

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

COMMENTS ON ED 4 – DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

Question 1 – Classification of non-current assets held for sale

The Exposure Draft proposes that non-current assets should be classified as assets held for sale if specified criteria are met. (See paragraphs 4 and 5 and Appendix B.) Assets so classified may be required to be measured differently (see question 2) and presented separately (see question 7) from other non-current assets.

Does the separate classification of non-current assets held for sale enable additional information to be provided to users? Do you agree with the classification being made? If not, why not?

Comment

Yes the separate classification of non-current assets held for sale would enable to provide additional information for the users.

Question 2 – Measurement of non-current assets classified as held for sale

The Exposure Draft proposes that non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell. It also proposes that non-current assets classified as held for sale should not be depreciated. (See paragraphs 8-16.)

Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

Comment

Measurement at fair value less costs to sell would not reveal the correct gain/loss on disposal of the asset in the period the asset is actually sold. Also, in order to improve profitability by not charging depreciation on assets held for disposal, entities may be tempted to misuse the suggested basis of measurement.

Hence, we are of the opinion that such assets should continue to be depreciated albeit at a reduced rate.

Question 3 – Disposal groups

The Exposure Draft proposes that assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole and any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group. (See paragraph 3.)

Is this appropriate? If not, why not?

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Comment

The classification of a group of assets as held for sale would further enhance understanding of the users of the financial statements about future plans of the management. Impairment loss should also reduce the carrying amount of the whole disposal group, however, the ED hasn't proposed any method for the allocation of the impairment loss on the individual assets in the disposal group.

Question 4 – Newly acquired assets

The Exposure Draft proposes that newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition (see paragraph 9). It therefore proposes a consequential amendment to [draft] IFRS X *Business Combinations* (see paragraph C13 of Appendix C) so that non-current assets acquired as part of a business combination that meet the criteria to be classified as held for sale would be measured at fair value less costs to sell on initial recognition, rather than at fair value as currently required.

Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

Comment

Agreed.

Question 5 – Revalued assets

The Exposure Draft proposes that, for revalued assets, impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued, except to the extent that the losses (or gains) arise from the recognition of costs to sell. Costs to sell and any subsequent changes in costs to sell are proposed to be recognised in the income statement. (See paragraphs B6-B8 of Appendix B.)

Is this appropriate? If not, why not?

Comment

Agreed. The treatment as stated in the above question is appropriate and is consistent with IAS 16 and IAS 36. However, paragraph B6 of the ED does not reflect the treatment in the same manner as laid down in question 5 above.

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Question 6 – Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

The Exposure Draft proposes a consequential amendment to draft IAS 27 *Consolidated and Separate Financial Statements* to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. (See paragraph C3 of Appendix C and paragraphs BC39 and BC40 of the Basis for Conclusions.)

Is the removal of this exemption appropriate? If not, why not?

Comment

Disagreed. The exemption should be continued. (Also see comment on question 8)

Question 7 – Presentation of non-current assets held for sale

The Exposure Draft proposes that non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale, should be presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount. (See paragraph 28.)

Is this presentation appropriate? If not, why not?

Comment

In our opinion, the proposed treatment is appropriate and will help users in identifying the disposal groups and assets held for sale.

Question 8 – Classification as a discontinued operation

The Exposure Draft proposes that a discontinued operation should be a component of an entity that either has been disposed of, or is classified as held for sale, and:

(a) the operations and cash flows of that component have been, or will be, eliminated from the ongoing operations of the entity as a result of its disposal, and

(b) the entity will have no significant continuing involvement in that component after its disposal. A component of an entity may be a cash-generating unit or any group of cash-generating units. (See paragraphs 22 and 23.) These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being presented every year. This, in turn, will lead to the comparatives being restated every year. Do you agree that this is appropriate? Would you prefer an amendment to the criteria, for example adding a requirement adapted from IAS 35 *Discontinuing Operations* that a discontinued operation shall be a separate major line of business or geographical area of operations, even though this would not converge with SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. How important is convergence in your preference?

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Are the other aspects of these criteria for classification as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

Comment

The criteria for classification as a discontinued operation as suggested in exposure draft are appropriate however, an exception should be introduced for entities that are primarily involved in buying and selling of operations i.e operations are bought with the intent to recover the carrying amount (rather investment) through a sale transaction rather than through using the asset. This would save such entities from unnecessary consolidation and restatement of prior year figures.

Question 9 – Presentation of a discontinued operation

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of the income statement. (See paragraph 24.) An alternative approach would be to present a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components given in the notes. Which approach do you prefer, and why?

Comment

The second approach is preferred, as this would keep all disclosures i.e revenue, expenses, pretax profit of discontinued operations at one place (in the notes to the accounts) while the net impact on the profit after tax could be seen as a separate line item on the face of the income statement.

The first approach may be adopted if a separate column is added to the income statement for presenting corresponding figures of revenue, expenses and profit before tax etc. of discontinued operations against each line item of the income statement.