Accounting Guidance Note
No. 2007/5

Accounting guidance notes are intended for use by Australian Government reporting entities covered by:

- S49 of the Financial Management and Accountability Act 1997; or
- Clause 2 of Schedule 1, of the Commonwealth Authorities and Companies Act 1997.

The aim of the accounting guidance notes is to provide non-mandatory explanation and examples relating to the interpretation and application of Australian Accounting Standards and the Finance Minister’s Orders to the above entities.

Accounting for Non-current Assets Held for Sale

Purpose

To provide guidance on the accounting of non-current assets that are held for sale under AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

Target audience

This guidance note applies to Australian Government entities that have non-current assets that are to be sold.

AASB 5 excludes from its scope the restructuring of administrative arrangements and administered activities of a government department and the transfer of assets and liabilities between government departments.

AASB 5 does not address the disposal of assets outside a commercial sale transaction (for example assets that are abandoned, gifted or destroyed), though under AASB 5 these items may be required to be disclosed as discontinued operations where they represent a separate major line of business or geographical area of operation (AASB 5.32).

Applicable accounting pronouncements

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

Definitions used

- Non-current asset is an asset that does not meet the definition of a current asset.
• **Current asset** is an asset that satisfies any of the following criteria:
  - it is expected to be realised in, or is intended for sale or consumption in, the entity’s normal operating cycle;
  - it is held primarily for the purpose of being traded;
  - it is expected to be realised within twelve months after the reporting date; or
  - it is cash or a cash equivalent asset unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

• **Disposal group** is a group of assets to be disposed of, by sale or otherwise, together as a single transaction, and liabilities associated with those assets that will be transferred in the transaction.

**Key points**

1. The intention of AASB 5 is that non-current assets should not be reclassified as current assets and disclosed as held for sale until the requirements of AASB 5 are met. In addition, AASB 5 restricts the classification of assets as current that the entity would normally classify as non-current, unless the requirements of AASB 5 are met.

2. AASB 5 measures assets held for sale such that where the sale is expected to result in a loss, the loss is recognised when classified as held for sale or on re-measurement at balance date. Where the sale is expected to result in a profit this is not recognised until the asset is sold.

**Reclassification as held for sale**

3. Specific criteria must be met before an asset can be classed as “held for sale”, e.g. an agency’s intention to sell an asset without specific plans does not constitute held for sale.

4. For reclassification to occur, all of the following criteria must be satisfied:

   **(a) The asset’s carrying amount will be recovered principally through a sale transaction rather than continuing use;**

   - includes the exchanges of non-current assets when the exchange has commercial substance. A transaction has commercial substance when future cash flows are expected to change as a result of the transaction (see AASB 116, paragraph 25). The exchange of an asset for the same asset is not a transaction that has commercial substance.

   **(b) The asset must be available for immediate sale in its present condition; and**
• the sale can be expected to be completed within one year from the date of classification. The period to complete the sale can be greater than one year if there is evidence that the delay was caused by events beyond the entity’s control and the entity is still committed to sell the asset.

(c) Sale is highly probable.

• if the appropriate level of management is committed to a plan to sell the asset. Commitment to sell the asset is shown by demonstrating:

  • there is an active program to locate a buyer;
  • the asset is actively marketed for sale; and
  • it is unlikely that there will be significant changes to the planned sale.

Measurement: immediately prior to classification as held for sale

5. Immediately prior to a non-current asset (or disposal group) being classified as held for sale the carrying amount of the asset should be remeasured using the applicable Australian Accounting Standard.

Measurement: once held for sale (individual assets)

6. AASB 5 requires non-current assets that meet the classification requirements as held for sale to be measured at the lower of its carrying amount and fair value less costs to sell. This requirement effectively recognises any expected loss from the asset sale when the classification has occurred.

7. AASB 5 excludes from the measurement requirements of the standard:

• deferred tax assets (continues to be measured in accordance with AASB 112 Income Taxes);

• assets arising from employee benefits (continued to be measured in accordance with AASB 119 Employee Benefits);

• financial assets within the scope of AASB 139 Financial Instruments: Recognition and Measurement;

• investment properties and biological assets carried at fair value (continued to be measured in accordance with either AASB 140 Investment Property or AASB 141 Agriculture); and

• contractual rights under insurance contracts (contractual rights are defined in AASB 4 Insurance Contracts).

8. If the period to complete the sale is expected to be greater than one year, selling costs are measured at their present value. The unwinding of the present value of selling costs is recognised as a financing cost.
9. Initial and subsequent asset write-downs are recorded as impairment losses as per AASB 136 *Impairment of Assets*.

**Measurement: once held for sale (disposal groups)**

10. A disposal group must contain a non-current asset to fall within the scope of AASB 5.

11. The carrying amounts of individual items in a disposal group are determined by:
   - the applicable Australian Accounting Standard for current assets, liabilities and non-current assets excluded from the measurement provisions of AASB 5 (listed above); and
   - the amount measured in accordance with AASB 5 initially or subsequently for items within the measurement provisions.

12. The carrying amounts are aggregated and compared to the fair value less cost to sell for the disposal group as a whole.

13. If a write-down (impairment loss) is required it is allocated to the non-current assets to which the measurement provisions of AASB 5 applies in the order of allocation set out in AASB 136.104 (i.e. goodwill is reduced first and then the impairment loss is allocated on a pro-rata basis based on their percentage of the total).

**Subsequent measurement**

14. Subsequent measurement is usually only performed at reporting date and uses the same measurement rules outlined above.

**Depreciation**

15. Assets held for sale are not depreciated (or amortised) as they are measured at the lower of carrying value and fair value less cost to sell. Depreciation stops as the assets economic benefit to the entity will be recovered through a sale transaction rather than through continued use.

**Impairment**

16. The impairment test applies to assets classified as held for sale and is applied after the measurement provisions of AASB 5 are applied. Impairment losses (asset write-downs) are recognised to the extent that the subsequent measurement provisions do not already incorporate this loss.

17. Reversal of impairment write-downs (increase in the fair value of the asset) can occur to the amount of previously recognised impairment losses under AASB 5 or AASB 136 and to the extent that it has not already been recognised by the subsequent measurement provisions.
Disclosure requirements

18. Non-current assets held for sale must be reclassified as current assets and presented separately from other assets and liabilities on the balance sheet.

19. Major classes of assets and liabilities must be separately disclosed either on the face of the balance sheet or in the notes. Impairment losses are to be disclosed in the income statement.

Illustrative example

Illustrative example - Sale of non-current asset

Information:

On 1 November 2006 XYZ acquired a building to house its production facilities for $12 million dollars. XYZ carries all buildings at fair value; the building was assessed as having a useful life of 10 years.

On the 1 April 2007 XYZ decided to sell the building. On 1 May 2007 it placed the building with an agent for immediate sale. The agent charges selling costs of 5%. The fair value of the building at this time was $12.2 million dollars.

At 30 June 2007 the fair value less cost to sell was $12.5m. The building was sold on 1 August 2007 for $13m (net of selling costs).

Answer:

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit $'000</th>
<th>Credit $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 November 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>1 May 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation on building until 1 May 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation – building ($12m/120*6)</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation – building</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Revalue building under AASB 116 prior to applying AASB 5\textsuperscript{a}</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation – building</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Building ($12.2m - $11.4m)</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Asset revaluation reserve</td>
<td>800</td>
<td></td>
</tr>
</tbody>
</table>
a. The building has become held for sale being actively marketed for a buyer, it now must be revalued using the applicable Australian Accounting Standards, in this case AASB 116. In this example the asset is at fair value and a net valuation approach has been used (this approach writes back accumulated depreciation and then adjusts the gross value to fair value). Note, if the building was carried at cost no adjustment would be required as the building would already be valued in accordance with that standard.

b. AASB 5 requires the asset to be measured at the lower of carrying value ($12.2m) and fair value less cost to sell ($11.59m = fair value ($12.2m) less cost to sell (5% of $12.2m). AASB 5 requires this to be treated as an impairment loss. The account accumulated impairment is similar to accumulated depreciation being an offset account rather than a direct adjustment to the carrying value of the asset.

c. At balance date the asset is required to be remeasured. In the example the assets fair value less cost to sell has increased to $12.5m, but no adjustment is required as $12.5m is greater than the carrying value $11.59m. However, the previous impairment loss can be reversed, but only to the extent of that previously recognised ($0.61m).

Contacts

Questions or comments about this Guidance Note should be addressed to Accounting Policy Branch at accountingpolicy@finance.gov.au