

**Comments of the Accounting Standards Board of the Institute of Chartered Accountants of India on Exposure Draft (ED)-4, "Disposal of Non-current Assets and Presentation of Discontinued Operations" issued by IASB**

**Part-1-Response to specific questions**

Question 1: The separate classification of non-current assets held for sale enables additional information to be provided to users. We agree with the classification being made.

Question 2: Measurement basis of non-current assets held for sale at the lower of carrying amount and fair value less costs to sell and prohibition of depreciation (amortisation) of the same is appropriate.

Question 3: We agree with the proposal that in the case of disposal group, the measurement basis will be applicable for the disposal group as a whole and the impairment loss will reduce the carrying amount of non-current assets (covered by ED-4).

Question 4: We agree with measurement of newly acquired (non-current) assets at fair value less costs to sell.

Question 5: We agree that in case of revalued assets, impairment losses and subsequent gains should be treated as revaluation decreases and revaluation increases respectively. We also agree that costs to sell and subsequent changes in it should be recognised in the income statement. However, it may be clarified that it will be recognised as impairment loss. This is because until the event of disposal takes place, costs to sell cannot be recognised in the financial statements. At the same time the revalued non-current asset classified as held for sale should be measured at fair value less costs to sell. Hence, effectively, costs to sell is to be treated as impairment loss to be recognised in the income statement.

Question 6: We agree that withdrawal of exemption from consolidation of subsidiaries meant for disposal is appropriate.

Question 7: We agree that non-current assets classified as held for sale and assets and liabilities of a disposal group classified as held for sale should be presented separately in the balance sheet and that assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount.

Question 8: In our view from the point of view of users it is more important as to whether a separate line of business or geographical area of operation is discontinued and not the further segregation of the same. We, therefore, prefer an amendment to the criteria for classification of an operation as held for sale. We strongly support the insertion of an additional criterion that a discontinued operation should be a major line of business or geographical area of operation, even though this will not converge with SFAS-144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. To avoid possible frequent disclosure of discontinued operations, the additional criterion drawn from the erstwhile IAS-35 *Discontinuing Operations* is required. Convergence with SFAS-144 (which is hyper-technical leading to practical difficulties) is not important in this regard.

The insertion of this additional criterion requires some consequential changes. For example, as per para 6 of ED-4, if a disposal group to be abandoned is a component of an entity, the results and cash flows of the disposal group shall be presented as discontinued operations. This will be valid only if that component represents a major line of business or geographical area of operation. Examples 8 to 13 given in *Draft Illustrative Examples* may have to be reviewed.

The other aspects of criteria (i.e. elimination of the operations and cash flow etc.) are appropriate.

Question 9: We are of the view that a single amount, profit after tax for discontinued operations on the face of the income statement with a breakdown into its components given in the notes should be shown. The reason is that disclosure of revenues, expenses, etc. would clutter-up the face of the income statement. Further, the detailed information with regard to continuing operations is more relevant from the point of view of users and the detailed information with regard to discontinued operations is not of continuing significance. Incidentally, we may mention that paras 80 to 82 of [draft] IAS-1 *Presentation of Financial Statements*, especially para 82(e) permit disclosure of results of discontinued operations either on the face of the income statement or in the notes. Compulsory requirement of disclosure on the face of the income statement will require consequential changes to [draft]IAS-1 (paras 80 to 82).

## **Part II- Other comments**

Para 1: The term 'non-current assets' appearing in the second sentence of this para should be printed in italics. The reason is that the style adopted in IFRSs requires printing of a defined term in italics when it appears for the first time in the Standard.

Para 2: For the reasons stated in comments for para 1, the term 'non-current assets' should not be printed in italics in this para.

The tail portion of para 2 gives ambiguity as to whether the proposed standard is applicable to disposal groups or not. Hence there should be full stop at the end of item (e) of para 2. Thereafter a sentence should be added on the following lines:

"In addition, this [draft]IFRS applies to disposal groups as set out in paragraph 3".

Paras 9,12, 13,17, 24, B2 and B5 to B8: The term "assets"/ "asset" appearing in these paras should be changed as "non-current assets"/"non-current asset". [If the same term appears for the second time in the same para, the change is not required. [This change is also not required in paras 3 and 20 since a disposal group may consist of assets/ liabilities not covered by ED-4].

Para 12: After the word "recognise", the words "in the income statement " should be inserted. This is to ensure that remeasurement losses and gains (where revaluation is not involved) are included in the income statement.

Para 14: This para explains manner of adjustment of impairment loss in case of a disposal group. As regards non-current assets classified as held for sale individually (i.e. not forming part of a disposal group), this para is silent. Third sentence of Para 37 of SFAS-144 is very clear in this regard. Based on SFAS-144, para 14 of ED-4 may be re-drafted as below:

" The impairment loss (or any subsequent gain) recognised shall adjust only the carrying amounts of non-current assets that are included in the scope of this [draft] IFRS, whether classified as held for sale individually or as part of a disposal group".

[In fact para 52 read with para 51 of [draft] IAS 36 *Impairment of Assets* dealing with individual assets held for use clearly states that adjustment of impairment loss shall be made in their carrying amounts].

Para 17: This para may be redrafted to provide that if one or more of the criteria mentioned in Appendix B is no longer met, the entity shall cease to classify a non-current asset (or disposal group) as held for sale. [ "One or more of the criteria" will be more appropriate than "the criteria"]. Similarly, in paragraph 19 also this change may be made.

Para 18 (b): The expression “at the date of the subsequent decision not to sell” may be changed as “at the date the non-current asset ceases to be classified as held for sale”. The reason is that even if one of the criteria in Appendix B is no longer met, classification as held for sale ceases. Decision to sell is only one of the several criteria. [Similar comment applies for para 30 also].

[Of course, para 38 of SFAS-144 uses the words “subsequent decision not to sell.” However, in paragraph 38 of SFAS 144, the first sentence uses the words ‘an entity decides not to sell a long-lived asset’ whereas paragraph 18 of ED 4, in the beginning, uses the words ‘non-current asset that ceases to be classified as held for sale’. Therefore, in SFAS 144, the use of these words is appropriate at the end but not in ED 4].

Footnote to para 18: The footnote gives an impression that recoverable amount is always less than the carrying amount. It is not so. Also, the term ‘cash-generating unit’ appears for the first time in this footnote only. Hence it should be printed in italics as per the style adopted in IFRSs.

Paras 19 and 26: The expression “income from continuing operations” should be changed as “profit or loss from continuing operations”. There are two reasons for this suggestion. First, normally [draft] IASs and [draft] IFRSs use the term “profit or loss”. Next, para 27 uses the term “profit or loss from continuing operations”.

Para 23: The point of time at which an ‘operation’ should be classified as held for sale should be explained. Of course it is possible to gather the intention indirectly. The definition of disposal group given in Appendix A permits an ‘operation’ to be labelled as a disposal group. Para 4 deals with classification of disposal group (in addition to non-current assets) as held for sale and para 5 prescribes timing of such classification. Hence, it may be concluded that for determining timing of classification of discontinued operation, one has to refer to paras 4 and 5. Instead of such circuitous inference, it can be directly explained.

Para 24(b): This para permits, inter-alia, disclosure of gain or loss on disposal of assets or disposal groups comprising discontinued operations to be made on the face of financial statements or in notes to financial statements. On the contrary para 76(d) of [draft]IAS-1 *Presentation of Financial Statements* requires disclosure of pre-tax gain/loss on the disposal of assets or settlement of liabilities attributable to discontinuing operations on the face of the income statement only. Thus while an option is given in ED-4, there is no option in [draft]IAS-1 (para 76(d)). IASB should take a clear stand and remove this contradiction.

Para 27: This para states that any gain or loss on the remeasurement of a non-current asset (or disposal group) that does not meet the definition of a component of an entity shall be included in the profit or loss from continuing operations. The words ‘or if it is a component of an entity but does not meet the definition of discontinued operations’ **should be inserted** after the words “does not meet the definition of a component of an entity”. The reason is that a non-current asset (or disposal group) may meet the definition of a component of an entity. Still the remeasurement gains shall form part of profit or loss from continuing operations, if the definition of a discontinued operation ( Ref: Appendix A and also para 23 of ED-4) is not met. For instance, even after the planned disposal of the component, the entity may decide to have significant involvement in that component and hence remeasurement gains will be included in profit or loss from continuing operations only. An example can be seen in situation (b) of Example 9 given in *Draft Illustrative Examples*. [Each company-owned restaurant is a component. The ‘components’ in one region are sold to an existing franchisee but the entity will receive franchise fee, determined in part, based on the future revenue of the restaurants. Thus, there is involvement even after disposal].

It appears that this para applies only when the non-current assets are not revalued. It should be so stated.

Para 30: For the reasons already given in the comments on para 18(b),

(i) the words “period of the decision to change the plan to sell the asset” should be changed as “period of cessation of classification of a non-current asset (or disposal group) as held for sale”.

(ii) the words “leading to the decision” should be changed as “leading to such cessation”.

(iii) the words “effect of the decision” should be changed as “effect of such cessation”.

#### **Disclosures:**

Para 24 is applicable only for discontinued operations. Para 24(b) requires disclosure of remeasurement gains/losses as well as gains/losses on disposal of assets or disposal groups comprising discontinued operations. For non-current assets or disposal groups not meeting the definition of a discontinued operation, disclosure of remeasurement gains/losses is required under para 29(b) read with para 12. We believe that para 12 deals with assets/ disposal groups not comprising discontinued operations. **But disclosure of gains or losses arising on actual disposal is not specifically required in such cases (i.e. cases not meeting the definition of a discontinued operation).** [Of course, [draft]IAS-16-para 56 and [draft] IAS-38-para 109 require such disclosures but they do not cover all types of assets or liabilities of a disposal group].

#### Appendix A [Defined terms]:

(i) The term “impairment loss” should be defined. It should be printed in italics in para 12(a) since this term appears for the first time in para 12(a) only.

(ii) The term ‘costs to sell’ has been defined. It can be further explained on the lines of para 35 of SFAS-144, either in the definition itself or in a new para as background material below para 8. Accordingly, it may be clarified that ‘costs to sell’ include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title is transferred. These costs exclude expected future operating losses associated with a non-current asset (or disposal group).

#### Appendix B [Application supplement]:

(i) In para B4, cross reference to para 28(a) is wrong. It should be para 29(a). There is no para 28(a).

(ii) As per para B8, in case a disposal group consists of revalued assets, the revaluation increase will be recognised to the extent that the carrying value of the non-current assets in the group after the increase has been allocated does not exceed **their** fair value less costs to sell. In our view, this is not correct. This may reduce the quantum of revaluation increase in some situations. In our view even in the case of disposal groups, the revaluation increase should be recognised to the full extent. Impairment loss of the disposal group as a whole (including the portion arising out of costs to sell) should be separately considered. This is because treatment of revaluation increase cannot differ simply because the revalued non-current assets form part of a disposal group. In this connection reference may be made to para BC35 of *Basis for Conclusions*, especially last sentence, which says, “The Board agreed that costs to sell should always be recognised in the income statement”.

Also the words “carrying value” appearing in the third sentence of para B8 should be redrafted as “carrying amount” which is the terminology used in ED-4 as well as in all [draft]IASs/ [draft]IFRSs.

#### Appendix C [Amendments to other IFRSs]:

The following consequential amendments to other IFRSs should be effected.

(i) Wherever the term 'discontinuing operations' appears in any [draft] IAS or [draft] IFRS, it should be changed as 'discontinued operations'. For example in paras 76(d) and 82(e) of [draft] IAS 1 *Presentation of Financial Statements* and para 28 of IAS 28 *Accounting for Investments in Associates*, this change is required.

(ii) In [draft] IAS-16 *Property, Plant and Equipment*, in para 59, the words "or is retired from active use and held for disposal" be deleted. The reason is that as per ED-4 (para 16), depreciation should cease if a non-current asset is held for sale. In fact para 2 of [draft] IAS-16 is being amended by para C2 of Appendix C to provide that [draft] IAS 16 is not applicable for non-current assets classified as held for sale. A portion of para 59 of [draft] IAS-16 is contrary to the proposed ED-4. If needed, the words "or if held for abandonment" may be substituted for the above words. This will be in line with para 6 of ED-4 which states that a non-current asset should not be classified as held for sale if it is to be abandoned. In this connection, reference may be made to para BC24 of *Basis for Conclusions*.

(iii) For the reasons given in (i) above, in [draft] IAS-38, *Intangible Assets*, in para 112, the words "or is retired from active use and held for disposal" be deleted. If needed, the words "or if held for abandonment" may be substituted for the above words.

(iv) In [draft] IAS 27 *Consolidated and Separate Financial Statements*, para 32(a) be deleted. [ It is preferable to renumber items (b) to (f) of para 32 as items (a) to (e)]. Existing para 32(a) refers to exclusion from consolidation of a subsidiary in certain circumstances under para 13 of IAS 27 whereas para 13 of IAS 27 is proposed to be deleted by ED-4, Appendix C- para C3.

(v) In [draft] IFRS X *Business Combinations*, [see ED-3] second sentence of para 12 be deleted. This is because that sentence refers to exclusion of subsidiaries from consolidation which is no longer permitted as per ED-4.

#### Basis for conclusions

(i) As per para BC8(a) allocation of goodwill to disposal groups is covered by [draft] IFRS X *Business Combinations*. Actually it is covered by [draft] IAS-36 *Impairment of Assets* (paragraphs 73, 74 and 81) (released in December, 2002).

(ii) In para BC25, the words "held for sale" should be redrafted as "classified as held for sale".

#### Additional guidance required:

1. Application of paras 18 to 20 (Changes to a plan of sale) in the case of revalued non-current assets should be explained.

2. It is possible that an operation may be disposed of piecemeally. Since it is not disposed of in a single sale, it is not possible to disclose gains/losses of each sale as attributable to discontinued operations. Guidance is required in this area. Also, if goodwill is allocated to an operation which is sold piecemeally, how should that situation be handled in the light of para 81 of [draft]IAS-36 *Impairment of Assets* ?

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