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# INTERNATIONAL FINANCIAL REPORTING

A PRACTICAL GUIDE



# International Financial Reporting

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- (b) On 1 October 2023, a company which prepares financial statements to 31 December each year classifies a non-current asset as held for sale. The asset's carrying amount on that date is £50,000 and its fair value less costs to sell is £55,000. The asset is sold in June 2024 for £53,000 (net). Calculate any impairment losses (or gains) that should be recognised if the asset's fair value less costs to sell at 31 December 2023 is:

- (i) £52,500                      (ii) £49,000

In each case, also calculate the gain or loss that should be recognised on the disposal of the asset.

### ***Solution***

- (a) An impairment loss of £500 should be recognised on 1 July 2023, writing the asset down to its fair value (less costs to sell) of £9,500. On 31 December 2023:

- (i) the asset is remeasured at £9,200 and an impairment loss of £300 is recognised
- (ii) the asset is remeasured at £9,700 and a gain of £200 is recognised
- (iii) the asset is remeasured at £10,000 and a gain of £500 is recognised (the gain cannot be £600 since this would exceed the previously recognised impairment losses in relation to the asset).

The gain or loss on the sale in May 2024 (recognised in the financial statements for the year to 31 December 2024) is:

- (i) gain £200 (£9,400 – £9,200)
- (ii) loss £300 (£9,400 – £9,700)
- (iii) loss £600 (£9,400 – £10,000).

- (b) There is no impairment loss on 1 October 2023, since the asset's fair value less costs to sell exceeds its carrying amount. The asset continues to be measured at £50,000. On 31 December 2023:

- (i) the asset is still measured at £50,000 and no gain is recognised (since there were no previous impairment losses in relation to this asset)
- (ii) the asset is remeasured at £49,000 and an impairment loss of £1,000 is recognised.

The gain or loss on the sale in June 2024 (recognised in the financial statements for the year to 31 December 2024) is:

- (i) gain £3,000 (£53,000 – £50,000)
  - (ii) gain £4,000 (£53,000 – £49,000).
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### Scope of the measurement requirements of IFRS5

The measurement requirements of IFRS5 apply only to non-current assets and do not apply at all to the following types of asset, whether individually or as part of a disposal group:

	<i>Chapter of this book</i>
(a) deferred tax assets (IAS12 <i>Income Taxes</i> )	15
(b) employee benefits assets (IAS19 <i>Employee Benefits</i> )	14
(c) financial assets (IFRS9 <i>Financial Instruments</i> )	11
(d) investment properties at fair value (IAS40 <i>Investment Property</i> )	5

If an asset on this list is classified as held for sale, it should continue to be measured in accordance with the applicable standard. But the asset should be presented in the financial statements as an asset held for sale (see later in this chapter).

In the case of a disposal group held for sale, the carrying amount of all assets not within the scope of IFRS5 (and the carrying amount of any liabilities) should be remeasured<sup>†</sup> in accordance with the applicable standard on each occasion that the carrying amount of the disposal group is compared with its fair value less costs to sell.

<sup>†</sup> *This means that the carrying amount of a disposal group on each occasion that this is compared with fair value less costs to sell may be a combination of carrying amounts as at the date when the group was initially classified as held for sale and carrying amounts which have been remeasured as at the date that the comparison is taking place.*

### EXAMPLE 3

On 1 September 2023, a company which prepares financial statements to 31 December each year classifies a disposal group as held for sale. This disposal group is still unsold at 31 December 2023. The carrying amounts of the disposal group's assets and liabilities at 1 September 2023 are shown below, along with the carrying amounts at which these assets and liabilities would have been measured at 31 December 2023 (in accordance with applicable standards) if the group had not been classified as held for sale.

	<b>1 September 2023</b>	<b>31 December 2023</b>
	£000	£000
Goodwill	2,000	1,900
Property, plant and equipment (PPE)	4,300	3,900
Inventories	850	800
Financial assets	1,500	1,750
Liabilities	(900)	(900)

The fair value (less costs to sell) of the disposal group is £8 million at 1 September 2023 and £7.5 million at 31 December 2023. Calculate the amount of any impairment losses (or gains) that should be recognised at these two dates.

Also show how these impairment losses or gains should be allocated amongst the assets and liabilities in the group.

**Solution**

- (a) On 1 September 2023, the total carrying amount of all the assets and liabilities in the disposal group is £7.75m. This is less than fair value less costs to sell (£8m). So the group is measured at its carrying amount. There are no impairment losses.
- (b) The measurement requirements of IFRS5 do not apply to the inventories, the financial assets or the liabilities. Therefore the carrying amounts of these three items must be remeasured on 31 December 2023 in accordance with the applicable standards. The carrying amount of the disposal group becomes £7.95m, as follows:

	£000
Goodwill	2,000
Property, plant and equipment	4,300
Inventories	800
Financial assets	1,750
Liabilities	(900)
	<u>7,950</u>

This exceeds fair value less costs to sell (£7.5m) so there is an impairment loss of £450,000. This loss is allocated to non-current assets to which the measurement requirements of IFRS5 apply (goodwill and PPE). IAS36 requires that the loss is set first against the goodwill, reducing that asset from £2 million to £1.55 million. This absorbs the whole loss so there is nothing left to set against the PPE. The assets and liabilities in the disposal group are now measured as follows:

	£000
Goodwill	1,550
Property, plant and equipment	4,300
Inventories	800
Financial assets	1,750
Liabilities	(900)
	<u>7,500</u>

The gain on remeasurement of £200,000 (£7.95m – £7.75m) and the impairment loss of £450,000 are recognised in the company's statement of comprehensive income for the year to 31 December 2023.

**Measurement of assets no longer classified as held for sale**

If an asset or disposal group has been classified as held for sale but then the criteria for this classification are no longer met, the asset or disposal group should cease to be classified as held for sale. A non-current asset that ceases to be classified as held for sale (or ceases to be part of a disposal group classified as such) should be measured at the *lower* of:

- (a) its carrying amount before being classified as held for sale, less any depreciation that would have been charged in the meantime if it had not been held for sale, and

- (b) its recoverable amount at the date of the decision not to sell, which is the *higher* of:
  - (i) the asset's fair value less costs to sell
  - (ii) the asset's value in use, which is defined as "*the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life*".

The effect of this measurement rule is that an impairment review is required whenever an asset ceases to be classified as held for sale (see Chapter 7).

## Presentation of non-current assets held for sale

Non-current assets held for sale and the assets of a disposal group held for sale should be presented separately from other assets in the statement of financial position. Similarly, the liabilities of a disposal group should be presented separately from other liabilities. It is not permissible to offset these assets and liabilities. The major classes of assets and liabilities classified as held for sale should be disclosed either in the statement of financial position or in the notes.

### **Additional disclosures**

In the accounting period in which a non-current asset or a disposal group is classified as held for sale (or is later sold) the following additional disclosures should be made in the notes to the financial statements:

- (a) a description of the asset or disposal group
- (b) a description of the facts and circumstances of the expected disposal (or the sale) and the expected manner and timing of that disposal
- (c) any impairment loss recognised when the asset or disposal group was classified as held for sale and any further loss or gain recognised subsequently
- (d) if applicable, the reportable segment in which the asset or disposal group is presented (see Chapter 24).

If an asset or disposal group which was previously classified as held for sale is no longer held for sale, the facts and circumstances of this decision should also be disclosed.

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## ILLUSTRATION

*This illustration is based upon implementation guidance provided with IFRS5.*

A company which prepares financial statements to 31 December each year has classified a disposal group as held for sale. At 31 December 2023, this group's assets consist of non-current assets with a carrying amount of £8 million and liabilities with a carrying amount of £3.3 million. These assets and liabilities could be presented in the statement of financial position at 31 December 2023 as follows:

**Statement of financial position as at 31 December 2023**

	£000	£000
<b>Assets</b>		
Non-current assets		
Property, plant and equipment		xxx
Current assets		
Inventories	xxx	
Trade receivables	xxx	
Cash at bank	xxx	
	xxx	
Non-current assets held for sale	8,000	xxx
		xxx
<b>Equity</b>		
Share capital		xxx
Retained earnings		xxx
		xxx
<b>Liabilities</b>		
Non-current liabilities		
Long-term loans		xxx
Current liabilities		
Trade payables	xxx	
Liabilities directly associated with non-current assets held for sale	3,300	xxx
		xxx

**Discontinued operations**

IFRS5 requires that an entity should present and disclose information that enables users of the financial statements to evaluate the effects of discontinued operations. Two definitions are important here:

- A discontinued operation is *"a component of an entity that either has been disposed of or is classified as held for sale ..."*.
- A component of an entity comprises *"operations and cash flows that can be clearly distinguished ... from the rest of the entity"*. Whilst held for use, a component will usually be a single cash-generating unit or a group of such units (see Chapter 7).

In general, a discontinued operation will represent *"a separate major line of business or geographical area of operations"*. The presentation and disclosure requirements of IFRS5 in relation to discontinued operations are outlined below.

### ***Presentation and disclosure of discontinued operations***

With regard to discontinued operations, an entity should disclose:

- (a) a single amount in the statement of comprehensive income, comprising the total of:
  - (i) the post-tax profit or loss of discontinued operations, and
  - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell (or on the disposal) of the assets constituting the discontinued operation
- (b) an analysis of this single amount, either in the statement of comprehensive income or in the notes to the financial statements, into:
  - (i) the revenue, expenses and pre-tax profit or loss of discontinued operations
  - (ii) the tax expense arising in relation to this profit or loss
  - (iii) the gain or loss recognised on the measurement to fair value less costs to sell (or on the disposal) of the assets constituting the discontinued operation
  - (iv) the tax expense arising in relation to this gain or loss.
- (c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations (either in the statement of cash flows or in the notes).

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### **ILLUSTRATION**

*This illustration is based upon implementation guidance provided with IFRS5.*

A company discontinued an operation during the year to 31 March 2023 and sold the corresponding disposal group. The revenue and expenses of the discontinued operation for the year to 31 March 2023 were as follows:

	£000
Revenue	432
Expenses	<u>295</u>
Pre-tax profit	137
Tax expense	<u>26</u>
Post-tax profit	<u>111</u>

The fair value of the disposal group when it was initially classified as held for sale was in excess of its carrying amount, so there was no impairment loss at that time. A pre-tax gain of £20,000 arose when the disposal group was sold (tax expense £4,000). Therefore the total profit from discontinued operations is £127,000 (£111,000 + £20,000 – £4,000).

This information could be presented in the statement of comprehensive income for the year to 31 March 2023 in the following manner: