measured in accordance with Ind AS 16.

Entity ABC owns an item of property and it was stated at the following amounts in its last financial statements:

<table>
<thead>
<tr>
<th>31st December, 20X1</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(6,00,000)</td>
</tr>
<tr>
<td>Net book value</td>
<td>6,00,000</td>
</tr>
</tbody>
</table>

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

During July, 20X2, entity ABC decides to sell the asset and on 1st August it meets the conditions to be classified as held for sale. Analyse.

**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 ₹70,000 (₹1,20,000 x 7/12) and should be carried at ₹5,30,000 before it is measured in accordance with Ind AS 105.

**Note:** From the date the asset is classified as held for sale no further depreciation will be charged.

**Example - Classification as held for sale**

A ltd acquired a property for ₹2,00,000. After few years the cumulative depreciation on the property is of ₹80,000 has been recognised and subsequently the property is classified as held for sale under Ind AS 105.

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.

### 8.5.2 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 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, *Impairment of Assets*.

- 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 liabilities; 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, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of Ind AS 36.

As per Para 104 (a) and (b) of Ind AS 36, *Impairment of Assets*, 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 noncurrent 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 for property, plant and equipment; and
- (b) paragraphs 112–117 of Ind AS 38, *Intangible Assets*, for intangible assets.
Example on disposal group classified as Held for Sale:

<table>
<thead>
<tr>
<th>Disposal Group</th>
<th>Carrying amount at the reporting date before classification as held for sale (₹)</th>
<th>Carrying amount as remeasured immediately before classification as held for sale (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Property, Plant and Equipment (carried at revalued amounts)</td>
<td>4,600</td>
<td>4,000</td>
</tr>
<tr>
<td>Building (carried at cost)</td>
<td>5,700</td>
<td>5,700</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,400</td>
<td>2,200</td>
</tr>
<tr>
<td>Investment in Equity Instruments</td>
<td>1,800</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,000</strong></td>
<td><strong>14,900</strong></td>
</tr>
</tbody>
</table>

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.

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 immediately 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:

<table>
<thead>
<tr>
<th>Disposal Group</th>
<th>Carrying amount as remeasured immediately before classification as held for sale (as per applicable Ind AS) (₹)</th>
<th>Allocated Impairment Loss (₹)</th>
<th>Carrying amount after allocation of Impairment Loss (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>1,500</td>
<td>(1,500)</td>
<td>-</td>
</tr>
<tr>
<td>Property, Plant and Equipment (carried at revalued amounts)</td>
<td>4,000</td>
<td>(165)</td>
<td>3,835</td>
</tr>
<tr>
<td>Building (carried at cost)</td>
<td>5,700</td>
<td>(235)</td>
<td>5,465</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,200</td>
<td>-</td>
<td>2,200</td>
</tr>
<tr>
<td>Investments in equity instruments</td>
<td>1,500</td>
<td>-</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,900</strong></td>
<td><strong>(1,900)</strong></td>
<td><strong>13,000</strong></td>
</tr>
</tbody>
</table>
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 + ₹ 1,100 being cumulative impairment loss recognised earlier.

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

### 8.5.3 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 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:
  - 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
  - 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 no longer met.
- Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale 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:
  - 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
  - any non-current assets that do not meet the criteria shall cease to be classified as held for sale in accordance with paragraph 26.
8.6 PRESENTATION AND DISCLOSURES OF A NON-CURRENT ASSET (OR DISPOSAL GROUP) CLASSIFIED AS HELD FOR SALE

8.6.1 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.

8.6.2 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.

- 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: Presentation of Disposal group

<table>
<thead>
<tr>
<th>Property, Plant and Equipment</th>
<th>4,900</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>1,700</td>
</tr>
<tr>
<td>Investment in equity instruments</td>
<td>1,400</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(3,300)</td>
</tr>
<tr>
<td><strong>Net Carrying Amount</strong></td>
<td><strong>4,700</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Assets</th>
<th>20X1-20X2</th>
<th>20X2-20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non–Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>BBB</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>CCC</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DDD</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>EEE</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Non-Current Assets Classified as Held for Sale</td>
<td>8,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Assets</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Equity and Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity attributable to equity holders of the parent</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>FFF</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>GGG</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Non-Controlling Interests</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Equity</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HHH</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
### 8.6.3 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 income statement, the caption in the income statement 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 its effect on results.

---

**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.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>80,000</td>
</tr>
<tr>
<td>(for two years)</td>
<td></td>
</tr>
<tr>
<td>Less: Impairment loss</td>
<td>50,000</td>
</tr>
<tr>
<td>(5,20,000 - 4,70,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Carrying Amount</strong></td>
<td><strong>4,70,000</strong></td>
</tr>
</tbody>
</table>

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 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 doesn’t 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.

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8.7 DISCONTINUED OPERATIONS

8.7.1 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.

- 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 have been a cash-generating unit or a group of cash-generating units while being held for use.

**Illustration 3**

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

All Ind AS 105 criteria for held for sale classification were first met at 1st 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’. **Analysis**

**Solution**

The Chandni 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.

****

### 8.7.2 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.

### 8.7.3 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.

8.7.4 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.

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.

8.7.5 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.
8.7.6 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.

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

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

<table>
<thead>
<tr>
<th></th>
<th>20X1-20X2</th>
<th>20X2-20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continuing Operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Other Income</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Distribution Costs</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Finance Costs</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Share of Profit of Associates</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Profit for the period from Continuing Operation</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>

| **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 | XX | XX
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

Note (a) the required analysis would be given in the notes.

### 8.8 SIGNIFICANT DIFFERENCES IN IND AS 105 VIS-À-VIS AS 24

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particular</th>
<th>Ind AS 105</th>
<th>AS 24</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Scope and Objective</strong></td>
<td>Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.</td>
<td>AS 24 establishes principles for reporting information about discontinuing operations. It does not deal with the non-current assets held for sale; fixed assets retired from active used and held for sale, are dealt in existing AS 10, ‘PPE’.</td>
</tr>
<tr>
<td></td>
<td><strong>Cash Flow Statement</strong></td>
<td>Ind AS 105 does not mention about cash flow statement.</td>
<td>In the AS 24, requirements related to cash flow statement are applicable when the enterprise presents a cash flow statement.</td>
</tr>
<tr>
<td></td>
<td><strong>Discontinued vs Discontinuing Operations</strong></td>
<td>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.</td>
<td>AS 24, there is no concept of discontinued operations but it deals with discontinuing operations.</td>
</tr>
<tr>
<td></td>
<td><strong>Time Period:</strong></td>
<td>As per Ind AS 105, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions.</td>
<td>AS 24 does not specify any time period in this regard as it relates to discontinuing operations.</td>
</tr>
<tr>
<td>Initial Disclosure Event:</td>
<td>Ind AS 105 does not mention so as it relates to discontinued operation.</td>
<td>AS 24 specifies about the initial disclosure event in respect to a discontinuing operation.</td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Measurement:</td>
<td>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.</td>
<td>AS 24 requires to apply the principles set out in other relevant Accounting Standards, e.g., the existing AS 10 requires that the fixed assets 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.</td>
<td></td>
</tr>
<tr>
<td>Abandonment of Assets</td>
<td>Ind AS 105 specifically mentions that abandonment of assets should not be classified as held for sale.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Guidance Regarding Measurement of Changes to a Plan of Change</td>
<td>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.</td>
<td>AS 24 does not give any specific guidance regarding this aspect.</td>
<td></td>
</tr>
<tr>
<td>Definition:</td>
<td>As per Ind AS 105, a discontinued operation is a component of an entity that represents a separate major line of business or geographical area, or is a subsidiary acquired exclusively with a view to resale.</td>
<td>Under AS 24, a discontinuing operation is a component of an entity that represents the major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes.</td>
<td></td>
</tr>
</tbody>
</table>
TEST YOUR KNOWLEDGE

Questions

1. On November 30, 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.

Can the property be classified as held for sale at the reporting date i.e. 31st December, 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 will recover and thus did not reduce the price of the factory. The company’s accounts are authorised for issue on 26th June, 20X1. Should the factory 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:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Carrying value as on 31st December, 20X0</th>
<th>Carrying value as on 31st July, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>1,000</td>
<td>900</td>
</tr>
<tr>
<td>Building</td>
<td>2,000</td>
<td>1,850</td>
</tr>
<tr>
<td>Debtors</td>
<td>850</td>
<td>1,050</td>
</tr>
<tr>
<td>Inventory</td>
<td>700</td>
<td>400</td>
</tr>
<tr>
<td>Creditors</td>
<td>(300)</td>
<td>(250)</td>
</tr>
<tr>
<td>Loans</td>
<td>(2,000)</td>
<td>(1,850)</td>
</tr>
<tr>
<td></td>
<td>2,750</td>
<td>2,600</td>
</tr>
</tbody>
</table>

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., 31<sup>st</sup> December, 20X1. The fair value as on 31<sup>st</sup> 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. The measurement of the manufacturing unit as on the date of classification as held for sale.

3. The measurement of the manufacturing unit as at the end of the year.

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.

   However, if the PPE meets the criteria for held for sale by 31<sup>st</sup> January, 20X2 (i.e., 2 months from November 30, 20X1) and the accounts are not authorised by that date, then necessary disclosures need to be given in the financial statements.

2. In this example, 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 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:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Carrying value – 31st July, 20X1</th>
<th>Impairment</th>
<th>Carrying value as per Ind AS 105 – 31st July, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>500</td>
<td>(500)</td>
<td>-</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>900</td>
<td>(115)</td>
<td>785</td>
</tr>
<tr>
<td>Building</td>
<td>1,850</td>
<td>(235)</td>
<td>1,615</td>
</tr>
<tr>
<td>Debtors</td>
<td>1,050</td>
<td>-</td>
<td>1,050</td>
</tr>
<tr>
<td>Inventory</td>
<td>400</td>
<td>-</td>
<td>400</td>
</tr>
<tr>
<td>Creditors</td>
<td>(250)</td>
<td>-</td>
<td>(250)</td>
</tr>
<tr>
<td>Loans (1,850)</td>
<td>(1,850)</td>
<td>-</td>
<td>(1,850)</td>
</tr>
<tr>
<td></td>
<td>2,600</td>
<td>(850)</td>
<td>1,750</td>
</tr>
</tbody>
</table>

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.