International Financial Reporting Standard 5

Non-current Assets Held for Sale and Discontinued Operations

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

IAS 35 *Discontinuing Operations* was issued by the International Accounting Standards Committee in June 1998.

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In March 2004 the IASB issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which replaced IAS 35.

IFRS 5 and its accompanying documents have been amended by the following IFRSs:

- IFRS 8 *Operating Segments* (issued November 2006)[*]
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)[*]
- IFRS 3 *Business Combinations* (as revised in 2008)[†]
- IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008)[†]
- *Improvements to IFRSs* (issued May 2008)[†]
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (issued November 2008).[†]

[*] effective date 1 January 2009

[†] effective date 1 July 2009

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International Financial Reporting Standard 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5) is set out in paragraphs 1–45 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 5 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Reasons for issuing the IFRS

IN1 International Financial Reporting Standard 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5) sets out requirements for the classification, measurement and presentation of non-current assets held for sale and replaces IAS 35 *Discontinuing Operations*.

IN2 Achieving convergence of accounting standards around the world is one of the prime objectives of the International Accounting Standards Board. In pursuit of that objective, one of the strategies adopted by the Board has been to enter into a memorandum of understanding with the Financial Accounting Standards Board (FASB) in the United States that sets out the two boards' commitment to convergence. As a result of that understanding the boards have undertaken a joint short-term project with the objective of reducing differences between IFRSs and US GAAP that are capable of resolution in a relatively short time and can be addressed outside major projects.

IN3 One aspect of that project involves the two boards considering each other's recent standards with a view to adopting high quality accounting solutions. The IFRS arises from the IASB's consideration of FASB Statement No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), issued in 2001.

IN4 SFAS 144 addresses three areas: (i) the impairment of long-lived assets to be held and used, (ii) the classification, measurement and presentation of assets held for sale and (iii) the classification and presentation of discontinued operations. The impairment of long-lived assets to be held and used is an area in which there are extensive differences between IFRSs and US GAAP. However, those differences were not thought to be capable of resolution in a relatively short time. Convergence on the other two areas was thought to be worth pursuing within the context of the short-term project.

IN5 The IFRS achieves substantial convergence with the requirements of SFAS 144 relating to assets held for sale, the timing of the classification of operations as discontinued and the presentation of such operations.

Main features of the IFRS

IN6 The IFRS:

(a) adopts the classification 'held for sale'.

(b) introduces the concept of a disposal group, being 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.

(c) specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell.

(d) specifies that an asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated.

(e) specifies that an asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately in the statement of financial position.

(f) withdraws IAS 35 *Discontinuing Operations* and replaces it with requirements that:

   (i) change the timing of the classification of an operation as discontinued. IAS 35 classified an operation as discontinuing at the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. The IFRS classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.

   (ii) specify that the results of discontinued operations are to be shown separately in the statement of comprehensive income.

   (iii) prohibit retroactive classification of an operation as discontinued, when the criteria for that classification are not met until after the reporting period.

International Financial Reporting Standard 5
Non-current Assets Held for Sale and Discontinued Operations

Objective

1 The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of *discontinued operations*. In particular, the IFRS requires:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and *fair value* less *costs to sell*, and depreciation on such assets to cease; and

(b) assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

Scope

2 The classification and presentation requirements of this IFRS apply to all recognised *non-current assets*[*] and to all *disposal groups* of an entity. The measurement requirements of this IFRS apply to all recognised non-current assets and disposal groups (as set out in paragraph 4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

3 Assets classified as non-current in accordance with IAS 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 IFRS. 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 IFRS.

4 Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of *cash-generating units*, a single cash-generating unit, or part of a cash-generating unit.[†] The group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded by paragraph 5 from the measurement requirements of this IFRS. If a non-current asset within the scope of the measurement requirements of this IFRS is part of a disposal group, the measurement requirements of this IFRS apply to the group as

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* 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 applies to the classification of such assets.

† However, once the cash flows from an asset or group of assets are expected to arise principally from sale rather than continuing use, they become less dependent on cash flows arising from other assets, and a disposal group that was part of a cash-generating unit becomes a separate cash-generating unit.

a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. The requirements for measuring the individual assets and liabilities within the disposal group are set out in paragraphs 18, 19 and 23.

5 The measurement provisions of this IFRS* do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group:

(a) deferred tax assets (IAS 12 *Income Taxes*).

(b) assets arising from employee benefits (IAS 19 *Employee Benefits*).

(c) financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.

(d) non-current assets that are accounted for in accordance with the fair value model in IAS 40 *Investment Property*.

(e) non-current assets that are measured at fair value less costs to sell in accordance with IAS 41 *Agriculture*.

(f) contractual rights under insurance contracts as defined in IFRS 4 *Insurance Contracts*.

5A The classification, presentation and measurement requirements in this IFRS 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).

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

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*.

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.

* Other than paragraphs 18 and 19, which require the assets in question to be measured in accordance with other applicable IFRSs.