INDAS – 105 – NON-CURRENT ASSETS HELD FOR SALE & DISCONTINUED OPERATIONS

(TOTAL NO. OF QUESTIONS – 6)

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RTPs QUESTIONS

Q1 (May 18)

Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/ (liability)	Carry amount as on 31st March, 20X1 (In Rs. '000)
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables & cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	**2,250**

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	Carry amount as on 15th September 20X1 (In Rs '000)
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1,020
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	(250)
Total	**2,160**

Entity A proposed to sell the disposal group at Rs 19,00,000. It estimates that the costs to sell will be Rs70,000. This cost consists of professional fee to be paid to external lawyers and accountants.

As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale:	(In Rs'000)
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to Rs 16,50,000.

Required:

What would be the value of all assets/ labilities within the disposal group as on the following dates in accordance with Ind AS 105?

(a) 15 September, 20X1 and

(b) 31st March, 20X2

Solution

(a) As at 15 September, 20X1

The disposal group should be measured at Rs18,30,000 (19,00,000-70,000). The impairment write down of Rs 3,30,000 (Rs21,60,000 – Rs18,30,000) should be recorded within profit from continuing operations.

The impairment of Rs3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	Carrying value as at 15 June 2004	Impairment	Revised carrying value as per IND AS 105
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868

Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables & cash balances	520	-	520
Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	(250)	-	(250)
Total	**2,160**	**(330)**	**1,830**

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31 March. 20X2:

All of the assets and liabilities, outside the scope of measurement under IFRS 5, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	Carrying amount as on 15 September, 20X1	Change in value to 31st March 20X2	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	(250)	-	-	(250)
Total	**1,830**	**(120)**	**(60)**	**1,650**

Q2 (May 19)

CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:

On 1st April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 2018, the carrying amount of the assets of the division were as follows:

- ✓ *Purchased Goodwill – Rs 60,000*
- ✓ *Property, Plant & Equipment (average remaining estimated useful life two years) - Rs 20,00,000*
- ✓ *Inventories - Rs 10,00,000*

From 1st April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018 the directors estimated that they would receive Rs 32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 the Company received and accepted a firm offer to purchase the division for Rs 33,00,000.

The sale is expected to be completed on 30th September, 2018 and Rs 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. During the period from 1st April to 30th June inventories of the division costing Rs 8,00,000 were sold for Rs 12,00,000. At 30th June, 2018, the total cost of the inventories of the division was Rs 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 2018 giving relevant explanations.

Solution

- *The decision to offer the division for sale on 1st April, 2018 means that from that date the division has been classified as held for sale. The division available for immediate sale is being actively marketed at a reasonable price and the sale is expected to be completed within one year.*
- *The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount i.e. Rs 30,60,000 since it is less than the fair value less cost to sell Rs 32,00,000.*
- *The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.*
- *The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.*
- *The Property, Plant and Equipment shall not be depreciated after 1st April, 2018 so its carrying value at 30th June, 2018 will be Rs 20,00,000 only. The inventories of the division will be shown at Rs 9,00,000.*

- *The division will be regarded as discontinued operation for the quarter ended 30th June, 2018. It represents a separate line of business and is held for sale at the year end.*
- *The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.*

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.

Q3 (Nov 21)

On February 28, 20X1, Entity X is committed to the following plans:

(a) *To sell a property after completion of certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months.*

(b) *To sell a commercial building to a buyer after the occupant vacates the building. The time required for vacating the building is usual and customary for sale of such commercial property. The entity considers the sale to be highly probable.*

Can the above-mentioned property and commercial building be classified as non- current assets held for sale at the reporting date i.e. 31st March, 20X1?

Solution

Ind AS 105 provides guidance on classification of a non-current asset held for sale in paragraph 7 which states that, the 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) and its sale must be highly probable.

(a) *In respect of Entity X's plan to sell property which is being renovated and such renovation is incomplete as at the reporting date. Although, the renovations are expected to be completed within 2 months from the reporting date i.e., March 31, 20X1, the property cannot be classified as held for sale at the reporting date as it is not available for sale immediately in its present condition.*

(b) *In case of Entity X's plan to sell commercial building, it intends to transfer the commercial building to a buyer after the occupant vacates the building and the time required for vacating such building is usual and customary for sale of such non- current asset. Accordingly, the criterion of the asset being available for immediate sale would be met and hence, the commercial building can be classified as held for sale at the reporting date*

MTPs QUESTIONS

NO QUESTION HAS BEEN ASKED IN MTPs till Oct. 21

QUESTIONS FROM PAST EXAM PAPERS

Q4 (MTP APRIL 2018)

A Ltd. is to sell a non-current asset, being a piece of land. The piece of land has been contaminated and will require the entity to carry out Rs. 100,000 of work in order to rectify the contamination. If the land was not contaminated, it could be sold for Rs. 300,000. With the contamination, it is worth only Rs. 200,000. The work that is needed to rectify the contamination will extend the period of sale by one year from the date the land is first marketed for sale.

ft t In the following situations, examine with suitable reasons whether land can be classified as held for sale in accordance with Ind AS 105: Non-current assets held for sale and discontinued operations

Situation 1

The land is marketed for Rs. 300,000 and A Ltd. was not aware of the contamination till the time a firm purchase commitment was signed with a purchaser. The purchaser found the contamination through a survey. The purchaser signed the firm purchase commitment on condition that the contamination damage will be rectified.

Situation 2

A Ltd. marketed the land for Rs. 300,000, knowing about the contamination when the proposal to sale the land went in the market. However, A Ltd. marketed it with an agreement that it would carry out the rectification work within few months from signing the firm purchase commitment.

Situation 3

A Ltd. knew about the contamination prior to float the proposal to sell the land and markets it for Rs. 200,000 with no obligation on itself to rectify or fix the contamination.

Solution

Situation 1

As far as the entity was aware, the land was marketed and available for immediate sale in its present condition at a reasonable price. The event extending the one-year period was imposed by the buyer after the firm purchase commitment was received and the entity is taking steps to address it. The land qualifies as held for sale and continues to do so after it is required to carry out the rectification work.

Situation 2

The land is not available for immediate sale in its present condition when it is first marketed. It is being marketed at a price that involves further work to the land. It cannot be classified as held for sale when it is first marketed. It also cannot be classified as held for sale when a purchase commitment is received, because *even then it is not for sale in its present condition and no conditions have been unexpectedly imposed. The land will not be classified as held for sale until the rectification work is actually carried out.*

Situation 3

The land in this case is available for immediate sale in its present condition and it would qualify to be classified as held for sales since it is being marketed at reasonable price.

Q5 (Nov. 18 – 8 Marks)

PB Limited purchased a plastic bottle manufacturing plant for Rs24 lakh on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017, PB Limited temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was Rs13.5 lakh & Rs12 lakh respectively.

The accountant has made the following working:

Carrying amount on initial classification as held for sale	Rs	Rs
Purchase price of Plant	24,00,000	
Less: Accumulated Depreciation [(Rs24,00,000/8)x2.5 years]	7,50,000	16,50,000
Fair value less cost to sell as on 31st March, 2017		12,00,000
The value lower of the above two		**12,00,000**

Balance Sheet extracts as on 31st March, 2018

Particulars	Rs
ASSETS	
Current Assets	
Other Current Assets	
Assets classified as held for sale	12,00,000

Required:

Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings.

Solution

As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. In such a situation, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in a distant future.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Further Ind AS 105 also states that an entity shall not classify as held for sale a non-current asset that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

In addition to Ind AS 105, Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Accountant of PB Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. PB Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet will be as follows

Calculation of carrying amount as on 31stMarch, 2018	**Rs**
Purchase Price of Plant	24,00,000
Less: Accumulated depreciation (24,00,000/ 8 years) x 3 years	(9,00,000)
Carrying amount before impairment	15,00,000

Less: Impairment loss (Refer Working Note)	(3,00,000)
Revised carrying amount after impairment	**12,00,000**

Balance Sheet extracts as on 31stMarch 2018

Assets	Rs
<u>Non-Current Assets</u>	
Property, Plant and Equipment	12,00,000

Working Note:

Fair value less cost to sell of the Plant = Rs. 12,00,000

Value in Use (not given) or = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. Rs. 12,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = Rs. 15,00,000 – Rs. 12,00,000 = Rs.3,00,000.

Q6 (Nov. 19 – 10 Marks)

On June 1, 2018, entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited.

However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by 31st March, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under:

(Rs in lakh)

Particulars	Carrying value as on 31st December, 2017	Carrying value as on 31st July, 2018
Goodwill	1,000	1,000
Plant and Machinery	2,000	1,800
Building	4,000	3,700
Debtors	1,700	2,100
Inventory	1,400	800
Creditors	(600)	(500)
Loans	(4,000)	(3,700)
Net	**5,500**	**5,200**

The fair value of the manufacturing unit as on December 31, 2017 is Rs 4,000 lakh and as on July 31, 2018 is Rs 3,700 lakh. The cost to sell is Rs 200 lakh on both these dates. The disposal group is not sold at, the *period end i.e., December 31, 2018. The fair value as on 31st December, 2018 is lower than the carrying value of the disposal group as on that date.*

Required:

(i) *Assess whether the manufacturing unit can be classified as held for sale and reasons thereof. If yes, then at which date?*

(ii) *The measurement of the manufacturing unit as on the date of classification as held for sale.*

(iii) *The measurement of the manufacturing unit as at the end of the year.*

Solution

(i) Assessment of manufacturing unit whether to be classified as held for sale

The manufacturing unit can be classified as held for sale due to the following reasons:

(a) *The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group is classified as held for sale will be 31st July, 2018, i.e., the date at which management becomes committed to the plan.*

(b) *The sale is highly probable as the appropriate level of management i.e., board of directors in this case have approved the plan.*

(c) *A firm purchase agreement has been entered with the buyer.*

(d) *The sale is expected to be complete by 31st March, 2019, i.e., within one year from the date of classification.*

(ii) Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

Step 1: *Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.*

This has been done and the carrying value of the disposal group as on 31st July, 2018 is determined at Rs 5,200 lakh. The difference between the carrying value as on 31st December, 2017 and 31st July, 2018 is accounted for as per Ind AS 36.

Step 2: *An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.*

The fair value less cost to sell of the disposal group as on 31st July, 2018 is Rs 3,500 lakh (i.e. Rs 3,700 lakh - Rs 200 lakh). This is lower than the carrying value of Rs 5,200 lakh. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value.

Thus, the assets will be measured as under:

(Rs in lakh)

Particulars	Carrying value – 31st July, 2018	Impairment	Carrying value as per Ind AS 105 – 31st July, 2018
Goodwill	1,000	(1,000) (Refer WN)	-
Plant & Machinery	1,800	(229) (Refer WN)	1,571
Building	3,700	(471)	3,229
Debtors	2,100	-	2,100
Inventory	800	-	800
Creditors	(500)	-	(500)
Loans	(3,700)	-	(3,700)
	5,200	**(1,700)**	**3,500**

Working Note:

Allocation of impairment loss to Plant and Machinery and Building

After adjustment of impairment loss of Rs 1,000 lakh from the full value of goodwill, the balance Rs 700 lakh (Rs 1,700 lakh – Rs 1,000 lakh) is allocated to plant and machinery and Building on proportionate basis.

Plant and machinery – Rs 700 lakh x Rs 1,800 lakh / Rs 5,500 lakh = Rs 230 lakh (rounded off)

Building – Rs 700 lakh x Rs 3,700 lakh / Rs 5,500 lakh = Rs 470 lakh (rounded off)

(iii) Measurement of the manufacturing unit as on the date of classification as at the year end

The measurement as at the year-end shall be on similar lines as done above.

The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective standards.

The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

Measurement of the manufacturing unit as on the date of classification as at the year- end shall be on similar lines as done above.