Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)

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1. Purpose and Scope of IFRS 5

IFRS 5 deals with two related but distinct areas:

1. **Non-current assets (or disposal groups) held for sale**
2. **Discontinued operations**

The standard ensures:

- Assets intended for sale are **measured and presented differently** from normal operating assets.
- Users of financial statements can clearly identify **major disposals** and **operations that will not continue**.

IFRS 5 applies when:

- An entity plans to **sell** a non-current asset or group of assets.
- An entity **disposes of**, or plans to dispose of, a **component of the business** that represents a major line of business or geographical area.

PART A — NON-CURRENT ASSETS HELD FOR SALE

2. When is an Asset Classified as "Held for Sale"?

An asset (or disposal group) is classified as **held for sale** only when **ALL** of the following criteria are met:

2.1 Management Commitment

Management must be **committed to a plan** to sell the asset.

2.2 Available for Immediate Sale

The asset must be **available for immediate sale** in its present condition. No major restructuring or refurbishment should be required.

2.3 Active Marketing

The entity must be **actively marketing** the asset at a price that is **reasonable** relative to its current fair value.

2.4 Sale Highly Probable

“Highly probable” means:

- A buyer is likely to be found.
- The sale is expected to be completed **within 12 months** from classification date.
- Actions required to complete the sale have been initiated.

2.5 Unlikely to Change

The plan to sell should be unlikely to change or be withdrawn.

3. Disposal Groups

A **disposal group** is a group of assets (and liabilities directly associated with those assets) that will be disposed of **together** in a single transaction.

Examples:

- A factory plus its machinery and related environmental liabilities.
- A subsidiary to be sold as a whole.

4. Measurement of Assets Held for Sale

Once classified as held for sale:

4.1 Measurement Basis

The asset/disposal group is measured at:

Lower of:

- **Carrying amount**, and
- **Fair value less costs to sell (FVLCTS)**

4.2 No Depreciation

Depreciation **stops** from the date of classification.

4.3 Impairment

If FVLCTS < carrying amount → **impairment loss** recognised in profit or loss.

If FVLCTS subsequently increases:

- A **gain** may be recognised,
- **BUT** only up to the amount of previously recognised impairment losses.

4.4 Inventory Exception

Inventory is **not** subject to IFRS 5 measurement rules — it remains under IAS 2.

5. Presentation Requirements

5.1 Statement of Financial Position

Assets held for sale → presented as a **separate line item** under current assets. Liabilities of disposal groups → separate line item under current liabilities.

5.2 Statement of Profit or Loss

Impairment losses or reversals → included in profit or loss.

6. Example — Asset Held for Sale

Scenario:

- Carrying amount of machine: R500 000
- Fair value: R480 000
- Costs to sell: R20 000

→ FVLCTS = R460 000

Measurement: Lower of carrying amount (R500 000) and FVLCTS (R460 000) → **R460 000**

Impairment loss: R500 000 – R460 000 = **R40 000**

Presentation:

- Machine shown under **Current Assets: Non-current assets held for sale — R460 000**
- Depreciation stops.

PART B — DISCONTINUED OPERATIONS

7. What is a Discontinued Operation?

A discontinued operation is a **component of an entity** that:

1. Has been **disposed of**, or is classified as **held for sale**, **AND**
2. Represents:
    - A **major line of business**, or

  - A **major geographical area**, or
  - Is part of a single coordinated plan to dispose of such a line/area, or
  - Is a subsidiary acquired exclusively with a view to resale.

Key idea:

It must be **significant** enough that users need separate disclosure.

8. Components of an Entity

A component:

- Has operations and cash flows that can be **clearly distinguished** operationally and for financial reporting.
- Could be:
  - A reportable segment
  - A subsidiary
  - A business unit
  - A cash-generating unit

9. Presentation of Discontinued Operations

9.1 Statement of Profit or Loss

A discontinued operation is presented as a **single amount**, comprising:

1. **Post-tax profit/loss** of the discontinued operation, **PLUS**
2. **Post-tax gain/loss** on disposal or on measurement to FVLCTS.

9.2 Additional Disclosure

In the notes, the entity must disclose:

- Revenue, expenses, and pre-tax profit/loss of the discontinued operation.
- Gain/loss on disposal.
- Cash flows (operating, investing, financing) of the discontinued operation.

9.3 Statement of Financial Position

If not yet disposed of:

- Assets → "Assets held for sale"
- Liabilities → "Liabilities held for sale"

10. Example — Discontinued Operation

Scenario: An entity decides to sell its entire **Retail Division**, which represents 40% of revenue and is a major line of business.

Classification: The Retail Division qualifies as a **discontinued operation**.

Financial effects:

- Profit from Retail Division (post-tax): R3 000 000
- Loss on measurement to FVLCTS (post-tax): R500 000

Statement of Profit or Loss presentation:

Profit from discontinued operation (net of tax): R2 500 000

PART C — OTHER KEY CONCEPTS

11. Changes to a Sale Plan

If the criteria for held for sale classification are **no longer met**, the asset must be **reclassified** back to its original category.

Measurement on reclassification:

- Measured at the **lower of**:
  - Carrying amount before classification (adjusted for depreciation), and
  - Recoverable amount at the date of reclassification.

12. Subsidiaries Held for Sale

If a subsidiary is classified as held for sale:

- Consolidation continues **unless** control is lost.
- Assets and liabilities are presented as a disposal group.

13. Disclosures Required by IFRS 5

For assets held for sale:

- Description of the asset/disposal group
- Facts and circumstances of the sale
- Expected manner and timing of disposal
- Impairment losses and reversals

For discontinued operations:

- Breakdown of profit/loss
- Cash flows
- Details of disposal
- Segment information (if applicable)

PART D — COMPREHENSIVE ILLUSTRATIVE CASE STUDY

14. Case Study — Combined Held for Sale + Discontinued Operation

Background: Alpha Ltd has three divisions: Manufacturing, Retail, and Logistics.

In 20X6, Alpha decides to sell the **Retail Division**.

Step 1 — Held for Sale Classification

Criteria met:

- Management approved sale plan
- Division available for immediate sale
- Active marketing
- Sale expected within 12 months

→ Retail Division classified as **held for sale**.

Step 2 — Measurement

Data:

- Carrying amount of net assets: R50m
- Fair value: R48m
- Costs to sell: R2m

→ FVLCTS = R46m

➔ Impairment loss = R50m – R46m = **R4m**

Step 3 — Discontinued Operation Classification

Retail Division is a **major line of business** → qualifies as discontinued operation.

Step 4 — Presentation

Statement of Financial Position:

- Assets held for sale: R46m
- Liabilities held for sale: R12m

Statement of Profit or Loss: Single line item:

Profit from discontinued operation (net of tax): R8m

Breakdown in notes:

- Operating profit: R12m
- Impairment loss: (R4m)
- Tax: (R0m)
- Net: R8m

PART E — SUMMARY TABLE

15. Held for Sale vs Discontinued Operation

Feature	Held for Sale	Discontinued Operation
Classification criteria	Strict 5-point criteria	Must be a major component
Measurement	Lower of CA and FVLCTS	Included in discontinued results
Depreciation	Stops	Stops (if held for sale)
Presentation	Separate line in SOFP	Single line in SOPL
Notes	Detailed asset info	Detailed component info

16. Impairment Rules Summary

Situation	Treatment
FVLCTS < carrying amount	Impairment loss
FVLCTS increases later	Reversal allowed (limited)
Reclassification back to PPE	Measure at lower of adjusted CA and recoverable amount

PART F — EXAM TIPS

17. Common Pitfalls

- Forgetting that **depreciation stops**.
- Incorrectly classifying small business units as discontinued operations.

- Ignoring **costs to sell** when calculating FVLCTS.
- Forgetting that **inventory** does not fall under IFRS 5 measurement rules.

18. Full Exam Question (60 marks)

Non-current Assets Held for Sale & Discontinued Operations

QUESTION

Background Information:

Alpha Group Ltd has three operating divisions:

- **Manufacturing**
- **Retail**
- **Logistics**

The Retail Division is a major line of business and contributes approximately 35% of group revenue.

On **1 October 20X6**, the board approved a plan to sell the Retail Division. The division is available for immediate sale in its present condition, and Alpha has begun actively marketing it at a price considered reasonable relative to fair value. The sale is expected to be completed by **30 June 20X7**.

The following information relates to the Retail Division at **1 October 20X6**:

A. Assets and Liabilities of Retail Division

Item	Carrying Amount (R'000)	Fair Value (R'000)	Costs to Sell (R'000)
Property, plant & equipment	40 000	38 000	1 000
Inventory	12 000	13 000	–
Trade receivables	8 000	7 500	–
Trade payables	(10 000)	(10 000)	–

Additional information:

- Inventory is measured under IAS 2 and **not** remeasured under IFRS 5.
- Trade receivables are measured at amortised cost; fair value approximates carrying amount.
- PPE is depreciated at R400 000 per month. Depreciation has **not** yet been recorded for October.

B. Financial Performance of Retail Division (20X6)

For the year ended 31 December 20X6:

- Revenue: R120 000 000
- Cost of sales: R90 000 000
- Operating expenses: R18 000 000
- Finance costs: R2 000 000
- Tax rate: 28%

C. Disposal

On **31 December 20X6**, Alpha sells the Retail Division for **R45 million**, incurring selling costs of **R1 million**. The carrying amount of net assets at date of sale is unchanged from 1 October, except for PPE depreciation.

REQUIRED:

1. Classification (10 marks)

Discuss whether the Retail Division should be classified as: a) A **non-current asset held for sale**, and b) A **discontinued operation**, with reference to IFRS 5 criteria.

2. Measurement (15 marks)

a) Calculate the **fair value less costs to sell (FVLCTS)** of the disposal group at 1 October 20X6. b) Determine the **impairment loss**, if any, required at 1 October 20X6. c) Prepare the **journal entry** for the impairment loss (if applicable).

3. Presentation (10 marks)

Show how the Retail Division's assets and liabilities will appear in the **statement of financial position** at 1 October 20X6.

4. Profit or Loss Effects (15 marks)

a) Calculate the **post-tax profit/loss** of the Retail Division for the year ended 31 December 20X6. b) Calculate the **post-tax gain/loss on disposal**. c) Present the **single line item** required by IFRS 5 in the statement of profit or loss.

5. Disclosure (10 marks)

List **five** disclosures required for discontinued operations under IFRS 5.

TOTAL: 60 marks

MODEL ANSWER / MEMO

1. Classification (10 marks)

a) Held for Sale (5 marks)

IFRS 5 requires **all** criteria to be met:

- **Management commitment**: Board approved the plan → ✓
- **Available for immediate sale**: No further modifications required → ✓
- **Active marketing**: Marketing has begun → ✓
- **Sale highly probable**: Expected within 12 months → ✓
- **Reasonable price**: Price aligns with fair value → ✓

Conclusion: The Retail Division meets all criteria → **Classified as held for sale**.

b) Discontinued Operation (5 marks)

A discontinued operation must be a **major line of business** or **geographical area**.

Retail Division contributes **35% of revenue** → clearly a major line of business.

Conclusion: Retail Division → **Discontinued operation**.

2. Measurement (15 marks)

a) FVLCTS (5 marks)

Only PPE is remeasured under IFRS 5.

FVLCTS = Fair value – Costs to sell = R38 000 000 – R1 000 000 = **R37 000 000**

b) Impairment Loss (7 marks)

Carrying amount of PPE = R40 000 000; Less: FVLCTS = R37 000 000 →
Impairment = **R3 000 000**

Inventory and receivables are not remeasured.

c) Journal Entry (3 marks)

Dr Impairment loss (P/L)   3 000 000
   Cr PPE – impairment allowance   3 000 000

3. Presentation in SOFP (10 marks)

Assets Held for Sale

Asset	Amount (R'000)
PPE (after impairment)	37 000
Inventory	12 000
Trade receivables	8 000
Total assets held for sale	**57 000**

Liabilities Held for Sale

Liability	Amount (R'000)
Trade payables	(10 000)

4. Profit or Loss Effects (15 marks)

a) Post-tax profit/loss (6 marks)

- Revenue: 120 000 000
- Cost of sales: (90 000 000)
- Operating cost: (18 000 000)
- Finance cost: (2 000 000)

→ Profit before tax = **10 000 000**

Tax @ 28% = 2 800 000 → **Post-tax profit = 7 200 000**

b) Gain/Loss on Disposal (6 marks)

Carrying amount of net assets at disposal date:

- PPE: 37 000 000
- Inventory: 12 000 000
- Receivables: 8 000 000
- Payables: (10 000 000)

➔ Net assets = **47 000 000**

- Sale proceeds: 45 000 000
- Costs to sell: (1 000 000)

➔ Net proceeds = **44 000 000**

➔ Loss on disposal = 44 000 000 – 47 000 000 = **(3 000 000)**

➔ Post-tax loss = 3 000 000 × (1 – 0.28) = **2 160 000**

c) Single Line Item (3 marks)

Profit from discontinued operation (net of tax): = Post-tax operating profit – Post-tax disposal loss = 7 200 000 – 2 160 000 = **R5 040 000**

5. Disclosure Requirements (10 marks)

Any **five** of the following:

1. Description of the discontinued operation.
2. Reason for the disposal.
3. Profit/loss of the discontinued operation (pre-tax and post-tax).
4. Gain/loss on disposal (pre-tax and post-tax).
5. Cash flows: operating, investing, financing.
6. Carrying amounts of major classes of assets and liabilities.
7. Impairment losses and reversals.
8. Expected manner and timing of disposal.

TOTAL: 60 marks

19. COMBINED IFRS 5 + IAS 36 EXAM CASE (70 marks)

Held for Sale • Disposal Groups • Impairment • Recoverable Amount • Discontinued Operations

QUESTION

Background Information:

Beta Holdings Ltd operates three divisions:

- **Electronics**
- **Furniture**
- **Appliances**

The **Furniture Division** is a major line of business and contributes 30% of group revenue.

On **1 September 20X7**, the board approved a plan to sell the Furniture Division. The division is available for immediate sale in its present condition, and Beta has begun actively marketing it at a price considered reasonable relative to fair value. The sale is expected to be completed by **31 May 20X8**.

The following information relates to the Furniture Division at **1 September 20X7**:

A. Assets and Liabilities of Furniture Division

1. Property, Plant & Equipment (PPE)

- Carrying amount at 1 September 20X7: **R60 000 000**
- Remaining useful life: 10 years
- Depreciation method: straight-line
- Monthly depreciation: **R500 000**
- Depreciation for September has **not** been recorded.

2. Goodwill

Allocated to the Furniture Division: **R8 000 000**

3. Inventory

- Carrying amount: **R20 000 000**
- Net realisable value: **R19 000 000**

4. Trade Receivables

- Carrying amount: **R12 000 000**
- Expected credit losses: **R1 000 000**

5. Trade Payables

Carrying amount: **R15 000 000**

B. Fair Value Information at 1 September 20X7

Item	Fair Value (R'000)	Costs to Sell (R'000)
PPE	55 000	2 000
Goodwill	0	–
Inventory	19 000	–
Receivables	11 000	–

C. Value in Use (VIU) Calculation for IAS 36

Management prepared VIU estimates for the Furniture Division (CGU):

- Present value of future cash flows: **R58 000 000**

D. Financial Performance of Furniture Division (20X7)

For the year ended 31 December 20X7:

- Revenue: R200 000 000
- Cost of sales: R150 000 000
- Operating cost: R30 000 000
- Finance cost: R4 000 000
- Tax rate: 28%

E. Disposal

On **31 December 20X7**, Beta sells the Furniture Division for **R65 million**, incurring selling costs of **R3 million**.

REQUIRED:

1. Classification (10 marks)

Discuss whether the Furniture Division should be classified as:
a) A **non-current asset held for sale**, and
b) A **discontinued operation**, with reference to IFRS 5 criteria.

2. IAS 36 Impairment Test (20 marks)

Perform a full impairment test for the Furniture Division (CGU) at 1 September 20X7, including:
a) Calculation of **recoverable amount**
b) Comparison with carrying amount
c) Allocation of impairment loss (goodwill first)
d) Journal entry

3. IFRS 5 Measurement (15 marks)

a) Calculate the **fair value less costs to sell (FVLCTS)** of the disposal group
b) Determine whether any **additional impairment** is required under IFRS 5
c) Prepare the **journal entry** for any IFRS 5 impairment

4. Presentation (10 marks)

Show how the Furniture Division's assets and liabilities will appear in the **statement of financial position** as at 1 September 20X7.

5. Profit or Loss Effects (10 marks)

a) Calculate the **post-tax profit/loss** of the Furniture Division for the year ended 31 December 20X7
b) Calculate the **post-tax gain/loss on disposal**
c) Present the **single line item** required by IFRS 5 in the statement of profit or loss

TOTAL: 70 marks

<u>MODEL ANSWER / MEMO</u>

1. Classification (10 marks)

a) Held for Sale (5 marks)

All IFRS 5 criteria met:

- **Management commitment**: Board approved → ✓
- **Available for immediate sale**: No modifications required → ✓
- **Active marketing**: Began marketing → ✓
- **Sale highly probable**: Expected within 12 months → ✓
- **Reasonable price**: Price aligns with fair value → ✓

Conclusion: Furniture Division → **Held for sale**.

b) Discontinued Operation (5 marks)

- A discontinued operation must be a **major line of business**.
- Furniture Division contributes **30% of revenue** → significant.

Conclusion: Furniture Division → **Discontinued operation**.

2. IAS 36 Impairment Test (20 marks)

a) Recoverable Amount (5 marks)

Recoverable amount = **higher of**:

- FVLCTS (PPE only): 55 000 – 2 000 = **53 000 000**
- VIU: **58 000 000**

→ Recoverable amount = **R58 000 000**

b) Carrying Amount of CGU (5 marks)

Item	Carrying Amount (R'000)
PPE	60 000
Goodwill	8 000
Inventory	20 000
Receivables	12 000
Less: Payables	(15 000)
Total CGU carrying amount: 85 000k	

C) Impairment Loss (5 marks)

Carrying amount: 85 000 000
Recoverable amount: 58 000 000

- ➔ Impairment = **27 000 000**

Allocation (IAS 36 rules)

1. **Goodwill first**
   - Goodwill = 8 000k → fully impaired
   - Remaining impairment = 27 000k – 8 000k = **19 000k**
2. **Other assets pro-rata (excluding inventory & receivables) → PPE only**:

PPE carrying amount: 60 000k
Impairment allocated: 19 000k

- ➔ New PPE carrying amount = **41 000 000**

d) Journal Entry (5 marks)

Dr Impairment loss (P/L)	27 000 000	
Cr Goodwill		8 000 000
Cr PPE – impairment allowance		19 000 000

3. IFRS 5 Measurement (15 marks)

a) FVLCTS of Disposal Group (5 marks)

Asset	Fair Value (R'000)	Costs to Sell	FVLCTS
PPE	55 000	2 000	53 000
Goodwill	0	–	0
Inventory	19 000	–	19 000
Receivables	11 000	–	11 000

- ➔ Total FVLCTS = **83 000 000**

b) Compare to carrying amount after IAS 36 impairment (5 marks)

Carrying amounts after IAS 36 impairment:

Item	Amount
PPE	41 000
Goodwill	0
Inventory	20 000
Receivables	12 000
Less: Payables	(15 000)
Total	**58 000**

Compare:

- Carrying amount: 58 000k
- FVLCTS: 83 000k

→ **No further impairment** under IFRS 5.

c) Journal Entry (5 marks)

No entry required.

4. Presentation in SOFP (10 marks)

Assets Held for Sale

Asset	Amount (R'000)
PPE	41 000
Inventory	20 000
Receivables	12 000
Total assets held for sale	**73 000**

Liabilities Held for Sale

Liability	Amount
Trade payables	(15 000)

5. Profit or Loss Effects (10 marks)

a) Post-tax profit/loss (4 marks)

Revenue: 200 000
Cost of sales: (150 000)
Operating cost: (30 000)
Finance cost: (4 000)

→ Profit before tax = **16 000 000**

Tax @ 28% = 4 480 000 → **Post-tax profit = 11 520 000**

b) Post-tax gain/loss on disposal (4 marks)

Carrying amount at disposal date = 58 000 000
Sale proceeds = 65 000 000
Costs to sell = (3 000 000)
→ Net proceeds = 62 000 000

- ➔ Gain = 62 000k – 58 000k = **4 000 000**
- ➔ Post-tax gain = 4 000k × (1 – 0.28) = **2 880 000**

c) Single line item (2 marks)

Profit from discontinued operation (net of tax): = 11 520 000 + 2 880 000 = **R14 400 000**

TOTAL: 70 marks

20. INTEGRATING • IFRS 5 • IAS 36 • IAS 2 • IAS 38 • IFRS 3

Advanced Integrated Theory, Concepts, Examples for post-graduate studies

1. OVERVIEW OF THE FIVE STANDARDS

These standards interact frequently in practice:

- **IFRS 5** governs classification, measurement, and presentation of assets held for sale and discontinued operations.
- **IAS 36** governs impairment testing of assets and CGUs — often required *before* IFRS 5 measurement.
- **IAS 2** governs inventory measurement — relevant because inventory is *excluded* from IFRS 5 measurement rules.
- **IAS 38** governs intangible assets — including impairment rules and treatment when part of disposal groups.
- **IFRS 3** governs business combinations — including recognition of goodwill, which is later tested under IAS 36 and derecognised under IFRS 5 when sold.

This section shows how they interlock.

2. IFRS 5 — NON-CURRENT ASSETS HELD FOR SALE & DISCONTINUED OPERATIONS

2.1 Classification Criteria (Held for Sale)

An asset/disposal group is classified as held for sale only when **all** criteria are met:

1. **Management commitment** to a plan to sell.
2. **Available for immediate sale** in present condition.
3. **Active marketing** at a reasonable price.
4. **Sale highly probable** within 12 months.
5. **Plan unlikely to change**.

2.2 Measurement

Once classified:

- Measured at **lower of**:
    - Carrying amount
    - Fair value less costs to sell (FVLCTS)
- **Depreciation stops**.
- **Impairment losses recognised**.
- **Reversals allowed**, but only up to previously recognised impairment.

2.3 Disposal Groups

A disposal group includes:

- Assets to be sold together
- Liabilities directly associated with those assets

2.4 Discontinued Operations

A discontinued operation is a **component** that:

- Is disposed of or held for sale, **AND**
- Represents a **major line of business** or **geographical area**.

Presented as a **single line item** in profit or loss.

3. IAS 36 — IMPAIRMENT OF ASSETS

IAS 36 often applies **before** IFRS 5 measurement.

3.1 When to Test for Impairment

- Indicators of impairment
- Annual test for:
    - **Goodwill**
    - **Indefinite-life intangibles**
    - **Intangibles not yet available for use**

3.2 Recoverable Amount

Recoverable amount = **higher of**:

- **Fair value less costs of disposal (FVLCOD)**
- **Value in use (VIU)**

3.3 Cash-Generating Units (CGUs)

A CGU is the smallest identifiable group of assets generating independent cash inflows.

Goodwill is always allocated to CGUs.

3.4 Impairment Allocation

Order:

1. **Goodwill first**
2. Other assets **pro-rata**, except:

    - Inventory (IAS 2)
    - Financial assets
    - Deferred tax assets
    - Assets measured at fair value

4. IAS 2 — INVENTORIES

IAS 2 governs inventory measurement:

- Measured at **lower of cost and net realisable value (NRV)**.
- **NOT** remeasured under IFRS 5.
- Included in disposal groups at **carrying amount**.

5. IAS 38 — INTANGIBLE ASSETS

IAS 38 governs:

- Recognition
- Measurement
- Amortisation
- Impairment (via IAS 36)

Intangibles include:

- Patents
- Trademarks
- Software
- Customer lists
- Brands
- Development costs (if criteria met)

Key rules:

- Finite-life intangibles → amortised
- Indefinite-life intangibles → **not amortised**, but tested annually for impairment
- Internally generated goodwill → **not recognised**

6. IFRS 3 — BUSINESS COMBINATIONS

IFRS 3 governs:

- Acquisition method
- Recognition of identifiable assets and liabilities
- Recognition of **goodwill**
- Measurement at **fair value** at acquisition date

Goodwill = Purchase consideration – Fair value of identifiable net assets acquired

Goodwill is later:

- Allocated to CGUs
- Tested annually under IAS 36
- Derecognised when the CGU is sold under IFRS 5

7. INTEGRATION OF THE FIVE STANDARDS

This is where the magic happens.

7.1 Step 1 — Acquisition (IFRS 3)

Entity acquires a subsidiary:

- Recognises PPE (IAS 16)
- Recognises inventory (IAS 2)
- Recognises intangibles (IAS 38)
- Recognises goodwill (IFRS 3)

7.2 Step 2 — Annual Impairment (IAS 36)

Goodwill and indefinite-life intangibles tested annually.

If impaired:

- Goodwill reduced first
- Other assets reduced pro-rata

7.3 Step 3 — Decision to Sell (IFRS 5)

When criteria are met:

- Disposal group classified as held for sale
- Depreciation stops
- Inventory stays under IAS 2
- Impairment test required:
    - Compare carrying amount to FVLCTS
    - Additional impairment recognised if needed

7.4 Step 4 — Discontinued Operation (IFRS 5)

If the disposal group is a major line of business:

- Presented as discontinued operation
- Single line item in profit or loss

7.5 Step 5 — Disposal

Upon sale:

- Derecognise assets and liabilities
- Recognise gain/loss on disposal
- Derecognise goodwill
- Present disposal gain/loss within discontinued operations

8. FULLY INTEGRATED CASE STUDY

Scenario:

Omega Ltd has three divisions: Tech, Retail, and Logistics.

Omega acquired the Retail Division in 20X4 for R120m. At acquisition:

- PPE: R60m
- Inventory: R20m
- Intangibles (brand): R10m
- Net identifiable assets: R90m
- Goodwill: R30m

By 20X7:

- PPE carrying amount: R48m
- Inventory: R22m
- Brand (indefinite life): R10m
- Goodwill: R30m
- Payables: R15m

  - VIU of Retail Division: R70m
  - Fair value: R68m
  - Costs to sell: R3m

On 1 October 20X7, Omega decides to sell the Retail Division.

Step 1 — IAS 36 Impairment Test

Recoverable amount = higher of:

- FVLCOD = 68 – 3 = **65m**
- VIU = **70m**

→ Recoverable amount = **70m**

Carrying amount = 48 + 22 + 10 + 30 – 15 = **95m**

- ➔ Impairment = 95 – 70 = **25m**

Allocation:

- Goodwill first: 30m → reduce by 25m → new goodwill = **5m**
- No impairment to other assets.

Step 2 — IFRS 5 Measurement

Carrying amount after IAS 36 impairment:

- PPE: 48m
- Inventory: 22m
- Brand: 10m
- Goodwill: 5m
- Payables: (15)m → Total = **70m**

FVLCTS = 65m

Compare:

- Carrying amount: 70m
- FVLCTS: 65m → Additional IFRS 5 impairment = **5m**

Allocation under IFRS 5:

- PPE only (inventory excluded)
- PPE reduced from 48m → 43m

Step 3 — Presentation

Assets Held for Sale

- PPE: 43m
- Inventory: 22m
- Brand: 10m
- Goodwill: 5 → Total: **80m**

Liabilities Held for Sale

- Payables: (15)m

Step 4 — Discontinued Operation

Retail Division is a major line of business → discontinued operation.

Step 5 — Disposal

Sale proceeds: 66m Costs to sell: (3m) Net proceeds: 63m

Carrying amount at disposal: 65m Loss on disposal: 63 – 65 = **(2m)**

Presented in discontinued operations.

9. SUMMARY TABLES

9.1 Measurement Rules

Standard	Measurement
IFRS 5	Lower of CA and FVLCTS
IAS 36	Higher of VIU and FVLCOD
IAS 2	Lower of cost and NRV
IAS 38	Cost less amortisation/impairment
IFRS 3	Fair value at acquisition

9.2 Depreciation Rules

Standard	Depreciation
IFRS 5	Stops
IAS 36	Continues unless held for sale
IAS 38	Continues unless held for sale

9.3 Goodwill Rules

Stage	Treatment
Acquisition	Recognised (IFRS 3)
Annual	Tested for impairment (IAS 36)
Held for sale	Included in disposal group (IFRS 5)
Disposal	Derecognised

10. EXAM TIPS

- Always perform **IAS 36 impairment BEFORE IFRS 5 measurement**.
- Inventory is **never** remeasured under IFRS 5.
- Goodwill is **always impaired first**.
- Depreciation **stops** at IFRS 5 classification date.
- Discontinued operations require **major line of business**.
- Disposal gain/loss is **post-tax** in discontinued operations.

11. Exercises with Solutions

Exercise 1 — Classification

A division contributes 25% of revenue. Management approves a sale plan on 1 July 20X7. The division is available for immediate sale, actively marketed, and sale is expected by 31 March 20X8.

Required:
a) Does it meet held-for-sale criteria?
b) Does it qualify as a discontinued operation?

Exercise 2 — Measurement

- Carrying amount of PPE: R500 000
- Fair value: R460 000
- Costs to sell: R10 000

Required:
a) Calculate FVLCTS
b) Determine impairment
c) Provide the journal entry

Exercise 3 — Presentation

List the two separate line items required in the statement of financial position for disposal groups.

Exercise 4 — Recoverable Amount

- Carrying amount of CGU: R900 000
- VIU: R820 000
- FVLCOD: R780 000

Required:
a) Determine recoverable amount
b) Calculate impairment

Exercise 5 — Allocation

CGU assets:

- PPE: R600 000
- Goodwill: R100 000
- Intangible asset: R200 000 Total: R900 000

Recoverable amount: R750 000

Required: Allocate impairment.

Exercise 6 — Journal Entry

Prepare the journal entry for the impairment in Exercise 5.

Exercise 7 — Inventory NRV

Cost: R50 000; NRV: R46 000

Required: Determine carrying amount.

Exercise 8 — IFRS 5 Interaction

Explain why inventory is not remeasured under IFRS 5.

Exercise 9 — Intangibles Classification

Classify each as finite or indefinite life:
a) Patent (10-year legal life)
b) Brand name with indefinite renewal
c) Software used internally

Exercise 10 — Impairment

Carrying amount of brand: R300 000; Recoverable amount: R250 000

Required: Calculate impairment and provide the journal entry.

Exercise 11 — Goodwill Calculation

Consideration: R10m; Fair value of identifiable net assets: R8m

Required: Calculate goodwill.

Exercise 12 — Post-Acquisition Impairment

- Goodwill recognised: R2m
- Recoverable amount of CGU: R6m
- Carrying amount: R8m

Required: Calculate impairment and provide the journal entry.

Exercise 13 — Integrated Case Study

Omega Ltd acquired the Retail Division for R120m. At acquisition:

- PPE: R60m
- Inventory: R20m
- Brand: R10m
- Net identifiable assets: R90m
- Goodwill: R30m

By 20X7:

- PPE: R48m
- Inventory: R22m
- Brand: R10m
- Goodwill: R30m
- Payables: R15m

  - VIU: R70m
  - Fair value: R68m
  - Costs to sell: R3m

On 1 October 20X7, Omega decides to sell the Retail Division.

Required:

a) Perform IAS 36 impairment test
b) Perform IFRS 5 measurement
c) Present assets and liabilities held for sale
d) Calculate disposal gain/loss
e) Present discontinued operation line item

SOLUTIONS

Solution 1

a) All criteria met → **Held for sale**
b) Major line of business → **Discontinued operation**

Solution 2

a) FVLCTS = 460 000 – 10 000 = **450 000**
b) Impairment = 500 000 – 450 000 = **50 000**
c) Dr Impairment loss 50 000; Cr PPE: Impairment provision 50 000

Solution 3

- Assets held for sale
- Liabilities held for sale

Solution 4

- ➔ Recoverable amount = **820 000**
- ➔ Impairment = 900 000 – 820 000 = **80 000**

Solution 5

Impairment = 900 000 – 750 000 = **150 000;** Allocation:

- Goodwill: 100 000 (fully impaired)
- Remaining 50 000 → PPE and intangible pro-rata

Solution 6

- ➔ Dr Impairment loss 150 000
- ➔ Cr Goodwill 100 000
- ➔ Cr PPE/intangibles: Impairment provision 50 000

Solution 7

Carrying amount = **46 000**

Solution 8

Inventory is governed by IAS 2 and measured at lower of cost and NRV. **IFRS 5 does not override IAS 2**.

Solution 9

a) Finite
b) Indefinite
c) Finite

Solution 10

Impairment = 300 000 – 250 000 = **50 000**

Journal: Dr Impairment loss 50 000 Cr Brand: 50 000

Solution 11

Goodwill = 10m – 8m = **2m**

Solution 12

Impairment = 8m – 6m = **2m**

- ➔ Goodwill fully impaired. No further allocation necessary.

Solution 13

a) IAS 36 Impairment

Carrying amount = 48 + 22 + 10 + 30 – 15 = **95m;** Recoverable amount = **70m;** Impairment = **25m;** Allocation:

- Goodwill: 25m → new goodwill = 5m

b) IFRS 5 Measurement

Carrying amount after IAS 36 = 70m; FVLCTS = 68 – 3 = **65m**; Additional impairment = **5m**. Allocated to PPE.

c) Presentation

Assets held for sale:

- PPE: 43m
- Inventory: 22m
- Brand: 10m
- Goodwill: 5 Total: **80m**

Liabilities held for sale:

- Payables: (15)m

d) Disposal

- Net proceeds = 66 – 3 = **63m**
- Carrying amount = 65m
- Loss = **2m**

e) Discontinued Operation

Presented as: **Profit/loss from discontinued operation (net of tax)**