Accounting for Assets Held for Sale under Ind AS — An Overview of Pertinent Issues

Indian corporates are currently grappling with and devising accounting policies for effective implementation of Ind AS. The exercise requires the complete overhaul of the accounting system to shift from erstwhile Indian GAAP to the Ind AS, which is the converged version of globally accepted IFRS. One such issue that needs special consideration is the accounting for 'Assets held for sale' which has a separate standard by the name of Ind AS (Ind AS 105). In this article, an attempt has been made to highlight the pertinent issues regarding the standard for the readers. Read on to know more…

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Non-Current Assets held for Sale – An Overview

In the technology-driven era of industrial and economic growth, any new technology will phase out the old technology for efficient and effective operations. As a consequence, entities sell off the old assets to replace it with more advanced and productive assets. As per Ind AS 105 *"an entity shall classify a non-current asset (or disposable group) as held for sale if its carrying amount will be recovered*

Ind AS 105 lays down the detailed conditions for classification of asset held for sale which is not present in the Indian GAAP. The most important condition is defining the time limit of one year for sale transaction to take place. This condition will ensure that the entity does not classify the assets in held for sale to understate the profits by charging off the impairment losses while using the assets in normal course of operations.

principally through a sale transaction rather than through continuing use." Thus, assets which are intended to be scrapped or abandoned will not meet the above definition of assets held for sale.

Treatment under Indian GAAP

Although there is no separate standard in Indian GAAP for classification and measurement of assets held for sale, still Accounting Standard -10 (Accounting for Fixed Assets) provides the guidance regarding its treatment. As per paragraph 14.2 of the Standard: *"fixed assets that have been retired from active use and are held for disposal are stated at lower of net book value and net realizable value and are shown separately in the financial statements. Any expected loss is recognized immediately in the profit and loss account."*

However, the scope of information provided in this Standard is narrow and it does not provide detailed information regarding the classification, measurement and disclosure of assets held for sale and this aspect has been well taken care of in the Ind AS 105.

Classification Requirements under Ind AS 105

Under Ind AS 105, a non-current asset or disposable group can be classified as held for sale if it satisfies all of the below mentioned conditions:

a. The asset must be available for immediate sale and not in the distant future.
b. Sale of an asset must be highly probable. To fulfill this condition, the management must chart out a precise plan to sell the asset and the related activities such as to locate a buyer must have been initiated at the date of classification.
c. The asset must be marketed at a price which is reasonable to its fair value.
d. The sale transaction should be expected to be completed within one year from the date of classification unless the delay is caused by activities which are beyond the control of entity.

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As per paragraph 8A of the Standard, if an entity is committed to sale of controlling interest in the subsidiary then it shall classify all the assets and liabilities of the subsidiary as held for sale in the consolidated financial statements even if it will retain any non-controlling interest after the sale.

The transaction for sale also includes exchange of non-current asset for another asset and not just the outright sale.

The Standard also allows the classification of the asset as held for sale even if the asset is acquired by entity exclusively for the purpose of subsequent sale. The classification can be done on the date of its acquisition. However, all the conditions as stated above shall be satisfied on the date of classification.

The above classification requirement is also deemed to be satisfied if it is classified as held for distribution to owners acting in their capacity as owners, provided the assets must be available for immediate distribution and the distribution should be highly probable. We have to consider the probability of shareholders approval to conclude the high probability of the transaction.

If the conditions for the classification are met after the end of the reporting period, then the entity shall not classify the asset as held for sale as it will be a non-adjusting event. However, if it is satisfied before the approval of financial statements, the information as per the disclosure requirements of this standard shall be provided in the notes to financial statements.

If the asset is to be abandoned by the entity, then it shall not be classified as held for sale as its value will be recovered principally through continuing use i.e. disposal proceeds.

Impairment loss shall be recognised in the statement of profit and loss for initial or subsequent write down of assets to fair value less costs to sell. However, gain on account of subsequent increase in fair value shall be recognised limited to the cumulative impairment loss that has been recognised either in accordance with this Standard or as per Ind AS 36, *Impairment of Assets*.

The entity is required to present separately non-current assets held for sale from other assets in the financial statement. The assets can be presented as current assets if they meet the criteria to be classified as Held for Sale as per this Standard. If the entity classifies a disposable group of assets as held for sale, then associated liabilities shall also be classified as held for sale and to be shown separately in the financial statements.

Measurement of Assets Held for Sale

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

As per the standard, costs to sale are defined as incremental costs which are directly attributable to the disposal of an asset (or disposable group) excluding finance costs and income tax expense.

If the assets are classified as held for distribution to owners then fair value less costs to sell shall be replaced by fair value less costs to distribute.

According to Ind AS 113, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

If the sale is expected to incur beyond one year, costs associated with selling the asset should be measured at present value. Any increase in present value due to passage of time shall be accounted as financing cost in profit and loss account.

As per para 18 of the Standard, before the classification of the asset as held for sale it has to be measured as per the applicable accounting standard such as Ind AS 16 for tangible assets and Ind AS 38 for Intangible Assets.

Recognition of Impairment Losses and Reversals

Impairment loss shall be recognised in the statement of profit and loss for initial or subsequent write down of assets to fair value less costs to sell. However, gain on account of subsequent increase in fair value shall be recognised, limited to the cumulative impairment loss that has been recognised either in accordance with this Standard or as per Ind AS 36, *Impairment of Assets.*

No depreciation or amortisation of non-current asset shall be made after it has been classified as held for sale. But interest and other expense liabilities associated with the assets or disposable group shall continue to be recognised in the financial statements.

Reclassification of Held for Sale Assets

If subsequent to classification of asset under held for sale, the conditions of classification of asset under held for sale are not met, the entity shall cease to classify such asset under held for sale. In such a case, the entity shall measure such asset at the lower of:

a. its carrying amount before classification under held for sale adjusted for depreciation, amortisation that would have been recognised had the asset not been classified as held for sale and,
b. its recoverable amount at the date of its reclassification.

Any adjustment in the carrying amount of asset resulting from the classification is to be presented in profit and loss statement.

As per the latest Companies (Indian Accounting Standards) (Amendment) Rules, 2016, if an asset is reclassified from "Held for Sale" to "Held for Distribution to Owners" or *vice versa,* then it will not require any adjustment for reclassification. Thus the rule clarifies that merely change in the method of disposal will not require any adjustment. It also provides that change in classification manner will be taken as continuation of original plan of disposal.

Case Study – Part I

XYZ Limited makes a plan to sell an asset for which it charts out a plan and started actively marketing the asset w.e.f January 1st 2016. The fair value of asset on this date is ₹100,000 and cost to sell is estimated at ₹5,000. The carrying amount was ₹97,000 on 1st January 2016. The rate of depreciation applicable is 10%.

Since the entity has prepared a plan and also engaged in actively marketing the asset, it is eligible to classify such asset as "held for sale" provided the sale is expected to complete within one year from the date of its classification.

The value at which such asset will be classified will be lower of carrying amount or fair value less cost to sell.

Carrying Amount:	₹97,000
Fair Value:	₹1,00,000
Less: Costs to sell:	(₹5,000)
	₹95,000

Hence the asset should be recognised at ₹95,000.

Case Study: Part II

XYZ Ltd. was unable to find a buyer and thereby could not sell the asset within one year from the date of classification. Hence the entity would be required to reclassify the asset from "held for sale" to normal asset. The asset recoverable value as on this date is ₹95,000.

As per Paragraph 27 of Ind AS 105, the entity shall classify at amount lower of carrying amount at the date of classification adjusted for depreciation or its recoverable amount on date of reclassification.

Carrying Amount as on 01st January 2016	-	₹97,000
Depreciation till 31st December 2016 @ 10%	-	₹ 9,700
Carrying amount as on 31st December 2016	-	₹87,300

Since the recoverable amount is ₹95,000, the asset will be reclassified at ₹87,300.

Presentation and Disclosure Requirements

The entity is required to present separately non-current assets held for sale from other assets in the financial statement. The assets can be presented as current assets if they meet the criteria to be classified as Held for Sale as per this Standard. If the entity classifies a disposable group of assets as held for sale, then associated liabilities shall also be classified as held for sale and to be shown separately in the financial statements. The assets and associated liabilities shall not be set off against each other. However, it is not required to reclassify the amounts of asset for held for sale shown in prior periods which means the presentation requirement is prospective only.

The disclosure requirements for the entity are as follows:

- Description of asset classified as held for sale.
- Facts and circumstances which lead to such classification.
- Amount of gain/loss on writing down the value of the asset to fair value less costs to sell.
- If Ind AS 108 Operating Segments is applicable, it should disclose the reportable segment under which such assets are classified.

If there is any change in plan for sale of asset, entity shall disclose all the facts and circumstances which lead to such decision and shall also disclose the effect of such decisions on the results of operations. ■

It's fine to celebrate success but it is more important to heed the lessons of failure. - Bill Gates