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DISPOSAL OF NON-CURRENT ASSETS
AND PRESENTATION OF
DISCONTINUED OPERATIONS



ACCOUNTING
STANDARDS
BOARD

FINANCIAL REPORTING
EXPOSURE DRAFT

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*Comments should reach us by 24th October 2003.
All replies will be regarded as on the public record
and may be copied to the IASB and other
standard-setters, unless the writer asks
for confidentiality.*

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**ACCOUNTING
STANDARDS
BOARD**

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PREFACE

1. The International Accounting Standards Board (IASB) has recently published for comment, as part of its short-term convergence project with the US Financial Accounting Standards Board (FASB), a proposed new International Financial Reporting Standard (IFRS) *Disposal of Non-current Assets and Presentation of Discontinued Operations*. The IASB intends to withdraw IAS 35 *Discontinuing Operations* on implementation of the new IFRS.
2. The main changes to IFRSs proposed by the IASB are summarised in paragraph IN5.
3. FRS 3 *Reporting Financial Performance* includes a definition of discontinued operations and requirements for the presentation of income and costs relating to such operations. UK accounting standards include no specific requirements for the measurement of non-current assets held for disposal, other than the general requirement to carry out an impairment review.
4. In due course, as part of its programme to converge UK standards with IFRSs, the ASB proposes to issue a UK standard based on this Exposure Draft, which will replace parts of FRS 3 and introduce new requirements for non-current assets held for disposal.
5. The ASB and the IASB are also engaged in a joint project on reporting financial performance. One aspect that this project will consider is the presentation of information on discontinued operations and it is anticipated that the Exposure Draft will be superseded in this area in due course.

Main changes proposed to existing UK requirements

Presentation of assets held for sale

6. The exposure draft introduces the classification ‘held for sale’, which applies to both non-current assets individually and disposal groups (a disposal group is a group of assets to be disposed of by sale or otherwise as a group in a single transaction, and the liabilities directly associated with the assets that also form part of the transaction), and specifies that such assets (and, in the context of a disposal group, liabilities) should be disclosed separately on the face of the balance sheet.
7. Existing UK requirements do not include any requirements for separate presentation of assets held for disposal.
8. Appendix B of the exposure draft is a mandatory application supplement which specifies the criteria for classifying an asset (or disposal group) as held for sale. This is based on management’s plans for the asset and generally requires it to be highly probable that the asset will be sold within one year.
9. As a consequence of the separate presentation on the balance sheet of assets (and liabilities) that are held for sale, the exposure draft also proposes additional disclosures in the notes to the financial statements.

Measurement of assets and disposal groups held for sale

10. In accordance with FRS 11 *Impairment of Fixed Assets and Goodwill*, to the extent that an impairment review indicates that the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and its carrying amount should be written down to its recoverable amount. Recoverable amount is the higher of net realisable value and value in use.

11. An impairment review should be carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Examples of indicators of impairment include a significant decline in the asset's market value and a commitment to a significant reorganisation. However, FRS 11 does not specifically require an impairment review to be carried out as a result of a decision to sell a fixed asset.
12. The exposure draft requires assets and disposal groups held for sale to be reported at the lower of carrying value and fair value less costs to sell. The definition of 'fair value less costs to sell' is essentially the same as net realisable value.
13. The proposals do not permit an entity to report an asset at fair value less costs to sell where this is in excess of its present carrying value, unless the entity chooses to adopt a policy of revaluation for the relevant class of tangible fixed assets.
14. FRS 15 *Tangible Fixed Assets* requires, where an entity adopts a policy of revaluation, that properties surplus to an entity's requirements should be valued on the basis of open market value, with expected directly attributable selling costs deducted where material.
15. Therefore the IASB's proposals will result in no change in measurement for assets where the greatest value can be recovered through sale, or for surplus properties that are revalued. However, where the greatest value can be recovered from the continued use of an asset, but nevertheless the entity chooses to sell it, the ASB believes that any loss arising on disposal should be recorded when the sale occurs and not when the entity classifies the asset as held for sale.

Depreciation of assets held for sale

16. The exposure draft also specifies that assets held for disposal (and any assets within a disposal group) should not be depreciated, regardless of whether they are still in use by the reporting entity.
17. FRS 15 does not exempt assets held for disposal from depreciation, which has the objective of reflecting in operating profit the cost of use of the tangible fixed assets in the period. The only grounds for not charging depreciation are that the depreciation charge and accumulated depreciation are immaterial. Similarly IAS 16 and the Exposure Draft of revised IAS 16 (issued in May 2002) note that depreciation should reflect the expected consumption of future economic benefits by the entity.
18. This issue is discussed in paragraphs 18 to 24 of the IASB's Basis for Conclusions, and is also raised by the IASB members with Alternative Views. The ASB believes that it is not appropriate to suspend depreciation on assets that are continuing to be used by a reporting entity simply because they have been labelled as held for sale within one year.

Definition of a discontinued operation

19. FRS 3 defines a discontinued operation as:

‘Operations of the reporting entity that are sold or terminated and that satisfy all of the following conditions:

- (a) The sale or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- (b) If a termination, the former activities have ceased permanently.

- (c) The sale or termination has a material effect on the nature and focus of the reporting entity's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular market (whether class of business or geographical) or from a material reduction in turnover in the reporting entity's continuing markets.
- (d) The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.'

20. Paragraph 23 of the exposure draft defines a discontinued operation as:

'... a component of an entity that either has been disposed of or is classified as held for sale[★] and:

- (a) the operations and cash flows of which have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction, and
- (b) in which the entity will have no significant continuing involvement after the disposal transaction.'

21. In this context 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.

[★] *Classified as held for sale has the same meaning as in paragraph 4 of the exposure draft, which is elaborated on in Appendix B.*

22. The exposure draft's definition does not include a condition similar to that of FRS (replicated in paragraph 19(c) above) that the effect of the sale or termination is material.
23. As a result it is likely that discontinued operations would be reported more frequently under the FRED's proposals than under the requirements of FRS 3. The consequences for the usefulness of reported information of reporting relatively small parts of an entity as discontinued (and hence excluding them from the results of continuing operations, if presented) require consideration. In addition, as comparatives are to be restated, the costs and benefits of this change require consideration.

Amendments to other UK standards

24. On adoption of the draft as an FRS:

- (a) paragraphs 4, 17, 21, 41, 42, 43, 44 of FRS 3 will be withdrawn;

- (b) paragraph 5 of FRS 11 will be amended as follows:

insert:

‘(e) fixed assets, and fixed assets within a disposal group, that are classified as held for sale in accordance with [draft FRS x] *Disposal of Non-current Assets and Presentation of Discontinued Operations*.’

- (c) paragraph 4 of FRS 15 will be amended as follows:

‘The requirements of the FRS apply to all tangible fixed assets, with the exception of:

- (a) investment properties as defined in SSAP 19 *Accounting for investment properties*; and

- (b) assets, and assets within disposal groups, that are classified as held for sale in accordance with [draft FRS x] *Disposal of Non-current Assets and Presentation of Discontinued Operations*.

UK law, EU law and international standards

25. EU Ministers have agreed that from 1 January 2005 all listed companies in the EU should prepare their consolidated financial statements in accordance with adopted international accounting standards. The intention is that IFRSs will form the basis of those adopted international accounting standards.
26. The ASB, in accordance with its convergence agenda, proposes to introduce the IASB's proposals also into UK accounting standards. However, as a result of legal requirements in the UK and the Republic of Ireland certain amendments to the IASB text are required. These are clearly marked in the FRED.
27. In paragraph 28 the exposure draft requires the assets and liabilities of a disposal group classified as held for sale to be presented separately in the asset and liability sections of the balance sheet. The IASB proposes that further disaggregation into major classes of asset or liability be presented either on the face of the balance sheet or in the notes to the financial statements. Companies not subject to the IAS Regulation will continue to be required to comply with the accounting requirements of the Companies Act 1985, including the applicable balance sheet formats. Whilst the so-called Modernisation Directive* (which, when transposed into UK law will amend the accounting requirements of the Companies

* *Directive of the European Parliament and of the Council amending Council Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.*

Act 1985) includes certain member state options regarding balance sheet formats, these options might not enable categories of asset and liability currently required to be presented separately on the face of the balance sheet to be aggregated on the grounds that they are held for sale. Accordingly, the IASB's proposals have been amended for the UK to require the major classes of assets and liabilities held for sale to be separately disclosed on the face of the balance sheet under the statutory format headings.

INVITATION TO COMMENT

ITC1. The ASB invites comments on any aspect of the FRED by 24 October 2003 – the same date as the IASB has set for comments on its proposed IFRS.

ITC2. The ASB would particularly welcome comments on the following issue:

ASB 1 Do you agree with the proposal to issue a new UK standard on disposal of non-current assets and discontinued operations when the IASB issues its new IFRS?

ITC3. The ASB would also welcome comments on the questions that the IASB has asked in its Exposure Draft, which are as follows:*

IASB 1 The Exposure Draft proposes that non-current assets should be classified as assets held for sale if specified criteria are met. (See paragraphs 4 and 5 and Appendix B.) Assets so classified may be required to be measured differently (see question 2) and presented separately (see question 7) from other non-current assets.

Does the separate classification of non-current assets held for sale enable additional information to be provided to users? Do you agree with the classification being made? If not, why not?

IASB 2 The Exposure Draft proposes that non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value less

* It is worth noting that the IASB prefaced its invitation to comment by noting that 'Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, where applicable, provide a suggestion for alternative wording.'

costs to sell. It also proposes that non-current assets classified as held for sale should not be depreciated. (See paragraphs 8-16.)

Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

- IASB 3 The Exposure Draft proposes that assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole and any resulting impairment loss would reduce the carrying value of the non-current assets in the disposal group. (See paragraph 3.)

Is this appropriate? If not, why not?

- IASB 4 The Exposure Draft proposes that newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition (see paragraph 9). It therefore proposes a consequential amendment to [draft] IFRS X *Business Combinations* (see paragraph C13 of Appendix C) so that noncurrent assets acquired as part of a business combination that meet the criteria to be classified as held for sale would be measured at fair value less costs to sell on initial recognition, rather than at fair value as currently required.

Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

- IASB 5 The Exposure Draft proposes that, for revalued assets, impairment losses arising from the writedown of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should

be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued, except to the extent that the losses (or gains) arise from the recognition of costs to sell. Costs to sell and any subsequent changes in costs to sell are proposed to be recognised in the income statement. (See paragraphs B6B8 of Appendix B.)

Is this appropriate? If not, why not?

- IASB 6 The Exposure Draft proposes a consequential amendment to draft IAS 27 *Consolidated and Separate Financial Statements* to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. (See paragraph C3 of Appendix C and paragraphs BC39 and BC40 of the Basis for Conclusions.)

Is the removal of this exemption appropriate? If not, why not?

- IASB 7 The Exposure Draft proposes that non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale, should be presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount. (See paragraph 28.)

Is this presentation appropriate? If not, why not?

- IASB 8 The Exposure Draft proposes that a discontinued operation should be a component of an entity that either has been disposed of, or is classified as held for sale, and:

- (a) the operations and cash flows of that component have been, or will be,

eliminated from the ongoing operations of the entity as a result of its disposal; and

- (b) the entity will have no significant continuing involvement in that component after its disposal.

A component of an entity may be a cash-generating unit or any group of cash-generating units. (See paragraphs 22 and 23.)

These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being reported every year. This, in turn, will lead to the comparatives being restated every year. Do you agree that this is appropriate? Would you prefer an amendment to the criteria to be made, for example adding a requirement adapted from IAS 35 *Discontinuing Operations* that a discontinued operation shall be a separate major line of business or geographical area of operations, even though this would not converge with SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. How important is convergence in your preference?

Are the other aspects of these criteria for classification as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

IASB 9 The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of the income

statement. (See paragraph 24.) An alternative approach would be to present a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components given in the notes.

Which approach do you prefer, and why?

[DRAFT] ~~INTERNATIONAL FINANCIAL~~ REPORTING STANDARD • ~~IFRS X~~ DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

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[Draft] Financial Reporting Standard • 'Disposal of Non-current Assets and Presentation of Discontinued Operations'

The draft standard published here is the IASB's proposed text, amended in a few areas to reflect changes that the ASB is proposing to make in implementing the standard in the UK. All of the changes made to the IASB text by the ASB are highlighted by strikethrough of text to be deleted, by underlining of text to be added, and by sidelining against altered text.

The exposure draft continued to refer to the proposed standard as a '[draft] IFRS' (rather than a '[draft] FRS'). This amendment will be made in finalising the standard, but has not been made in the exposure draft so as not to clutter the text with insignificant amendments.

This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comment received before being issued in final form.

[Draft] International Financial Reporting Standard X *Disposal of Non-current Assets and Presentation of Discontinued Operations* ([draft] IFRS X) is set out in paragraphs 131 and Appendices A-C. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. [Draft] IFRS X should be read in the context of its objective and the Basis for Conclusions, the ~~Preface to International Financial Reporting Standards~~Foreword to Accounting Standards and the ~~Framework for the Preparation and Presentation of Financial Statements~~Statement of Principles for Financial Reporting. ~~These provide a basis for selecting and applying accounting policies in the absence of explicit guidance.~~

INTRODUCTION

REASONS FOR ISSUING THE [DRAFT] IFRS

- IN1 Convergence of accounting standards around the world is one of the prime objectives of the International Accounting Standards Board (IASB). To further that objective, the Board has agreed with the Financial Accounting Standards Board (FASB) in the United States a memorandum of understanding that sets out the two boards' commitment to convergence. As a result of that understanding the boards have undertaken a joint shortterm project that has the objective of reducing differences between IFRSs and US GAAP that are capable of resolution in a relatively short time and can be addressed outside current and planned major projects.
- IN2 One aspect of that project involves the two boards considering each other's recent standards with a view to adopting recent high quality accounting solutions. The [draft] IFRS arises from the IASB's consideration of the FASB Statement No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), issued in 2001.
- IN3 SFAS 144 addresses three areas: (i) the impairment of long-lived assets to be held and used, (ii) the classification, measurement and presentation of assets held for sale and (iii) the classification and presentation of discontinued operations. The impairment of long-lived assets to be held and used is an area where there are extensive differences between IFRSs and US GAAP. However, those differences were not thought capable of resolution in a relatively short time. Convergence on the other two areas was thought to be worth pursuing within the context of the short-term project.
- IN4 The [draft] IFRS achieves substantial convergence with the requirements of SFAS 144 relating to assets held for sale and discontinued operations.

MAIN FEATURES OF THE [DRAFT] IFRS

- IN5 The [draft] IFRS:
- (a) adopts the classification 'held for sale' using the same criteria as those contained in SFAS 144;
 - (b) introduces the concept of a disposal group;

- (c) specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell;
- (d) specifies that an asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated;
- (e) specifies that an asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately on the face of the balance sheet;
- (f) withdraws IAS 35 *Discontinuing Operations* and replaces it with requirements that:
 - (i) change the definition of a discontinued operation from a separate major line of business or geographical area to any unit whose operations and cash flows can be clearly distinguished operationally and for financial reporting purposes.
 - (ii) change the timing of the classification as a discontinued operation. IAS 35 classifies an operation as discontinuing at the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. The [draft] IFRS classifies an operation as discontinued at the date the entity has actually disposed of the operation, or when the operation meets the criteria to be classified as held for sale.
 - (iii) present the results of discontinued operations separately on the face of the income statement.
 - (iv) prohibit the retroactive classification as a discontinued operation, when the discontinued criteria are met after the balance sheet date.

[DRAFT] FINANCIAL REPORTING STANDARD

DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

OBJECTIVE

- 1 The objective of this [draft] IFRS is to improve the information in financial statements about assets and *disposal groups* that are to be disposed of and discontinued operations. It seeks to do this by specifying (i) the measurement, presentation and disclosure of non-current assets and disposal groups to be disposed of and (ii) the presentation and disclosure of discontinued operations.

SCOPE

- 1A This [draft] FRS applies to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities (FRSSE) are exempt. [ASB]
- 2 This [draft] IFRS applies to all recognised *non-current assets* of an entity, except:
 - (a) goodwill,
 - (b) deferred tax assets,
 - (c) financial assets included in the scope of IAS 39 *Financial Instruments: Recognition and Measurement*,¹
 - (d) assets arising from employee benefits, and
 - (e) financial assets arising under leases,
 and to disposal groups as set out in paragraph 3.

¹ ASB footnote: In implementing the standard in the UK this reference will be revised to refer to the most suitable UK standard.

- 3 Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of *cash-generating units*, a single cash-generating unit, or part of a cash-generating unit. If a non-current asset covered by this [draft] IFRS is part of a disposal group, the measurement requirements of this [draft] IFRS apply to the group as a whole. The measurement of the individual assets and liabilities within the disposal group is set out in paragraphs 11 and 14.

CLASSIFICATION OF NON-CURRENT ASSETS AS HELD FOR SALE

- 4 An entity shall 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.
- 5 Such a classification shall be required when and only when the criteria in Appendix B are met. Sale transactions include exchanges of non-current assets for other non-current assets.

Non-current assets to be abandoned

- 6 Because its carrying amount will be recovered principally through continuing use, an entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. However, if the disposal group to be abandoned is a *component of an entity*, the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraph 24 at the date on which it ceases to be used.
- 7 An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

MEASUREMENT OF A NON-CURRENT ASSET (OR DISPOSAL GROUP) CLASSIFIED AS HELD FOR SALE

- 8 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*.
- 9 If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph B3 of Appendix B), it shall be measured on initial recognition at fair value less costs to sell.

- 10 In the rare circumstances that the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value.
- 11 The carrying amounts of any assets that are not covered by this [draft] IFRS, including goodwill, but are included in a disposal group classified as held for sale, shall be measured in accordance with other applicable IFRSs before the fair value less costs to sell of the disposal group is measured.
- 12 For assets that, before classification as held for sale, have not been revalued under another IFRS and for disposal groups that do not include any such revalued assets, an entity shall recognise:
 - (a) an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell; and
 - (b) 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 recognised either under this [draft] IFRS or previously under ~~IAS 36 Impairment of Assets~~ IFRS 11 Impairment of Fixed Assets and Goodwill.
- 13 Paragraphs B5-B8 of Appendix B set out the requirements for the recognition of impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts under another IFRS and for disposal groups that include such revalued assets.
- 14 The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are included in the scope of this [draft] IFRS.
- 15 A gain or loss not previously recognised by the time of the sale of a noncurrent asset (or disposal group) shall be recognised at the date of sale.
- 16 An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group 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.

Changes to a plan of sale

- 17 If an entity has classified an asset (or disposal group) as held for sale, but the criteria in Appendix B are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale.
- 18 The entity shall measure a non-current asset that ceases to be classified as held for sale at the lower of its:
 - (a) carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation or amortisation that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
 - (b) *recoverable amount* at the date of the subsequent decision not to sell.*
- 19 The entity shall include, in income from continuing operations in the period in which the criteria in Appendix B are not met, any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale. The entity shall present that adjustment in the same income statement caption used to report a gain or loss, if any, recognised in accordance with paragraph 27.
- 20 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 to be sold shall continue to be measured as a group only if the group meets the criteria in Appendix B. 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. Any noncurrent assets that do not meet the criteria shall cease to be classified as held for sale in accordance with paragraph 17.

* If the asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognised after the allocation of any impairment loss arising on that cash-generating unit under IAS 36 (had such requirements applied).

PRESENTATION AND DISCLOSURE

- 21 An entity shall 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.

Presenting discontinued operations

- 22 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. A component of an entity may be a cash-generating unit or any group of cash-generating units.
- 23 A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- (a) the operations and cash flows of that component have been (or will be) eliminated from the ongoing operations of the entity as a result of its disposal, and
 - (b) the entity will have no significant continuing involvement in that component after its disposal.
- 24 An entity shall disclose for all periods presented:
- (a) the revenue, expenses and pre-tax profit or loss of discontinued operations, and the ~~related income tax expense as required by paragraph 81(h) of IAS 12 Income Taxes~~ relating to the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented;
 - (b) the gain or loss recognised on the remeasurement to fair value less costs to sell or disposal of the assets or disposal group(s) comprising the discontinued operation and the ~~related income tax expense as required by paragraph 81(h) of IAS 12~~ relating to the gain or loss on discontinuance;
 - (c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

An entity shall present the disclosures required by (a) on the face of the income statement. The other disclosures may be presented either in the notes to, or on the face of, the financial statements.

- 25 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 shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:
 - (a) the resolution of uncertainties that arise pursuant to 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.
 - (c) the settlement of employee benefit plan obligations provided that the settlement is directly related to the disposal transaction.
- 26 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 in accordance with paragraphs 22-25 shall be reclassified and included in income from continuing operations for all periods presented.

Gains or losses relating to continuing operations

- 27 Any gain or loss on the remeasurement of a non-current asset (or disposal group) that does not meet the definition of a component of an entity shall be included in the profit or loss from continuing operations.

Presentation of a non-current asset or disposal group classified as held for sale

- 28 An entity shall 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 shall be presented separately from other liabilities in the balance

sheet. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed ~~either on the face of the balance sheet under the statutory format headings, or in the notes to the financial statements.~~

Additional disclosures

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

- (a) a description of the facts and circumstances leading to the expected disposal and the expected manner and timing of that disposal;
- (b) the gain or loss recognised in accordance with paragraph 12 (or paragraphs B5-B8 of Appendix B) and, if not separately presented on the face of the income statement, the caption in the income statement that includes that gain or loss;
- (c) if applicable, the segment in which the non-current asset (or disposal group) is presented under ~~IAS 14 Segment Reporting~~ SSAP 25 Segmental reporting.

30 If either paragraph 17 or paragraph 20 applies, an entity shall disclose, in the notes to the financial statements that include the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the 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.

EFFECTIVE DATE

31 The accounting practices set out in this [draft] FRS shall be regarded as standard in respect of accounting. ~~An entity shall apply this [draft] IFRS in its annual financial statements for periods beginning on or after 1 January 2005 [date to be inserted after exposure].~~ Earlier application is encouraged. If an entity applies the [draft] IFRS in its financial statements for a period beginning before ~~1 January 2005~~ [date to be inserted after exposure], it shall disclose that fact.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of the [draft] IFRS.

cash-generating unit	The smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
costs to sell	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.
current asset	An asset that: <ul style="list-style-type: none"> (a) is expected to be realised in, or is intended for sale or consumption in, the normal course of the entity's operating cycle; (b) is held primarily for trading purposes; (c) is expected to be realised within twelve months of the balance sheet date;[*] or (d) is cash or a cash equivalent asset that is not restricted from being exchanged or used to settle a liability for at least twelve months from the balance sheet date.
discontinued operation	A component <i>of an entity</i> that either has been disposed of or is classified as held for sale and: <ul style="list-style-type: none"> (a) the operations and cash flows of that component have been (or will be) eliminated

^{*} The Board has tentatively agreed in the Improvements project that this wording will be amended so that it does not include non-current assets that are expected to be realised in the next twelve months.

from the ongoing operations of the entity as a result of its disposal, and

- (b) the entity will have no significant continuing involvement in that component after its disposal.

disposal group

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. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill ~~would have~~ ~~has~~ been allocated in accordance with the requirements of paragraphs 73 and 74 of [draft] IAS 36 *Impairment of Assets*² (had such requirements applied) or if it is an operation within such a cash-generating unit.

fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

firm purchase
commitment

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 nonperformance that is sufficiently large to make performance highly probable.

² *ASB footnote:* The requirements of paragraphs 73 and 74 of [draft] IAS 36 are:

73 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to one or more cash-generating units. Each of those cash-generating units shall represent the smallest cash-generating unit to which a portion of the carrying amount of the goodwill can be allocated on a reasonable and consistent basis.

74 A portion of the carrying amount of goodwill shall be regarded as being capable of being allocated to a cash-generating unit on a reasonable and consistent basis only when that cash-generating unit represents the lowest level at which management monitors the return on investment in assets that include the goodwill. However, that cash-generating unit shall not be larger than a segment based on the entity's primary reporting format determined in accordance with SSAP 25 *Segmental reporting*.

highly probable	Significantly more likely than probable.
non-current asset	An asset that does not meet the definition of a current asset.
Probable	More likely than not.
recoverable amount	The higher of an asset's fair value less costs to sell and its value in use.
value in use	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.

APPENDIX B

APPLICATION SUPPLEMENT

This appendix is an integral part of the [draft] IFRS.

Classification of a non-current asset or disposal group as held for sale

B1 Paragraph 4 of this [draft] IFRS requires a non-current asset (or disposal group) to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. An entity shall classify a non-current asset (or disposal group) as held for sale in the reporting period in which all of the following criteria are met:

- (a) management, having the authority to approve the action, commits itself to a plan to sell;
- (b) the asset (or disposal group) is 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);
- (c) an active programme to locate a buyer and other actions required to complete the plan to sell the asset (or disposal group) are initiated;
- (d) the sale is *highly probable*, and is expected to qualify for recognition as a completed sale, within one year from the date of classification as held for sale, except as permitted by paragraph B2;
- (e) the asset (or disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

B2 Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan

to sell the asset (or disposal group). An exception to the one-year requirement in paragraph B1(d) shall therefore apply in the following situations in which such events or circumstances arise:

- (a) at the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:
 - (i) actions necessary to respond to those conditions cannot be initiated until after a *firm purchase commitment* is obtained, and
 - (ii) a firm purchase commitment is highly probable within one year;
- (b) an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and:
 - (i) timely actions necessary to respond to the conditions have been taken, and
 - (ii) a favourable resolution of the delaying factors is expected;
- (c) during the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:
 - (i) during the initial one-year period the entity took action necessary to respond to the change in circumstances,
 - (ii) the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances, and
 - (iii) the criteria in paragraph B1 are met.

B3 When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset

(or disposal group) as held for sale at the acquisition date only if the oneyear requirement in paragraph B1(d) is met (except as permitted by paragraph B2) and it is highly probable that any other criteria in paragraph B1 that are not met at that date will be met within a short period following the acquisition (usually within three months).

Meeting the held for sale criteria after the balance sheet date

- B4 If the criteria in paragraph B1 are met after the balance sheet date but before the financial statements are authorised for issue, an entity shall not classify a noncurrent asset (or disposal group) as held for sale in those financial statements when issued. However, the entity shall disclose the information specified in paragraph 28(a) in the notes to the financial statements.

Impairment losses and subsequent increases in fair value less costs to sell of assets that were previously revalued

- B5 Paragraph 12 requires the recognition of impairment losses and subsequent gains for assets that have not been revalued under another IFRS before classification as held for sale (and for disposal groups that do not include any such revalued assets). Paragraphs B6-B8 set out the equivalent requirements for assets that, before classification as held for sale, have been revalued and for disposal groups that include such revalued assets.
- B6 Any asset that is carried at a revalued amount under another IFRS shall be revalued under that IFRS immediately before it is classified as held for sale under this [draft] IFRS. Any impairment loss that arises on reclassification of the asset (or of a disposal group containing the asset) shall be recognised in the income statement.

Subsequent impairment losses

- B7 Any subsequent increases in costs to sell shall be recognised in the income statement. Any decreases in fair value shall be treated as revaluation decreases in accordance with the standard under which the assets were revalued before their classification as held for sale.

Subsequent gains

- B8 Any subsequent decreases in costs to sell shall be recognised in the income statement. For individual assets that, before classification as held for sale, were revalued under another IFRS, any subsequent increase in fair value shall be recognised to its full extent and treated as a revaluation increase in accordance with the standard under which the assets were revalued before their classification as held for sale. For disposal groups that include such revalued assets, any subsequent increases in fair value shall be recognised to the extent that the carrying value of the non-current assets in the group after the increase has been allocated does not exceed their fair value less costs to sell. The increase shall be treated as a revaluation increase in accordance with the standard under which the assets were revalued before their classification as held for sale.

APPENDIX C

AMENDMENTS TO OTHER IFRSS

The amendments in this [draft] appendix become effective for accounting periods beginning on or after 1 January 2005. If an entity applies this [draft] IFRS for an earlier period, these amendments become effective for that earlier period.

- C1 In [draft] *IAS 1 *Presentation of Financial Statements*, paragraph 54 is amended to read as follows:

An asset shall be classified as current when it:

- (a) *is expected to be realised in, or is intended for sale or consumption in, the normal course of the entity's operating cycle;*
- (b) ...

- C2 In [draft] *IAS 16 *Property, Plant and Equipment*, paragraph 2 is amended to read as follows:

This Standard does not apply to:

- (a) non-current assets classified as held for sale under IFRS X *Disposal of Non-current Assets and Presentation of Discontinued Operations*;
- (b) biological assets. . .

- C3 In [draft] *IAS 27 *Consolidated and Separate Financial Statements*, paragraph 13 is deleted.

- C4 In [draft] *IAS 28 *Accounting for Investments in Associates*, paragraph 8 is amended as follows:

An investment in an associate shall be accounted for under the equity method except when:

* included in the Exposure Draft *Improvements to International Accounting Standards*, published in May 2002.

- (a) *the investment is acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition. Such investments shall be accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, at fair value with changes in fair value included in profit or loss of the period of change; or*
- (b) *the investment is classified as held for sale under IFRS X Disposal of Non-current Assets and Presentation of Discontinued Operations. Such investments shall be accounted for in accordance with that IFRS.*

C5 In IAS 31 Financial Reporting of Interests in Joint Ventures, paragraph 36A is added as follows:

36A A venturer shall account for an interest in a jointly controlled entity that is classified as held for sale under IFRS X *Disposal of Noncurrent Assets and Presentation of Discontinued Operations* in accordance with that IFRS.

C6 IAS 35 Discontinuing Operations is withdrawn.

C7 In [draft] *IAS 36 *Impairment of Assets*, all references to 'net selling price' are replaced by 'fair value less costs to sell'.

C8 In [draft]* IAS 36, paragraph 1 is amended to read as follows:

This Standard shall be applied in accounting for the impairment of all assets, other than:

- (a) ...
- (e) *non-current assets (or disposal groups) classified as held for sale under IFRS X Disposal of Non-current Assets and Presentation of Discontinued Operations;*
- (f) ...

C9 In [draft] *IAS 36, paragraph 2 is amended to read as follows:

This Standard does not apply to inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, or assets classified as held for sale under IFRS X *Disposal of Non-current Assets and Presentation of Discontinued Operations* because existing Standards applicable to these assets already contain specific requirements for recognising and measuring these assets.

C10 In [draft] †IAS 38 *Intangible Assets*, paragraph 2 is amended to read as follows:

...For example, this Standard does not apply to:

- (a) non-current intangible assets classified as held for sale under IFRS X *Disposal of Non-current Assets and Presentation of Discontinued Operations*;
- (b) intangible assets...

C11 In IAS 40 *Investment Properties*, paragraph 3 is amended to read as follows:

This Standard does not apply to:

...

- (c) investment property classified as held for sale under IFRS X *Disposal of Non-current Assets and Presentation of Discontinued Operations*.

C12 In IAS 40 *Investment Properties*, paragraph 7(a) is amended to read as follows:

- (a) property intended for sale in the ordinary course of business...

* included in the Exposure Draft *Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets*, published in December 2002

† included in the Exposure Draft *Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets*, published in December 2002

C13 In [draft] *IFRS X *Business Combinations*, paragraph 35 is amended to read as follows:

The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 36 at their fair values at that date, except for non-current assets (or disposal groups) that meet the criteria to be classified as held for sale under IFRS X *Disposal of Non-current Assets and Presentation of Discontinued Operations*, which shall be recognised at fair value less costs to sell. Any difference. . .

* in ED 3 *Business Combinations*, published in December 2002.

BASIS FOR CONCLUSIONS

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BASIS FOR CONCLUSIONS ON ED 4 DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

This Basis for Conclusions accompanies, but is not part of, the draft IFRS.

INTRODUCTION

- BC1 This Basis for Conclusions summarises the Board's considerations in reaching the conclusions in the draft IFRS *Disposal of Non-current Assets and Presentation of Discontinued Operations*. Individual Board members gave greater weight to some factors than to others.
- BC2 In September 2002 the Board agreed to add a short-term convergence project to its active agenda. The objective of the project is to reduce differences between IFRSs and US GAAP that are capable of resolution in a relatively short time and can be addressed outside current and planned major projects. The project is a joint project with the US Financial Accounting Standards Board (FASB).
- BC3 In working towards the objective of the project, the two boards agreed to review each other's deliberations on each of the selected possible convergence topics, and choose the highest quality solution as the basis for convergence. For topics recently considered by either board, there is an expectation that whichever board has more recently deliberated that topic will have the higher quality solution.
- BC4 As part of the review of topics recently considered by the FASB, the Board discussed the requirements of SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, as they relate to assets held for sale and discontinued operations. The Board did not consider the requirements of SFAS 144 relating to the impairment of assets held for use. Impairment of such assets is an issue that is being addressed in the IASB research project on measurement being led by the Canadian Accounting Standards Board.
- BC5 The requirements of SFAS 144 on assets held for sale and discontinued operations differ from current IFRSs in the following ways:

- (a) if specified criteria are met, non-current assets that are to be disposed of are classified as held for sale. Such assets are remeasured at the lower of carrying amount and fair value less costs to sell and cease to be depreciated or amortised. Under IFRSs, noncurrent assets that are to be disposed of are not classified separately or measured differently from other non-current assets.
- (b) the definition of discontinued operations under SFAS 144 is different from the definition of discontinuing operations under IAS 35 *Discontinuing Operations* and the presentation of such operations is also different under the two standards.

BC6 As discussed in more detail below, the Board concluded that introducing a classification of assets that are held for sale would substantially improve the information available to users of financial statements about assets to be sold. It further concluded that the definition of discontinued operations in SFAS 144 leads to more useful information being presented and disclosed for a wider range of operations than does the existing definition in IAS 35.

BC7 Appendix B to this Basis for Conclusions sets out tables of concordance showing how the paragraphs in the draft IFRS relate to those in SFAS 144.

SCOPE OF THE DRAFT IFRS

BC8 The Board agreed that the draft IFRS should apply to all non-current assets except:

- (a) goodwill, because goodwill can never be an asset held for sale other than as part of a disposal group and the allocation of goodwill to disposal groups is covered by draft IFRS X *Business Combinations*.
- (b) financial instruments covered by IAS 39 *Financial Instruments: Recognition and Measurement*, because IAS 39 addresses the treatment of financial assets that are held for sale.
- (c) financial assets under leases, which are currently excluded from IAS 39 but which the Board proposes should be within the scope of that standard. If those proposals become effective, these assets will be covered by the exemption in (b) and this exemption will not be needed.

- (d) deferred tax assets and assets arising from employee benefits, because their measurement basis is addressed by other IFRSs.

BC9 The scope of the draft IFRS differs from that of SFAS 144 in the following ways:

Item	SFAS 144	Draft IFRS
Intangible assets not being amortised	Excluded	Included
Long-term customer relationships	Excluded	Included
Associates	Excluded	Included
Assets in specialised industries covered by other FASB statements	Excluded	Included
Insurance contracts	Included other than deferred acquisition costs	Included
Extractive industries	Included other than unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting	Included
Employee benefit assets	Included	Excluded

SFAS 144 addresses impairment of long-lived assets held for use as well as assets held for sale. That fact, together with the existence of other FASB statements on specific specialised industries, underlies many of the FASB exclusions listed above. The Board believes that the assets should be covered by the draft IFRS, which addresses only assets classified as held for sale.

Classification of non-current assets to be disposed of as held for sale

- BC10 Under SFAS144 long-lived assets are classified as either (i) held and used or (ii) held for sale. Under IFRSs no distinction is made between noncurrent assets held and used and non-current assets held for sale, except in relation to financial instruments.
- BC11 The Board considered whether a separate classification for non-current assets held for sale would create unnecessary complexity in IFRSs and introduce an element of management intent into the accounting. Some suggested that the categorisation 'assets held for sale' is unnecessary, and that if the focus were changed to 'assets *retired* from active use' much of the complexity could be eliminated, because the latter classification would be based on actuality rather than what they perceive as management intent. It is the potential abuse of the classification that necessitates many of the detailed requirements in SFAS 144. Others suggested that, if existing IFRSs were amended to specify that assets retired from active use are measured at fair value less costs to sell and to require additional disclosure, some convergence with SFAS 144 could be achieved without creating a new IFRS.
- BC12 However, the Board concluded that providing information about assets and groups of assets and liabilities to be disposed of is of benefit to users of financial statements. Such information should assist in assessing the timing and amount of future cash flows. The Board understands that this was also the assessment underpinning SFAS 144. Therefore the Board concluded that introducing the notion of assets and disposal groups held for sale makes IFRS literature more complete.
- BC13 Furthermore, although the held for sale classification begins from an intent to sell the asset, the other criteria for this classification are tightly drawn and are significantly more prescriptive than simply specifying an intent or commitment to sell. Some might argue that the criteria are too specific. However, the Board believes that the criteria should be specific to achieve comparability of classification between entities. The Board did not believe that a classification 'retired from active use' would necessarily require fewer criteria to support it. For example, it would be necessary to establish a distinction between assets retired from active use and those that are temporarily idle.

- BC14 Lastly, if the classification and measurement of assets held for sale under IFRSs are the same as under US GAAP, convergence will have been achieved in an area of importance to users of financial statements.

Assets to be exchanged for other non-current assets

- BC15 Under SFAS 144, long-lived assets that are to be exchanged for similar productive assets cannot be classified as held for sale. They are regarded as disposed of only when exchanged. The Basis for Conclusions for SFAS 144 explains that this is because the exchange of such assets is accounted for at amounts based on the carrying amount of the assets, not at fair value, and that using the carrying amount is more consistent with the accounting for a long-lived asset to be held and used than for a long-lived asset to be sold.
- BC16 Under draft IAS 16 *Property, Plant and Equipment*, an exchange of assets is normally measured at fair value. The SFAS 144 reasoning on the classification of such assets as held for sale does not, therefore, apply. Consistent with draft IAS 16, the draft IFRS treats an exchange of assets as a disposal and acquisition of assets.
- BC17 The FASB is considering whether to converge with the proposed IASB requirement for an exchange of assets to be measured at fair value. The FASB has indicated that if it were to change its requirements for asset exchanges, it would also need to reconsider whether such assets could be classified as assets held for sale.

Measurement of non-current assets held for sale

- BC18 Under SFAS 144, a long-lived asset or a disposal group classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. A long-lived asset classified as held for sale (or included within a disposal group) is not depreciated, but interest and other expenses attributable to the liabilities of a disposal group are recognised.
- BC19 As explained in the Basis for Conclusions for SFAS 144, the argument is that the remaining use in operations of an asset that is to be sold is incidental to the recovery of the carrying amount through sale. The accounting for such an asset should therefore be a process of valuation rather than allocation.

- BC20 The FASB further observed that once the asset is remeasured, to depreciate the asset would reduce its carrying amount below its fair value less costs to sell. It also noted that should there be a decline in the value of the asset after initial classification as held for sale and before eventual sale, the loss would be recognised in the period of decline because the fair value less costs to sell is evaluated each period.
- BC21 The counter-argument is that, although classified as held for sale, the asset is still being used in operations, and hence cessation of depreciation is inconsistent with the basic principle that the cost of an asset should be allocated over the period during which benefits are obtained from its use. Further, although the decline in the value of the asset through its use would be reflected in the change in fair value subsequently recognised, it might also be masked by an increase arising from changes in market prices of the asset.
- BC22 However, the Board noted that draft IAS 16 requires an entity to keep its residual values up to date, and IAS 36 *Impairment of Assets* requires an immediate writedown to the higher of value in use and fair value less costs to sell. An entity should, therefore, often achieve a measurement effect under existing IFRSs similar to that required under the draft IFRS, as follows. Under existing IFRSs, if the fair value less costs to sell is higher than carrying amount there will be no impairment and no depreciation (because the residual value will have been updated). If fair value less costs to sell is lower than carrying amount, there will be an impairment loss that reduces the carrying amount to fair value less costs to sell and then no depreciation (because the residual value will have been updated), unless value in use is higher than fair value less costs to sell. If value in use is higher than fair value less costs to sell, there will be an impairment loss to the extent that the carrying amount exceeds value in use and then depreciation of the excess of value in use over fair value less costs to sell. However, value in use will differ from fair value less costs to sell only to the extent of the net cash flows expected to arise before the sale. If the period to sale is short, this amount will usually be relatively small.
- BC23 The Board concluded that the measurement requirements of the draft IFRS would often not involve a significant change from the requirements of existing (or proposed) IFRSs. Furthermore, the Board agreed with the FASB that the cash flows arising from the asset's remaining use were incidental to the recovery of the asset through sale and, hence, concluded

that assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell and should not be depreciated.

- BC24 In addition, it is worth emphasising that the proposals permit only an asset that is to be *sold* to be classified as held for sale. Assets to be abandoned are classified as held and used until disposed of, and thus are depreciated. The Board agrees with the FASB's observation that a distinction can be drawn between an asset that is to be sold and an asset that is to be abandoned, because the former will be recovered principally through sale and the latter through its continuing use. Therefore, it is logical that depreciation should cease in the former but not the latter case.
- BC25 When an asset or a disposal group held for sale is part of a foreign operation with a different functional currency from the rest of the group, an exchange difference will have been recognised in equity arising from the translation of the asset or disposal group into the presentation currency of the group. Draft IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires the exchange difference to be 'recycled' from equity to the income statement on disposal of the operation. The question arises whether classification as held for sale should trigger the recycling of any exchange differences.
- BC26 In its project on reporting comprehensive income, the Board is reconsidering the issue of recycling. Therefore, it did not wish to make any interim changes to the requirements in draft IAS 21. Hence, the draft IFRS does not require any exchange differences to be recycled on the classification of an asset or a disposal group as held for sale.

The allocation of an impairment loss to a disposal group

- BC27 Under SFAS 144, assets within the disposal group that are not within the scope of the Statement (for example, goodwill) are adjusted in accordance with other Statements before measuring the fair value less costs to sell of the disposal group. Any loss or gain recognised on adjusting the carrying amount of the disposal group is allocated to the carrying amount of the longlived assets of the group.
- BC28 This is different from the requirements of draft IAS 36 for the allocation of an impairment loss arising on a cash-generating unit. Draft IAS 36 requires

an impairment loss for a cash-generating unit to be allocated first to reduce the carrying amount of goodwill to its implied value and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.*

BC29 The Board considered whether the allocation of an impairment loss for a disposal group should be consistent with the requirements of draft IAS 36 or with the requirements of SFAS 144. The Board noted that the presentation of a disposal group in the balance sheet is required to comprise only two items, assets and liabilities, although greater disaggregation is allowed. In practice, it may be that non-current and current assets are presented separately. Given this, the Board agreed that the most appropriate allocation of the impairment loss is to the noncurrent assets that are within the scope of the draft IFRS.

Newly acquired assets

BC30 SFAS 144 requires newly acquired assets that meet the criteria to be classified as held for sale to be measured at fair value less costs to sell on initial recognition. So, in those instances, other than in a business combination, in which an entity acquires a non-current asset that meets the criteria to be classified as held for sale, a loss is recognised in the income statement if the cost of the asset exceeds its fair value less costs to sell. In the more common cases in which an entity acquires, as part of a business combination, a noncurrent asset (or disposal group) that meets the criteria to be classified as held for sale, the difference between fair value and fair value less costs to sell is recognised in goodwill.

BC31 Under current IFRSs there is no classification of assets as held for sale and, hence, all assets acquired in a business combination are required to be measured at fair value on initial recognition. The Board considered whether, having agreed to classify assets that meet specified criteria as held for sale and to measure them at fair value less costs to sell, it should require that measure to be used for initial recognition in a business combination.

* In allocating the loss in this way, draft IAS 36 also requires that the carrying amount of an asset shall not be reduced below the highest of (i) its fair value less costs to sell (if determinable), (ii) its value in use and (iii) zero.

BC32 The Board's view is that conceptually the assets should be recognised initially at fair value and then immediately classified as held for sale, with the result that the costs to sell are recognised in the income statement, not goodwill. In theory, if the entity had factored the costs to sell into the purchase price, the reduced price would lead to the creation of negative goodwill, the immediate recognition of which in the income statement would offset the loss arising from the costs to sell. Of course, in practice, the reduced price will usually result in a lower net positive goodwill figure rather than negative goodwill to be recognised in the income statement. For that reason, and for the sake of convergence, the Board agreed that in a business combination noncurrent assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition.

BC33 The Board and the FASB are considering which items should form part of the business combination transaction more generally in their joint project on the application of the purchase method. The outcome of those deliberations may affect the decision noted in paragraph BC32.

Recognition of subsequent increases in fair value less costs to sell

BC34 The Board considered whether a subsequent increase in fair value less costs to sell should be recognised to the extent that it reversed previous impairments. SFAS 144 requires the recognition of a subsequent increase in fair value less costs to sell but not in excess of the cumulative loss previously recognised for a write-down to fair value less costs to sell. The Board agreed that, under IFRSs, a gain should be recognised to the extent that it reverses any impairment of the asset, either under the proposed IFRS or previously under draft IAS 36. Recognising a gain for the reversal of an impairment that occurred before the classification of the asset as held for sale is consistent with the requirement in draft IAS 36 to recognise reversals of impairment.

Recognition of impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts under another IFRS

BC35 The Board agreed that impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts under another IFRS should be treated as revaluation decreases

and increases according to the standard under which the assets had previously been revalued, consistently with the requirements of draft IAS 36, except to the extent that the losses and gains are caused by the initial recognition of, or changes in, costs to sell. The Board agreed that costs to sell should always be recognised in the income statement.

Measurement of assets reclassified as held for use

BC36 Under SFAS 144, when an entity changes its plan to sell the asset and reclassifies a long-lived asset from held for sale to held and used, the asset is measured at the lower of (a) the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation (or amortisation) expense that would have been recognised had the asset (or disposal group) been continuously classified as held and used and (b) its fair value at the date of the decision not to sell.

BC37 The underlying principle is to restore the carrying value of the asset to what it would have been had it never been classified as held for sale, taking into account any impairments that may have occurred. In fact, under SFAS 144, for held and used assets, an impairment is recognised only if the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal. Thus, the carrying amount of the asset if it had never been classified as held for sale might exceed its fair value. As a result, SFAS 144 does not necessarily lead to the asset reverting to its original carrying amount. However, the Basis for Conclusions for SFAS 144 notes that the FASB concluded it would be inappropriate to write up the carrying amount of the asset to an amount greater than its fair value based solely on an undiscounted cash flow test. Hence, it arrived at the requirement for measurement at the lower of (a) the asset's carrying amount had it not been classified as held for sale and (b) fair value at the date of the decision not to sell the asset.

BC38 Draft IAS 36 has a different measurement basis for impaired assets, ie recoverable amount. The Board concluded that to be consistent with the principle of SFAS 144 and also to be consistent with the requirements of draft IAS 36, an asset that ceases to be classified as held for sale should be measured at the lower of (a) the carrying amount that would have been recognised had the asset not been classified as held for sale and (b) its recoverable amount at the date of reclassification. Whilst this is not full

convergence, the difference arises from differences in the US GAAP and IFRS impairment models.

Removal of exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

BC39 SFAS 144 removed the exemption from consolidation in US GAAP for subsidiaries held on a temporary basis on the grounds that all assets held for sale should be treated in the same way, ie as required by SFAS 144.

BC40 The Board agreed that all subsidiaries should be consolidated and that all assets (and disposal groups) that meet the criteria to be classified as held for sale should be treated in the same way. The current exemption from consolidation in IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* for subsidiaries acquired and held exclusively with a view to resale prevents those assets and disposal groups within such subsidiaries which meet the criteria to be classified as held for sale from being treated consistently with other assets and disposal groups. The draft IFRS therefore proposes that the exemption in IAS 27 should be removed.

Presentation of non-current assets held for sale

BC41 SFAS 144 requires an entity to present:

- (a) a long-lived asset classified as held for sale separately in the balance sheet; and
- (b) the assets and liabilities of a disposal group classified as held for sale separately in the asset and liability sections of the balance sheet. The major classes of those assets and liabilities are separately disclosed either on the face of the balance sheet or in the notes.

BC42 In the Basis for Conclusions for SFAS 144 the FASB noted that information about the nature of both assets and liabilities of a disposal group is useful to users. Separately presenting those items in the balance sheet provides information that is relevant. Separate presentation also distinguishes those assets that are not being depreciated from those that are being depreciated. The Board agreed with the FASB's views.

Definition of discontinued operations

- BC43 With the introduction of SFAS 144, the FASB broadened the scope of a discontinued operation from a 'segment of a business' to a 'component of an entity'. A component is widely drawn, the criterion being that it comprises 'operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity'. SFAS 144 states that a component may be a segment, a reporting unit, a subsidiary or an asset group.
- BC44 However, at the same time, the FASB specified more restrictive criteria for determining *when* the component is classified as discontinued and hence when its results are presented as discontinued. Under SFAS 144, a component is classified as discontinued only if it has been disposed of or if it meets the criteria for classification as an asset 'held for sale'.
- BC45 The definition of a discontinuing operation in IAS 35 as a 'major line of business' or 'geographical area of operations' is closer to the former, and narrower, US GAAP definition. The trigger in IAS 35 for classifying the operation as discontinuing is the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. Although IAS 35 refers to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for further guidance on what constitutes a plan, the criteria are less restrictive than those in SFAS 144.
- BC46 Paragraph 12 of the *Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Paragraph 15 of the *Framework* goes on to state that the economic decisions that are taken by users of financial statements require an evaluation of the ability of an enterprise to generate cash and cash equivalents. Separately highlighting the results of discontinued operations provides users with information that is relevant in assessing the ongoing ability of the entity to generate cash flows.
- BC47 However, under existing IAS 35 there may be disposal transactions that, although likely to have an impact on the ongoing operations of the entity, do not meet the criteria for classification as a discontinuing activity. For

example, an entity might dispose of a significant portion, but not all, of its cash-generating units operating in a particular geographical area. Under IAS 35, that might not meet the definition of a discontinuing operation. Under the draft IFRS, if the relevant criteria were met, it would.

- BC48 The Board considered whether broadening the classification of discontinued operations might cause confusion for users of financial statements because it will increase the number of times that revenues and expenses for prior periods are restated. On balance, however, the Board believes that the risk of potential confusion to users arising from restatement is outweighed by the benefit to users of enhanced information on the ongoing operations of the entity.
- BC49 In terms of the timing of classifying an operation as discontinued, the Board considered whether more useful information is provided by making the classification conditional upon a firm decision to discontinue an operation (the current IAS 35 approach) or conditional upon the classification of an operation as held for sale.
- BC50 The Board agreed that, to be consistent with the presentation of assets held for disposal and in the interests of convergence, an operation should be classified as discontinued when it is disposed of or classified as held for sale.
- BC51 IAS 35 also adopts a different approach from US GAAP when criteria for classification as discontinued are met after the period-end but before the financial statements are issued. Under SFAS 144, some disclosure is required; however, the component is *not* presented as a discontinued operation. Under IAS 35, the component is classified as discontinuing.
- BC52 The Board believes that, if more restrictive criteria are specified for determining when a component has been discontinued, it would be inconsistent to apply retroactively a classification that did not apply at the period-end.

Presentation of discontinued operations

- BC53 Under SFAS 144, the results of a discontinued operation are presented as a separate component in the income statement (net of income tax) for all periods presented.

- BC54 Under IAS 35, the results of a discontinuing operation are not presented as a net amount on the face of the income statement. Instead, specified items are disclosed either in the notes or on the face of the income statement.
- BC55 In its project on reporting comprehensive income, the Board is considering the presentation of discontinued operations in the income statement. It does not wish to prejudge the outcome of that project by changing the requirements of IAS 35 in respect of the components to be disclosed. It agrees, however, that disclosure on the face of the income statement is desirable because of the prominence given to information about continuing and discontinued operations. The draft IFRS therefore brings forward unchanged the requirements of IAS 35 regarding the items to be disclosed for discontinued operations but requires some of those items to be presented on the face of the income statement.

Terminology

- BC56 Two issues of terminology arose in developing the draft IFRS:

- (a) the use of the term 'probable' and
- (b) the use of the term 'fair value less costs to sell'.

- BC57 In SFAS 144, the term *probable* is described as referring to a future sale that is 'likely to occur'. For the purposes of IFRSs, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines 'probable' as meaning 'more likely than not' and ED 3 *Business Combinations* proposes extending that definition to all IFRSs. To converge on the same meaning as SFAS 144 and to avoid using the term 'probable' with different meanings in IFRSs, the draft IFRS uses the phrase 'highly probable'. The Board regards 'highly probable' as implying a significantly higher probability than 'more likely than not' and as implying the same probability as the FASB's phrase 'likely to occur'.
- BC58 The measurement basis 'fair value less costs to sell' used in SFAS 144 is the same as the measurement 'net selling price' used in IAS 36. SFAS 144 defines fair value of an asset as the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale, and costs to sell as the incremental direct costs to transact a sale, that is, the costs that result directly from and

are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. IAS 36 defines net selling price as the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses.

- BC59 The Board considered using the phrase 'net selling price' to be consistent with IAS 36. However, it noted that 'fair value' is used in many IFRSs. The Board concluded that it would be preferable to use the same phrase as is used in SFAS 144 so that it is clear that convergence on this point had been achieved and to amend IAS 36 so that the terminology in IAS 36 is consistent with other IFRSs. Therefore, a consequential amendment proposed by this draft IFRS is to replace 'net selling price' with 'fair value less costs to sell' throughout IAS 36.

APPENDIX A

ALTERNATIVE VIEWS ON ED 4 **DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS**

AV1 Two Board members voted against the publication of ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*. Their alternative views are set out below.

Alternative view of the first Board member

AV2 The first Board member voted against the publication of ED 4 on the following grounds:

- (a) measurement of assets should not be based on management intent;
- (b) in particular, depreciation/amortisation of non-current assets that are still in active use should not cease only because management intends to sell these assets;
- (c) the IASB should not develop detailed rule-based Standards.

AV3 The proposed classification 'held for sale' and resulting measurement of assets (or disposal groups) so classified is based on management intent and demands detailed (anti-abuse) rules to define the classification and to fix the time boundaries during which an asset (or disposal group) can remain within the classification. The final result is, in the Board member's view, an excessively detailed and rule-based Standard.

AV4 This Board member further believes that not depreciating/amortising assets classified as held for sale would be especially problematic for disposal groups because such groups might correspond to important parts of a business, such as a division or a whole segment. The Board member does not accept that remeasurement at the lower of carrying amount and fair value less costs to sell acts as a proxy for depreciation because, sometimes at least, the fair value less costs to sell will be higher than the carrying amount. Again, this is particularly the case for disposal groups that correspond to divisions or segments, as the fair value of such disposal groups will often reflect internally generated goodwill. Under the proposals in the draft IFRS, non-current assets in such disposal groups will

simply remain at their carrying amounts even though they are still actively used. The Board member believes that it is conceptually wrong to cease depreciation/amortisation while such assets are still in active use, which under the draft IFRS could be for a prolonged period of time, up to one year or even longer under special circumstances.

AV5 The Board member believes that a more simple and straightforward solution is possible by creating a special category of non-current assets retired from active use. This would have the following advantages:

1. the concept of retired from active use would be simple to apply
2. management intent would be removed from the proposals
3. classification would equally apply to any form of disposal (sale, abandonment, exchange, spin-off, etc)
4. no detailed (anti-abuse) rules would be necessary
5. no illustrations would be necessary
6. the IFRS would be simple and based on a clear and unambiguous principle.

AV6 In order to provide information of intended sales of non-current assets (which is especially important for planned disposals of components (ie future discontinued operations)), the Board member would propose disclosure requirements that would take effect as soon as such assets are likely to be sold, even if they are still in active use.

AV7 The Board member agrees with the proposed measurement requirements of paragraph 8 (but for assets retired from active use), the consequential accounting of paragraph 18 when such assets are put into active use again and the presentation of discontinued operations as set out in paragraph 24, except for the requirement for some of the disclosures to be presented on the face of the income statement.

- AV8 The Board member accepts that full convergence with US GAAP (SFAS 144) would not be achieved under the Board member's preferred approach. However, the Board member would prefer a simple and clear accounting solution.

Alternative view of the second Board member

- AV9 The second Board member believes that it is inappropriate to cease depreciation of assets that are still in use. This Board member also believes that a separate classification 'non-current assets retired from active use' would draw a more appropriate and objective distinction than the classification 'held for sale'.

APPENDIX B

TABLES OF CONCORDANCE

The following table shows the paragraphs in SFAS 144 that were the source of the paragraphs in the draft IFRS.

Paragraph in draft IFRS	Paragraph in SFAS 144
1 Objective	1 and 2
2 Scope	3 and 5
3 Disposal groups	4
4 Held for sale principle	30
5 Reference to Appendix B	<i>No equivalent paragraph</i>
6 Assets to be abandoned	27
7 Assets to be abandoned	28
8 Measurement principle	34
9 Application to newly acquired assets	34
10 Discounting costs to sell	35
11 Carrying value of other assets	36
12 Recognition of impairment loss	37
13 Revalued assets	<i>No equivalent paragraph</i>
14 Allocation of impairment loss	37
15 Gain on loss from sale	37
16 Non-depreciation	34
17 Change in classification as held for sale	38
18 Measurement on reclassification	38
19 Presentation of reclassification adjustment	39
20 Removal of item from disposal group	40
21 Presentation and disclosure principle	<i>No equivalent paragraph</i>
22 Definition of a component	41

23 Definition of a discontinued operation	42
24 Disclosures for discontinued operations	43
25 Adjustments to amounts reported in discontinued operations	44
26 Change in classification as discontinued operation	39
27 Disposal of assets in continuing operations	45
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29 Additional disclosures	47
30 Additional disclosures	48
31 Effective date	49-51
B1 Held for sale criteria	30
B2 Criteria for exception	31
B3 Classification of newly acquired assets	32
B4 Classification after the balance sheet date	33
B5-B8 Revalued assets	<i>No equivalent paragraph</i>

The following table shows where the relevant requirements of SFAS 144 can be found in the draft IFRS.

Paragraph in SFAS 144	Paragraph in draft IFRS
3 Scope	2
4 Disposal groups	3 and Appendix A
5 Exceptions to scope	2
27 Disposal other than by sale	6
28 Assets to be abandoned	6 and 7
29 Assets to be exchanged or distributed to owners	<i>Assets to be exchanged are treated as assets to be sold (see paragraph 5 of the draft IFRS).</i>

30 Criteria for classification as held for sale	4 and B1
31 Exception to one of the criteria in paragraph 30	B2
32 Classification of newly acquired assets	B3
33 Classification after the balance sheet date	B4
34 Measurement of assets held for sale	8,9 and 16
35 Costs to sell	Appendix A and 10
36 Carrying value of other assets	11
37 Impairment loss	12 and 14
38 Change in classification	17 and 18
39 Presentation of change in classification	19 and 26
40 Removal of items from disposal group	20
41 Definition of a component	Appendix A and 22
42 Definition of discontinued operations	23
43 Presentation of discontinued operations	24
44 Adjustment to amounts reported in discontinued operations	25
45 Disposal gains and losses in continuing operations	27
46 Presentation of assets classified as held for sale	28
47 Disclosures	29
48 Disclosure of change of plan	30
49-51 Effective date and transition	31

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ED 4 DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

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INTERNATIONAL FINANCIAL REPORTING STANDARD

IFRS X DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

[DRAFT] ILLUSTRATIVE EXAMPLES

These [draft] examples accompany, but are not part of, the [draft] IFRS

Availability for immediate sale (Appendix B, paragraph B1(b))

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 B1(b)). A non-current asset (or disposal group) is available for immediate sale if an entity currently has the intent 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 B1(b) 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 B1(b) 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 B1(b) 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 transfer 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 B1(b) 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 B1(b) 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 its 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 B1(b) 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 B1(b) would not

continue to be met. The property would be reclassified as held and used in accordance with paragraph 17.

**Completion of sale expected within one year
(paragraph B1(d))**

Example 4

To qualify for classification as held for sale, the sale of a noncurrent asset (or disposal group) must be highly probable, and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph B1(d)). 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, and the transfer of the property will be accounted for as a sale and finance leaseback.

Exceptions to the criterion in paragraph B1(d)

An exception to the one-year requirement in paragraph B1(d) applies in limited situations in which the period required to complete the sale of a noncurrent asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity's control and specified conditions are met (paragraph B2). 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 B2(a) for an exception to the one-year requirement in paragraph B1(d) 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 B2(b) for an exception to the oneyear requirement in paragraph B1(d) would be met.

Example 7

An entity is committed to a plan to sell a noncurrent 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 paragraph B1 are therefore met. In that situation, the conditions in paragraph B2(c) for an exception to the one-year requirement in paragraph B1(d) 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 the criterion in paragraph B1(b). In addition, the criterion in paragraph B1(e) requires that an asset be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph B2(c) for an exception to the one-year requirement in paragraph B1(d) would not be met. The asset would be reclassified as held and used in accordance with paragraph 17.

Presenting discontinued operations

The results of operations of a component of an entity that either has been disposed of or is classified as held for sale are required to be reported in discontinued operations if (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction (paragraph 23). Examples 8-11 illustrate disposal activities that do or do not qualify for presenting as discontinued operations.

Example 8

An entity that manufactures and sells consumer products has several product groups, each with different product lines and brands. For that entity, a product group is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, each product group is a component of the entity.

The entity has experienced losses associated with certain brands in its beauty care products group.

- (a) The entity decides to exit the beauty care business and is committed to a plan to sell the product group with its operations. The product group is classified as held for sale at that date. The operations and cash flows of the product group will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the product group after it is sold. In that situation, the conditions in paragraph 23 for presenting in discontinued operations the operations of the product group while it is classified as held for sale would be met.
- (b) The entity decides to remain in the beauty care business but will discontinue the brands with which the losses are associated. Because the brands are part of a larger cash-generating product group and, in the aggregate, do not represent a group that is a component of the entity, the conditions in paragraph 23 for presenting in discontinued operations the losses associated with the brands that are discontinued would not be met.

Example 9

An entity that is a franchiser in the quick-service restaurant business also operates company-owned restaurants. For that entity, an individual company-owned restaurant is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, each companyowned restaurant is a component of the entity.

- (a) The entity has experienced losses on its company-owned restaurants in one region. The entity decides to exit the quickservice restaurant business in that region and commits itself to a plan to sell the restaurants in that region. The restaurants are classified as held for sale at that date. The operations and cash flows of the restaurants in that region will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the restaurants after they are sold. In that situation, the conditions in paragraph 23 for presenting in discontinued operations the operations of the restaurants while they are classified as held for sale would be met.
- (b) Based on its evaluation of the ownership mix of its restaurants in particular markets, the entity commits itself to a plan to sell its company-owned restaurants in one region to an existing franchisee. The restaurants are classified as held for sale at that date. Although each company-owned restaurant is a component of the entity, through the franchise agreement the entity will (1) receive franchise fees determined, in part, based on the future revenues of the restaurants and (2) have significant continuing involvement in the operations of the restaurants after they are sold. In that situation, the conditions in paragraph 23 for presenting in discontinued operations the operations of the restaurants would not be met.

Example 10

An entity that manufactures sporting goods has a bicycle division that designs, manufactures, markets and distributes bicycles. For that entity, the bicycle division is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, the bicycle division is a component of the entity.

The entity has experienced losses in its bicycle division resulting from an increase in manufacturing costs (principally labour costs).

- (a) The entity decides to exit the bicycle business and commits itself to a plan to sell the division with its operations. The bicycle division is classified as held for sale at that date. The operations and cash flows of the division will be eliminated from the ongoing operations of the entity as a result of the sale transaction, and the entity will not have any continuing involvement in the operations of the division after it is sold. In that situation, the conditions in paragraph 23 for presenting in discontinued operations the operations of the division while it is classified as held for sale would be met.
- (b) The entity decides to remain in the bicycle business but will outsource the manufacturing operations and commits itself to a plan to sell the related manufacturing facility. The facility is classified as held for sale at that date. Because the manufacturing facility is part of a larger cash-generating group (the bicycle division), and is not a component of the entity, the conditions in paragraph 23 for presenting in discontinued operations the operations (losses) of the manufacturing facility would not be met. (Those conditions also would not be met if the manufacturing facility were a component of the entity because the decision to outsource the manufacturing operations of the division will not eliminate the operations and cash flows of the division from the ongoing operations of the entity.)

Example 11

An entity owns and operates retail stores that sell household goods. For that entity, each store is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Therefore, each store is a component of the entity.

To expand its retail store operations in one region, the entity decides to close two of its retail stores and open a new superstore in that region. The new superstore will sell the household goods previously sold through the two retail stores as well as other related products not previously sold. Although each retail store is a component of the entity, the operations and cash flows from the sale of household goods previously sold through the two retail stores in that region will not be eliminated from the ongoing operations of the entity. In that situation, the conditions in paragraph 23 for presenting in discontinued operations the operations of the stores would not be met.

Determining whether an asset has been abandoned

Paragraphs 6 and 7 of the [draft] IFRS specify requirements for assets to be abandoned. Example 12 illustrates when an asset has not been abandoned.

Example 12

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 abandoned.

Presenting a discontinued operation that has been abandoned

Paragraph 6 of the [draft] IFRS prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned are a component of the entity, they are reported in discontinued operations at the date at which they are abandoned. Example 13 illustrates this.

Example 13

In October 2005 an entity decides to abandon one of its cotton mills. The cotton mill is a cash-generating unit that meets the definition of a component of the entity. All work stops at the cotton mill during the year ended 31 December 2006. In the financial statements for the year ended 31 December 2005, results and cash flows of the cotton mill are treated as continuing operations. In the financial statements for the year ended 31 December 2006, the entity makes the disclosures for the cotton mill required by paragraph 24 of the [draft] IFRS, including a restatement of any comparative figures.

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