Accounting Standards Board
AcSB
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Conseil des normes comptables

1. Classification of non-current assets held for sale

The separate classification of non-current assets held for sale provides additional information to users of financial statements. It identifies that certain assets will not provide ongoing cash flows as well as an estimate of short-term cash flows from their disposal. Both of these are useful to those wishing to estimate future cash flows for the entity (to the extent they are material). We therefore agree with this separate classification.

2. Measurement of non-current assets held for sale

The measurement basis is appropriate for non-current assets classified as held for sale.

3. Disposal groups

The proposal to measure a disposal group at the lower of its carrying amount and fair value less cost to sell (for the group as a whole) is appropriate. If the fair value less cost to sell of individual assets and liabilities were used, the difference between the fair value less cost to sell of the disposal group and that of the individual assets and liabilities would result in a gain or loss in the period of disposal. This would not be meaningful – and could be confusing.

The allocation of any impairment loss for the disposal group to the carrying amount of the non-current assets in the disposal group is also appropriate.

4. Newly acquired assets

As noted in the Basis (paragraphs BC30 – BC35) most cases where newly acquired assets are held for sale arise in a business combination. This issue is most appropriately considered in the context of the project on business combinations.

While we understand the conceptual argument for valuing newly acquired assets at fair value and taking an immediate charge to earnings for the costs to sell (paragraph BC32), measuring newly acquired assets held for sale at fair value less cost to sell more accurately represents the business combination and is easier to understand. It is not clear that measuring newly acquired assets at fair value and recording an immediate loss provides more useful information.

5. Revalued assets

In certain circumstances the proposals would seem to result in a different carrying amount for an asset depending on whether it had been revalued prior to being classified as held for sale. If an asset held for sale is measured at fair value less cost to sell and had not previously been revalued, then any subsequent increase in fair value is only recorded to the extent of recorded impairment losses (paragraph 12(b)). However, if the same asset had been revalued prior to being classified as held for sale, “any subsequent increase in fair value shall be recognized to its full extent”. There does not seem to be a clear basis for this difference in measurement.

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

The removal of the exemption is necessary for the accounting for these the assets and liabilities of these subsidiaries in consolidated financial statements to be consistent with that of other assets held for sale.

This changes a long-standing practice that many feel is justified by the temporary nature of the control (and consolidation) of the subsidiary as well as the cost and effort of consolidating it. The Basis relies on consistency to support the removal of the exemption and might be strengthened if the cost/benefit aspects were addressed.

7. Presentation of non-current assets held for sale

Separate presentation in the balance sheet of non-current assets held for sale is appropriate. Separate classification (see Question 1) is only of value if communicated. While this could be done through note disclosure, separate presentation in the balance sheet is more transparent and does not result in excessive detail in the balance sheet.

Offsetting of the assets and liabilities of a disposal group would be inappropriate for similar reasons as for any other assets and liabilities.

8. Classification as a discontinued operation

The proposed criteria for classification as a discontinued operation are appropriate. Current criteria are arbitrary and exclude many disposals, depriving the financial statement user of information about the ongoing operations of the entity.

9. Presentation of a discontinued operation

While agreeing that disclosure on the face of the income statement generally provides more prominence to information than note disclosure, the additional amount of detail can make the income statement more complex and difficult to read.

In evaluating this trade-off, the information on continuing operations is more important than that on discontinued operations. The one line presentation of profit after tax for discontinued operations results in the same information on continuing operations being presented in the income statement as does the ED proposal. Further, the information on discontinued operations would be disclosed in an integrated manner, rather than being dispersed across the income statement and in note disclosure.

Presentation of discontinued operations as a single, after-tax amount in the income statement with more detailed disclosure in the notes is the preferable option.

If the ED proposal is included in the final standard, an example of the proposed income statement presentation might be useful.

Canadian Accounting Standards Board