Accounting Practices Regarding the Non-Current Assets Held for Sale

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Summary

Generally the non-current assets, and especially the tangible assets, are held by the entity (as it results from their very definition) in order to be used in the production of goods or for services, to be rented to the thirds or to be used for administrative purposes during several periods. For the time interval that a non-current asset is not classified as being held for sale, its recognition and implicitly its assessment will be done in accordance with the provisions of the applicable International Financial Reporting Standards; after the classification of the respective asset as being held with the intention of subsequent sale there will be applicable the provisions of the contemporary IFRS norm 5 "Non-current assets held for sale and discontinued activities".

Key words

Assets available for sale, Fair value, Afferent costs to the sale, Loss from depreciation

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Introduction

From the need of convergence between the US GAAP provisions which classify the long-term assets either as *held and used*, either as *held for sale* and applicable according to the IFRSs, the International Accounting Standards Board has analyzed the implications regarding the distinction between the non-current assets held and used in the productive process, respectively those held for sale. The board has posed the problem if a separate classification for the non-current assets held for sale would create an exaggerate complexity in the IFRSs and would introduce an element of intention of the leadership in accountancy.

There was suggested that a classification as *assets held for sale* would not be necessary and renaming them as *assets withdrawn from the active service* would eliminate the complexity, because the latter one would be based on actuality and not on what could be perceived as managerial intention.

Still, although the classification of the ownership for sale beings with the intention to sell the asset, the other criteria of this classification are tightly connected with it and are more objective than the simple intention or commitment to sell.

It was concluded that a classification as *withdrawn from the active service* would not necessarily need less criteria to support it.

For example, there would be necessary a distinction between the assets withdrawn from the active service and those kept in the reserve or temporarily inactive. From the concern not to generate abuses and beginning from the reality according to which if the classification and assessment of the assets held for sale from the IFRSs are identical to those from the US GAAP, there will be obtained a convergence in an area important for the users of the financial situations, was concluded that the delimitation and presentation of the information on the assets and groups of assets and debts in course of assignation is of real use to the users.

The principle sitting at the base of the delimitation of the assets as being destined either to the continuous use, either to the sale stipulates that the book value of those withdrawn from the active service is recovered, primarily by sale.
Hereby, on paragraph 6 of IFRS 5 *"Non-current assets held for sale and discontinued activities"* is considered that *an entity can catalogue a non-current asset (disposal group) as held for sale if its book value can be recovered primarily by a sales transaction than by continuous use*. It is deemed necessary *the presentation of a non-current asset classified as held for sale,* as well as of the assets belonging to a group classified as held for sale *separately from the other assets* within the accounting balance.
By applying the principle of delimitation of the assets, the Board has decided that the assets withdrawn from the active service which do not comply with the criteria of classification as assets held for sale, must not be presented separately as there is a possibility for the book value of the asset to not be recovered primarily by sale.
Implicitly, the Board has decided that the assets which comply with the criteria of classification as held for sale and are in use should not be omitted from a separate classification. This because if a fixed asset is available for immediate sale, then the remaining utility of the asset is connected to the recovery by sale and the book value will be recovered primarily by sale. In accordance with the same principle of delimitation, an enterprise will not catalogue as held for sale a non-current asset (or disposal group) which is up for cassation. This results from the fact that its book value will be recovered primarily by continuous use.

Classification of the Non-Current Assets Held for Sale

In order for the entity[1] to classify a non-current asset as being held for sale the following criteria must be fulfilled:

■ The management or a person with seniority in the entity who can approve the action, must be committed to a sales plan;

■ The asset or the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;

■ An active programme which would locate the buyer and all the other actions necessary for the completion of the sales plan to be initiated;

■ The sale must be highly probable and expected to qualify for recognition as a completed sale within one year from the date of classification of the asset as being held for sale (with limited exceptions, presented in annex B of the standard);

■ The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value; and

■ The actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

1st Example :

We hereby propose the exemplification of the intention and availability for immediate sale of the non-current assets by taking into consideration an entity wanting to sell a production space and which began a search process for potential buyers.
From the available information it is considered the sale of the productive space with the unfinished orders on the sale date. As the entity is selling the productive space together with the unfolded activities, the transfer of the unfinished orders on the sale date will not affect the duration of realization of the sale process, the criteria of paragraph 7 being thus observed on the date of commitment of the sale plan.

1 Barry J. Epstein, Abbas Ali M., IFRS 2005, "Interpretarea şi aplicarea Standardelor Internaționale de Contabilitate şi Raportare Financiară", Editura BMT Publishing House, 2005

If the space would be sold without transferring the unfolded activities, the potential delays caused by the buyer prove the unavailability for immediate sale.
When an entity acquires a non-current asset (or disposal group) solely for the purpose of his subsequent sale, the respective asset/group will be classified as held for sale on the date of acquisition, only subject to the condition of one year of paragraph 8 and if is highly unlikely that any other requirement of those contained in paragraphs 7 and 8, are not met this deadline will be completed within a short period after the acquisition (usually within three months).
Also, the *operations of non-current assets exchange* covering the commercial form can be catalogued as *sale operations*, and the assets classified as held for sale.
According to SFAS 144, the assets with long usage which are not exchanged for similar productive assets cannot be classified as held for sale. They are treated as ceased only in the moment of the exchange. The basis for conclusions at SFAS 144 mentions that this is due to the fact that the exchange of these assets is registered in accordance with the book value of the asset, and not at the fair value, and that the use of the book value is a lot more in accordance with the accountancy of the long term assets held and used than with the value of the assets which are to be sold.
Still, according to IAS 16 “Tangible assets”, revised in 2003, an assets exchange is usually evaluated at its fair value. The need of convergence with the IAS norms has induced FASB towards the publication of an exposure project in which the assets exchange would be realized at fair value.
There is also proposed a modification of SFAS 144 so that, in the case of assets exchange with commercial substance, these assets would be eligible for the classification as held for sale. There can be situations when the assets held for sale do not fulfill the criteria described at paragraphs 7 and 8 of IFRS 5 – especially the *period required for the sale* – as result of some circumstances outside the control of the enterprise.

For these non-current assets the classification as held for sale will continue by the extension of the period required for the sale process, if:

● *On the date on which the enterprise undertakes the plan to sell a non-current asset (or disposal group), it expects certain third parties, but not the buyer, to impose certain conditions on the transfer of the asset (or disposal group) which will lead to the extension of the sale period, and:*

- *the actions necessary for the observance of these conditions cannot be initiated until a* ***firm purchase commitment*** *is not obtained, and*
- *the firm purchase commitment presents a high probability during one year.*

●*An enterprise obtains a firm purchase commitment, and the buyer or the third parties will impose unexpected conditions on the transfer of the non-current asset (or disposal group) previously classified as held for sale, conditions which will extend the period required for the sale process, and:*

- *actions were effectuated in due time in order to respond to the new conditions;*
- *a favorable resolution is expected on the factors delaying the process.*

● *During the initial one year period situations previously considered improbable appeared and, as result, a non-current asset (or disposal group) previously classified as held for sale is not sold until the end of the period, and:*

- *within the initial one year period the enterprise has taken the necessary measures to respond to the modifications intervened in the circumstances;*
- *the non-current asset (or disposal group) is actively promoted on the market, at a reasonable price, in accordance with the modifications of the circumstance;*
- *the criteria mentioned at paragraphs 7 and 8 are fulfilled.*

2nd Example:
A chemical products manufacturer intends to sell a production space represented by an auxiliary section, implicitly the afferent terrain of 4.500 m². After obtaining a firm purchase

commitment, the buyer effectuates an inspection on the space and identifies the previously unknown damages brought to the environment.
The company is imposed by the buyer to eliminate these damages, fact which leads to the extension of the maximum one year period necessary to the development of the sale process.
The company initiates actions of elimination of the damages, the remediation of the situation is very probable; hereby there are fulfilled the conditions provided at the exception from the requirement of the one year period, point b).
Within the one year period, although the reparations imposed by the buyer were effectuated, the property was not sold yet. The market conditions have deteriorated, but as the company still believes in the future the situation could remediate it continues not to reduce the sale price. Although the property is still registered as owned for sale, its sale price exceeds the current fair value registered on the market.
Within these conditions it proves that the property is not available for immediate sales, as the criteria of paragraph 7 of IFRS 5 are not fulfilled.

Evaluation of the assets held for sale

A non-current asset held for sale will be evaluated in accordance with the provisions of this IFRS. The IFRS 5 norm specifies that a non-current asset is evaluated in accordance with the applicable IAS norm (as reevaluations according to IAS 16, value depreciations according to IAS 36, etc.) for as long as it is not classified as being held for sale. If the asset enters the perimeter of IFRS 5 norm and is *rated as being held for sale* it must be *evaluated at the smallest value between*:

- ► *its book value,*
- ► *the fair value less selling costs.*

Which was the reason of the international regulator when choosing such an option of the evaluation of the non-current assets destined for sale?
For a non-current asset destined for sale, the recovery of its book value is realized primarily by sale; the evaluation of the assets available for sale – as effect, in accordance with the IFRS 5 provisions should not be different from the one resulted from the application of other IFRSs. Thereby, according to other IFRSs (was noted the provision according to which an entity keeps the lifetime and residual values of the non-current assets at updated values, respectively the depreciation is recognized in the variant of the maximum between the use value and the fair value less selling costs), if the fair value less selling costs is bigger than the book value, there will be no depreciation (because the residual value has been updated).
If the fair value less selling costs is lower than the book value, there will be a loss from the depreciation which will reduce the book value to the level of the fair value less selling costs which will not be amortized (because the residual value was updated), except the case where the use value is bigger than the fair value less selling costs. If the use value is bigger than the fair value less selling costs, it is likely to appear small differences between the treatment according to other IFRSs and the treatment according to IFRS 5.
According to other IFRSs there will be a loss from the depreciation insofar as the book value exceeds the use value, and not insofar as the book value exceeds fair value less selling costs.
According to other IFRSs there would also be an exceeding depreciation of the use value (new book value of the asset) compared to the fair value less selling costs (its residual value).
Still, for the assets classified as held for sale, the use value differs from the fair value less selling costs only in the measure of the net treasury fluxes waited before the sale moment.
If the period up to the sale is short, this value can be relatively small. The difference between the loss from the recognized depreciation and the subsequent depreciation which would result according to other IFRSs, compared to the loss from the depreciation and no other subsequent depreciation according to IFRS 5 would still be small.
The Board has concluded that the requirements of the evaluation imposed by IFRS 5 for individual assets most of the times will not involve significant differences towards the

provisions of other IFRSs. Moreover, the Board agreed with FASB on the fact that the treasury fluxes obtained from the remaining use of the asset were connected with the recovery of the asset's value through sale and, so, it has concluded that the *individual assets classified as held for sale should be evaluated at the minimum between the book value and the fair value less selling costs, and they should not be subject to the amortization.*
Where the assets will be disposed together in a unique transaction, they will be treated as *disposal group*, the evaluation basis for non-current assets classified as held for sale must be applied to the group as an ensemble.
For the recently acquired assets which meet the requirements for classification as held for sale the assessment on the recognition date is realized at the lowest value between its book value if they had not been graded as held for sale (for example, the purchase cost) and its fair value less selling costs; for a recently acquired asset considered to be ceased immediately (for example, it was acquired as part of a bigger transaction, but it is not necessary), its assessment can be realized at the fair value less selling costs at its purchase.
Corroborated with this case, if the asset is acquired as part of a business combination, its evaluation at the recognition will be done at fair value less selling costs, because its book value (its cost) is not relevant at the purchase date (within the combination).
If the sale is expected to occur beyond the period of one year, the entity will assess the costs by regarding the sale at their current value, any increase in the current value of those sales will be presented in the income statement as a financial cost.
Also, the addition to the updated value of the selling costs and of other expenses elements which can subsequently intervene is recognized as financial expense, in accordance with the provisions of paragraph 17.

3rd Example:

The X entity holds a non-current asset registered in accountancy with the value of 85.000 u.m., classified at the end of the N exercise as held for sale. It is considered at 31.12.N for asset a fair value of 87.000 u.m., afferent selling costs of 3.500 u.m.
At the end of the following exercise the sale operation had not been realized, not because of the entity, so the maintenance of the asset classified as being available for sale is still allowed.
The update of the costs afferent to the sale takes place using an update rate of 12%.
In March, exercise N+2, the sale takes place, the costs afferent to the sale being now estimated at a value of 3.900 u.m.
Before the classification of the asset as held for sale, its evaluation was realized at amortized cost; at the end of the N exercise, as the fair value less selling costs is exceeded by the book value (83.500<85.000) there is recognized a depreciation of 1.500 u.m. for the asset.
At the end of the following exercise, after the update of the selling costs (3.500/1,12 = 3.125 u.m.) considering the unmodified fair value of87.000 u.m., the sum of 375 u.m. is written at the revenues, as effect of the increase of the fair value less selling costs to 83.875 u.m. (83.875>83.500 new fair value > the book value of the asset after the recognition of the loss value).
In March, exercise N+2, the new book value of 83.875 u.m. exceeds the fair value less selling costs with 775 u.m.
It will be proceeded at the recognition by financial expenses of the period of increase of the costs afferent to the sale.

Recognition of Losses from Depreciation for the Assets Destined for Sale

The discussions at the level of the International Accounting Standard Board were concentrated in the differences between the reevaluated non-current assets and the other as it follows:

► For the assets destined for sale which were not previously reevaluated (in accordance with IAS 16), any decrease registered in the fair value would represent a loss from the depreciation recognized as expense in the income statement;

► For the already reevaluated assets destined for sale:

■ any increase of the estimated sale price would be reflected as income in the income statement, but the decreases in the estimated fair value should be compensated from the surplus from the reevaluation created based on IAS 16;

■ any ulterior decrease over the surplus recognized in accordance with IAS 16 to be accounted as expense in the income statement; and

■ an ulterior decrease in the estimated sales prices should be recognized in the income statement, but an ulterior increase in the fair value should be totally recognized as increase from the reevaluation in accordance with IAS 16, exactly as it happened before the reclassification of the assets as being held for sale; also, the costs regarding the sale should be always recognized in profit or loss.

It was concluded as being much too complex such a distinction between the reevaluated assets and those which were not yet submitted to this process, so a unitary approach was admitted:

► For any decrease of the fair value less initial or ulterior selling costs, an entity will recognize a loss from the depreciation in the income statement regardless if the non-current assets were reevaluated or not before their entry in the perimeter of application of IFRS5;

► Any ulterior increase of the fair value less selling costs there will be recognized a gain in the income statement, without exceeding the loss cumulated from the depreciation which was recognized in accordance with this IFRS or previously in accordance with IAS 36.

4nd Example:

It is considered asset Y registered in accountancy at the value of 250.000 u.m., classified at the end of the N exercise as held for sale. It is considered that the exceptions provided at paragraph 9 of IFRS 5 are fulfilled so that the asset is maintained in the initial classification, there are given the following fair values, diminished by the costs of the sale afferent to the end of the exercises N, N+1 and N+2: 230.000 u.m.; 200.000 u.m.; 270.000 u.m.

As the fair value less selling costs is lower than the book value, it is recognized for asset Y at the end of the N exercise a loss from the depreciation of 20.000 u.m. in the income statement. At the end of the N+1 exercise the new book value of 230.000 u.m. exceeds the fair value with 30.000 u.m.; it is recognized a loss from the depreciation for the asset of another 30.000 u.m.

In the N+2 exercise the fair value of 270.000 u.m. exceeds the book value with 70.000 u.m.

There will be recognized as gain from the increase in time of the fair value being accounted for revenues only the sum recognized previously as loss from the depreciation for the respective asset, either in accordance with IFRS 5, (either with IAS 36 "Depreciation of the assets", according to the case).

Although the potential gain is of 70.000 u.m., there will be recognized a revenue of 50.000 u.m. at the end of the N+2 exercise, sum which compensates the loss of value registered previously in accordance with IFRS 5.

In the context of recognition of the losses from depreciation, if up to the date of sale of the asset there was not recognized a loss from the depreciation or any gain, now, on the date of sale they can be recognized in accordance with the requirements of IAS 16 "Tangible assets", respectively IAS 38 "Intangible assets". The requirements connected to the recognition are established:

► paragraphs 67-72 of IAS 16, revised in 2003 for tangible non-current assets;

► paragraphs 112-117 of IAS 38, revised in 2004 for intangible non-current assets.

The losses from the depreciation, for a group of assets destined for disposal, there will be recognized in the income statement through the adjustment of the book value of the component assets at the level of the fair value, except the assets which although a component part of the group are not the object of the evaluation requirements of IFRS 5; they are evaluated in accordance with the applicable IFRSs, as specified in paragraph 19 of IFRS 5: *"within the ulterior reevaluations of the disposal group the book value of any assets and debts which are not the object of the evaluation requirements of this IFRS, but which are included in a disposal group catalogued as held for sale will be reevaluated in accordance with the applicable IFRSs before the fair value less selling costs of the disposal group to be reevaluated".*
There are observed differences between the provisions of IFRS 5 and IAS 36 regarding the allotment of a loss from depreciation; thus, IAS 36 imposes as a loss from the depreciation of a cash-generator unit to be allotted first with the purpose of reducing the book value of the commercial fund and afterwards with the purpose of the pro rata reduction of the book value of the other assets within the unit, unlike IFRS 5 which imposes the direct adjustment of the book value of the composing assets of the group.

5th Example:

An entity is committed to a sale plan and intends to assign a production space representing an important quota of its activities. In the disposal group there are tangible non-current assets of 16.700 u.m. divided as it follows: asset X – 4.600 u.m., asset Y – 8.400 u.m., asset Z – 3.700 u.m. The group classified as available for sale has a fair value less selling costs of 12.500. u.m.
As the evaluation of the group classified as held for sale is realized at the minimum between the book value and the fair value less selling costs, the entity will recognize a loss from the depreciation of 4.200 u.m. distributed to the assets composing the group based on their book value, as it follows:

Table no. 1 Distribution of the Loss from Depreciation on the Assets of the Group

Specification	Book value before allotment of the loss	Value loss	Book value after allotment
Asset X	4.600	(1.157)	3.443
Asset Y	8.400	(2.113)	6.287
Asset Z	3.700	(930)	2.770
Total	16.700	(4.200)	12.500

If in this example there is also an M asset component of the disposal group but which is not the object of the evaluation requirements of IFRS 5, being evaluated in accordance with IAS 16 "Tangible assets" model of reevaluation, it is first evaluated in accordance with the applicable norm, and afterwards it is evaluated the fair value less selling costs of the group.
Given the M asset accounted at a value of 15.000 u.m., for which the fair value is estimated at 17.500 u.m., with a depreciation loss recognized for expenses of 1.000 u.m. As for the asset there was previously recognized a loss from depreciation, the sum of 1.000 u.m. is written at incomes, the difference of 15.000 u.m. being registered as an increase from reevaluation.
The resumption of losses from depreciation for the assets group destined for sale involves the recognition of a gain through the increase of the book value of the composing assets, but not more than the loss cumulated from the previously recognized depreciation either in accordance with IFRS 5, either previously in accordance with IAS 36.

Amortization of the Assets Classified as Being Held for Sale

A non-current asset classified as being held for sale or which is included in a group of assets available for sale *will not be amortized*. This thing is logical since the concept at the basis of the amortization is the allotment of the asset's cost on its useful lifetime, and once the asset is deemed as being held for sale, this purpose no longer has a sense. If the asset (assets group) held for sale no longer fulfills the criteria for assignment provided at paragraphs 7-9 from IFRS 5, the element can no longer be kept in this category and its reclassification is imposed in the category of exploitation assets to which it belongs. Also, the value at which it is recognized in the financial situations will be changed. *Its assessment will be done through reporting to the date on which it no longer fulfills the conditions to be classified as being held for sale.*

Thereby, a non-current asset which ceases to be classified as being available for sale must be assessed at the lowest value between:

■ the book value of the asset before being classified as held for sale, adjusted with any depreciation or amortization which could be recognized if the asset was not classified as being available for sale, and

■ *the replacement value* on the date of the subsequent decision of not selling.

There will also be considered any modifications (increases or decreases) in the book value of the asset afferent to the period in which it did not fulfill the classification criteria as asset held for sale and until the elaboration of the financial situations. For the non-current assets composing the cash-generator unit the *replacement value* is that accountant value which would have been recognized after the allotment of any loss from depreciation supported by UGN, respectively the *recoverable value*.

If an asset or an individual debt is eliminated from a disposal group classified as being held for sale, the remaining assets or debts from the disposal group which are to be sold will continue to be assessed as a group only if the group fulfills the criteria for classification as held for sale. In other circumstances, the non-current assets remained from the group which fulfill the criteria for classification as held for sale individually must be assessed individually at the lowest value between their book values and the fair values less selling costs on that date.

For the non-current assets available for sale, the financial situations must present, in accordance with IFRS 5, the following information:

► Separate presentation in the balance of the total assets available for sale;

► The non-current assets classified as being held for sale (separately or within an assets group destined for sale;

► An analysis, in the balance or the annexed notes to the financial situations, of the information presented previously regarding the main categories of assets destined for sale;

► A separate presentation of the sums accounted directly in the proper capitals, regarding the non-current assets classified as being destined for sale;

► Profit or loss resulted from the reclassification or after a subsequent reevaluation of a non-current assets destined for sale;

► A description of the non-current assets classified as being destined for sale as well as the reasons for their reclassification. It can also be indicated the sector of activity to which the non-current asset destined for sale belongs to;

► Description of the events and circumstances in which the sale took place or which led to the planned assignment, as well as the manner and moment of the assignment.

Conclusion

In Romania, according to the current regulations, IFRS 5 does not have yet a specific approach, a proper treatment, but it is assumed that the adoption of the provisions in accordance with the European Directives will lead towards a process of convergence which is otherwise desirable.

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