Educational Material on
Non-current Assets Held
Discontinued Operat

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Educational Material on Indian Accounting Standard (Ind AS) 105, *Non-current Assets Held for Sale and Discontinued Operations*

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
NEW DELHI

This Educational Material has been formulated in accordance with the Ind AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalised and notified till July 2020.

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Foreword

The Institute of Chartered Accountants of India (ICAI), the premier accounting body in the country, is playing a paramount role in transforming the quality and depth of financial reporting standards in the Nation. It has made herculean efforts to ensure that the accounting practices in India are at par with leading economies of the world and provide high quality financial reporting framework comparable at global level. Implementation of International Financial Reporting Standards (IFRS Standards) converged Indian Accounting Standards (Ind AS) has been a big move in that direction. This set of Standards contains detailed accounting requirements and comprehensive disclosures and, therefore, is able to deal with the varied complexities of the contemporary world.

We at the ICAI are committed to smooth implementation of Ind AS and take various initiatives, from time to time, to train accounting professionals, create awareness and provide necessary guidance to its members and other stakeholders to ensure that the Standards are implemented in the same spirit in which these have been formulated. Amongst its various initiatives, ICAI issues a series of publications, namely, Educational Materials on Indian Accounting Standards (Ind AS) with the objective to provide guidance on the application and implementation of each Ind AS. This series of publications has been found highly useful by the preparers, auditors and other stakeholders in discharge of their functions.

Taking this initiative ahead, the Accounting Standards Board (Board) of the Institute of Chartered Accountants of India has formulated the Educational Material on Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations.* This Educational Material seeks to provide guidance by way of Frequently Asked Questions (FAQs) to explain the principles enunciated in the Standard. This publication will provide guidance to stakeholders on accounting and recognition of non-current assets or disposal groups held for sale and presentation and disclosure of discontinued operations.

I express my sincere gratitude and appreciation for the efforts put in by CA. M P Vijay Kumar, Chairman, CA. (Dr.) Sanjeev Singhal, Vice-Chairman, members of the Study Group and members of the Board for their immense efforts in preparing this Educational Material, addressing the various practical issues.

I am sure that the publication would be of immense use to professionals and other stakeholders while implementing and applying the Ind AS for fulfilling their financial reporting requirements.

New Delhi **CA. Atul Kumar Gupta**
February 6, 2021 ***President, ICAI***

Preface

General Purpose Financial Statements offer the most useful information of the financial position and financial performance of an entity. The quality of the financial statements is attributed to the adherence in letter and spirit to a set of robust financial reporting standards. A set of high-quality reporting standards is a key underpinning of financial stability and also provides early signals to detect changes in the company's overall risks and its performance.

The Accounting Standards Board (Board) apart from discharging its role as National Standard Setter makes relentless efforts to ensure effective implementation of Ind AS. For this purpose, the Board has issued Educational Material on several Ind AS, covering various implementation issues. The Board also conducts Online Certificate Course on Ind AS, hosts video lectures on Ind AS on the ICAI Digital Learning Hub, organises seminars/webinars, awareness programmes on Ind AS to give guidance to stakeholders in effective implementation of Ind AS.

The Ind ASs set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events. One such aspect is accounting for assets which are held for sale. When an entity makes the decision to sell an asset or discontinue a part of its business, it is making a decision that affects the future cash flows, profitability and overall financial position. The users of the financial statements need to be informed about these events and the likely impact. Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* lays down the principles for the same. The Board has prepared this Educational Material to provide guidance in the form on Frequently Asked Questions (FAQs) on various practical issues that the preparers of the financial statements face while applying this Ind AS.

I would like to convey my sincere gratitude to our Honourable President, CA. Atul Kumar Gupta and Vice-President, CA. Nihar N Jambusaria for providing us the opportunity of bringing out this publication. I am ever thankful to Vice Chairman CA. (Dr.) Sanjeev Singhal for his continued support in effective functioning of the Board and in leading the implementation efforts of Ind AS. I would also like to thank all the members of the Board for their valuable contribution in various endeavours of the Board.

I am highly thankful to CA. Aniket Sunil Talati for leading the Study Group and also appreciate all the members of the Study Group comprising CA. Chintan N. Patel, CA. Rinkesh Shah, CA. Kartikey Rawal, CA. Shreyans Ravrani, CA. Kaushik C. Patel and CA. Uday Surendra Ranpara for their invaluable inputs and support in development of the Educational Material.

I would like to acknowledge the sincere efforts and support of CA. Parminder Kaur, Secretary of the Board and staff CA. Ruchika Gupta, CA. Choshal Patil and CA. Rangoli Sharma in bringing out this Educational Material.

I believe that this publication would be of immense use and great help to the members and other stakeholders for overall understanding and implementation of Ind AS 105.

New Delhi
February 6, 2021

CA. M P Vijay Kumar
Chairman
Accounting Standards Board

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Educational Material on Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*

I. SUMMARY

Objective

The objective of this Indian Accounting Standard (Ind AS) is to specify

(i) the accounting for assets held for sale, and

(ii) the presentation and disclosure of discontinued operations.

Scope

The classification and presentation requirements of this Ind AS apply to all recognised non-current assets and to all disposal groups of an entity.

The measurement requirements of this Ind AS apply to all recognised non-current assets and disposal groups except:

- deferred tax assets (Ind AS 12, *Income Taxes*).
- assets arising from employee benefits (Ind AS 19, *Employee Benefits*).
- financial assets within the scope of Ind AS 109, *Financial Instruments*.
- non-current assets that are measured at fair value less costs to sell in accordance with Ind AS 41, *Agriculture*.
- contractual rights under insurance contracts as defined in Ind AS 104, *Insurance Contracts*.

Assets classified as non-current in accordance with Ind AS 1, *Presentation of Financial Statements*, shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Ind AS. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Ind AS.

The classification, presentation and measurement requirements in this Ind AS applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non- current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

This Ind AS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other Ind ASs do not apply to such assets (or disposal groups) unless those Ind ASs require:

1. specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

2. disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of Ind AS 105 and such disclosures are not already provided in the other notes to the financial statements.

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

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.

For this to be the case, 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. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

For the sale to be highly probable:

(i) The appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and the complete plan must have been initiated.

(ii) The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

(iii) The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except if 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) 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.

(iv) The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in this Standard to classify as held for sale are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Ind AS 16, *Property, Plant and Equipment*.

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 one-year requirement for sale to be highly probable, which is prescribed in the Standard, is met (except as permitted by paragraph 9) and it is highly probable that any other criteria for classification of non-current asset (or disposal group) as held for sale in this Standard that are not met at that date will be met within a short period following the acquisition (usually within three months).

If the criteria for non-current asset (or disposal group) held for sale are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the approval of the financial statements for issue, the entity shall disclose the following information in the notes to financial statements:

(i) description of the non-current asset (or disposal group);

(ii) description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(iii) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108, *Operating*

Segments.

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable.

For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

Non-current assets that are to be abandoned

An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. Non-current assets (or disposal groups) to be abandoned include non- current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

If a disposal group to be abandoned meets the criteria to be classified as discontinued operation under this Standard, then the entity should present the results and cashflows of such disposal group as a discontinued operation in accordance with paragraph 32(a)-(c) of this Standard, at the date on which such disposal group ceases to be used.

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 non-current assets (or disposal groups) classified as held for sale/distribution to owners

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

If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale, applying the above measurement requirement will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

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 ASs.

On subsequent re-measurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this Ind AS but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable Ind ASs before the fair value less costs to sell of the disposal group is remeasured.

Recognition of impairment losses and reversals

An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 19 of this Standard.

An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36, *Impairment of Assets*.

An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

- to the extent that it has not been recognised in accordance with paragraph 19; but
- not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Ind AS or previously in accordance with Ind AS 36, on the non- current assets that are within the scope of the measurement requirements of this Ind AS.

The impairment loss (or any subsequent gain) recognised for a disposal group will be allocated to the non-current assets in such group (that are within the scope of this Standard) in the order set out in paragraphs 104(a) and (b) and 122 of Ind AS 36, *Impairment of Assets.*

A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition of asset (or disposal group).

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 or to a plan of distribution to owners

If an entity has classified an asset (or disposal group) as held for sale or as held for distribution to owners, but the criteria for classification as held for sale or distribution to owners are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale or held for distribution to owners (respectively).

The entity shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners (or ceases to be included in a disposal group classified as held for sale or as held for distribution to owners) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale or as held for distribution to owners, and
- its recoverable amount at the date of the subsequent decision not to sell or distribute.

The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in profit or loss from continuing operations in the period in which the criteria for classification as held for sale or distribution to owners are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of profit and loss used to present a gain or loss from continuing operation.

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 of classification as held for sale. If an entity removes an individual asset or liability from a disposal group classified as held for distribution to owners, the remaining assets and liabilities of the disposal group to be distributed shall continue to be measured as a group only if the group meets the criteria for classification as held for distribution to owners. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale (or as held for distribution to owners) shall be measured individually at the lower of their carrying amounts and fair values less costs to sell (or costs to distribute) at that date. Any non-current assets that do not meet the criteria for held for sale shall cease to be classified as held for sale. Any non-current assets that do not meet the criteria for held for distribution to owners shall cease to be classified as held for distribution to owners.

If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or vice versa, then the change in classification is considered a continuation of the original plan of disposal. The entity shall apply the classification, presentation and measurement requirements that are applicable to the new method of disposal. It shall measure the non-current asset (or disposal group) at the lower of its carrying amount and fair value less costs to sell (if reclassified as held for sale) or costs to distribute (if reclassified as held for distribution) and recognise any reduction or increase in the fair value less costs to sell/distribute. It shall not change the date of classification. This does not preclude an extension of the period required to complete a sale or a distribution to owners if the criteria in Appendix B of this Standard are met.

Presentation and disclosure

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

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

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

a. represents a separate major line of business or geographical area of operations,

b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

c. is a subsidiary acquired exclusively with a view to resale.

An entity shall disclose:

(a). a single amount in the statement of profit and loss comprising the total of:

  (i) the post-tax profit or loss of discontinued operations and

  (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

(b). an analysis of the single amount in (a) into:

  (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

  (ii) the related income tax expense as required by paragraph 81(h) of Ind AS 12;

  (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

  (iv) the related income tax expense as required by paragraph 81(h) of Ind AS 12.

The analysis may be presented in the notes or in the statement of profit and loss. If it is presented in the statement of profit and loss it shall be presented in a section identified as relating to discontinued operations, i.e.

separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

(c). the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

(d). the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of profit and loss.

An entity shall re-present the above disclosures for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

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 from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.

b. the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.

c. the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

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 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Gains or losses relating to continuing operations

Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.

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

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 in the balance sheet or in the notes. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition, disclosure of the major classes of assets and liabilities is not required.

An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the balance sheets for prior periods to reflect the classification in the balance sheet for the latest period presented.

Additional disclosures

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

a) description of the non-current asset (or disposal group);

b) description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

c) the gain or loss recognised in accordance with recognition of impairment losses and reversal and, if not separately presented in the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss;

d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108, *Operating Segments*.

If the non-current asset (or disposal group) classified as held for sale (or distribution to owners) is no longer classified as such, or where and entity removes an individual asset or liability from a disposal group, then it shall disclose, in 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.

II. Frequently Asked Questions (FAQs)

Question 1

A Ltd. is in the business of manufacturing spare parts. During the year, the management of A Ltd. has decided to sell one of its functional machines. The management has identified a potential buyer and expects the sale of that machine to be completed in the following financial year. How should A Ltd. present such machine at the reporting date?

Response

The guidance for classification, measurement and presentation of a non-current asset held for sale is provided by Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations.*

The Standard in paragraph 6 lays down the criteria for classification of a non-current asset as held for sale which states as under:

"**6 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.**"

Further, paragraphs 7 and 8 of Ind AS 105 state as follows:

"7 For this to be the case, 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*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) 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, except as permitted by paragraph 9, 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. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

In the instant case, A Ltd. has decided to sell a functional machine and has found a buyer for such sale, further, it expects the sale to be completed in the following financial year. The company thus considers the sale to be highly probable. Therefore, in view of the above mentioned paragraphs, the machine should be classified as a non-current asset held for sale.

The measurement of such non-current asset held for sale is described in paragraph 15 of Ind AS 105, which provides as under:

"15 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."

Paragraph 25 of Ind AS 105 specifically provides as under:

"25 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."

Further, the presentation of such non-current assets held for sale has been provided in paragraph 38 of Ind AS 105, which *inter alia* provides that, 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.

Based on above, A Ltd. will measure the machine at the lower of carrying amount and fair value less costs to sell and shall not depreciate the machine while it is classified as held for sale. Further, the machine should be presented separately from other assets in the Balance Sheet as non-current asset held for sale.

Question 2

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

Response

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.

Question 3

On 1st March, 20X1, Entity R decides to sell one of its factories which is available for sale in its present condition. An agent is appointed and the factory is actively marketed. As on 31st March, 20X1, it is expected that the factory will be sold by 28th February, 20X2. However, in May, 20X1, the market price of the factory deteriorated. Entity R believed that the market would recover and thus did not reduce the price of the factory. The company's accounts are authorised for issue on 26th June, 20X1. Should the factory be shown as held for sale as on reporting date i.e. 31st March, 20X1?

Response

Paragraphs 6 and 7 of Ind AS 105 state as under:

"**6 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.

7 For this to be the case, 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*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future."

In view of the above provisions, for a non-current asset to be classified as held for sale, the sale must be highly probable as per paragraph 8 of Ind AS 105.

Paragraph 8 of Ind AS 105 provides guidance that, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

In the instant case, keeping in view the principles prescribed under paragraphs 7 and 8 of Ind AS 105, the factory ceases to meet the definition of non-current asset held for sale after the reporting date (but before the financial statements are authorised for issue), as it is not actively marketed at a reasonable price in view of deterioration in market price. As far as classification of the factory on the reporting date is concerned, as the factory is available for immediate sale in its present condition as on 31st March, 20X1, hence, it should be classified as non-current asset held for sale as on the reporting date. Since market conditions changed after the reporting date but before approval of the financial statements for issue, such change in market conditions is a non-adjusting event and therefore Entity R should comply with the disclosure requirements for non-adjusting events as per Ind AS 10, *Events After the Reporting Date*.

Question 4

Alpha Ltd. has assets other than non-current assets such as deferred tax assets, financial assets, biological assets and assets arising out of insurance contracts. Whether principles of measurement prescribed under Ind AS 105 are applicable to such assets if these assets are held for sale?

Response

Paragraph 5 of Ind AS 105 specifically scopes out the following from applying the measurement requirements of the Standard:

(a) deferred tax assets (Ind AS 12, *Income Taxes*).

(b) assets arising from employee benefits (Ind AS 19, *Employee Benefits*).

(c) financial assets within the scope of Ind AS 109, *Financial Instruments*.

(d) non-current assets that are measured at fair value less costs to sell in accordance with Ind AS 41, *Agriculture*

(e) contractual rights under insurance contracts as defined in Ind AS 104, *Insurance Contracts*.

In view of the above, Alpha Ltd. cannot apply the measurement principles of Ind AS 105 for measuring deferred tax assets, financial assets, biological assets and assets arising out of insurance contracts.

Question 5

Telecom Ltd. intends to sell its communication towers. What are the key requirements that Telecom Ltd. should follow for classification of communication towers (non-current assets) as held for sale?

Response

Paragraphs 6, 7 and 8 of Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* provide the key requirements for classification of non-current assets (or disposal groups) as held for sale, which state as under:

"**6 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.**

7 For this to be the case, 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*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) 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, except as permitted by paragraph 9, 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. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

In view of the above, the key requirements for classification of non-current asset as held for sale under Ind AS 105 are:

- The asset should be available for immediate sale in present condition; and
- The sale must be highly probable. For the sale to be highly probable, the following conditions need to be satisfied:
  - appropriate level of management should be committed to a plan to sell the asset,
  - active program to locate a buyer and complete the plan should have been initiated,
  - the asset must be actively marketed at a price that is reasonable in relation to its current fair value,
  - the sale should be completed, or expected to be so, within a year from the date of the classification (except as permitted in paragraph 9 of Ind AS 105), and
  - the actions required to complete the planned sale should indicate that it is unlikely that significant changes will be made to the plan or that the plan will be withdrawn.

In the instant case, Telecom Ltd. should follow the aforementioned principles for classification of communication towers (non-current assets) as held for sale.

Question 6

Bubble Food & Beverage Ltd. (BFB Ltd.) owns and operates restaurant chain franchises throughout North India. In February, 20X1, BFB Ltd. committed to a plan and entered into an agreement to sell its franchises in Delhi and NCR region to XYZ Ltd., subject to approval by regulators which is not substantive in nature. It is highly probable that such regulatory approval will be received and the sale of franchises will be completed within next 12 months.

How should BFB Ltd. classify the franchises in its Balance sheet as on reporting date i.e. 31 March, 20X1?

Response

Paragraphs 6, 7 and 8 of Ind AS 105 provide the key requirements for classification of non-current assets (or disposal groups) as held for sale, which are as follows:

"**6 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.**

7 For this to be the case, 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*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) 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, except as permitted by paragraph 9, 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. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

In the given case, it is highly probable that the regulatory approval, which is not substantive, will be received and the sale will be completed within next 12 months, and since all the other criteria of paragraph 7 and 8 of Ind AS 105 have been met, BFB Ltd. should classify its Delhi and NCR region franchises as disposal group held for sale in its Balance sheet as on reporting date i.e. 31 March, 20X1.

Question 7

When can a sale be considered to be highly probable under this standard?

Response

Paragraphs 8 and 9 of Ind AS 105 provide the following with regard to 'highly probable':

"8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) 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, except as permitted by paragraph 9, 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. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

9 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). This will be the case when the criteria in Appendix B are met."

Appendix A of Ind AS 105 defines 'highly probable' as 'significantly more likely than **probable**'.

Ind AS 105 therefore, prescribes following conditions to be satisfied for the sale to qualify as highly probable:

- The appropriate level of management must be committed to a plan to sell the asset (or disposal group).
- An active programme to locate a buyer and complete the selling plan must have been initiated.
- The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale transaction is expected to be completed within one year from the date of classification (except as permitted in paragraph 9 of Ind AS 105).
- The actions required to complete the planned sale should indicate that it is unlikely that significant changes will be made to the plan or that the plan

will be withdrawn.

Further, an entity can still classify an asset (or disposal group) as held for sale, even if the timeframe of one year to conclude the sale transaction has lapsed. For this to be applicable:

(i) the delay must have been caused by the events or circumstances which are beyond the control of the entity; and

(ii) there must be sufficient evidence that the entity is still committed to its selling plan.

This will be the case when the criteria prescribed in Appendix B of Ind AS 105 are met.

Question 8

A Ltd. has planned to sell a manufacturing facility to B Ltd. which qualifies to be classified as held for sale as per Ind AS 105. After a firm purchase commitment, B Ltd. identifies damages to the facility which were previously not discovered by either of the parties. B Ltd. insists A Ltd. to rectify the damages, which will extend the period to complete the sale beyond one year. A Ltd. has already initiated actions to rectify the damages and rectification is highly probable. Whether the manufacturing facility can be classified as held for sale at the reporting date?

Response

Paragraph 9 of Ind AS 105 provides the following guidance in respect of events and circumstances that may extend the period to complete the sale beyond one year:

"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). This will be the case when the criteria in Appendix B are met."

Further, Appendix B (Application supplement) of Ind AS 105 provides specific guidance on 'Extension of the period required to complete a sale.'

Paragraph B1 of Appendix B of Ind AS 105, *inter alia*, states,

"As noted in paragraph 9, 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 8 shall therefore apply in the following situations in which such events or circumstances arise:

(a) …

(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) …"

In the given case, A Ltd. has a firm purchase commitment from B Ltd. to purchase the manufacturing facility but on inspection it imposed a condition for A Ltd. to rectify the damages caused to the facility which would extend the period required to complete the sale beyond one year. A Ltd. has taken actions to fulfil such condition and it is expected that the condition will be fulfilled.

Based on the above, it can be said that the delay is caused by events or circumstances beyond A Ltd.'s control and there is sufficient evidence that A Ltd. remains committed to its plan to sell the manufacturing facility. Therefore, A Ltd. can classify the manufacturing facility as held for sale.

Question 9

Whether the word "sale of a non-current asset" includes "exchange with a non-current asset" under this standard?

Response

Paragraph 10 of Ind AS 105 provides as follows:

"Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Ind AS 16, *Property, Plant and Equipment*."

Paragraph 25 of Ind AS 16, *Property, Plant and Equipment* prescribes the following principles to ascertain whether an exchange transaction has a commercial substance:

"An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations."

On combined reading of paragraph 10 of Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* and paragraph 25 of Ind AS 16, *Property, Plant and Equipment*, it can be concluded that sale transaction includes exchange of a non-current asset with other non-current asset when commercial substance exists.

Question 10

Alpha Ltd. decided to classify a non-current asset as held for sale. However, the criteria for classifying the non-current asset as held for sale were met after the reporting period. What are the consequences if the criteria for classification of a non-current asset as held for sale are met after reporting period?

Response

When the criteria for classification of a non-current asset as held for sale are met after the reporting period, Ind AS 105 provides following guidance in paragraphs 12 and 41:

"12 If the criteria in paragraphs 7 and 8 are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the approval of the financial statements for issue, the entity shall disclose the information specified in paragraph 41(a), (b) and (d) in the notes."

"41 An entity shall disclose the following information in the notes in 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 non-current asset (or disposal group);

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss;

(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108, *Operating Segments*."

In view of paragraph 12 of Ind AS 105, if the criteria for classification of a non-current asset as held for sale are met by Alpha Ltd. at the end of the reporting period, the non-current asset should be classified as held for sale. If the criteria are satisfied after the reporting period but before the approval of the financial statements for issue, Alpha Ltd. should not classify the asset as held for sale. However, it should disclose the following information in the notes to financial statements:

(a) a description of the non-current asset;

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) if applicable, the reportable segment in which the non-current asset is presented in accordance with Ind AS 108, *Operating Segments*.

Question 11

D Ltd. is a wholly owned subsidiary of H Ltd. During the year 20X0-X1, the Board of Directors of H Ltd. decided to dispose 75% stake in D Ltd. and continue to retain the remaining 25%. It also assigned group of directors & CEO to execute the disposal within a period of 6 months. Assuming that all the criteria for classification of a non-current asset as held for sale under Ind AS 105 are met, how it will be recognised in separate and consolidated financial statements of H Ltd.?

Response

<u>Recognition in separate financial statements</u>

Paragraphs 6, 7 and 8 of Ind AS 105 provide the following guidance on classification of a non-current asset as held for sale:

"6 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.

7 For this to be the case, 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*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) 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, except as permitted by paragraph 9, 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. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

In the given case, H Ltd. is committed to dispose only 75% stake in D Ltd. and retain 25% stake in D Ltd. Therefore, investment in D Ltd. with respect to only 75% stake to be disposed of, will be classified by H Ltd. as non-current asset held for sale.

<u>Recognition in consolidated financial statements</u>

Paragraph 8A of Ind AS 105 states,

"8A An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in paragraphs 6–8 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale."

Accordingly, in line with paragraph 8A, H Ltd. should classify all the assets and liabilities of D Ltd. as held for sale. Further, if the sale of the subsidiary meets the definition of a discontinued operation, additional disclosures are required as per paragraphs 33 and 34 of Ind AS 105.

Question 12

In February, 20X1, PQR Limited decides to abandon a machine because its use is banned by the relevant environment protection authority. Whether such abandoned machine can be classified as non-current asset held for sale?

Response

Ind AS 105 provides guidance regarding abandoned non-current assets in paragraph 13 of the Standard which states as under:

"13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold."

In the given case, PQR Limited has decided to abandon its machine. On the basis of the above guidance, such an abandoned machine cannot be classified as non-current asset held for sale.

Further, paragraphs 67 and 68 of Ind AS 16, *Property, Plant and Equipment,* state as under:

"67 The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

68 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless Ind AS 116, *Leases*, requires otherwise on a sale and leaseback). Gains shall not be classified as revenue."

In the instant case, PQR Limited has decided to abandon the machine because its use is banned by the relevant environment protection authority. Since, the machine is abandoned, no future economic benefits are expected from the use or disposal of such machine. Accordingly, based on the above guidance, the machine should be derecognised and the loss arising from derecognition should be included in the profit or loss.

Question 13

Whether the assets abandoned from its active use can be treated as assets held for sale and hence, depreciation thereon should not be charged after classification as held for sale?

Response

Paragraphs 13 and 14 of Ind AS 105 provide as under:

"13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

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

The criteria for classification of a non-current asset held for sale is provided in paragraph 6 of Ind AS 105 as follows:

"**6 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.**"

Further, paragraph 25 of Ind AS 105 provides as follows:

"25 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."

In view of the above, the assets abandoned from its active use cannot be classified as non-current asset held for sale until the entity is committed for sale and other criteria for classifying a non-current asset as held for sale are fulfilled. Accordingly, the entity will continue to charge depreciation on those assets until classified as held for sale.

Question 14

Beta Ltd. ceases to use a manufacturing plant because demand for its product has declined. What will be the accounting treatment under Ind AS 105 in the following situations?

Case A: The plant is maintained in workable condition and it is expected that it will be brought back into use if demand picks up.

Case B: There is no hope for plant to be used in future and hence, it is abandoned.

Case C: The plant is abandoned as specified in Case B and it constitutes major line of operation

Response

Case A: The plant is maintained in workable condition and it is expected that it will be brought back into use if demand picks up.

Paragraphs 13 and 14 of Ind AS 105 may be noted, which provide as under:

"13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

14 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 the instant case, as the plant has been temporarily taken out of use, Beta Ltd. shall not account for the plant as a non-current asset (or disposal group) that is to be abandoned nor held for sale as the carrying amount will be recovered through continuing use because the same is maintained in workable condition and it is expected that it will be brought back into use if demand picks up.

Case B: There is no hope for plant to be used in future and hence, it is abandoned

Paragraph 13 of Ind AS 105 provides as under:

"13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold."

In the instant case, as Beta Ltd. will not be using the plant in future, it will be treated as non-current asset (or disposal group) to be abandoned and thus the plant shall not be classified as non-current asset held for sale as per the principles prescribed under paragraph 13 of Ind AS 105.

Case C: The plant is abandoned as specified in Case B and it constitutes major line of operation

Paragraph 13 of Ind AS 105, states that:

"13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold."

Paragraph 32 of Ind AS 105 states,

"32 A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

(c) is a subsidiary acquired exclusively with a view to resale."

In the given case, Beta Ltd. has abandoned the plant and it constitutes a major line of operation, therefore as per paragraph 32 of Ind AS 105, it shall be considered as a discontinued operation. Accordingly, Beta Ltd. would be required to make necessary disclosures as per paragraphs 33 and 34 of Ind AS 105.

Question 15

H Ltd. has an associate Company A Ltd. with 25% share, which it accounts for using equity method in accordance with Ind AS 28, *Investments in Associates and Joint Ventures*. During the year, H Ltd. has decided to sell its investment in A Ltd. and all the criteria specified in Ind AS 105 for classification of non-current asset as held for sale have been met.

How should such investment be measured as on the date of classification in consolidated financial statements of A Ltd.?

Response

The guidance for measurement of non-current assets held for sale has been provided in paragraphs 15 and 18 of Ind AS 105 which state as under:

"15 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.

18 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 ASs."

It may be noted that in accordance with paragraph 18 of Ind AS 105, the carrying amount of investment in A Ltd. immediately before classification as held for sale shall be measured in accordance with Ind AS 28, i.e., the amount at which the associate was recognised using equity method.

In the instant case, at the time of classification of investment in A Ltd. as held for sale, H Ltd. should cease to account for such investment using equity method (as per Ind AS 28, *Investment in Associates and Joint Ventures*) and should measure its interest in A Ltd. (classified as held for sale) at the lower of its carrying amount and fair value less costs to sell.

Question 16

X Ltd. acquires B Ltd. exclusively with a view to sale and it meets the criteria to be classified as discontinued operation as per Ind AS 105. Further, following information is available about B Ltd.:

Fair value of total assets excluding liabilities on acquisition – Rs. 360

Costs to sell as on acquisition and on reporting date – Rs. 10

Fair value of liabilities on acquisition and on reporting date – Rs. 80

Fair value of total assets excluding liabilities on the reporting date – Rs. 340

How discontinued operation pertaining to B Ltd. should be measured in consolidated financial statements of X Ltd.?

Response

Ind AS 105 defines a disposal group as under:

"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 has been allocated in accordance with the requirements of paragraphs 80–87 of

Ind AS 36, *Impairment of Assets*, or if it is an operation within such a cash-generating unit."

In the given case, B Ltd. is acquired exclusively with a view to sell and meets the criteria to be classified as discontinued operation. The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105 which state as under:

"**15 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.**

16 If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell."

Therefore, on acquisition date, in line with paragraph 16, X Ltd. will measure B Ltd. as a disposal group at fair value less costs to sell which will be calculated as:

Fair value of total assets excluding liabilities on acquisition – Costs to sell

= Rs. 360 – Rs. 10

= Rs. 350

Fair value of liabilities on acquisition = Rs. 80

At the reporting date, in line with paragraph 15, X Ltd. will remeasure the disposal group at the lower of its cost and fair value less costs to sell which will be calculated as:

Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell

= Rs. 340 – Rs. 10

= Rs. 330

Fair value of liabilities on reporting date = Rs. 80

At the reporting date, X Ltd. shall present these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, X Ltd. shall recognise loss on subsequent measurement (of net assets at fair value) of B Ltd. which equals to Rs. 20 (Rs. 270 – Rs. 250).

Question 17

Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on June 30, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be Rs. 10 crores (to be incurred in December, 20X2). The fair value of the division is Rs. 400 crores (on June 30, 20X1 and December 31, 20X1) and carrying value is Rs. 500 crores. How such a division (disposal group) shall be measured under Ind AS 105 on following reporting dates:

A. June 30, 20X1

B. December 31, 20X1

Response

Paragraph 15 of Ind AS 105 provides as follows:

"15 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."

Further, paragraph 17 of Ind AS 105 provides as follows:

"17 When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost."

Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

A. On June 30, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value	:	Rs. 400.00 crores
PV of costs to sell	:	(Rs. 8.67 crores) (10 * 0.867, i.e., taking discount

		factor as 10% for 1.5 years)
Total	:	Rs. 391.33 crores

B. On December 31, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value	:	Rs. 400.00 crores
PV of costs to sell	:	(Rs. 9.09 crores) (10 * 0.909, i.e., taking discount factor as 10% for 1 year)
Total	:	Rs. 390.91 crores

The increase in costs to sell the division by Rs. 0.42 crore (Rs. 9.09 crores – Rs. 8.67 crores) will be recognised in profit and loss as financing cost as per paragraph 17 of Ind AS 105.

Question 18

Company A has financial year ending 31 March, 20X0. On 1st June, 20X0, the Company has classified its Division B as held for sale in accordance with Ind AS 105. How property, plant and equipment (PPE) for which the company has adopted cost model shall be measured immediately before the classification as held for sale on 1st June, 20X0?

Response

Paragraph 18 of Ind AS 105 provides as follows:

"18 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 ASs."

In the instant case, Company A should measure the property, plant and equipment (for which it has adopted cost model), in accordance with Ind AS 16, *Property, Plant and Equipment*. Hence, depreciation should be provided upto 31st May. 20X0.

Question 19

UV Ltd. has property, plant and equipment (PPE) and certain intangible assets all of which are measured using revaluation model, which it decided to classify as held for sale after all the conditions required for classifying a non-current asset as held for sale prescribed by Ind AS 105 are met. Whether UV Ltd. should update the revaluations immediately prior to classifying PPE and the intangible assets as held for sale in accordance with Ind AS 16, *Property, Plant and Equipment* or Ind AS 38, *Intangible Assets*?

Response

Paragraph 18 of Ind AS 105 states as under:

"18 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 ASs."

In view of the above provision, since PPE and intangible assets are measured using revaluation model, revaluation of these assets should be updated immediately prior to classifying these assets as held for sale and any change in the value of an asset (whether upward or downward) should be recognised in accordance with the relevant Standard.

Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets* require that the assets accounted for at revalued amounts should be measured after initial recognition at their fair value at the date of revaluation, less any subsequent accumulated depreciation or amortisation and accumulated impairment losses. In accordance with the requirements of these relevant standards revaluations are required to be carried out with sufficient regularity to ensure that the carrying amount of the asset does not differ materially from its fair value. Therefore, immediately prior to classifying a non-current asset as held for sale, an entity should assess whether the carrying amount of a revalued asset is materially different from its fair value and, if so, a revaluation would be required.

For assets within the scope of Ind AS 36, *Impairment of Assets* if there is any indication that an asset may be impaired, an impairment review should be carried out prior to reclassification as held for sale.

Question 20

How reversal of impairment losses is recognised under Ind AS 105?

Response

Paragraphs 21, 22 and 23 of Ind AS 105 provide as follows:

"21 An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36, *Impairment of Assets*.

22 An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

(a) to the extent that it has not been recognised in accordance with paragraph 19; but

(b) not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Ind AS or previously in accordance with Ind AS 36, on the non-current assets that are within the scope of the measurement requirements of this Ind AS.

23 The impairment loss (or any subsequent gain) recognised for a disposal group should reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Ind AS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of Ind AS 36."

In view of the above, if there is any subsequent gain arising out of increase in fair value less costs to sell of a non-current asset held for sale, then such subsequent gain shall be recognised but not in excess of cumulative impairment loss previously recognised in accordance with Ind AS 36, *Impairment of Assets* or Ind AS 105.

Question 21

P Ltd. plans to dispose of a group of assets. The assets form part of disposal group and the same have been measured before classification as held for sale as follows:

(Rs. in crores)

Particulars	**Carrying amount at the end of reporting period before classification as held for sale**	**Carrying amount immediately before classification as held for sale**	**Loss***
Goodwill	6,000	6,000	0
Property, Plant and	18,400	16,000	2,400

Equipment (Carried at revalued amount)			
Property, Plant and Equipment (Carried at cost)	22,800	22,800	0
Inventory	9,600	8,800	800
Investment in equity instruments	7,200	6,000	1,200
Total	**64,000**	**59,600**	**4,400**

*The entity recognises loss of Rs. 4,400 crores before classification as held for sale as per applicable Ind AS.

The fair value less costs to sell of disposal group as on the date of classification as held for sale is Rs. 52,000 crores.

What is the value at which the disposal group will be measured on the date of classification as held for sale and how impairment loss will be allocated?

Response

Paragraph 15 of Ind AS 105 states,

"15 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."

Paragraph 23 of Ind AS 105 states,

"23 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 within the scope of the measurement requirements of this Ind AS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of Ind AS 36."

Further, paragraph 104 and 122 of Ind AS 36, *Impairment of Assets* states,

"**104 An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:**

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with paragraph 60.

122 A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 119."

As per above, P Ltd. should measure the disposal group on the date of classification as held for sale at lower of carrying amount and fair value less costs to sell. Therefore, the entity should recognise impairment loss of Rs. 7,600 crores (Rs. 59,600 crores – Rs. 52,000 crores) on initial classification as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirement of Ind AS 105 is applicable.

Further, paragraph 19 of Ind AS 105 states,

"19 On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this Ind AS but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable Ind ASs before the fair value less costs to sell of the disposal group is remeasured."

Paragraphs 2 and 5 of Ind AS 105, *inter alia*, state as under:

"2 The classification and presentation requirements of this Ind AS apply to all recognised *non-current assets*[1] and to all *disposal groups* of an entity. The measurement requirements of this Ind AS apply to all recognised non-current assets and disposal groups (as set out in paragraph 4), except for those assets

[1] For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period. Paragraph 3 of Ind AS 105 applies to the classification of such assets

listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

5 The measurement provisions of this Ind AS[2] do not apply to the following assets, which are covered by the Ind ASs listed, either as individual assets or as part of a disposal group:

(a) ...

(b) ...

(c) financial assets within the scope of Ind AS 109, *Financial Instruments*.

(d)-(f) …"

In line with paragraph 23, impairment loss shall reduce the carrying amounts of only non-current assets within a disposal group and accordingly, inventories (because it is a current asset) will not be impaired. Further, investment in equity instruments (as it is a financial asset) is scoped out from measurement of this standard. Therefore, the impairment loss will be allocated to other assets in the order of allocation as per paragraph 104 of Ind AS 36, *Impairment of Assets*.

The allocation of Impairment loss to the relevant assets is summarised below:

(Rs. in crores)

Particulars	**Carrying amount at the end of reporting period before classification as held for sale**	**Allocation of impairment loss**	**Carrying amount after allocation of impairment loss**
Goodwill	6,000	(6,000)	0
Property, Plant and Equipment (Carried at revalued amount)	16,000	(660)	15,340
Property, Plant and	22,800	(940)	21,860

[2] Other than paragraphs 18 and 19 of Ind AS 105, which require the assets in question to be measured in accordance with other applicable Accounting Standards.

Equipment (Carried at cost)			
Inventory	8,800	0	8,800
Investment in equity instruments	6,000	0	6,000
Total	**59,600**	**(7,600)**	**52,000**

In the given case, the impairment loss will be allocated to the assets within the disposal group as per above table and the disposal group will be measured at Rs. 52,000 crores.

Question 22

In the year 2020, Impressions Ltd. has classified a disposal group as held for sale in accordance with Ind AS 105. The disposal group consists of property plant and equipment (PPE) and intangible assets. After applying paragraph 18 of Ind AS 105, the carrying amount of PPE and intangible assets is Rs. 80,000 and Rs. 40,000 respectively. The fair value of the disposal group is Rs. 90,000. How shall the impairment loss be allocated to the disposal group?

Response

Paragraph 23 of Ind AS 105 provides as follows:

"23 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 within the scope of the measurement requirements of this Ind AS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of Ind AS 36."

Further, paragraphs 104(a) and (b) and 122 of Ind AS 36, *Impairment of Assets* provide as follows:

"**104 An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:**

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with paragraph 60.

122 A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 119."

Further, paragraph 105 of Ind AS 36, *Impairment of Assets* states as under:

"105 In allocating an impairment loss in accordance with paragraph 104, an entity shall not reduce the carrying amount of an asset below the highest of:

(a) its fair value less costs of disposal (if measurable);

(b) its value in use (if determinable); and

(c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units)."

Paragraph 23 of Ind AS 105 which addresses the recognition of impairment losses for disposal group refers to paragraphs 104 and 122 of Ind AS 36, *Impairment of Assets,* which provide guidance on the order of allocation of impairment losses. However, paragraph 23 of Ind AS 105 does not refer to paragraph 105 of Ind AS 36. Therefore, the requirements of paragraph 105 of Ind AS 36 do not apply while allocating an impairment loss for a disposal group to non-current assets that fall within the scope of the measurement requirements of Ind AS 105.

Accordingly, it may be interpreted that the 'higher of test' in paragraph 105 of Ind AS 36 does not apply when allocating an impairment loss to the non-current assets of a disposal group classified as held for sale in accordance with Ind AS 105.

Further, paragraph 20 of Ind AS 105, states as under:

"20 An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 19."

Based on the above paragraph, the impairment loss of the disposal group will be calculated as:

Carrying amount of PPE + Carrying amount of Intangible Asset – Fair Value of disposal group

= Rs. 80,000 + Rs. 40,000 – Rs. 90,000

= Rs. 30,000

This impairment loss of Rs. 30,000 shall be allocated as:

Impairment loss on PPE = Impairment loss x Carrying amount of PPE / Carrying amount of disposal group

Impairment loss on PPE = Rs. 30,000 x Rs. 80,000 / Rs. 1,20,000 = Rs. 20,000

Impairment loss on intangible assets = Impairment loss x Carrying amount of intangible assets / Carrying amount of disposal group

Impairment loss on intangible assets = Rs. 30,000 x Rs. 40,000 / Rs. 1,20,000 = Rs. 10,000

Question 23

A Company has classified certain items of plant & machinery as asset held for sale. However, the same are used for business purposes while awaiting completion of the sale transaction. Whether depreciation can be provided on such items of plant & machinery which are classified as held for sale?

Response

Paragraph 25 of Ind AS 105, provides as follows:

"25 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."

In the instant case, the Company has classified certain items of plant & machinery as assets held for sale. However, the same are used for business purposes while awaiting completion of the sale transaction. In view of paragraph 25, the Company 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.

Question 24

ABC Ltd. is considering classifying certain non-current assets as held for sale. Whether ABC Ltd. is required to perform the impairment test immediately before it applies the classification and measurement principles prescribed under Ind AS 105?

Response

Paragraph 18 of Ind AS 105 states as under:

"18 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 ASs."

The scope of Ind AS 36, *Impairment of Assets* has been laid down in its paragraph 2 which *inter alia* provides as follows:

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

(a)- (h) ….

(i) non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*."

As per paragraph 18 of Ind AS 105, the carrying amounts of the non-current assets are to be measured as per applicable Ind ASs immediately before the initial classification of the asset as held for sale. Prior to the classification of a non-current asset as held for sale (in accordance with Ind AS 105), such a non-current asset is covered within the scope of Ind AS 36, *Impairment of Assets* and therefore ABC Ltd. will have to test such non-current asset for impairment if there is any indication of impairment.

Question 25

Based on below mentioned facts determine the carrying value of the asset as on 30th June, 20X9

Date	Amount Rs.	Event
1st January, 20X6	7,500	Asset acquired
Till 31st December, 20X7	1,500	Depreciation accounted for; considering useful life of 10 years
On 31st December, 20X7	240	Indicators of impairment noted and impairment allowance accounted
On 31st December, 20X7	5,760	Carrying value
From 1st January, 20X8 to 31st December, 20X8	750	Depreciation accounted for
From 1st January, 20X9 to 28th February, 20X9	125	Depreciation accounted for
On 28th February, 20X9	4,920	Carrying value, classified as held for sale
On 28th February, 20X9	4,600	Fair value less costs to sell
On 30th June, 20X9	5,300	Fair value less costs to sell

Response

The carrying amount and accumulated depreciation of the asset are:

Date	Original Cost (Rs.)	Cumulative Depreciation (Rs.)	Cumulative Impairment recognised (Rs.)	Carrying Amount (Rs.)
December 31, 20X7	7,500	1,500	240	5,760
December 31, 20X8	7,500	2,250	240	5,010
February 28, 20X9 (After classification as held for sale)	7,500	2,375	525 (7,500-2,375-4,600)	4,600
June 30, 20X9	7,500	2,375	525 (7,500-	4,600

(Before updation of fair value)			2,375-4,600)	

On 30 June, 20X9, when the asset is still held for sale, fair value less costs to sell increases to Rs. 5,300.

Paragraph 21 of Ind AS 105 states as under:

"21 An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36, *Impairment of Assets*."

Accordingly, the entity should recognise a gain on the subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss.

When reversing an impairment allowance for an asset or a disposal group classified as held for sale, the entity should consider cumulative impairment loss recognised up to the date of classification as held for sale, as if the asset was not impaired before this date. The gain for any subsequent increase in fair vale less costs to sell cannot be more than the total impairment loss recognised before and after the classification of the asset as held for sale.

Since the cumulative impairment is Rs. 525, the maximum impairment reversal could be upto Rs. 525. Hence, the carrying value after reversal of impairment is Rs. 5,125.

Question 26

Perfect Ltd. has disposed of asset held for sale during the year. How will Perfect Ltd. recognise gain and loss on disposal of assets held for sale?

Response

The gain and loss on disposal of asset held for sale shall be recognised as per the principles provided in paragraph 24 of Ind AS 105.

Paragraph 24 of Ind AS 105 provides as follows:

"24 A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition. Requirements relating to derecognition are set out in:

(a) paragraphs 67–72 of Ind AS 16 for property, plant and equipment, and

(b) paragraphs 112–117 of Ind AS 38, *Intangible Assets,* for intangible assets."

As per paragraph 24, to the extent that gains or losses arising on the sale of a non-current asset (or disposal group) have not been previously recognised through remeasurement, they are recognised when the asset or disposal group is derecognised and the requirements relating to derecognition are set out in:

a. paragraphs 67–72 of Ind AS 16 for property, plant and equipment, and

b. paragraphs 112–117 of Ind AS 38 for intangible assets.

Question 27

How movement in Foreign Currency Translation Reserve (FCTR) relating to a disposal group is presented in statement of profit and loss?

Response

Paragraph 32 of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates* states as under:

"32 Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 15) shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in accordance with paragraph 48."

In view of above guidance, exchange differences are not to be recycled on classification of an asset or a disposal group as held for sale. The recycling will take place when the disposal group is sold.

Further, paragraph 38 of Ind AS 105 states,

"38 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 in the balance sheet or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale."

Therefore, other comprehensive income for the period, relating to the movement in FCTR pertaining to disposal group, shall be presented separately in other comprehensive income section of statement of profit and loss.

Question 28

Surya Ltd. operates retail food outlets. It decides to sell one of its outlets located in Chandni Chowk in New Delhi. The company will continue to run 200 other outlets in New Delhi.

All the criteria prescribed under Ind AS 105 for non-current assets (or disposal group) to be classified as held for sale were first met on 1st October, 20X1. The outlet will be sold in June, 20X2.

Whether sale of such an outlet can be considered to be "discontinued operation" under Ind AS 105?

Response

Paragraph 32 of Ind AS 105 defines discontinued operation as follows:

"32 A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

a) represents a separate major line of business or geographical area of operations,

b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

c) is a subsidiary acquired exclusively with a view to resale."

In the instant case, the outlet of Surya Ltd. at Chandni Chowk neither represents a separate major line of business or geographical area of operations nor is a subsidiary acquired with a view to resale therefore it is not a discontinued operation as per the above guidance.

Ind AS 105 gives the following definition of 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 has been allocated in accordance with the requirements of paragraphs 80-87 of Ind AS 36, *Impairment of Assets*, or if it is an operation within such a cash entity unit"

Therefore, based on the above definition, the outlet at Chandni Chowk can be considered to be a disposal group under Ind AS 105 but as it does not satisfy the criteria specified in paragraph 32, it cannot be classified as a discontinued operation under Ind AS 105.

Question 29

An entity has a general workers' compensation insurance policy for all of its operations, the cost of which is based on number of employees. Such cost is allocated to each operation based on the number of employees/payroll costs. If an operation is discontinued, the employees related to such discontinued operation will leave the organisation. Whether allocation of such insurance and other corporate overhead costs should be included in discontinued operation?

Response

In the given case, the entity has a general workers' compensation insurance policy for all of its operations, the cost of which is allocated to each operation based on the number of employees in the operation. If an operation of the entity is discontinued, the employees related to such discontinued operation would cease to be the employees of the entity. Hence, the entity's insurance costs related to such employees will get reduced after the operations are discontinued. Therefore, the entity shall allocate such insurance costs to the discontinued operation.

Question 30

X Ltd. has three segments. The centralised computer system that is used by each segment is allocated to each segment based on its utilisation. X Ltd. has entered into an agreement to sell one of the segments that qualifies as discontinued operation as per Ind AS 105. Is it appropriate to allocate portion of centralised computer system to the segment being disposed of?

Response

The centralised computer system would continue to be used for other operations and would not be available for sale. Accordingly, the same cannot be included in the assets to be disposed of. Therefore, X Ltd. should not allocate the cost of centralised computer system to the discontinued operation.

Question 31

X Ltd. has a wholly owned subsidiary S Ltd. which represents a separate major geographical area of operations. S Ltd. buys goods from X Ltd. and carries on marketing activities to sell the goods to external customer. X Ltd. is planning to sell the equity investment in S Ltd. Further, such sale of investment in subsidiary meets the criteria to be classified as discontinued operation. However, X Ltd. plans to continue its business with S Ltd. even after selling the equity investment in S Ltd. During the period, X Ltd. sells goods to S Ltd. for Rs. 5 million with a cost of Rs. 3 million. S Ltd. sells the said goods to external customers for Rs. 6 million with cost (purchase price from X Ltd.) of Rs. 5 million.

Whether transactions between X Ltd. and S Ltd. need to be eliminated while preparing consolidated financial statements of X Ltd.? How this transaction shall be presented in consolidated statement of profit and ;oss between continuing and discontinued operations?

Response

Ind AS 105 does not provide specific requirements on how to eliminate intragroup transactions between continuing and discontinued operations. Paragraph B86(c) of Ind AS 110, *Consolidated Financial Statements,* requires elimination of, among other things, income and expenses relating to intragroup transactions, and not merely intragroup profit. Therefore, if the intragroup transactions are not eliminated then it would be inconsistent with the requirements of Ind AS 110. Neither Ind AS 105 nor Ind AS 1, *Presentation of Financial Statements,* includes requirements that override the consolidation requirements in Ind AS 110.

Paragraph 30 of Ind AS 105 states as under:

"30 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)."

Therefore, in the consolidated financial statements of X Ltd., intragroup sale of Rs. 5 million will be eliminated with Rs. 5 million cost of sales. The profit margin of Rs. 3 million should be analysed between continuing operations (representing sale from X Ltd. to S Ltd.) (Rs. 2 million) and discontinued operation (representing sales from S Ltd. to external customers) (Rs. 1 million).

The components included in X Ltd. consolidated statement of profit and loss (tax ignored):

Particulars	**Rs. (in million)**
Sales	5
Cost of Sale	3
Profit / (loss) from continuing operation	2
Profit / (loss) from discontinued operation	1

The single amount of discontinued operation of Rs. 1 million should be analysed between its components either in statement of profit or loss or in notes. Also, entity shall make disclosures in accordance with paragraphs 33-36 of Ind AS 105.

Question 32

ABC Ltd. sold one of its international businesses and the disposal of this international business qualifies to be a discontinued operation as per Ind AS 105. Further, ABC Ltd. paid taxes related to the gain on sale of this international business. How should the taxes paid on such sale be presented in the statement of cash flows?

Response

The guidance relating to presentation in statement of cash flows is provided in Ind AS 7, *Cash Flow Statements.* Paragraph 35 of Ind AS 7, *Cash Flow Statements* provides as follows:

"35 Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities."

Further, Ind AS 7, *Cash Flow Statements,* defines operating and investing activities in paragraph 6 as under:

"*Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

***Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents."**

In the given case, the international business of ABC Ltd. would be considered as operating activity of ABC Ltd. as long as it was a continuing operation. However, as the business which qualified to be considered as discontinued operations was sold by ABC Ltd., sale of such a business is considered as investing activity as per the definition in paragraph 6 of Ind AS 7, *Cash Flow Statements.*

Therefore, as per above, ABC Ltd. should present the taxes on the gain from the sale of international business as a part of the investing activities in the statement of cash flows of ABC Ltd.

Question 33

Should the reporting entity disclose earnings per share separately for discontinued operations?

Response

The guidance regarding disclosure of earnings per share has been provided by Ind AS 33, *Earnings per Share* in its paragraph 68 which states as under:

"68 An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes."

Therefore, paragraph 68 of Ind AS 33 requires an entity that reports discontinued operation to present basic and diluted amounts per share for discontinued operation either in the statement of profit and loss or in the notes to accounts. This disclosure is required in addition to the presentation of basic and diluted amounts per share for income from continuing operations and net income, both of which should be shown in statement of profit and loss with equal prominence.

Further, the entity should also comply with Schedule III to the Companies Act, 2013 for presenting the earnings per share.

Question 34

On October 1, 20X0, entity D Limited plans to sell a group of assets and liabilities of a manufacturing unit, which is classified as a disposal group. On November 30, 20X0, the Board of Directors approved and committed to a plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited.

The approval from regulator is needed for sale however such regulatory approval is not substantive in nature. It is highly probable that the approval from the regulator will be received by February 28, 20X1 and the sale is expected to be completed by June 30, 20X1. D Limited's accounting period ends on March 31, 20X1. The carrying value of assets and liabilities attributable to the said manufacturing unit as on November 30, 20X0 is Rs. 5,200 lakhs.

The fair value of the manufacturing unit on March 31, 20X1 was Rs. 4,000 lakhs and on November 30, 20X0 was Rs. 3,700 lakhs. The costs to sell such manufacturing unit were Rs. 200 lakhs on both the dates. How will such manufacturing unit be measured on the date of classification as held for sale and at the end of the reporting period?

Response

The criteria for classification of a disposal group as held for sale have been provided by Ind AS 105 in its paragraphs 6 and 7 which state as under:

"6 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.

7 For this to be the case, 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*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future."

In the given case, the Board of Directors of D Limited approved the plan to sell the manufacturing unit and entered into a firm commitment with G Limited on November 30, 20X0. Further, it is highly probable that the regulatory approval required for the sale which is not substantive in nature would be received by February 28, 20X1 and D Limited expects to complete the sale by June 30, 20X1. Hence, the manufacturing unit meets the criteria to be classified as held for sale as on November 30, 20X0 in line with Ind AS 105.

Further paragraphs 15, 20, 21, 22 and 23 of Ind AS 105 state as under:

"15 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."

"20 An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 19.

21 An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36, *Impairment of Assets*.

22 An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

(a) to the extent that it has not been recognised in accordance with paragraph 19; but

(b) not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Ind AS or previously in accordance with Ind AS 36, on the non-current assets that are within the scope of the measurement requirements of this Ind AS.

23 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 within the scope of the measurement requirements of this Ind AS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of Ind AS 36."

<u>Measurement on the date of classification:</u>

On November 30, 20X0, D Limited will classify the manufacturing unit as held for sale and will measure the disposal group at lower of its carrying amount and fair value less costs to sell. This will be calculated as:

Carrying amount of the manufacturing unit as on November 30, 20X0 = Rs. 5,200 lakhs.

Fair value less costs to sell as on November 30, 20X0 = Rs. 3,700 lakhs – Rs. 200 lakhs = Rs. 3,500 lakhs.

Therefore, D Limited will classify the manufacturing unit as held for sale on November 30, 20X0 and measure it at Rs. 3,500 lakhs. Also, since the fair value less costs to sell of the manufacturing unit is lower than the carrying value, D Limited will recognise an impairment loss of Rs. 1,700 lakhs (Rs. 5,200 lakhs – Rs. 3,500 lakhs). The impairment loss shall be allocated as per the paragraphs 104(a) and (b) and 122 of Ind AS 36, *Impairment of Assets.*

Measurement on the reporting date

On March 31, 20X1, D Limited will remeasure the manufacturing unit held for sale at lower of its carrying amount and fair value less costs to sell. This will be calculated as:

Carrying amount of the manufacturing unit as on March 31, 20X1 = Rs. 3,500 lakhs.

Fair value less costs to sell as on March 31, 20X1 = Rs. 4,000 lakhs – Rs. 200 lakhs = Rs. 3,800 lakhs.

There is a subsequent gain in fair value less costs to sell of the manufacturing unit of Rs. 300 lakhs (Rs. 3,800 lakhs – Rs. 3,500 lakhs). Since this gain of Rs. 300 lakhs is lower than the cumulative impairment loss of Rs. 1,700 lakhs recognised by D Limited, such gain of Rs. 300 lakhs would be recognised in profit or loss in accordance with paragraph 21 of Ind AS 105.

Question 35

B Ltd. is a manufacturer of garments and has its business spread across India. Due to stiff competition in Gujarat region which represents a separate major geographical area of operations, B Ltd. has decided to sell its business operation in Gujarat. How should B Ltd. present the results of such business segment in the statement of profit and loss?

Response

Paragraph 32 of Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* defines a discontinued operation as under:

“32 A discontinued operation as a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

(c) is a subsidiary acquired exclusively with a view to resale.”

Since B Ltd. has decided to sell its business operation in Gujarat which represents a separate major geographical area of operations, this qualifies to be a discontinued operation under Ind AS 105.

Further, paragraph 33 of Ind AS 105, *inter alia*, states,

"33 An entity shall disclose:

(a) a single amount in the statement of profit and loss comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation."

In view of above, B Ltd. should present the results of the discontinued operation separately in the statement of profit and loss as per the requirements of paragraph 33 of Ind AS 105.

Question 36

Should assets classified as non-current assets in accordance with Ind AS 1, *Presentation of Financial Statements,* be presented separately in the balance sheet when subsequently such assets are classified as non-current assets held for sale as per Ind AS 105?

Response

Paragraph 38 of Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* which states as follows:

"38 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 in the balance sheet or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale."

In view of above, assets classified as non-current in accordance with Ind AS 1, *Presentation of Financial Statements*, shall be reclassified and presented separately as non-current asset held for sale after the criteria for classification as held for sale are met in accordance with Ind AS 105.

Question 37

An entity has a component, which is a subsidiary covered by paragraph 32(a) of Ind AS 105 and therefore qualifies as a discontinued operation, which was previously classified as held for sale. How should the relevant amounts be measured and presented in the financial statements of the period pertaining to the subsidiary that is no longer classified as a discontinued operation?

Response

With regard to the discontinued operation which was classified as held for sale, the measurement requirements of paragraph 27 of Ind AS 105 as applicable to the disposal group shall apply which provides as follows:

"27 The entity shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners (or ceases to be included in a disposal group classified as held for sale or as held for distribution to owners) at the lower of:

(a) its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale or as held for distribution to owners, and

(b) its *recoverable amount* at the date of the subsequent decision not to sell or distribute.[3]"

In view of above, if a discontinued operation is no longer held for sale, an entity is required to restate the disposal group at a value at which it would have been recognised had it not been classified as held for sale in the first place, taking into account any impairment loss. Hence, the depreciation and amortisation for the period for which the asset was classified as held for sale shall be determined and accounted for.

Further, with regard to the presentation of financial statements in the period in which the discontinued operation (which is a subsidiary covered under paragraph 32(a) of Ind AS 105) ceases to be so classified, paragraphs 28 and 36 of Ind AS 105 state as under:

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[3] If the non-current 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 in accordance with Ind AS 36.

"28 The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in profit or loss[4] from continuing operations in the period in which the criteria in paragraphs 7–9 or 12A, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of profit and loss used to present a gain or loss, if any, recognised in accordance with paragraph 37.

36 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 33–35 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented."

Therefore, if the discontinued operation is no longer held for sale, in line with above, the entity should present the results of operation previously presented as discontinued operation, as part of its continuing operations for all the periods presented in the statement of profit and loss. Further, in view of the requirements of paragraph 28 of Ind AS 105, adjustments in assets or liabilities that are part of the disposal group should include adjustments in the amounts in the period in which the discontinued operation ceases to be classified as such. Also, as the disposal group is a subsidiary, financial statements for the period since classification as held for sale shall be amended. Accordingly, the assets or liabilities pertaining to the subsidiary shall be re-presented in the prior period Balance Sheet of the entity.

Question 38

B Ltd. has discontinued certain operations during the year 2020. What are the disclosure requirements for the purpose of interim financial statements?

Response

Paragraph 16A (g) (vi) and 16A (i) of Ind AS 34, *Interim Financial Reporting, inter*

[4] Unless the asset is property, plant and equipment or an intangible asset that had been revalued in accordance with Ind AS 16 or Ind AS 38 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

alia, provides as follows:

"16A (a)-(f) …

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if Ind AS 108, *Operating Segments*, requires that entity to disclose segment information in its annual financial statements):

(i)-(v) ….

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

(h)….

(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by Ind AS 103, *Business Combinations*."

Thus, B Ltd. is required to provide aforesaid disclosures in its interim financial statements.

Question 39

An entity has acquired an office building exclusively with a view of its subsequent disposal as it awaits construction of a bigger office building at another location. The management is highly confident that the bigger office building will be constructed and ready to use within next 12 months and therefore expects the newly acquired building to be sold in one year. It has also acquired a firm purchase commitment from a buyer for buying the current office building. The acquired building is yet to be fitted with air conditioners which is highly probable to be installed in less than a period of one month. Whether the acquired building will be classified as held for sale on the date of acquisition?

Response

Paragraph 11 of Ind AS 105 provides as follows:

"11 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 one-year requirement in paragraph 8 is met (except as permitted by paragraph 9) and it is highly probable that any other criteria in paragraphs 7 and 8 that are not met at that date will be met within a short period following the acquisition (usually within three months)."

In the given case, even though the air conditioners have not been fitted, the acquired building can be classified as held for sale since the entity expects the fitting of air conditioners to be completed in less than a period of one month and the management has acquired a firm purchase commitment and expects the building to be sold in one year.

Question 40

Are there any additional disclosure requirements under this Standard?

Response

Paragraphs 41 and 42 of Ind AS 105 require an entity to provide additional disclosures. The said paragraphs state:

"41 An entity shall disclose the following information in the notes in 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 non-current asset (or disposal group);

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss;

(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108, *Operating Segments*.

42 If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in 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."

Question 41

What disclosures should be provided for property, plant and equipment, internally generated intangible assets and other intangible assets which are classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105?

Response

Paragraph 73(e) of Ind AS 16, *Property, Plant and Equipment, inter alia*, states:

"**73 The financial statements shall disclose, for each class of property, plant and equipment:**

(a)-(d) …

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) …

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(iii) …

(iv) …

(v) …

(vi) …

(vii) …

(viii) …

(ix) …"

Further, paragraph 118 of Ind AS 38, *Intangible Assets, inter alia*, states,

"118 An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a)-(d) …

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) …

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(iii) …

(iv) …

(v) …

(vi) …

(vii) …

(viii) ...”

However, assets classified as held for sale in accordance with Ind AS 105, *Non-Current Assets Held for Sale and Discontinued Operations* are excluded from the scope of Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*.

Based on above, as per paragraph 73(e) of Ind AS 16, *Property, Plant and Equipment* and paragraph 118(e) of Ind AS 38, *Intangible Assets*, the entity is required to disclose a reconciliation of the carrying amount of assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals at the beginning and end of the period.

Further, paragraph 38 of Ind AS 105 states,

“38 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 in the balance sheet or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.”

As per combined reading of the above paragraphs, respective standards shall not apply after classifying a non-current asset as held for sale as per Ind AS 105. However, for reconciliation of carrying amount of assets at the beginning and end of the period, such assets shall be disclosed separately from other assets as per paragraph 73(e) of Ind AS 16 and paragraph 118(e) of Ind AS 38, *Intangible Assets*.

Appendix I

Note: The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 105, Non-current Assets Held for Sale and Discontinued Operations and Accounting Standard (AS) 24, Discontinued Operations

Major differences between Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* and AS 24*, Discontinued Operations*

(i) Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations. Ind AS 105 apply to all recognised non-current assets and to all disposal groups of an entity. AS 24 establishes principles for reporting information about discontinuing operations. But in AS 24, there is no concept of discontinued operations It does not deal with the non-current assets held for sale; property, plant and equipment retired from active use and held for sale, which are dealt in AS 10, *Property, Plant and Equipment*. (Paragraph 1 of Ind AS 105 and 'Objective' of AS 24)

(ii) As per Ind AS 105, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The standard lays down criteria for classifying an asset as held for sale. Under AS 24, a discontinuing operation is a component of an entity that it is disposing off substantially in in its entirety or in piecemeal or abandoning and represents the major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes. (Paragraph 3 of AS 24 and paragraph 32 of Ind AS 15)

(iii) As per Ind AS 105, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions. AS 24 does not specify any time period in this regard as it relates to discontinuing operations.

(iv) AS 24 specifies about the disclosure information required in respect to a discontinuing operation in financial statements for the period in which the initial disclosure event occurs. Ind AS 105 does not mention so as it relates to discontinued operation. (Paragraph 15 of AS 24)

(v) Under Ind AS 105, non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the balance sheet. AS 24 requires to apply the principles set out in other relevant Accounting Standards, e.g., AS 10 requires that the items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.

(vi) Ind AS 105 specifically mentions that abandonment of assets should not be classified as held for sale. While, in AS 24, abandonment of assets is classified as a discontinuing operation; however, changing the scope of an operation or the manner in which it is conducted is not abandonment and hence, not a discontinuing operation. (Paragraph 7 of AS 24 and paragraph 13 of Ind AS 105)

(vii) Ind AS 105 provides guidance regarding changes to the plan to sell non-current assets (or disposal groups) which are classified as held for sale. AS 24 does not give any specific guidance regarding this aspect. (Paragraphs 26-29 of Ind AS 105)

Appendix II

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 105 and the corresponding International Financial Reporting Standard (IFRS) 5, Non-current Assets Held for Sale and Discontinued Operations, issued by the International Accounting Standards Board.

Major differences between Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* and IFRS 5*, Non-current Assets Held for Sale and Discontinued Operations*

(i) Requirements regarding presentation of discontinued operations in the separate income statement, where separate income statement is presented under paragraph 33A of IFRS 5 have been deleted. This change is consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss. However, paragraph number 33A has been retained in Ind AS 105 to maintain consistency with paragraph numbers of IFRS 5.

(ii) Paragraph 5(d) of IFRS 5 deals with non-current assets that are accounted for in accordance with the fair value model in IAS 40, *Investment Property*. Since Ind AS 40 prohibits the use of fair value model, this paragraph is deleted in Ind AS 105.

(iii) Paragraph 7 prescribes the conditions for classification of a non-current asset (or disposal group) as held for sale. A clarification has been added in Paragraph 7 that the non-current asset (or disposal group) cannot be classified as held for sale, if the entity intends to sell it in a distant future.