Australian Government
Department of Finance

# Accounting for non-current assets held for sale

## Resource Management Guide No. 111

NOVEMBER 2016

ISBN: 978-1-925205-04-6 (Online)



**Use of the Coat of Arms**

The terms under which the Coat of Arms can be used are detailed on the following website: *www.dpmc.gov.au/government/its-honour*.

**Contact us**

Please direct questions or comments about the guide to:

Budget Estimates and Accounting
Governance and APS Transformation
Department of Finance
1 Canberra Avenue
Forrest ACT 2603

Email: *accountingpolicy@finance.gov.au*

# Contents

# Audience

This guide applies to all officials (e.g., finance teams) in Commonwealth entities that have non-current assets that are to be sold.

*This guide is designed to be read in conjunction with relevant Australian Accounting Standards.*

# Key points

This guide:

- **purpose:** to provide guidance on the accounting for non-current assets that are held for sale under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- **scope:** 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.

# Resource

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

# Introduction

1. Commonwealth entities are required to prepare their annual financial statements in accordance with Australian Accounting Standards and the PGPA Financial Reporting Rule (FRR).

2. This guidance supports accounting for non-current assets that are held for sale under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. 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 (dealt with by AASB 1004 *Contributions*).

3. Non-current assets (NCAs) can only be reclassified as current assets and disclosed as held for sale when the requirements of AASB 5 are met.

# Part 1 – Guidance

4. “Non-current assets (NCAs)” (see ‘Definitions used’ below) can only be reclassified as current assets and disclosed as held for sale when the requirements of AASB 5 are met.

**Practical guidance**

⇨ An entity’s intention to sell an asset without specific plans does not constitute held for sale.

## Reclassification as held for sale

5. For reclassification to occur, all of the following criteria must be satisfied (AASB 5 paragraphs 6–14):

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

   (b) the asset must be available for *immediate sale* in its present condition; and

   (c) the sale is *highly probable*.

| **Sale transaction** | Immediate sale | Highly probable |
|---|---|---|

6. A sale transaction involves the exchange of NCAs where 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 *Property, Plant and Equipment* paragraph 25). The exchange of an asset for the same asset is not a transaction that has commercial substance.

7. Assets that are abandoned, gifted or destroyed are not considered to have commercial substance. However, under AASB 5 paragraph 32, 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.

| | | |
|---|---|---|
| Sale transaction | **Immediate sale** | Highly probable |

8. 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 (AASB 5 Appendix B).

| | | |
|---|---|---|
| Sale transaction | Immediate sale | **Highly probable** |

9. The appropriate level of management is committed to a plan to sell the asset. Commitment to sell the asset is shown by demonstrating (AASB 5 paragraph 8):

   - there is an active program to locate a buyer;
   - the asset is actively marketed for sale;
   - the asking price is reasonable in relation to the asset's current fair value; and
   - it is unlikely that there will be significant changes to the planned sale or that the plan will be withdrawn.

## Measurement

10. **Appendix 1** contains an illustrative example demonstrating the accounting treatment for an asset being held for sale as outlined in the points made below.

## Immediately prior to classification as held for sale

11. Immediately prior to a NCA (or "disposal group" (see 'Definitions used' below)) being classified as held for sale, the carrying amount of the asset (or all the assets and liabilities in a disposal group) is to be remeasured using the applicable AAS subject to any restrictions in the FRR (i.e., section 17).

## Once held for sale

12. AASB 5 measures assets held for sale. Where the sale is expected to result in a loss, the loss is recognised when classified as held for sale or on remeasurement at balance date. Where the sale is expected to result in a profit this is not recognised until the asset is sold.

13. NCAs or disposal groups that meet the classification requirements as held for sale are to be measured at **the lower of its carrying amount and fair value less costs to sell** (subject to paragraph 14 below). This requirement effectively recognises any expected loss from the asset sale when the classification has occurred.

**Practical guidance**

⇨ The carrying amount has been determined in paragraph 11 above.

14. A number of NCAs are excluded from the measurement requirement in paragraph 13 of this Guide. These assets are listed in AASB 5 paragraph 5 and are measured using the applicable AAS – other parts of this Guide still apply.
15. 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.
16. Initial write-downs of the asset or disposal group to fair value less costs to sell are recorded as impairment losses.
17. For a disposal group, if a write-down (impairment loss) is required it is allocated to the NCAs to which paragraph 10 of this Guide applies in the order of allocation set out in AASB 136 *Impairment of Assets* paragraph 104 (a) and (b) (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 accounting

18. Subject to AASB 5 (including the below requirements), subsequent measurement is usually only performed at the reporting date and uses the same measurement rules as outlined in the 'Once held for sale' section above.
19. For a disposal group, the carrying amount of current assets, liabilities, and NCAs that fall within paragraph 14 of this Guide are remeasured in accordance with the applicable AAS. This is to be performed prior to the remeasurement of the fair value less costs to sell of the disposal group as a whole.
20. NCAs held for sale (including those that form part of a disposal group) to which paragraph 13 of this Guide applies are not depreciated (or amortised). They are measured at the lower of carrying amount and fair value less costs to sell. Depreciation stops as the asset's economic benefit to the entity will not be recovered through continuing use.
21. Impairment losses (asset write-downs) are recognised to the extent that the subsequent measurement provisions do not already incorporate this loss.
22. 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.

# Part 2 – Disclosure requirements

23. Disclosure of NCAs held for sale is as required by AASB 5. In particular, NCAs held for sale must be presented separately from other assets and liabilities in the statement of financial position.

# Part 3 – Budget implications

24. The sale of NCAs will increase (improve) the fiscal balance (when sold) and underlying cash balance (when payment received) of an entity. All other transactions immediately prior to classification as held for sale and once held for sale addressed in this Guide (e.g., revaluations, depreciation, impairment etc.) will have no impact.

# Part 4 – Definitions used

The following definitions are set out in AASB 5, Appendix A.

- A *current asset* is an asset that satisfies any of the following criteria:

  (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;

  (b) it is held primarily for the purpose of being traded;

  (c) it is expected to be realised within twelve months after the reporting date;

  (d) it is cash or a cash equivalent asset (as defined in AASB 7 *Financial Instruments: Disclosures*) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

- A *disposal group* is 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.

- A *non-current asset* is an asset that does not meet the definition of a *current asset*.

# Appendix 1 – Illustrative example

## Sale of a non-current asset

### Information:

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

On 1 April 20X2 XYZ decided to sell the building.

On 1 May 20X2 XYZ placed the building with an agent for immediate sale. The agent charges selling costs of 5%. The fair value of the building was $12.2m.

At 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).

### Answer:

| | 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 116 prior to applying AASB 5[(a)] | | |
| ***Once held for sale:*** | | |
| Dr. Impairment loss (expense) | 610 | |
| Cr. Accumulated impairment loss – building | | 610 |
| Apply AASB 5 lower of carrying amount and fair value less costs to sell[(b)] | | |

| | Debit $'000 | Credit $'000 |
|---|---|---|
| ***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 | | |

(a) The building has become held for sale being actively marketed for a buyer, it now must be revalued using the applicable AAS, in this case AASB 116. The asset is at fair value and a net valuation approach has been adopted to treat the accumulated depreciation (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 AASB 116.

(b) AASB 5 requires the asset to be measured at *the lower of carrying amount* ($12.2m) *and fair value less costs to sell* ($11.59m = fair value ($12.2m) less costs to sell (5% of $12.2m = $0.61m)). 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 amount of the asset.

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