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REFLECTION IN ACCOUNTING LONG-TERM ASSETS DESTINED FOR SALE ACCORDING TO IFRS

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Abstract. The article is devoted to the problems of the reflection of long-term assets destined for sale and discontinued activity in financial accounting system in accordance with requirements of the International Accounting Standards (IAS). The purpose of the article is to highlight order of treatments for the full reflection of long-term assets and discontinued activity in the accounting and reporting. Requirements of International Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" on accounting of long-term assets destined for sale are analysed in the article. Features of disclosure in the financial statements of non-current long-term assets intended for sale are argued. Examples of IFRS 5 application of in practice enterprises are presented. Conclusions define, that the accounting system and registers must allow for using the indicator of discontinued and continuing operations as each entity may sooner or later fall within the scope of IFRS 5.

Key words: accounting, long-term assets, discontinued activity, International Accounting Standards

INTRODUCTION

For successful use of IFRS 5 in the company the specialists have to present in time due detailed and complete information about planned retirements to the accounting departments, and to leave sufficient time for formation of the reported values. In modern economy the deals of sale and purchase of assets or whole companies, and restructuring or optimization processes form an integral part of the business [Chizhevska 2011]. IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (hereinafter referred to as IFRS 5) were developed and implemented in order to improve understanding of these processes by users of financial reporting.

GOAL AND METHODS

The goal of the article is to substantiate from theoretic and practical point of view recognition and showing in accounting of the long-term assets destined for sale and discontinued activity in accordance with requirements of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

The subject of research is representation in accounting of long-term assets destined for sale and discontinued activity taking into consideration requirements of international standards.

Hypothesis of research is as follows: efficient management of long-term assets destined for sale and discontinued activity is impossible without appropriate software connected with numerous aspects and indicated in International Accounting and Financial Reporting Standards. Such information includes the sources of operating and technical (managerial) accounting and financial accounting which are to be harmonized and interconnected.

The task of research is to track procedure of accounting of long-term assets destined for sale and discontinued activity, and to determine its practical application.

General scientific and special methods of scientific research were used for preparation of this article. Such general scientific methods as theoretical generalization method, comparative method, system approach and abstract method were used. Special methods of economic research included: statistical method and balance sheet method. To research the theory and practice of long-term assets accounting used methods of observation, abstraction and comparison.

ASSETS HELD FOR SALE

Assets held for sale are long-term assets the value of which will be compensated mainly as a result of sale, but not of their use. It should be noted that for the purposes of IFRS exchange of the long-term assets having commercial content is equal to the transactions of sale (p. 25 of IAS 16) [Cotter 2012].

In order to enable classification according to IFRS 5, the assets are to conform to the following criteria:

– The assets are ready for immediate sale even in their current state;
– There is a high probability of their retirement within 12 months.

As a rule, sales plan for the assets held for sale is approved by top-managers. Moreover, active measures are taken in order to implement this plan and to find a buyer. In such case the sales price is to be comparable with market value.

If the period required for completion of sale is extended due to the reasons or circumstances which are out of control of the company, and there is an evidence of the company's intention to implement asset sales plan, IFRS 5 continues to be applicable [Schroeder 2011].

If criteria of recognition are fulfilled only after the date of report, the long--term asset may not be classified as held for sale (see Case 1).

Case 1

In September of 2014 management of the company A approved the decision to sell old warehouse building. Sales plan is approved and active search of the buyer is continued. Nevertheless, the building will be used till the company builds new warehouse (completion of construction is expected in Q3 2015). In statements for the year 2014 the building will not be classified as held for sale because criterion of readiness for immediate sale is not fulfilled.

DISCONTINUED ACTIVITY

Discontinued activity is a component of the company which is retired or classified as "held for sale". Such component:

– Represents separate large direction of activity of geographic region in which activity is conducted;
– Is destined for retirement within the framework of uniform retirement plan or is a subsidiary purchased with the only aim of resale.

Subsidiary is classified according to IFRS 5, if all criteria of recognition are met irrespectively from reservation of minority share of the company after sale (see Case 2).

Case 2

In process of re-organization the company B sells the plant manufacturing the parts and closes logistics department with transfer of employees to the holding company. Plant manufacturing the parts is classified as discontinued activity, and logistics department is not classified as discontinued activity because logistics business as a whole is not discontinued. As of the date of report the vehicles which are not sold are classified as the assets held for sale.

INITIAL AND SUBSEQUENT VALUATION

When an asset or an enterprise component falls within the scope of IFRS 5, it is valued based on the lower of:
- carrying amount;
- fair value less costs to sell.

If the carrying amount exceeds the fair value less costs to sell, the impairment loss is distributed according to IAS 36 "Impairment of assets" as follows:
- impairment loss reduces goodwill;
- the remaining loss is proportionally distributed among other assets;
- goodwill amortization is not reversible;
- in subsequent valuations, income is recognized in the amount of previously written-off loss.

In case a company acquires long-term assets or business components solely for subsequent re-sale (exchange), these units are taken into account according to IFRS. The sale must be effected within one year with the other classification criteria (if not fulfilled) being met in the nearest future. The standard allows for a three months' deferment (p. 11 of IFRS 5).

Provisions on valuation according to IFRS 5 do not apply to the assets listed below:
- deferred tax assets;
- assets arising from employee benefits;
- investment property;
- contractual rights under insurance contracts;
- financial assets within the scope of IFRS 9 "Financial instruments";
- long-term assets measured at fair value less costs to sell according to IAS 41 "Agriculture" [Kaminska 2015].

It should be particularly noted that after being classified as held for sale:
- assets are not depreciated;
- recognition of interests or other liability-related costs continues.

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

Long-term assets or components of an entity can be distributed to owners (for example, as payment of dividends) [Giner 2014]. Until the transfer, they are classified and valued separately from other assets by analogy with the assets held for sale.

Valuation of these calculations is disclosed in more detail in IFRIC Interpretation 17 "Distribution of non-cash assets to owners".

Compliance with the IFRS 5 criteria must be assessed on each reporting date [Ţinta 2013]. If the classification criteria are met, impairment testing is carried out and impairment profit/loss is recognized/reversed (see Case 3).

Case 3

Entity C plans to sell a cash-generating unit (CGU). According to IFRS 5, the CGU fair value less costs to sell at the time of classification amount to 75,000 c.u. The CGU carrying amount before its classification as held for sale amounted to 97,500 c.u.

For the purpose of this example, we will assume that no transactions are effected within the CGU so there are no discontinued operations.

Impairment is tested at the time of classification: carrying amount – 97,500 c.u., fair value less costs to sell – 75,000 c.u. Impairment loss amounts to 97,500––75,000 = 22,500 c.u. It is distributed as follows (Table 1):

– goodwill is written down to zero;
– the remaining amount is distributed among non-current assets in proportion to their carrying amount.

TABLE 1. Impairment distribution at the time of classification by CGUs

Cash-generating unit	Carrying amount before impairment [c.u.]	Impairment according to IFRS 5 [c.u.]	Recognition according to IFRS 5 [c.u.]
Goodwill	10,500	(10,500)	–
Fixed assets	39,850	(7,800)	32,050
Intangible assets	21,500	(4,200)	17,300
Financial assets available for sale	8,000	–	8,000
Deferred tax assets	1,000	–	1,000
Current assets: accounts receivable, inventory, cash assets	23,500	–	23,500
Current liabilities	(5,000)	–	(5,000)
Provisions	(1,850)	–	(1,850)
Total	97,500	(22,500)	75,000

Source: Own research.

Impairment is not classified as deferred tax assets, financial instruments, current assets, liabilities or provisions.

At the following reporting date, financial assets available for sale, deferred tax assets, current assets and liabilities are further recognized in accordance with other IFRS standards. Accounts are subject to adjustments (Table 2).

TABLE 2. Impairment adjustments

Item	Total amount [c.u.]	Influence on accounts
Goodwill	(10,500)	statement of financial position
Fixed assets	(7,800)	statement of financial position
Intangible assets	(4,200)	statement of financial position
Impairment loss	22,500	profit and loss statement

Source: Own research.

Deferred tax assets reduced to 900 c.u., current assets increased to 25,000 c.u., and liabilities amounted to 5,250 c.u. The CGU fair value less costs to sale amounted to 70,000 c.u. Table 3 shows that CGU depreciation as a result of IFRS 5 application only amounted to 6,150 c.u.

The market situation changed at the third reporting date. Financial assets available for sale cost 8,000 c.u., whereas the CGU fair value less costs to sell amounted to 89,150 c.u.

TABLE 3. Distribution of subsequent impairment by CGUs

Cash-generating unit	Carrying amount as of the following reporting date [c.u.]	Change in cost according to other standards [c.u.]	Impairment according to IFRS 5 [c.u.]	Recognition according to IFRS 5 [c.u.]
Goodwill	–	–	–	–
Fixed assets	32,050	–	(4,000)	28,050
Intangible assets	17,300	–	(2,150)	15,150
Financial assets available for sale	8,000	–	–	8,000
Deferred tax assets	1,000	(100)	–	900
Current assets: accounts receivable, stock, cash assets	23,500	1,500	–	25,000
Current liabilities	(5,000)	(250)	–	(5,250)
Provisions	(1,850)	–	–	(1,850)
Total	75,000	(1,150)	(6,150)	70,000

Source: Own research.

TABLE 4. Distribution of revaluation result towards increase in value by CGUs

Cash-generating unit	Carrying amount as of the third reporting date [c.u.]	Change in cost according to other standards [c.u.]	Revaluation according to IFRS 5 [c.u.]	Disclosure by lower value [c.u.]
Goodwill	–	–	–	–
Fixed assets	28,050	–	13,150	41,200
Intangible assets	15,150	–	5,000	20,150
Financial assets available for sale	8,000	1,000	–	9,000
Deferred tax assets	900	–	–	900
Current assets: accounts receivable, stock, cash assets	25,000	–	–	25,000
Current liabilities	(5,250)	–	–	(5,250)
Provisions	(1,850)	–	–	(1,850)
Total	70,000	1,000	18,150	89,150

Source: Own research.

Total CGU impairment that can be reversed in case of an increase in the fair value amounted to 13,150 + 5,000 = 18,150 c.u. as goodwill impairment in the amount of 10,500 cannot be reversed. The revaluation results are shown in Table 4.

Total revaluation amounts to 18,150 c.u.; accordingly, the CGU costs only 89,150 c.u. since disclosure is effected by the lower of carrying amount and fair value less costs to sell [Turner 2014]. As soon as the classification criteria cease to be met, the assets are valued by the lower of recoverable amount and carrying amount. For this purpose, the carrying amount of the asset before its classification as held for sale is used and adjusted for impairment and revaluation that would have been recognized if the asset had not been classified according to IFRS 5 [Gervasio 2013].

PRESENTATION AND ADDITIONAL DISCLOSURES

Assets held for sale and relating items of capital and liabilities are presented separately in the statement of financial position (Table 5).

Comparative data on assets recognized as held for sale within the current period is not revised for prior periods [Bonnisseau 2014]. Discontinued operations prior to disposal are presented separately in the statement of financial position by analogy with assets held for sale.

TABLE 5. Sample structure of the statement of financial position with assets held for sale

Balance	Total as of reporting date	Total as of prior reporting date
Assets		
Non-current assets	X	X
Current assets	X	X
Assets for sale*	X	X
TOTAL ASSETS	X	X
Capital and liabilities		
Other provisions relating to assets for sale	X	X
Non-controlling interest	X	X
TOTAL CAPITAL	X	X
Long-term liabilities	X	X
Short-term liabilities	X	X
Liabilities relating to assets for sale	X	X
TOTAL LIABILITIES	X	X
TOTAL CAPITAL AND LIABILITIES	X	X

* Offset of these assets and liabilities is not permitted

Source: Own research.

The statement of comprehensive income discloses results of discontinued operations with the presentation possible in two options: separately or by each parameter of the statement of comprehensive income. Table 6 shows an example of the latter option. Comparative data is presented in the statement of comprehensive income for prior periods.

The operation result of a component that ceases to be classified according to IFRS 5 is included in the profit from continuing operations [Emami 2015].

The following are further disclosed in the notes:

– description of assets and relating liabilities (this does not apply to subsidiaries acquired solely for re-sale);
– time and manner of the expected or accomplished disposal;
– profit or loss from the change in fair value with an indication of the line in the statement of comprehensive income;
– segment including assets held for sale (if applicable).

In case of a change in the sales plan, circumstances causing this change and influence on the operation results due to this change must be described (for example, result of revised carrying amount).

The following are disclosed in relation to discontinued operations:

– analysis of discontinued operations result components;
– net cash flows attributable to the operating, investing, and financing activities of a discontinued operation (in the notes or in the cash flow statement).

TABLE 6. Sample structure of the statement of financial position with assets held for sale

Assets and Liabilities	Continuing operations		Discontinued operations		Entity in total	
	2014	2013	2014	2013	2014	2013
Proceeds	X	X	X	X	X	X
Operating expenses	X	X	X	X	X	X
Operating income	X	X	X	X	X	X
Financial income and loss	X	X	X	X	X	X
Earnings before tax	X	X	X	X	X	X
Income tax expenses	X	X	X	X	X	X
Profit for year	X	X	X	X	X	X
Other comprehensive income	X	X	X	X	X	X
Total comprehensive income	X	X	X	X	X	X
Profit due to						
Group shareholders	X	X	X	X	X	X
Non-controlling shareholders	X	X	X	X	X	X
Total comprehensive income due to						
Group shareholders	X	X	X	X	X	X
Non-controlling shareholders	X	X	X	X	X	X

Source: Own research.

PRACTICAL EXPERIENCE OF STANDARD APPLICATION

In 2013, the management of company approved introduction of cellular assets to the authorized capital of a firm that is a joint venture of our company. The transferred assets included both subsidiaries and separate assets and liabilities – fixed assets, cellular communication licences, etc. These items were classified as assets held for sale, and relating transactions were presented as discontinued operations in the statement of profit and loss and in the statement of other comprehensive income for three years (2011–2013) [Swaminathan 2014].

The chart of accounts was supplemented with accounts for reclassification of disposed accounting items (Table 7).

For the purpose of correct presentation of the influence of the above process on the company's financial position, guidelines were designed, the chart of accounts was extended, and additional control procedures were designed.

Guidelines are a separate regulation including process description and setting the procedure of generation and processing of data: persons in charge, terms,

TABLE 7. Extract from the chart of accounts – accounts for reclassification of assets according to IFRS 5

Account number	Account name
2950100	Fixed assets
2950110	Investment property
2950120	Intangible assets
2950121	Goodwill
2950140	Investments accounted for using equity method
2950160	Future income tax assets
2950200	Inventory
2950230	Trade and other accounts receivable
2950235	Prepayment and advanced payments
2950240	Income tax advances
2950250	Other investments
2950260	Cash and cash equivalents
2950290	Other assets
5950101	Liabilities directly related to assets held for sale (except cellular segment)
5950435	Pension and other long-term social liabilities
5950460	Future income tax liabilities
5950500	Loan obligations
5950530	Accounts payable and accrued liabilities
5950540	Income tax payable
5950550	Provisions
5950590	Other liabilities
5950999	Intra-organizational settlements

Source: Own research.

standard accounting entries, required adjustments, list of appropriated assets, liabilities, and subsidiaries.

RESULTS

These accounts are automatically grouped into lines in the statement of financial position designed for segregation of items accounted according to IFRS 5.

Basic adjustments include reclassification of assets, liabilities and provisions using new codes, as well as reversal of prior consolidation adjustments on subsidiaries relating to elimination of authorized capital and investment, to recognition of goodwill and non-controlling interest.

It should be noted that IFRS 5 contains no instructions as for the distribution of general and administrative expenses on discontinued operations; therefore, the company should design methods for the distribution of expenses and incorporate them in the accounting policy.

In practice, certain difficulties arose in the distribution of income and expenses attributable to discontinued operations, especially with regard to the generation of comparative data for prior periods, as the accounting system allows for singling out separate results only within subsidiaries, whereas data for the other disposal groups had to be collected manually with the help of Excel tables.

CONCLUSION

Assets which are to be liquidated or assets the use of which is suspended also may not be classified as "held for sale" because their value is compensated not by their sale.

It often happens that within the framework of one deal the group of assets may be retired together with liabilities directly connected with these assets. Such deal is classified as "retirement group". It may include goodwill if the group is a cash-generating unit (hereinafter referred to as EGDS), and it was a part of goodwill distribution earlier; it may also include current assets (stock, accounts receivable and accounts payable, other liabilities, etc.).

The result of impairment of assets held for sale and final result of disposal of these assets are presented in the statement of comprehensive income.

Summing up the experience of IFRS 5 application, preconditions for a successful process should be mentioned. Firstly, it is timely provision of detailed and complete information on expected disposals to the accounting services. Secondly, it is sufficient time for the generation of accounting indicators. Ideally, the accounting system and registers must allow for using the indicator of discontinued and continuing operations as each entity may sooner or later fall within the scope of IFRS 5.

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UJAWNIANIE DŁUGOTERMINOWYCH AKTYWÓW TRWAŁYCH PRZEZNACZONYCH DO SPRZEDAŻY WEDŁUG MSSF

Abstrakt. Artykuł poświęcony jest tematyce wyceny długoterminowych aktywów trwałych przeznaczony do sprzedaży oraz sytuacji zaniechania działalności w kontekście prowadzenia rachunkowości zgodnie z wymogami Międzynarodowych Standardów Rachunkowości (MSR). Celem artykułu jest przedstawienie kolejnych kroków wyceny odzwierciedlającej wartość długoterminowych aktywów trwałych i działalności zaniechanej. Wymogi Międzynarodowego Standardu Sprawozdawczości Finansowej 5 (aktywa trwałe przeznaczone do sprzedaży oraz działalność zaniechana) zostały przeanalizowane w artykule w kontekście cech ich ujawnienia. Przedstawiono przykłady stosowania w przedsiębiorstwach praktyk związanych z MSSF 5. Sformułowane wnioski określają, iż system księgowości i istniejące rejestry muszą umożliwiać wykorzystanie wskaźników oceny kontynuacji działalności, z uwagi na fakt że każdy podmiot może prędzej czy później korzystać z przepisów MSSF 5 w sytuacji zaniechania działalności.

Słowa kluczowe: rachunkowości, aktywa długoterminowe, działalność zaniechana, Międzynarodowe Standardy Rachunkowości