**Appendix 1 – Illustrative example**

**Sale of a non-current asset**

**Scenario:**

On 1 November 20X1, XYZ acquired a building to house its production facilities for $12m. XYZ carries all buildings at fair value and the building was assessed as having a useful life of 10 years. At:

* 1 April 20X2, XYZ decided to sell the building
* 1 May 20X2, XYZ placed the building with an agent for immediate sale. The agent charges selling costs of 5 per cent. The fair value of the building was $12.2m
* 30 June 20X2, (balance date) the fair value less costs to sell was $12.5m.

The building was sold on 1 August 20X2 for $13m (net of selling costs).

**Accounting treatment for an asset held for sale**

In accounting for this scenario the building has become held for sale.

For this illustrative example:

1. prior to applying AASB 5 , the building is revalued under AASB 116  – the asset is at fair value and a net valuation approach is adopted (this approach writes back accumulated depreciation and then adjusts the gross value to fair value).
2. apply AASB 5 :
	* the asset is measured at the lower of carrying amount (i.e. $12.2m) and fair value less costs to sell (treated as an impairment loss) – calculated as follows:
	* the account ‘accumulated impairment’ is similar to ‘accumulated depreciation’, being an offset account rather than a direct adjustment to the carrying amount of the asset.
3. at the 30 June 20X2 balance date, the asset is required to be remeasured. The asset’s fair value less costs to sell has now increased to $12.5m, but no adjustment is required as the carrying amount of $11.59m is less than $12.5m. However, the previous impairment loss can be reversed, but only to the extent of that previously recognised ($0.61m).

| **Illustrative example: Held for sale accounting treatment** | **Debit****$’000** | **Credit****$’000** |
| --- | --- | --- |
| **1 November 20X1** |   |   |
| Dr. Building | 12,000 |   |
| Cr. Cash |   | 12,000 |
| Acquisition of building |   |   |
| **1 April 20X2** |   |   |
| No journal transaction – XYZ’s intention to sell without making specific plans does not constitute held for sale. |   |   |
| **1 May 20X2** |   |   |
| Dr. Depreciation – building [($12m / 120mths) \* 6mths] | 600 |   |
| Cr. Accumulated depreciation – building |   | 600 |
| Depreciation on building until 1 May 20X2 |   |   |
| ***Immediately prior to classification as held for sale:*** |   |   |
| Dr. Accumulated depreciation – building | 600 |   |
| Cr. Building |   | 600 |
| Dr. Building [$12.2m - $11.4m] | 800 |   |
| Cr. Asset revaluation reserve |   | 800 |
| Revalue building under AASB 116a) prior to applying AASB 5 |   |   |
| ***Once held for sale:*** |   |   |
| Dr. Impairment loss (expense) | 610 |   |
| Cr. Accumulated impairment loss – building |   | 610 |
| Apply AASB 5 b) lower of carrying amount and fair value less costs to sell |   |   |
| ***Subsequent accounting:*** |   |   |
| **30 June 20X2** |   |   |
| Dr. Accumulated impairment loss – building | 610 |   |
| Cr. Reversal of asset write-down (revenue) |   | 610 |
| Balance date c) |   |   |
| **1 August 20X2** |   |   |
| Dr. Sale proceeds (cash or receivable) | 13,000 |   |
| Cr. Building |   | 12,200 |
| Cr. Gain on sale (income) |   | 800 |
| Sale of building\* |   |   |

*\* As per paragraph 41 of AASB 116, the revaluation surplus included in equity for the item of property, plant and equipment sold may be transferred directly to retained earnings when the asset is derecognised.*