

Non-current Assets Held For Sale and Discontinued Operations

Challenges in applying IFRS 5
May 2008



Introduction

Discontinuing a business operation or a deciding to sell a major asset are important commercial events. These decisions are also likely to have a significant effect on an entity's results and net assets. The impact of these events and the way in they are reported is therefore of much interest to investors, analysts, regulators and other financial statement users. This is also the subject of a specific International Financial Reporting Standard: *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5).

IFRS 5 can have a significant effect on a company's profit or loss, the carrying values of its assets and on the presentation of results. The financial statement impacts may extend to prior and future accounting periods. IFRS 5 is not a new standard but experience has shown that implementation can be a complex and time-consuming exercise. Significant judgment is required in some areas. Management and auditors should therefore assess the impact of IFRS 5 as soon as they become aware that it may be relevant.

The member firms within Grant Thornton International Ltd (Grant Thornton International) - one of the world's leading organisations of independently owned and managed accounting and consulting firms - have gained extensive insights into the more problematic aspects of IFRS 5. Grant Thornton International, through its IFRS team, develops general guidance that supports its member firms' commitment to high quality, consistent application of IFRS and is therefore pleased to share these insights by publishing this guide *Non-current Assets Held for Sale and Discontinued Operations*. The guide reflects the collective experience of Grant Thornton International's IFRS team and member firm IFRS experts. It explains IFRS 5's key implementation issues and common approaches to practical application. The guide also includes several examples illustrating the Standard's disclosure and presentation requirements.

The guide is organised as follows:

- **Section A** addresses when assets (and related liabilities) are classified as “held for sale”;
- **Section B** sets out the circumstances in which a planned or completed disposal gives rise to a “discontinued operation”;
- **Section C** covers the measurement consequences of held for sale classification;
- **Section D** provides guidance on the application of IFRS 5's requirements on presenting discontinued operations and assets held for sale and related disclosures; and
- **Section E** provides specific guidance on many of the common practical and interpretive issues encountered in applying IFRS 5.

References to IAS 1 Presentation of Financial Statements (revised 2007)

All references in this guide to IAS 1 are based on the 2007 version of this standard. The revised version of IAS 1 introduced, amongst other amendments, various changes in the financial statement terminology. For example, IAS 1 uses the term “statement of financial position” instead of “balance sheet” and “statement of cash flows” instead of “cash flow statements”. This guide reflects these recent changes to the IFRS terminology.

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A. Assets held for sale and disposal groups

IFRS 5 sets out specific measurement requirements for non-current assets and disposal groups that are classified as “held for sale”. Held for sale classification is not an accounting policy choice; it is mandatory when certain conditions apply, namely if the asset(s) in question is (are) available for immediate sale and the sale is highly probable. Very often, a planned sale involves a group of assets (and possibly liabilities). IFRS 5 introduces the concept of a “disposal group” to address this situation.

This section discusses the requirements to meet the held for sale classification. The measurement requirements that apply when this classification takes effect are discussed in Section C.

1. Definitions

IFRS 5.6 states that:

“An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use”.

Typically, this definition captures individual assets that the entity seeks to dispose of in a sale transaction, such as:

- Property, plant and equipment;
- Intangible assets;
- Investment property,
- Biological assets; and
- Non-current financial investments, such as interests in associates, or other financial instruments.

Assets that are to be abandoned or scrapped (rather than sold) are not classified as assets held for sale (IFRS 5.13-14). Assets that will be derecognised due to an exchange of non-current assets with a third party are covered by IFRS 5 unless the exchange lacks commercial substance. Sale and leaseback transactions are outside the scope of IFRS 5 and are covered by IAS 17 *Leases*. Sales of machinery, vehicles and other equipment, which have been replaced by new items, and sales of surplus property are very common examples of transactions where IFRS 5 applies even where the disposed assets do not form a disposal group.

A **disposal group** is defined as:



“A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of IAS 36 *Impairment of Assets* (as revised in 2004) or if it is an operation within such a cash-generating unit” (IFRS 5.A).

Hints

- An abandonment or unintentional loss of control over assets does not meet the held for sale classification.
- Assets that are sold in a series of transactions rather than in a single transaction need to be considered individually to determine whether or not they should be classified as held for sale.

Examples of a disposal group include a subsidiary or an operating segment or a cash generating unit (CGU). A disposal group is sometimes but not always a discontinued operation (see page 15).

2. Initial classification requirements

IFRS 5 specifies two main requirements to initially classify asset(s) as held for sale. Firstly, the asset(s) must be available for immediate sale in its (their) present condition. Secondly, the sale must be highly probable.

2.1 Available for immediate sale

The term “available for immediate sale” requires some interpretation. An asset is available for immediate sale if there is no significant reason why the sale could not take place immediately. Terms that are usual and customary for similar sales and are not likely to cause a material delay do not preclude held for sale classification.

The Implementation Guidance to IFRS 5 sets out a number of examples to illustrate these concepts. Assets are not available for immediate sale if they continue to be needed for the entity's ongoing operations (IFRS 5.IG examples 1b and 2b) or are being refurbished to enhance their value (IFRS 5.IG example 3a). Held for sale classification is then delayed until the assets under review are available for immediate sale.

Examples

- 1 A property used as headquarters by the entity itself needs to be vacated before it can be sold. If the property is expected to be vacated in the usual course of the sales plan, then a held for sale classification may be appropriate in accordance with the standard. If however the property can be vacated only after a replacement is available (eg a new building under construction or one that still needs to be vacated by its former tenants/owners), then this may indicate that the property is not available for immediate sale, but only after the replacement becomes available.
- 2 An entity intends to sell a manufacturing facility. If the entity needs the facility to clear a backlog of uncompleted orders, then this may indicate that the facility is not available for immediate sale. If the entity however seeks to sell the manufacturing facility including the backlog of uncompleted orders, its availability for immediate sale may be assumed.
- 3 An entity plans to renovate some of its property to increase its value prior to selling it to a third party. The entity is already searching for a buyer at current market values. Nevertheless, due to the plans to renovate the property prior to sale, the property may not be available for immediate sale.

2.2 Highly probable sales transaction

For a sale to be highly probable at the reporting date, the entity must have a plan to sell. There are no specific requirements regarding the sale's form and judgement is required to determine whether the conditions in IFRS 5 have been met.

Sometimes a potential buyer may already have been identified and the selling plan is therefore reasonably apparent at the balance sheet date. Indeed, the trigger for a held for sale classification is often a buyer's firm purchase commitment – a contract that IFRS 5 defines as:

“An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.” (IFRS 5.A)

The substance of any arrangement between the selling entity and the probable buyer needs to be considered. A letter of intent or similar pre-contract document may or may not constitute a firm commitment for this purpose. The enforceability of the arrangement needs to be assessed and may depend in part on the legal environment in addition to the stated terms. Pre-contract arrangements may or may not specify a penalty if one of the parties withdraw from the transaction.

In the absence of a firm sales commitment, further analysis of the selling plan is necessary to determine whether the anticipated transaction is highly probable. IFRS 5 sets out five conditions which need to be met:

Five conditions of a highly probable sales transaction (IFRS 5.8):

- The appropriate level of management is committed to the selling plan;
- The asset(s) are being actively marketed;
- The assets are on the market at a price that is reasonable in relation to their estimated current fair values;
- Completion of the sales transaction is expected within one year from the initial date of classification; and
- Significant changes to or a withdrawal from the selling plan are unlikely.

Consideration of whether these conditions have been met is based on the specific facts and circumstances and professional judgement is necessary to determine whether a sales transaction is highly probable.

Commitment by appropriate level of management (and related shareholder approval)

The appropriate level of management should be committed to the selling plan (IFRS 5.8).

Management is generally regarded as those persons with authority and responsibility for planning, directing and controlling the activities of the entity. A sale cannot usually be considered highly probable if the entity's management is not (yet) committed to a selling plan.

In our view, the entity should also consider whether shareholder approval is required to proceed with a selling plan. Shareholder approval is, for example, sometimes necessary under applicable laws or regulations. In some circumstances, shareholder approval might be a perfunctory matter. However, the sale will not be highly probable if shareholder approval is substantive and there is reasonable doubt that it will be forthcoming.

Active marketing efforts

For a selling plan to indicate a highly probable sale, “an active programme to locate a buyer and complete the plan must have been initiated” (IFRS 5.8). The entity therefore must actively market the asset(s) by making its intention to sell known to third parties that may be interested in acquiring the asset.

In practice, the engagement of an outside selling agent to attract interest from potential buyers may be considered as an active marketing effort by the entity. Advertisement of the intention to sell through the media may also be considered as the beginning of active marketing efforts. However, it is generally not necessary to announce the intention to sell to the general public or to employees of the entity that are likely to be affected by the sales transaction.

If an entity initiates a sale programme after the balance sheet date but before the date of authorisation of the financial statements, presenting an asset(s) as held for sale is precluded. However, it may be necessary to disclose a non-adjusting event after the balance sheet date in accordance with IAS 10 *Events After the Reporting Period*.

Marketed at fair value

The asset(s) must also be marketed at a suggested selling price that is reasonable compared to its fair value (IFRS 5.8). This does not necessarily require that the “asking price” is announced to potential buyers. Sometimes an asking price that exceeds fair value is announced, based on an expectation that the actual price will be reduced to fair value in negotiation. This does not preclude the held for sale classification if the difference is justifiable based on local market conditions.

Sale or firm purchase commitment highly probable within one-year period

At the date of initial classification of one or more assets as held for sale it should be reasonable to expect that the selling plan is completed within one year (IFRS 5.8). In our view, a selling plan is completed only when the assets (and liabilities if applicable) qualify for de-recognition in accordance with applicable IFRS.

The only exception to this one year timeframe arises in circumstances in which the entity expects an outside party (not the buyer) to impose conditions on the transfer of assets that will extend the period to complete the sale (eg regulatory approval). Held for sale classification is then appropriate if the entity can address the imposed conditions only after a firm purchase commitment has been obtained and if a firm purchase commitment is highly probable within one year (IFRS 5.9 and IFRS 5.B1 (a)).

Other factors to consider in assessing the probability of a sale within one year include the number of potential buyers, the nature and value of the asset in question (including the extent to which it has specialised use), market conditions and past experience in selling similar assets.

Sales transaction progressing according to plan

Actions taken to complete the selling plan and events since the held for sale classification was initiated should indicate whether or not the sale is likely to occur according to plan. If there are indicators that significant changes to the selling plan will be necessary or if a withdrawal from the selling plan is likely, the sale should not be considered highly probable and hence, the asset(s) under review should not be classified as held for sale (IFRS 5.8). Indicators that should be considered include a downturn in the relevant market sector, increases in interest rates (which affect financing costs of a potential buyer) and changes in the business strategy of the reporting entity.



This requirement for a held for sale classification needs to be considered independently from the right to sell the assets under review. If a sale is not possible eg due to physical constraints, immediate availability for sale should not be assumed and classification of the asset(s) as held for sale is not appropriate.

3. Allocating assets and liabilities to a disposal group

If the entity's sales plan addresses a group of assets that will be disposed of in a single transaction, the entity classifies the group of assets as a whole as held for sale. It also presents any liabilities associated with those assets as held for sale, if the liabilities will be transferred in the same transaction. Any goodwill directly allocated to the group of assets to be disposed of is also treated as held for sale. This includes sales of all or part of a CGU to which goodwill has been allocated. These assets and the related liabilities are then referred to as a "disposal group".

IFRS 5 does not provide further detailed guidance on which assets or liabilities should be included in a disposal group. The definition above (page 6) suggests that a disposal group includes only those assets and liabilities that will be disposed of in the single planned sales transaction. In addition to identifying common types of non-current assets (see page 5) which should be included in the disposal group, the following points should be considered in order to determine whether other individual assets and liabilities may be allocated to a disposal group:

- The intention to carry out the sale "cash and debt free" indicates that cash and cash equivalents as well as some of the group's financial liabilities may not be part of the sales transaction;
- Deferred taxes recognised in connection with the assets and liabilities of a disposal group should be included in the disposal group. The same principle applies to unused tax losses and unused tax credits that will be transferred to a third party in the course of the anticipated sales transaction (see opposite); and
- All liabilities expected to be transferred to a third party in the course of the single sales transaction should be included in the disposal group. This may include, in particular, non-current liabilities such as provisions or employee benefits obligations.

Deferred tax assets and liabilities

A careful analysis is necessary to assess whether deferred taxes are directly associated with a disposal group, ie they will be transferred in the anticipated sales transaction:

- Temporary differences that directly relate to assets and liabilities "inside" the disposal group (sometimes referred to as "inside basis differences") give rise to deferred taxes that belong to the disposal group.
- In group tax structures, temporary differences may also arise in connection with the interest in the disposal group, but "outside" of the level of the investing entity. These "outside basis differences" should not be included in the disposal group, as they will trigger tax payments for the continuing part of the reporting entity.

Consideration of these matters should be based on the specific facts and circumstances and professional judgement is often required to determine whether deferred taxes are directly associated with a disposal group or not.

Differing interpretations can arise as to how current assets should be allocated to a disposal group. Two approaches are applied in practice, which both appear acceptable under IFRS 5.

One approach would be to focus on the definition of the disposal group. This definition refers to assets that will be “disposed of, by sale or otherwise, together as a group in a single transaction” (IFRS 5.A). This appears to exclude assets and liabilities that will no longer exist at the expected date of this single transaction because they have been sold, transferred, realised or settled before that date. Where the disposal group represents a CGU, subsidiary or similar unit of the entity, an analysis of its current assets and liabilities is therefore necessary to exclude items not expected to be part of the single sales transaction. Related deferred tax assets and liabilities also need to be excluded.

Another approach focuses on IFRS 5.4, which states that a disposal group “may include any assets and any liabilities of the entity including current assets”. This approach leads to the inclusion of all of the categories of asset and liability expected to be disposed of in the single transaction. It does not look to the individual assets and liabilities within those categories. All current assets and liabilities that can be allocated to the disposal group at the balance sheet date are therefore included in the disposal group without further analysis.

Example: Allocating assets and liabilities to a disposal group

Entity A currently controls subsidiary B for which it is actively seeking a buyer. The subsidiary is available for immediate sale and the sale is considered highly probable. In the consolidated accounts of the A-group, the following assets and liabilities are held and assumed by B:

Assets	CU000s	Liabilities	CU000s
Goodwill	500	Long term borrowings	1,000
Other intangible assets	800	Employee benefit obligations	1,200
Property, plant and equipment	1,200	Other provisions	400
Inventory	300	Deferred taxes	350
Trade receivables	400	Trade payables	300
Cash	200		
	3,400		3,250

Entity A is currently considering offers for subsidiary B and expects that the sales transaction will be completed in 5 months. Current discussions focus on a sale of the subsidiary cash and debt free, so its long-term borrowings and the cash held directly by subsidiary B are not considered to be part of the disposal group.

An analysis of deferred tax liabilities shows that they are mainly related to temporary differences arising in conjunction with intangible assets and subsidiary B's property, plant and equipment. It is therefore concluded that the deferred tax liabilities should be included in the disposal group.

Entity A expects that all of the inventories, trade receivables and trade payables will be sold or settled within the next five months. As discussed above, it is therefore an interpretation issue as to whether these current items are included or excluded from the disposal group. In this case, Entity A has made an accounting policy choice in a previous transaction to include all assets and liabilities in a disposal group based in the circumstances at the balance sheet date. Its disposal group assets and liabilities may therefore be summarised as follows:

Disposal group assets	CU000s	Disposal group liabilities	CU000s
Goodwill	500	Employee benefit obligations	1,200
Other intangible assets	800	Other provisions	400
Property, plant and equipment	1,200	Deferred taxes	350
Inventory	300	Trade payables	300
Trade receivables	400		
	3,200		2,250

Review within the initial one-year period

Within the one-year period, the classification is continued if all the initial classification requirements of IFRS 5.8 are still met. If the assets are no longer available for immediate sale or if a sales transaction is no longer highly probable, the classification is to be ceased. The entity then needs to reclassify the assets in accordance with applicable IFRS (IFRS 5.26) and modify the measurement of the asset(s) under review in accordance with IFRS 5.27-29.

4. Subsequent review of the held for sale classification

Sales transactions may sometimes not proceed as initially planned, for example, where a buyer cannot be found or regulatory approval is required. A review of the selling plan is generally necessary at subsequent balance sheet dates to ensure that the held for sale criteria continue to be met.

If the sales transaction is delayed beyond the initial one-year period, it is necessary to consider the reasons for the delay. IFRS 5 allows an “extension” of the held for sale classification only if the “delay is caused by events or circumstances beyond the entity’s control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group)” (IFRS 5.9). The standard identifies only three scenarios in which a delay is considered to be beyond the entity’s control and the held for sale classification may be continued (provided that the sales transaction is still highly probable and that the asset(s) is (are) still available for immediate sale).

4.1 Conditions are imposed as expected on the transfer of assets

The selling entity has obtained a firm purchase commitment at the end of the initial one-year period. As initially expected, a party other than the potential buyer has imposed conditions on the transfer of the asset(s). This outside party may, for example, be a regulatory body such as a government anti-trust agency or similar oversight body and actions necessary to respond to these conditions could not be initiated until a firm purchase commitment from a potential buyer was obtained. As the selling entity is dealing with the imposed conditions, completion of the sales transaction is expected after more than one year since the initial held for sale classification.

The held for sale classification is continued in this scenario if actions to respond to conditions imposed on the transfer of assets have been initiated (IFRS 5.B1 (a)).

4.2 Conditions are unexpectedly imposed on the transfer of assets

The potential buyer or another party has imposed conditions on the transfer of assets that will delay completion of the selling process. The conditions were not expected at the initial classification date. The entity, however, has obtained a firm purchase commitment. In this scenario, the asset(s) only continue to be classified as held for sale if:

- The entity has taken timely actions to respond to the conditions (IFRS 5.B1 (b) (i)); and
- It is expected that the delaying factors will be resolved to allow completion of the selling plan (IFRS 5.B1 (b) (ii)).

IFRS 5 is not entirely clear on whether the initial one year period may be extended only once, or more often. In practice, repeated delays are in any case likely to cast significant doubt on the completion of the sales transaction according to plan.

4.3 Buyer not found during initial one-year period

Other events that were not considered likely at the date of initial classification resulted in a delay beyond the one year period. Examples include circumstances in which the relevant market has unexpectedly dried up or where the asset(s) concerned have rapidly lost their appeal to potential buyers due to technological obsolescence or similar developments.

In this scenario, the selling entity may only continue to classify the asset(s) concerned as held for sale if the delay is due to developments outside the entity's control. Factors to consider in these circumstances include:

- Whether the entity took the action during the initial one-year period that was necessary to respond to changes in circumstances that were initially considered unlikely, but that in fact contributed to the delay (IFRS 5.B1 (c) (i)).
- Whether the asset(s) were actively marketed at a price reasonable given the changes in circumstances (IFRS 5.B1 (c) (ii)). In practice, the entity should have contacted either directly or indirectly through a selling agent potential buyers and conducted reasonable effort to complete the sales transaction.
- Whether a sale is still considered highly probable and the asset(s) continue to be available for immediate sale in their current condition (IFRS 5.B1 (c) (ii)).

Where the asset(s) concerned have been damaged in the meantime or are used again in the entity's continuing operations, this may indicate that they are not available for immediate sale and the held for sale classification should cease.

B. Discontinued operations

IFRS 5 also addresses the concept of discontinued operations. This concept is not the same as the held for sale classification, although the concepts are linked. Discontinued operations give rise to specific presentation requirements rather than remeasurements. Discontinued operations are presented separately in an entity's statement of comprehensive income and also require preparers to compute and disclose additional measures of earnings per share (EPS). Mandatory disclosures are provided to further explain the underlying event or transaction.

This section explains the conditions that trigger the presentation of a discontinued operation. The interaction with the held for sale classification is also addressed. The presentation requirements are illustrated in Section D.

1. Definitions

IFRS 5 applies to a variety of situations in which an entity ceases separately identifiable activities. IFRS 5 defines a discontinued operation as:

"A **component of an entity** that either has been disposed of or is classified as held for sale and:

- (a) represents a separate major line of business or geographical area of operations,
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- (c) is a subsidiary acquired exclusively with a view to resale" (IFRS 5.A).

A component of an entity is defined as:

"Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity." (IFRS.5.A)

Judgement is sometimes necessary in deciding whether a disposal represents a "discontinued operation". Depending on the facts and circumstances of each transaction, it may not be appropriate to present every ceased activity of the reporting entity as a discontinued operation. Rather the entity should focus on significant elements of its operations.

2. Classifying business activities as discontinued operations

IFRS 5 does not clarify the conditions for presenting business activities as discontinued operations further than in the basic definitions stated above. This leaves some judgement as to whether the operation is significant or “major” enough to meet the definition of a discontinued operation.

2.1 Significance of the ceased activities

The standard explains that discontinued operations usually “will have been a cash-generating unit or a group of cash-generating units while being held for use” (IFRS 5.31). A CGU is therefore likely to be the smallest component of an entity whose disposal might give rise to a discontinued operation.

The disposal of a reportable segment is likely to give rise to a discontinued operation. Presenting a reportable segment in accordance with IFRS 8 *Operating Segments* indicates its significance and also confirms that discrete financial information is available. Moreover, the definition of operating segments under IFRS 8 also relates to a “component of an entity” (IFRS 8.5), which is similar to the definition of a discontinued operation under IFRS 5. This also applies to reported segments that no longer meet the quantitative thresholds but are presented separately because of their continued significance in accordance with IFRS 8.17.

A subsidiary that was acquired exclusively with a view to resale is considered to be a discontinued operation by definition. The financial results of an entity that acquires a business and resells parts of it in the aftermath of the business combination may therefore be presented as a discontinued operation.

In contrast, a group of productive assets such as a factory that was a component of a CGU and has not been reported as an operating segment would not (if disposed of) be a discontinued operation.

2.2 Manner and timing of disposal

To be considered “discontinued”, the component in question must be either:

- classified as held for sale; or
- actually disposed of at the end of the reporting period.

2.3 Discontinued operations and held for sale classification

If a group of assets (and liabilities) meets the conditions to be classified as held for sale and also represents a “major operation”, as discussed above, both a disposal group and a discontinued operation arise. However, the linkages between discontinued operations and the held for sale classification are not always so clear. For example:

- A co-ordinated but piecemeal sale of a group of assets and liabilities might represent a discontinued operation, but would not give rise to a disposal group; or
- A plan to abandon an operation (rather than sell it) would not lead to held for sale classification. It would trigger presentation as a discontinued operation only on abandonment.



In practice, discontinued operations are often activities that have been presented to investors in the past as “divisions”, “business units” or with similar organisational terms. The sale or discontinuation of one or more cash generating units (CGUs), as defined in accordance with IAS 36 *Impairment of Assets*, may also indicate the need to present discontinued operations.

The following table summarises the relationship between the two concepts:

Scenario	Explanation	Discontinued operation	Assets held for sale
A	Entity disposes of a discontinued operation by selling the underlying assets. The sales transaction, however, is incomplete at the reporting date.	Yes	Yes
B	Entity has ceased activities that meet the definition of a discontinued operation without selling any assets.	Yes	No
C	Entity ceases activities and has already completed the sale of the underlying assets or disposal group at the balance sheet date	Yes	No
D	Entity will sell or has sold assets that are within the scope of IFRS 5, but does not discontinue any of its operations	No	Yes

C. Measurement requirements of IFRS 5

Immediately before the held for sale classification, the carrying amount of the asset(s) or disposal group is measured in accordance with applicable IFRS (IFRS 5.18). Plans to dispose of assets may be an indicator that the asset(s) may be impaired and may accordingly trigger impairment testing procedures. Any impairments (or reversals of previous impairments) are recognised before the entity classifies the asset(s) as held for sale.

It is only after the entity meets the held for sale classification criteria that IFRS 5's rules on measurement apply. Assets that are held for sale are measured at the lower of their carrying amounts (which are not depreciated or amortised) and their fair value less costs to sell. A number of exemptions apply however. This section explains the measurement effects of IFRS 5 at the initial date of the held for sale classification and thereafter.

1. Measurement scope of IFRS 5

IFRS 5 generally applies to the measurement of “all recognised non-current assets and disposal groups” (IFRS 5.2). However, not all assets that are classified as held for sale in a disposal group are within the measurement scope of IFRS 5:

“The measurement provisions of this IFRS do not apply to the following assets, which are covered by the Standards listed, either as individual assets or as part of a disposal group:

- (a) deferred tax assets (IAS 12 *Income Taxes*).
- (b) assets arising from employee benefits (IAS 19 *Employee Benefits*).
- (c) financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.
- (d) non-current assets that are accounted for in accordance with the fair value model in IAS 40 *Investment Property*.
- (e) non-current assets that are measured at fair value less estimated point-of-sale costs in accordance with IAS 41 *Agriculture*.
- (f) contractual rights under insurance contracts as defined in IFRS 4 *Insurance Contracts*” (IFRS 5.5).

The types of assets mentioned above are measured in accordance with applicable IFRSs and the entity's normal accounting policies even if they are classified as held for sale. An intention to sell such an asset individually would therefore never trigger a remeasurement in accordance with IFRS 5.

Another rule in IFRS 5.4 scopes in a number of assets in situations in which an entity has identified and classified a disposal group as held for sale:

“(…) If a non-current asset within the scope of the measurement requirements of this IFRS is part of a disposal group, the measurement requirements of this IFRS apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. (…)”

Hence, if an entity classifies a CGU, a group of CGUs or similar group of assets as held for sale, the entity measures the disposal group as a whole in accordance with IFRS 5. Any type of asset that is then not specifically excluded from the scope of this standard by IFRS 5.5 is not measured individually, but as part of the disposal group. This may for example include inventories that are part of a disposal group and other current assets (see page 9 for a discussion of the composition of a disposal group).

At the initial classification of assets or disposal groups as held for sale, the entity records the book value of the asset(s) under review as well as any impairment losses that have previously reduced their carrying amount(s). This information is an important input for calculating the amount of any future reversals of previous impairment losses.

2. Measurement of asset(s) held for sale

Once classified as held for sale, and provided that the assets under review are within the measurement scope of IFRS 5, the assets are measured at the lower of their carrying amount and fair value less costs to sell (IFRS 5.15). This "IFRS 5 remeasurement" is carried out on the initial held for sale classification and at subsequent reporting dates. Held for sale assets that are within the measurement scope of IFRS 5 are not subsequently amortised or depreciated (IFRS 5.25) unless the entity withdraws from its plan to sell (see page 21).

2.1 Fair value less costs to sell

IFRS 5's guidance on how the entity should determine fair value less cost to sell is limited.

Appendix A of the standard defines **fair value** as:

"The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."

Costs to sell is defined as:

"The incremental costs directly attributable to the disposal of an asset (or **disposal group**), excluding finance costs and income tax expense."

Costs to sell need to be discounted if a sale is expected to occur beyond one year. The unwinding of the discount over subsequent reporting periods is then recognised as a finance cost in profit or loss (IFRS 5.17). In practice, discounting selling costs is usually not necessary. A held for sale classification generally requires a completed disposal within a one year period. Discounting may therefore only occur in situations in which the sales transaction is delayed beyond one year in accordance with IFRS 5.9.

In practice, fair value less costs to sell is normally determined in accordance with the measurement guidance given in IAS 36, which also refers to "fair value less costs to sell". In the absence of relevant market quotes, valuation techniques based on discounted cash flows are therefore normally used to estimate the fair value of the asset(s) under review. IAS 36 and IFRS 5 may however result in different relevant values. IAS 36 generally requires measurement at the lower of the carrying amount and the recoverable amount. The recoverable amount is the higher of value in use and fair value less cost to sell. IFRS 5, on the other hand, requires measurement at the lower of the carrying amount and fair value less cost to sell and value in use is not considered as the entity intends to sell rather than use the asset(s).

Example: Applying the measurement requirements of IAS 36 and IFRS 5

Entity A disposes of its subsidiary B. Held for sale classification is met shortly before the balance sheet date. However, the disposal group that constitutes B also includes goodwill and other assets that are in the scope of IAS 36. Entity A therefore firstly carries out regular impairment testing procedures in accordance with IAS 36 and then measures the disposal group at the lower of its carrying amount or fair value less cost to sell.

Measurement procedure		Carrying amount	Gain / (loss)
Subsequent measurement - in accordance with individual IFRSs		CU 9,000	-
Impairment testing (IAS 36) - lower of carrying amount and recoverable amount	Recoverable amount (value in use) is determined at CU 7,500.	CU 7,500	CU (1,500)
Held for sale measurement (IFRS 5) - Lower of carrying amount and fair value less costs to sell	Fair value less cost to sell is determined at CU 2,500.	CU 2,500	CU (5,000)

In the above example, if subsidiary B is also considered to be a discontinued operation, any loss as a result of impairment testing in accordance with IAS 36 would be presented as a loss from continuing operations, whereas the IFRS 5 loss may be presented within the net result from discontinued operations.

2.2 Recognition of impairment losses

An impairment loss is recorded if the assets' or disposal group's fair value less cost to sell is lower than its carrying amount. The actual impairment loss is determined after the subsequent remeasurement of assets outside the measurement scope of IFRS 5 (IFRS 5.20). In other words, the entity

- Determines the carrying amount of held for sale assets that are outside the measurement scope of IFRS 5 (if any);
- Adds these remeasured amounts to the current carrying amounts of assets that are within the measurement scope of IFRS 5; and
- Compares the total carrying amount of the held for sale assets with their fair value less costs to sell.

A write-down of a group of held for sale assets generally follows the impairment loss allocation rules of IAS 36 (IFRS 5.23). Any impairment loss under IFRS 5 is therefore allocated initially to a disposal group's goodwill (if any). If the write down exceeds the amount recognised as goodwill, the remaining loss is allocated on a pro-rata basis to the disposal group's non-current assets. This order of allocation is also explained in example 10 of IFRS 5.IG.

IFRS 5 does not specify how a write down to fair value less costs to sell is recognised if it exceeds the carrying amount of goodwill and other non-current assets within the measurement scope of the standard. In our view any remaining impairment loss should be allocated on a pro-rata basis to any other current assets that are not specifically excluded from the measurement scope of the standard. This may for example result in the additional write-down of inventories that are part of the disposal group.

Example: Measurement of disposal group under IFRS 5

The fair value less costs to sell of assets included in a disposal group has been determined at CU 2,500. Prior to the held for sale classification, but after regular impairment testing procedures, the carrying amount of the assets was determined at CU 7,500. The following table illustrates the situation prior to and after recognition of the IFRS 5 impairment loss:

	Prior to IFRS 5 write-down	After IFRS 5 write-down
Assets	CU	CU
Goodwill	1,500	0
Other intangible assets	1,000	0
Property, plant and equipment	2,000	0
Inventory	1,500	1,000
Trade receivables	1,500	1,500
	7,500	2,500

A write-down of CU 5,000 needs to be allocated to the assets of the disposal group. The impairment loss is firstly allocated to goodwill and allocated on a pro-rata basis to the other intangible assets and property, plant and equipment which represent the disposal group's non-current assets. This reflects a write down of CU 4,500. The remainder of the impairment loss is allocated to inventories, as trade receivables are specifically excluded from the measurement scope of IFRS 5.

An entity should not record additional losses to the effect that the assets' fair value less selling costs is negative. Any additional loss is recognised at the date of derecognition of the asset(s) (IFRS 5.24) on the basis of the actual selling proceeds. A binding contract, which indicates a negative value of the asset or disposal group, may give rise to a financial liability or an onerous contract. Such a liability needs to be recognised separately outside of the disposal group in accordance with other IFRS, eg IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

2.3 Reversals of previous impairment losses

Fair value less costs to sell of assets held for sale may exceed the asset's carrying amounts either at the initial classification date or on subsequent remeasurement under IFRS 5. In these circumstances, the entity may need to record a gain arising from the reversal of previous impairment losses but with the following conditions:

- An impairment loss recorded under IAS 36 (prior to the held for sale classification) or under IFRS 5 (at or after the classification) has previously reduced the carrying amounts of the assets under review;
- The potential gain does not exceed cumulative impairment losses previously recognised under IAS 36 or IFRS 5 (IFRS 5.22 (b));
- The carrying amounts of assets excluded from the measurement scope of IFRS 5 are not affected by a reversal of a previous write-down of other assets; and
- A previous write-down of goodwill is not reversed.

In summary, reversal of previous impairment losses may only be recognised in relation to non-goodwill assets that are within the measurement scope of IFRS 5.

Example: Reversal of previous impairment losses

Fair value less costs to sell of a disposal group's assets has been determined at CU 12,000. The current carrying amount of the assets has been determined at CU 8,200, which already reflects the remeasurement of all assets that are excluded from the scope of IFRS 5. An analysis of the individual carrying amounts prior to a potential reversal of impairment losses is as follows:

Assets	Prior to IFRS 5 reversal	Previously recognised write-down on assets	After IFRS 5 reversal
	CU	CU	CU
Goodwill	1,500	(1,500)	1,500
Other intangible assets	1,000	(500)	1,500
Property, plant and equipment	2,000	(2,000)	4,000
Inventory	1,500	-	1,500
Deferred tax asset	1,700	(1,000)	1,700
Trade receivables	500	(500)	500
	8,200	(5,500)	10,700

The middle column summarises write-downs that have previously been allocated to the individual categories of assets.

- Goodwill impairment losses are never reversed. The carrying amount of goodwill therefore remains at CU 1,500.
- Previous write-downs of the deferred tax asset or the trade receivable are outside the measurement scope of IFRS 5 and have already been remeasured in accordance with IAS 12 and IAS 39, respectively. Further changes in the carrying amount of these assets are therefore not permitted.

The entity should only book a reversal of a previously recognised impairment loss for other intangible assets (CU 500) and property, plant and equipment (CU 2,000). This increases the carrying amount of the disposal group to CU 10,700, which is the “upper limit” set by IFRS 5 despite the disposal group's fair value less costs to sell being CU 12,000.

3. Measurement implications of a change in or withdrawal from the selling plan

If an entity determines that a previous held for sale classification for an asset or a disposal group is no longer appropriate, it needs to reclassify the assets and liabilities.

Firstly, the entity stops presenting the assets and related liabilities as held for sale. This change is made prospectively (ie without adjustments to comparatives). The assets and liabilities are reclassified based on their normal IFRS presentation.

Secondly, assets within the measurement scope of IFRS 5 are remeasured to reflect the carrying amounts the assets would have had in the absence of the held for sale classification. The entity therefore determines at the date of ceasing the held for sale classification:

- a The **recoverable amount** of the assets under review (ie the higher of value in use and fair value less costs to sell as estimated in accordance with IAS 36); as well as
- b The **carrying amount** the assets would have been recorded at in the absence of their classification as held for sale, thus reflecting potential depreciation, amortisation or revaluation not booked because of IFRS 5.

The assets (including goodwill, if any) are recorded at the lower of the two amounts (IFRS 5.27). This requirement also applies to individual assets that are removed from a disposal group while the disposal group continues to be measured in accordance with IFRS 5 as a whole. Remeasurement of individual assets within the measurement scope of IFRS 5 is necessary in circumstances in which the entity continues to present only individual assets as held for sale, rather than a disposal group.

Any resulting gain or loss should be presented in line with the general requirements set out by IAS 1 *Presentation of Financial Statements* and other standards in the period that the change in the selling plan occurs. Gains or losses should be presented as part of the results of continuing operations, except where the gain or loss relates to assets that are accounted for in accordance with the revaluation model in IAS 16 *Property, Plant & Equipment* or IAS 38 *Intangible Assets*. In this case, the gain or loss is treated as a revaluation increase or decrease (IFRS 5.28).

Example: Measurement effects of a withdrawal from the selling plan

Entity A has changed its intentions regarding the disposal of its subsidiary B. For the remeasurement of the disposal group's assets, an analysis of the assets' carrying amounts under IFRS 5 and a remeasurement to the recoverable amount of the assets in accordance with IAS 36 is carried out. The recoverable amount of the assets is estimated at CU 8,900. Entity A also assesses how much depreciation, amortisation or revaluation would have been recognised for the assets concerned if they had not been classified as held for sale. This information is reconciled to the assets' new carrying amounts as follows:

	Carrying amount under IFRS 5	Impairment losses recognised under IFRS 5	Depreciation & amortisation	New carrying amount
Assets	CU	CU	CU	CU
Goodwill	1,500	(1,500)	-	3,000
Other intangible assets	1,000	(500)	200	1,300
Property, plant and equipment	2,000	(1000)	400	2,600
Inventory	1,500	-	-	1,500
Trade receivables	500	-	-	500
	6,500	3,000	600	8,900

The impairment losses recognised under IFRS 5 for the other intangible assets and property, plant and equipment are reversed in full. The depreciation and amortisation charge that would have been recognised without their classification as held for sale in turn reduces their carrying amounts.

Given the recoverable amount of the disposal group's assets, the amount recognised for goodwill is fully restated to its carrying amount directly before it was classified as held for sale. If the recoverable amount had been lower, goodwill would have been restated to the extent that the total carrying amount of the former disposal group would not exceed its recoverable amount. However, an entity should not under any circumstances reverse an impairment loss that was recognised under IAS 36 prior to the disposal group's held for sale classification.

D. Presenting discontinued operations and assets held for sale, and related disclosure requirements

As discussed in previous sections, IFRS 5 applies to a range of situations. Careful consideration of the standard's rules on classification and measurement is necessary before the resulting presentation and disclosure requirements are applied. IFRS 5 contains detailed presentation and disclosure requirements to enable users of the financial statements to evaluate the effects of assets held for sale and discontinued operations:

- If an entity classifies assets as held for sale, the main rules for their presentation in the entity's financial statements and the related disclosures are set out in IFRS 5.38-42. Classifying assets as held for sale also triggers a number of disclosure requirements that are set out by other standards.
- If the entity identifies discontinued operations, IFRS 5.33-36 set out the main requirements for presentation and the related disclosures. Additional requirements arise from other standards.

Some of the disclosures also depend on whether an entity presents both discontinued operations and assets held for sale and how these are related to one another.

1. Assets held for sale and disposal groups: Presentation and disclosures

The minimum presentation requirements for assets held for sale and disposal groups are set out in IFRS 5.38:

"An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale **separately from other assets in the statement of financial position**. The liabilities of a disposal group classified as held for sale shall be presented **separately from other liabilities in the statement of financial position**. Those assets and liabilities **shall not be offset** and presented as a single amount. The **major classes of assets and liabilities** classified as held for sale **shall be separately disclosed either in the statement of financial position or in the notes**, except as permitted by paragraph 39. An entity shall **present separately any cumulative income or expense recognised in other comprehensive income** relating to a non-current asset (or disposal group) classified as held for sale." (IFRS 5.38, emphasis added)

1.1 Presentation in the statement of financial position

Assets held for sale and disposal groups are commonly presented in a line item labelled "asset(s) held for sale" or "disposal group". If the disposal group includes liabilities, these might be presented as "disposal group liabilities" or also simply as "disposal group". These lines items should be included within current assets or liabilities, since the entity intends to transfer them within the one year period assumed as part of their held for sale classification.

Prior period comparatives are not adjusted for current period changes in the held for sale classification (IFRS 5.40). This restriction can cause confusion as IFRS 5 includes a requirement to retrospectively present the results of discontinued operations by amending the prior year's statement of comprehensive income and the related disclosures (see page 26). As explained previously, "held for sale" and "discontinued operations" are different concepts and IFRS 5 takes different approaches to the adjustment of comparatives.

The entity also needs to present separately any gains and losses that have been recognised outside profit or loss in respect of held for sale assets and disposal groups. For example, if a disposal group comprises:

- available for sale financial assets as defined in IAS 39 *Financial Instruments: Recognition and Measurement*;
- defined benefit liabilities for which actuarial gains and losses are recognised outside profit or loss as permitted by IAS 19 *Employee Benefits*; or
- property, plant or equipment assets that are stated at revalued amounts in accordance with IAS 16,

the related gains, losses and income taxes are presented separately from other items in the statement of comprehensive income and/or in the statement of other comprehensive income.

1.2 Disclosures

Disposal groups and assets held for sale should be analysed into their major classes of assets and liabilities. This analysis may be done either on the face of the statement of financial position or in the notes thereto. However, specific exemptions apply for subsidiaries that are newly acquired exclusively with a view to resale (see page 35).

In the period in which the entity has classified or sold the non-current asset classified as held for sale or a disposal group, it also needs to disclose the following information:

- “(a) a description of the non-current asset (or disposal group);
- (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
- (c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented on the face of the income statement, the caption in the income statement that includes that gain or loss;
- (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating Segments*.” (IFRS 5.41)

In summary, it is necessary to explain what the entity is selling as well as how and when it intends to sell it. If a gain or loss has been recognised in measuring held for sale assets in accordance with IFRS 5 the relevant amount and line item in the statement of comprehensive income is disclosed. This amount, however, excludes any gains or losses on the remeasurement before the actual held for sale classification or when the entity withdraws from a highly probable selling plan. If a gain or loss on the remeasurement of assets held for sale relates to a discontinued operation, it is usually included in “net result from discontinued operations”. This is further explained in the next section.

2. Discontinued operations: presentation and disclosures

2.1 Presentation in the statement of comprehensive income

IFRS 5 and IAS 1 both specify minimum requirements for presentation of discontinued operations (that are in substance identical):

“An entity shall disclose:

(a) a single amount on the face of the income statement 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 or disposal group(s) constituting the discontinued operation (...).” (Extract from IFRS 5.33 (a), similar to IAS 1.82 (e))

The exact description of this single line item is not prescribed by IFRS. As a generic description, however, it is usually referred to as “net result from discontinued operations”. The three main components of this line item in the statement of comprehensive income may be illustrated as follows:

A	Pre-tax result from discontinued operations	
	+/- Taxes relating to ordinary result from discontinued operations	(if any)
B	+/- Gains and losses resulting from remeasurement of assets held for sale or disposal groups constituting the discontinued operation	(if any)
	+/- Taxes relating to gains and losses from remeasurement of assets held for sale	(if any)
C	+/- Gains and losses resulting from the disposal of assets held for sale or disposal groups constituting the discontinued operation	(if any)
	+/- Taxes relating to gains and losses from disposal of assets held for sale	(if any)
=	Net result from discontinued operations	

IFRS 5.33 (a) only relates to assets held for sale or disposal group(s) that constitute the discontinued operation. Some gains and/or losses, however, may result from the remeasurement or the disposal of assets held for sale that do not relate to the discontinued operation(s). If a gain or loss relates to continuing operations, it must not be presented within discontinued operations (IFRS 5.37).

The single line item in the statement of comprehensive income and any related notes include income taxes. As the definition of income taxes within IAS 12 encompasses both current and deferred taxes, net result from discontinued operations should also include the effects of any deferred taxes that relate to the discontinued operation.

2.2 Comparatives

One of the challenges in presenting discontinued operations is IFRS 5’s requirement to restate comparatives on the face of the statement of comprehensive income. This is intended to assist users of the financial statements in evaluating the financial effects of discontinued operations across reporting periods.

Net result from discontinued operations is presented for all reporting periods covered in the statement of comprehensive income (IFRS 5.34). This affects both results from (previously) continued operations and discontinued operations. An entity therefore needs to update all explanatory notes relating to income and expense generated or incurred by continued operations. This may, for example, include prior and current period disclosures about:

- The major components of income tax expense;
- The amount of each significant category of revenue;
- The amount recognised as an expense for a defined contribution plan.

2.3 Disclosures

Net result from discontinued operations as presented on the face of the statement of comprehensive income has to be further analysed into its components. At a minimum, the entity needs to disclose:

- Revenue, expenses and pre-tax profit or loss of discontinued operations;
- Income taxes related to pre-tax profit or loss of discontinued operations;
- The gain or loss recognised on the measurement at fair value less cost to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
- Income taxes on remeasurement or disposal of assets or disposal group(s) constituting the discontinued operation (IFRS 5.33 (b)).

This analysis may be set out either on the face of the statement of comprehensive income or in the notes. Specific exemptions apply for subsidiaries that have been acquired exclusively with a view to resale (see page 35).

In practice, these minimum requirements are often met by using an amended version of the layout used for the entity's statement of comprehensive income, which is included in the notes to the financial statements. This format then illustrates each of the discontinued operation's line items as they would have been presented if the operation had continued.

IFRS 5 does not specify the exact level of detail to be provided in the analysis of net result from discontinued operations. The standard also does not refer to situations involving more than one discontinued operation. However, IFRS 5.33 (a) would seem to require presentation of a single amount for the results of all discontinued operations in aggregate. In our view, the further analysis of this single amount required by IFRS 5.33 (b) should preferably disaggregate the single amount into each significant discontinued operation. In practice, this disaggregated information is likely to be given in the notes.



Some acceptable layouts seen in practice that are used to meet these requirements are illustrated on page 32.

2.4 Cash flows resulting from discontinued operations

The entity also needs to present cash flows from operating, investing and financing activities of the discontinued operations. These amounts may either be incorporated into the statement of cash flows or given in the notes (IFRS 5.33 (c)). This analysis is not necessary for newly acquired subsidiaries that are immediately classified as held for sale.

Prior period adjustments of the statement of comprehensive income will be required in situations in which an entity withdraws from its plans to discontinue an operation. The withdrawal from a plan to sell however does not result in an adjustment of the presentation of comparatives in the statement of financial position.

3. Changes in a plan to sell

If an entity stops classifying assets as held for sale, it has to describe the facts and circumstances that led to its withdrawal from the initial selling plan (IFRS 5.42). This explanation may for example include the fact that no buyer could be found at an acceptable price or that conditions imposed on the sale have resulted in the withdrawal of the asset or disposal group from the market. The entity also describes the effect of the decision on the results of operations for all periods presented in the financial statements (IFRS 5.42). This disclosure would include any revaluation gain/loss on reclassification. Reclassification of any prior period balances of held for sale assets and related liabilities is, however, not permitted. IFRS 5.42 applies equally to changes in a disposal group – if the reclassification, for example, only affects individual assets of a disposal group, the financial statements should explain the reasons for changing the composition of the disposal group.

The amounts presented on the face of the statement of comprehensive income and in the notes are restated (IFRS 5.36) if the assets that the entity ceases to classify as held for sale also represented a discontinued operation. The entity reclassifies net result from discontinued operations into continuing operations for the current period and restates all comparatives. Explanatory notes relating to continuing operations (such as operating segment information) are also restated to reflect the continuation of the operation in question.

4. Post-disposal results from discontinued operations

Some disposal transactions are subject to ongoing contingencies that may affect future periods' results. Any income or expense directly related to the disposal of a discontinued operation in a prior period is presented separately within the result of discontinued operations (IFRS 5.35). Examples of circumstances when this might arise include adjustments to the purchase price, previously unanticipated income tax effects or the transfer of legal obligations to the buyer.



IFRS 5.35 requires that the income and expenses related to a discontinued operation are presented separately as a net result from discontinued operations in the entity's statement of comprehensive income, even in reporting periods after the selling transaction has been completed.

5. Example presentation layouts and selected explanatory notes thereto

5.1 Assets held for sale and disposal groups

Assets that are classified as held for sale and any associated liability are presented separately on the face of the statement of financial position (IFRS 5.38). An analysis of these amounts is required either on the face of the statement of financial position or in the explanatory notes thereto. The following paragraphs set out example presentation layouts based on an illustrative disposal transaction of a business unit that comprises both a disposal group and a discontinued operation. The example does not cover all the disclosures that IFRS may require in relation to such a transaction, such as those required by IAS 7 *Statement of Cash Flows*.

In the example “HFS” represents held for sale items and “XXX” other items.

Single line items on the face of the statement of financial position with further analysis in the notes

The most common approach to presenting held for sale assets and disposal groups is to present single line items on the face of the statement of financial position and include any further analysis in the notes thereto.

	Notes	31 December 2007 CU000s	31 December 2006 CU000s
Assets			
Goodwill	X	XXX	XXX
Property, plant and equipment	X	XXX	XXX
Deferred tax assets	X	XXX	XXX
Non-current assets		XXX	XXX
Inventories	X	XXX	XXX
Trade and other receivables	X	XXX	XXX
Cash and cash equivalents	X	XXX	XXX
Disposal group	X	HFS	HFS
Current assets		XXX	XXX
Total assets		XXX	XXX
Equity and liabilities			
Share capital	X	XXX	XXX
Additional paid-in capital	X	XXX	XXX
Retained earnings		XXX	XXX
Equity		XXX	XXX
Pension and other employee obligations	X	XXX	XXX
Borrowings	X	XXX	XXX
Deferred tax liabilities	X	XXX	XXX
Non-current liabilities		XXX	XXX
Provisions	X	XXX	XXX
Pension and other employee obligations	X	XXX	XXX
Trade and other payables	X	XXX	XXX
Disposal group	X	HFS	HFS
Current liabilities		XXX	XXX
Total liabilities		XXX	XXX
Total equity and liabilities		XXX	XXX

An example of the related notes is shown on the next page.

Single line items on the face of the statement of financial position with further analysis in the notes (continued)

Note X: Disposal group	
IFRS 5.41 (a) - (d)	<p>At the end of 2006, management decided to discontinue in-store sale of IT and telecommunications hardware. This decision was taken in line with the Group's strategy to focus on its web-based online retail business. Consequently, all assets and liabilities of Highstreet Ltd. and its subsidiaries were classified as a disposal group. Measurement of the disposal group's assets at fair value less costs to sell resulted in a loss of € XXX, which is included in net result from discontinued operations.</p> <p>Highstreet Ltd. and most of its subsidiaries were sold for a total of CUXXXXXX in cash on 30 September 2007. The sales transaction resulted in a loss of CUXXX due to related selling costs.</p> <p>A significant part of the assets originally classified as held for sale has therefore already been sold at the balance sheet date. The Group has retained ownership of some former Highstreet storage facilities. The Group's management expects to sell the remaining assets during 2008. Assets held for sale were not allocated for segment reporting purposes.</p>
IFRS 5.38	The carrying amounts of assets and liabilities in the disposal group may be analysed as follows:

	Assets	2007 CU000s	2006 CU000s	Liabilities	2007 CU000s	2006 CU000s
	Goodwill	XXX	XXX	Deferred tax liabilities	XXX	XXX
	Property, plant and equipment	XX	XX	Provisions	XXX	XXX
	Inventories	XXX	XXX			
	Cash and cash equivalents	XXX	XXX			
	Total assets of the disposal group	XXX	XXX	Total liabilities of the disposal group	XXX	XXX

5.2 Discontinued operations

IFRS 5 sets out minimum requirements for presenting net result from discontinued operations and the analysis thereof, which may be done either on the face of the statement of comprehensive income or the notes thereto.

The following paragraphs set out example presentation layouts. In the following examples “DO” represents amounts relating to discontinued operations and “CO” amounts that relate to continuing operations. Example narratives are shown in option 1, but more details may be necessary to meet the general objective of IFRS 5.30.

The illustrations of the statement of comprehensive income are based on the "two statement" approach permitted by IAS 1.81(b) and do not include the separate statement of components of other comprehensive income.

Option 1: Single line item on the face of the statement of comprehensive income with further analysis in the notes

One of the more commonly used approaches is to present discontinued operations on the face of the statement of comprehensive income as a single line item with further details on their composition in the notes to the financial statements. The following example assumes that there are no minority shareholders and no gains or losses that have been recognised outside profit or loss (additional line items would otherwise be necessary).

	Notes	2007 CU000s	2006 CU000s
Revenue	X	CO	CO
Other income		CO	CO
Costs of material		(CO)	(CO)
Employee benefits expense	X	(CO)	(CO)
Depreciation and amortisation		(CO)	(CO)
Operating Result		CO	CO
Result from equity accounted investments	X	CO	CO
Finance costs	X	(CO)	(CO)
Result from continuing operations before tax		CO	CO
Income taxes	X	(CO)	(CO)
Net result from continuing operations		CO	CO
Net result from discontinued operations	X	DO	DO
Net result for the period		CO	CO

The amounts included in the line item highlighted are then further analysed in the notes to the financial statements.

Option 1: Single line item on the face of the statement of comprehensive income with further analysis in the notes (continued)

Note X: Discontinued operations			
At the end of 2007, management decided to discontinue in-store sale of IT and Telecommunications hardware. This decision was taken in line with the Group's strategy to focus on its web-based online retail business. Revenue and expenses, and gains and losses relating to the discontinuation of this activity have been removed from the results of continuing operations and are shown as a single line item on the face of the statement of comprehensive income ("net result from discontinued operations"). The operating results of the discontinued operation up to its disposal and the effect of remeasurement and disposal of assets that were classified as held for sale were as follows:			
Operating activities of discontinued operations		2007 CU000s	2006 CU000s
IFRS 5.33 (b)(i)	Revenue	DO	DO
	Costs of material	(DO)	(DO)
	Employee benefits expense	(DO)	(DO)
	Depreciation and amortisation	(DO)	(DO)
	Other operating expenses	(DO)	(DO)
	Operating Result	DO	DO
	Finance costs	(DO)	(DO)
	Result from discontinued operations before taxation	DO	DO
IFRS 5.33 (b)(ii)	Tax expense	(DO)	(DO)
	Net operating result from discontinued operations	DO	DO
Measurement and disposal of assets held for sale			
IFRS 5.33 (b)(iii)	Gain (loss) on measurement	-	(DO)
	Gain on disposal	DO	-
IFRS 5.33 (b)(iv)	Tax expense	(DO)	DO
	Net gain (loss) from discontinued operations	DO	DO
Net result from discontinued operations		DO	DO

In this example, "Net result from discontinued operations" comprises the results from the discontinued operation and the effects of remeasurement and disposal of any assets or disposal groups that constitute the discontinued operation. Also note that the analysis includes two tax line items:

- Taxes relating to the operating activities of the discontinued operation until their disposal; and
- Tax effects of remeasurement and disposal of the related assets held for sale or disposal groups.

The result in the highlighted line corresponds to the amount that is presented on the face of the statement of comprehensive income.

Option 2: Analysis of the results of discontinued operations on the face of the statement of comprehensive income (columnar format A)

Net result from discontinued operations along with the required analysis of that result are presented on the face of the statement of comprehensive income. The analysis of discontinued operations should be clearly distinguished from the results of continuing operations. For example, it should be clear that the amount presented as the reporting entity's revenue excludes revenue of the discontinued operation. The detailed analysis of the results of the discontinued operation is supplemental information on the face of the statement of comprehensive income. This format, or variations of it, is commonly used when the discontinued operation is or was a very substantial part of total operations.

		Notes	2007 CU000s		2006 CU000s	
			Discontinued operations	Entity	Discontinued operations	Entity
IFRS 5.33 (b) (i)	Revenue	X	DO	CO	DO	CO
	Other income		DO	CO	DO	CO
	Costs of material		(DO)	(CO)	(DO)	(CO)
	Employee benefits expense	X	(DO)	(CO)	(DO)	(CO)
	Depreciation and amortisation		(DO)	(CO)	(DO)	(CO)
	Operating result		DO	CO	DO	CO
	Result from equity accounted investments	X	DO	CO	DO	CO
	Finance costs	X	(DO)	(CO)	(DO)	(CO)
	Result from operations before tax		DO	CO	DO	DO
IFRS 5.33 (b) (ii)	Income taxes	X	(DO)	(CO)	(DO)	(CO)
	Net result for the period from operations		DO	CO	DO	CO
IFRS 5.33 (b) (iii)	Measurement and disposal of assets held for sale					
	Gain (loss) on measurement		DO		(DO)	
	Gain on disposal		DO		-	
IFRS 5.33 (b) (iv)	Tax expense		(DO)		DO	
	Net gain (loss) from discontinued operations		DO		(DO)	
	Net result from discontinued operations	X	DO		DO	
IAS 1.82 (f)	Net result for the year			CO+DO		CO+DO

Option 3: Analysis of the results of discontinued operations on the face of the statement of comprehensive income with total column (columnar format B)

Another approach observed in practice is to present both results from discontinued operations and continuing operations side by side and show a total of both on a line-by-line basis. Gains and losses from remeasurement, the sale of the discontinued operations and related taxes are then presented separately. Some commentators regard this approach as questionable, on the grounds that the “total” column gives undue prominence to the revenue and amounts that include the activities of the discontinued operation. In our view, this approach is acceptable provided it is clear that revenue, other income and expenses (excluding the discontinued operation’s amounts) are clearly labelled to represent continuing operations.

Note that the example below omits prior-year comparatives for ease of presentation. Comparatives are necessary for all amounts, narrative and other descriptive information, unless otherwise permitted by a standard or interpretation.

	Notes	2007 CU000s			
		Discontinued operations	Continuing operations	Total	
IFRS 5.33 (b) (i)	Revenue	X	DO	CO	DO+CO
	Other income		DO	CO	DO+CO
	Costs of material		(DO)	(CO)	(DO)+(CO)
	Employee benefits expense	X	(DO)	(CO)	(DO)+(CO)
	Depreciation and amortisation		(DO)	(CO)	(DO)+(CO)
	Operating result		DO	CO	DO+CO
	Result from equity accounted investments	X	DO	CO	DO+CO
	Finance costs	X	(DO)	(CO)	(DO)+(CO)
	Result from operations before tax		DO	CO	DO+CO
IFRS 5.33 (b) (ii)	Income taxes	X	DO	(CO)	DO+(CO)
	Net result from operations		DO	CO	DO+CO
IFRS 5.33 (b) (iii)	Measurement and disposal of assets held for sale				
	Gain (loss) on measurement		DO		DO
	Gain on disposal		DO		DO
IFRS 5.33 (b) (iv)	Tax expense		(DO)		(DO)
	Net gain (loss) from discontinued operations		DO		DO
IFRS 5.33 (a)	Net result from discontinued operations	X	DO		DO
	Net result for the year		DO	CO	DO+CO

E. Practical implementation issues

This section focuses on some of the other common questions and issues that arise in practice in implementing IFRS 5. The issues discussed are:

- Accounting for assets that were acquired exclusively with a view to resale;
- Part-disposals of subsidiaries;
- Applying IFRS 5 in separate financial statements;
- Measurement of liabilities that are associated with a disposal group;
- Intragroup transactions and balances; and
- Further disclosure requirements.

1. Assets acquired exclusively with a view to resale

Subsidiaries are sometimes acquired exclusively with a view to resale. This may be due to the acquirer's intention to restructure the target company as an immediate action after obtaining control. Legal requirements such as antitrust laws to transfer parts of the acquiree to a third party may sometimes result in plans to sell parts of an acquired business. Similar situations may arise when an entity acquires a group of assets or individual assets that it intends to sell immediately.

1.1 Held for sale classification

Provided that, within a short period following the acquisition, the subsidiary or asset(s):

- is (are) available for immediate resale (IFRS 5.7); and
- a sale is considered highly probable (IFRS 5.8)

the acquired asset(s) or subsidiary is (are) classified as held for sale upon initial recognition. The standard considers a short period following the acquisition to be “usually within three months” (IFRS 5.11). In determining which assets and liabilities are attributable to the disposal group concerned, the entity follows the general guidelines of IFRS 5 that were discussed on page 9.

1.2 Consolidation of a subsidiary acquired exclusively with a view to resale

It is mandatory under IAS 27 *Consolidated and Separate Financial Statements* to fully consolidate all subsidiaries of the parent company. The held for sale classification of the subsidiary and its assets and liabilities does not change this requirement.

The held for sale classification of such a subsidiary will however affect the presentation of its assets and liabilities. Assets and liabilities of the subsidiary will be part of a disposal group. Subsequent financial results of the subsidiary are shown within results of discontinued operations (IFRS 5.32(c)).

1.3 Initial measurement

If the assets acquired exclusively with a view to resale were acquired in a business combination, they are subject to the provisions of IFRS 3 *Business Combinations*. Broadly, the assets, liabilities and contingent liabilities are initially recognised at fair value less costs to sell (IFRS 5.16).

If the asset(s) have not been acquired in the course of a business combination, they will be initially measured at the lower of their carrying amount and fair value less costs to sell. The carrying amount of each individual asset is determined in accordance with the applicable standard. Many newly acquired assets are initially recognised at cost, which may be higher than their fair value less costs to sell. Consequently, application of IFRS 5 may result in an immediate loss.

1.4 Financing costs and income taxes

One question raised in practice is how to account for financing costs and potential tax effects that are a direct result of reselling the newly acquired subsidiary. IFRS 5 specifically excludes financing costs and income tax expenses from its definition of “costs to sell”.

IAS 12 *Income Taxes* generally requires the entity to account for all income tax consequences of the future recovery or settlement of the carrying amount of assets and liabilities. Future tax consequences of reselling newly acquired assets may therefore be reflected in the recognition of a deferred tax liability. For individual assets, a deferred tax liability is recognised for all taxable temporary differences that are not specifically exempted by IAS 12. For example, if fair value less costs to sell or the carrying amount of an asset that is classified as held for sale exceeds its tax base, this results in the recognition of a deferred tax liability that reflects the potential tax consequences of selling the asset. Where a disposal group represents a subsidiary that was acquired with an exclusive view to resale, the specific rules in IAS 12 regarding “outside basis differences” may apply (see page 37 for further discussion).

1.5 Presenting discontinued operations

Subsidiaries that are acquired and then immediately classified as held for sale are discontinued operations (IFRS 5.32 (c)). An entity therefore presents all results of these subsidiaries, including any gains and losses that arise on the subsequent remeasurement or sale of the underlying assets, as net results of discontinued operations.

Businesses or groups of assets that were acquired for resale but are not a subsidiary are a discontinued operation only if they represent a separate major line of business or geographical area of operations (IFRS 5.32(a)-(b)).

1.6 Disclosures

Where a disposal group is a subsidiary that has been acquired exclusively with a view to resale, the entity is not required to disclose the subsidiary’s major classes of assets and liabilities (IFRS 5.39). A specific exemption also relieves entities in these circumstances from further analysing net results or cash flows from discontinued operations (IFRS 5.33(c)).

However, all other disclosure requirements of IFRS 5 and other standards apply in this situation. IFRS 3 requires in particular disclosure of “details of any operations the entity has decided to dispose of as a result of the combination”.

Existence of a sales transaction

Reductions in the entity's interest do not necessarily require a sales transaction. For example, if the entity does not participate in an increase in capital of its subsidiary, its share in the subsidiary's net assets and its voting rights are diluted. A loss of control may also be triggered by legal actions brought against the entity. The absence of a sales transaction precludes, by definition, a held for sale classification of the subsidiary's assets and liabilities.

2. Part-disposal of a subsidiary

IFRS 5 is currently not entirely clear on whether a subsidiary should be regarded as held for sale if the entity plans to sell a controlling interest but also to retain some part of its interest (ie a "part disposal"). A part disposal of a subsidiary occurs when the parent company sells a controlling interest in the subsidiary and:

- Retains significant influence (so the former subsidiary will be accounted for using the equity method in accordance with IAS 28 *Investments in Associates*); or
- Retains joint control (so the former subsidiary will be accounted for in accordance with IAS 31 *Joint Ventures*); or
- Remains a non-controlling shareholder without significant influence over the former subsidiary (so the remaining interest in the former subsidiary will be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*).

The IASB's First Annual Improvements Project includes a proposal that would require a held for sale classification for all situations where an entity is committed to a selling plan that involves the loss of control of a subsidiary. This would include situations in which the entity retains joint control or significant influence over the former subsidiary. It seems appropriate to follow this approach in anticipation of this potential change in IFRS 5.

3. Separate financial statements

IFRS 5 does not set out exemptions or specific requirements for individual or separate financial statements and therefore has to be applied in the normal way. Some intra-group transactions might trigger IFRS 5's requirements even though those transactions will be eliminated on consolidation. For example, if assets are transferred to the parent company or another legal entity within the group, a held for sale classification may be appropriate from an individual entity's point of view, but not from a group perspective. The same logic applies to discontinued operations.

IAS 27 addresses in paragraph 37 a specific situation in which an entity classifies as held for sale its investment in a subsidiary, jointly controlled entity or associate. If the investment is measured at cost prior to the held for sale classification in accordance with IAS 27 it is remeasured at the lower of cost and its fair value less costs to sell (see page 18). If, on the other hand, the entity measures its investment at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, it is outside of the measurement scope of IFRS 5 (IFRS 5.5 (c), see page 17).

4. Measurement of liabilities associated with a disposal group

IFRS 5 does not apply to the measurement of liabilities. If liabilities are included in a disposal group (see page 9), the entity continues to measure these liabilities in accordance with the appropriate IFRSs. This applies, in particular, to the following liabilities:

- **Defined employee benefit liabilities**, which are measured in accordance with IAS 19;
- **Deferred and current tax liabilities**, which are measured as required by IAS 12.;
- **Non-financial liabilities** (ie provisions) which are measured as set out in IAS 37; and
- **Financial liabilities** which are measured in accordance with IAS 39.

Deferred taxes

Special attention needs to be paid to deferred taxes when an entity classifies assets as held for sale. Firstly, any measurement effects of applying IFRS 5 (ie impairment or a reversal thereof) will usually trigger a change in temporary differences (calculated by comparing the assets' carrying amounts with their tax bases). Secondly, the tax consequences of a sale rather than the continuing use of the assets may be different. As a result, different tax bases or tax rates may apply which then need to be taken into account when calculating deferred taxes. Thirdly, the sale plan may result in probable reversal of a temporary difference between the tax base of an investment in a subsidiary, associate etc and its carrying amount. If the selling plan sets out the disposal of a subsidiary, associate, branch or interest in a joint venture, the deferred tax calculation needs to be specifically reviewed in the light of the pending sale transaction.

The measurement of these liabilities follows the normal accounting policies of the entity, despite the fact that they are not presented separately on the face of the statement of financial position but as part of the disposal group (see page 24).

5. Intragroup transactions and balances

A practical issue arises in relation to transactions and balances between the entity's continued operations and its discontinued operations (prior to the actual disposal of the latter). For example, if a disposal group includes an intragroup receivable, is the related liability:

- Included with group liabilities, with the receivable included in the disposal group's assets; or
- Eliminated from the group statement of financial position, with the receivable also eliminated from the disposal group's assets?

IFRS 5 does not include any exemption to applying IAS 27. All intragroup balances and transactions are therefore eliminated in the group's consolidated accounts. As IFRS 5 complements rather than overrides IAS 27, all intercompany balances and transactions must be eliminated in full. Transactions between an entity's continued and discontinued operations are therefore not to be presented on the face of the statement of financial position as they are subject to the usual consolidation routines applicable for all intercompany transactions.

6. Related disclosure requirements in other IFRSs

It is important to note that the classification of assets as held for sale or the presentation of discontinued operations not only triggers disclosure requirements under IFRS 5, but also affects the preparation of financial statements under other standards.

6.1 Assets held for sale

As noted above, the entity should disclose the segment to which an asset held for sale or disposal group belongs. In addition:

- IAS 16.73 (e) (ii)
- IAS 38.118 (e) (ii)
- IAS 40.76 (c) (fair value model) and IAS 40.79 (d) (iii) (cost model)
- IAS 41.50 (c)

require the disclosure of the carrying amount of assets that have been classified as held for sale or included in a disposal group.

When assets are classified as held for sale, or included in a disposal group, the issue arises as to whether other IFRS disclosures for that type of asset continue to apply. IAS 19 *Employee Benefits*, IAS 12 *Income Taxes* or IFRS 7 *Financial Instruments: Disclosures* for example do not set out any exemptions for assets and liabilities that have been included in a disposal group.

This question was referred to the IFRIC. The IFRIC have not added this issue to their agenda although an agenda decision was published in IFRIC Update for September 2007. The IFRIC expressed a preference to exclude items of a disposal group from disclosure requirements other than specifically set out by IFRS 5 and IAS 1 and referred this issue to the IASB for consideration in its First Annual Improvements Project. However, this issue was not addressed in the First Annual Improvements Project. It therefore remains unclear at this stage.

6.2 Discontinued operations

The presentation of discontinued operations triggers a number of disclosure requirements by other standards which may be summarised as follows:

Earnings per share (EPS)

IAS 33.68 requires entities to present EPS for both results from continuing operations as well as discontinued operations. Because discontinued operations are to be presented for all reporting periods covered in the statement of comprehensive income, the figures for both diluted and basic EPS need to be restated for earlier periods.

Statement of cash flows and related notes

IAS 7 requires disclosure of information relating to the disposal of "subsidiaries or other business units". While the term "business unit" is not further defined, we consider that an entity should typically disclose the following, especially where subsidiaries are classified as discontinued operations:

- The total disposal consideration;
- To what extent the disposal consideration was discharged by means of cash and cash equivalents; and
- The amount of cash and cash equivalents included in the discontinued operation that has been disposed of.

IAS 7 also requires an analysis of the disposed group of assets by major categories of assets and liabilities. This requirement is usually met by providing the information required by IFRS 5.38 regarding assets held for sale and related disclosures.

Income taxes

IAS 12.81 (h) requires disclosure of income tax expense relating to:

- Gains and losses from discontinuance – ie gains and losses on sale or remeasurement of the underlying assets, asset groups or disposal groups; and
- Ordinary activities from the discontinued operation for the current and all prior periods for which the discontinued operation is presented.

These requirements in IAS 12 generally match those of IFRS 5.33 (b), which also requires the separate disclosure of income tax effects resulting from a discontinued operation (see page 26).

Segment reporting

If an entity prepares a segment report in accordance with IFRS 8 *Operating Segments*, it may need to explain differences between the measurement of the reportable segments' profit or losses and the entity's profit or loss, including any net results from discontinued operations. The entity also takes into consideration discontinued operations in reconciling the reportable segments' measures of profit or loss to the entity's profit or loss.

If the entity's segment reporting follows IAS 14 *Segment Reporting*, it is a mandatory requirement to include both segment results from continuing and discontinuing operations, as appropriate. The comparatives presented in the segment report for previous periods also need to be restated for any discontinued operation the entity presents at its latest reporting date. Similar to IFRS 8, segment results from discontinued operations also have to be reconciled to the entity's net result from discontinued operations.



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