

MAZARS INSIGHT

**IFRS 5, Non-current Assets Held
for Sale and Discontinued
Operations: practical guide
to application and
expected changes**

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Contents

1. Introduction	page 4
2. When are non-current assets classified as “held for sale”?	page 6
3. Specific measurement provisions	page 14
4. Presenting “discontinued operations”	page 19
5. Summary of the impact of IFRS 5 on the presentation of financial statements	page 25
6. A series of minor changes	page 26
7. Major changes anticipated	page 30
8. Conclusion	page 33

Introduction

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, was published to achieve convergence with the US GAAP accounting principles and represented a sea change for many companies.

This recent standard - effective from 1 January 2005 - has raised a lot of practical questions as to how it should be implemented, particularly given that the operations which fall within its scope are non-recurrent. Why does IFRS 5 seem so complicated? Some of the reasons are as follows:

- IFRS 5 tends to use phrases which are long (*“non-current assets classified as held for sale”*); unclear (a disposal group is a group of assets to be disposed of, including both assets and directly associated liabilities, some of them may be measured according to other standards); and sometimes misleading (*“discontinued operations”* are components of an entity that either have been disposed of or are in the process of being sold; non-current assets that are to be abandoned are not necessarily discontinued operations);
- IFRS 5 is not only used for classification and presentation, but also for measurement. However, it varies in scope depending on whether it is being applied to classification and presentation, or to measurement. For example, financial assets are still measured in line with IAS 39 even when they are classified as held for sale in the statement of financial position in line with IFRS 5;
- The objective of IFRS 5, namely *“to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations”*, does not really shed any light on the underlying philosophy of the document. The main purpose of the standard is to prepare users of the financial statements for the future derecognition of non-current assets or groups of assets from the statement of financial position, along with the disappearance of the income and expenses and the cash flows arising from these assets.

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- ▶ The standard covers two different types of operations, which are linked in some situations, but not necessarily always related:
 - the classification and measurement of assets held for sale in the statement of financial position;
 - the presentation of discontinued operations in the statement of comprehensive income.

We will also look at recent changes made to the standard in the course of annual improvements to existing standards, as well as the impact of the publication of revised standards (IAS 1, IAS 27) and interpretations (IFRIC 17). However, further and far more significant changes are to be expected from the recent publication of an exposure draft which aims to revise the definition of a discontinued operation, and to change the disclosures required under IFRS 5.

When are non-current assets classified as “held for sale”?

WHAT ASSETS ARE COVERED BY THE STANDARD?

To understand it properly, we need to take a brief look back at IAS 1, Presentation of Financial Statements.

In most cases, IAS 1 requires an entity to present current and non-current assets and liabilities separately in the statement of financial position. While current assets (and liabilities) are clearly defined by the standard, non-current assets (and liabilities) are defined by default: *“An entity shall classify all other assets as non-current”*.

The rules on classification and presentation given in IFRS 5 apply to **all non-current assets, as well as all disposal groups**. A disposal group is defined in the standard 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 (...) or if it is an operation within such a cash-generating unit.”* Therefore, these groups may also include current assets.

For example, if an entity decides to sell its stake in a subsidiary, the disposal group will not only include consolidated non-current assets relating to the subsidiary, but also the current assets and the liabilities of the fully-consolidated subsidiary.

In this document, the term “non-current asset” may be taken to also include “disposal group”.

Example 1:

What are the liabilities relating to a disposal group?

Generally speaking, this refers to the liabilities of the entity to be disposed of, rather than the liabilities incurred to fund the acquisition of the entity in question. The latter are in fact liabilities of the parent company, which will generally remain liable for the amounts on question after the sale.

Some liabilities which are recognised directly in the accounts of the parent company should nevertheless be analysed, to determine whether they should be included in the disposal group. Examples include employee benefits and cash-settled share-based payments which would be concluded at the group level.

These liabilities would need to be analysed on a case-by-case basis to see whether they should be derecognised due to the sale of the entity they relate to.

Example 2:

What is the correct accounting treatment for the intra-group debts and receivables of a subsidiary which corresponds to a disposal group classified as held for sale?

When a parent company decides to sell the entirety of its stake in a consolidated subsidiary, and the IFRS 5 criteria for the classification of a disposal group as held for sale are met, the subsidiary remains consolidated under IAS 27 until the date of loss of control (later than the date on which the group of assets is deemed to have met the criteria imposed by IFRS 5).

Under the full consolidation method, intra-group debts and receivables should be eliminated from the consolidated statement of financial position, while the subsidiary remains consolidated. This raises the question of whether only the external portion of the net assets held for sale should be presented, even though the net assets actually sold will include intra-group debts and receivables, which will become external debts and receivables due to the sale.

Since IFRS 5 is silent on this point, companies have used a diverse range of practices. In our opinion, the consolidation principles given in IAS 27 (i.e. the elimination of intra-group debts and receivables) must be upheld until the date of loss of control. However, when measuring the disposal group in accordance with IFRS 5, net assets should be deemed to include intra-group assets and liabilities, so as to reflect in the accounts the actual loss which will be made at the time of the sale.

The following worked example serves to illustrate the case above:

Contribution to the consolidated accounts of the subsidiary held for sale (after elimination of intra-group debts and receivables):

Goodwill	100	Minority interests	50
Property, plant and equipment	400	Financial debts	300
Inventories, receivables	600	Other debts	500
Total consolidated assets	1 100	Total consolidated liabilities	850

- Consolidated net contribution: $1\ 100 - 850 = 250$
- Intra-group financial debt: 200 (*advance from the parent company to the subsidiary included in the liabilities of the disposal group*)
- Net assets of the disposal group: $250 - 200 = 50$
- Sale price: 300

Actual gain expected: $300 - 50 = 250$

WHAT CONDITIONS MUST BE MET?

IFRS 5.6 lays down a general principle for classification: *"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."*

Therefore, a non-current asset which is to be abandoned should not be classified as held for sale. This is because its carrying amount will be recovered principally through continuing use. For example, if a group decides to abandon a particular line of business, which comprises non-current assets, these assets will continue to be presented in their original categories until the date on which the business is abandoned.

IFRS 5 stipulates two conditions which must be met in order to conclude that the carrying value of a non-current asset will be recovered principally through a sale transaction:

- The asset must be **available for immediate sale in its present condition**, subject only to terms that are usual and customary for sales of such assets or disposal groups; and
- The sale of the non-current asset must be **highly probable**.

When are non-current assets classified as “held for sale”?

Example 3:

An entity is committed to a plan to sell a factory. The production cycle is six months and pollutants are involved. The company must meet its existing orders. Dismantling the equipment and cleaning up the pollution will put the facility out of action for six months. Does the factory meet the criterion of “availability for immediate sale”?

No. The fact that several months must be spent fulfilling existing orders and then dismantling and cleaning the factory means that it is not available for immediate sale in its present condition. Therefore, the factory cannot be classified as held for sale at the date of the decision to sell.

WHEN A SALE IS “HIGHLY PROBABLE”?

IFRS 5 states the criteria which must be met for a sale to be deemed highly probable:

- ▶ The appropriate level of management (for example, the Board of Directors in a public limited company) must be committed to a plan to sell the asset. For example, a press release might have been published announcing the decision made by the company's Board of Directors;
- ▶ The entity must have launched an active programme to locate a buyer and complete the plan: thus, it is not necessary to have actually found a buyer in order to meet the IFRS 5 criteria. *A fortiori*, it is not necessary to have a firm purchase commitment. For example, a company might have engaged estate agents to sell buildings;
- ▶ The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value: thus, if the seller is hoping for a sale price that is much higher than the asset's fair value at the date it is put on the market, it is unlikely that a buyer will be found;
- ▶ It should be possible to complete the sale – and thus derecognise the asset – within one year of the date of classification as held for sale, except where the standard permits otherwise.

- The actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Exceptions to the 12-month limit are detailed in Appendix B of IFRS 5. Therefore, an extension of the period required to complete a sale does not preclude an asset from being classified as held for sale. 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, it may still be classified as held for sale.

In practice, these exceptions apply in two types of situation:

- Either it is probable, from the time of the initial decision to sell, that the sale will not be completed within a year; for example, due to particular regulatory constraints on the planned sale;
- Or the time taken to complete the sale is extended by unpredicted events or circumstances.

Example 4:

An entity in the energy sector is committed to selling one of its business lines. This requires regulatory approval. It could take more than twelve months to obtain this approval. However, a firm purchase commitment must have been signed before approval can be obtained. In the present case, a firm purchase commitment is highly probable within a year. In this situation, the conditions for an exception to the one-year limit would apply.

Example 5:

An entity is committed to a plan to sell a non-current asset. The asset is therefore classified as held for sale at the date of the decision to sell. Over the initial one-year period, the market conditions that existed at the date of the decision to sell deteriorate significantly. As a result, the asset has not been sold at the end of the twelve-month period.

If the asset continues to be actively marketed with a view to sale, at a price which does not exceed its fair value (the price having necessarily been reduced in light of the new market conditions), the asset may continue to be classified as held for sale even after the end of the twelve-month period.

When are non-current assets classified as “held for sale”?

BY WHAT DATE MUST THE CONDITIONS BE MET?

If all the criteria stipulated in IFRS 5 have been met by the end of the reporting period, a non-current asset should be classified as “held for sale” in the statement of financial position.

If these criteria are met between the end of the reporting period and the date the financial statements are authorised for issue, no change in classification should be made. Only information relating specifically to the planned sale transaction should be provided in the notes to the financial statements.

HOW SHOULD ASSETS HELD FOR SALE BE PRESENTED IN THE STATEMENT OF FINANCIAL POSITION?

An entity should 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** (see illustration 1 page 12). Similarly, the liabilities of a disposal group classified as “held for sale” should be presented separately from other liabilities in the statement of financial position. Moreover, these assets and liabilities should not be offset against one another.

In practice, this means isolating all the non-current assets and groups of assets classified as held for sale in a single separate line item within the assets section of the statement of financial position, and all the liabilities directly related to disposal groups in a single separate line item within the liabilities section of the statement of financial position. Thus, assets and liabilities classified as held for sale should be presented **in the final line of the statement of financial position, within the sub-total of current items**.

These items should only be presented separately for the year in which the non-current assets and groups were classified as held for sale. Thus, **statements of financial position for comparative periods should not be re-presented**.

Attention!

An entity should present separately any income or expense recognised directly in equity that is related to a non-current asset classified as held for sale. If, for example, a disposal group includes securities available for sale, the portion of "other comprehensive income" which relates to changes in the fair value of these securities should be presented separately. The sale would necessitate that this fair value revaluation reserve be immediately recycled to profit or loss. The same applies to exchange differences arising from the translation of the accounts of a disposal group from its functional currency to the presentation currency. In practice, groups rarely disclose the latter item of information.

Illustration 1: Presentation of non-current assets classified as held for sale in the consolidated statement of financial position
ASSETS

	31 December N	31 December N-1
<i>Non current assets</i>		
Goodwill	800	1 000
Other intangible assets	400	300
Property, plant and equipment	1 500	1 700
Financial assets	300	250
Investments in equity affiliates	100	100
Deferred tax assets	220	170
Investment properties	450	550
<i>Sub-total</i>	3 770	4 070
<i>Current assets</i>		
Inventories	1 200	1 250
Accounts receivable	750	650
Tax receivable	300	200
Other assets	450	630
Cash and cash equivalents	900	750
<i>Sub-total</i>	3 600	3 480
Assets classified as held for sale	380	0
<i>Sub-total</i>	3 980	3 480
<i>Total assets</i>	7 750	7 550

When are non-current assets classified as "held for sale"?

LIABILITIES

	31 December N	31 December N-1
Shareholders' equity		
Shareholders' equity – group share (...)	1 490	1 350
Amounts recognised directly in equity that are related to non-current assets held for sale	10	0
Total shareholders' equity – group share	1 500	1 350
Shareholders' equity – minority interests	450	400
Sub-total	1 950	1 750
Non-current liabilities		
Long-term borrowings	1 300	1 600
Provisions	750	600
Deferred tax liabilities	150	100
Sub-total	2 200	2 300
Current liabilities		
Borrowings – less than one year	500	750
Accounts payable	1 800	1 650
Tax payable	350	400
Other liabilities	800	700
Sub-total	3 450	3 500
Liabilities classified as held for sale	150	0
Sub-total	3 600	3 500
Total Liabilities	7 750	7 550

Specific measurement provisions

GENERAL RULE ON MEASUREMENT UNDER IFRS 5

The general measurement principle is that a non-current asset classified as held for sale should be measured at the lower of its carrying amount and fair value less costs to sell.

In practice, the procedure below should be followed for a disposal group:

- Immediately before the group is classified as held for sale, its assets and liabilities should be measured in line with the relevant standards;
- The disposal group should then be measured at the lower of its total carrying amount (as previously determined) and its fair value less costs to sell. The costs to sell should be discounted if the sale is not completed within 12 months;
- Any resultant impairment of the group's non-current assets should be allocated in line with IAS 36, Impairment of Assets in the following order:
 - first, reduce the carrying amount of any goodwill allocated to the disposal group;
 - then, allocate it to other non-current assets of the group pro rata on the basis of their respective carrying amounts within the group.

Moreover, an entity should not depreciate a non-current asset while it is classified as held for sale. This is because the carrying amount of the asset will be recovered principally through the income from the sale transaction, rather than through continuing use.

EXCEPTIONS

The measurement provisions in IFRS 5 do not apply to the following assets, which will continue to be measured in line with their "original" standards (i.e. those which applied before reclassification under IFRS 5) whether they are classified as held for sale individually or as part of a disposal group:

- (a) deferred tax assets (see IAS 12, Income Taxes);
- (b) assets arising from employee benefits (see 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 line with the fair value model in IAS 40, Investment Property;

- (e) non-current assets that are measured at fair value less costs to sell in line with IAS 41, Agriculture;
- (f) contractual rights under insurance contracts as defined in IFRS 4, Insurance Contracts.

CAN IMPAIRMENT LOSSES BE REVERSED?

Any subsequent reversal of impairment, arising from an increase in the disposal group's fair value less costs to sell prior to the sale date, should be recognised in the accounts as follows:

- The assets and liabilities which are not subject to the measurement provisions of IFRS 5 should initially be measured in line with their respective standards;
- If the new carrying amount of the disposal group, as measured above, is still lower than the new fair value less costs to sell, the disposal group should be revalued by reversing the impairment loss. The reversal is allocated to the non-current assets of the group pro rata with their net carrying amounts, as measured in line with IFRS 5; the revaluation should not exceed the impairment loss initially recognised (in line with IFRS 5 or IAS 36);
- In line with IAS 36, any impairment loss previously recognised for the disposal group's goodwill should not be reversed.

WHAT HAPPENS WHEN ASSETS ARE SOLD?

At the sale date, income from the sale should be recognised up to the amount of the gain or loss not yet recognised in the accounts.

Example 6:

A disposal group meets the IFRS 5 criteria and comprises several elements, including non-current assets measured in line with IFRS 5.

The disposal group classified as held for sale has a fair value less costs to sell of 8,000.

The columns in the table below represent the various stages of implementation of the measurement provisions. It can be assumed that no impairment of the assets was recognised prior to classification under IFRS 5.

	Net carrying amount at the end of the last reporting period	Net carrying amount following application of relevant standards just prior to classification under IFRS 5	Allocation of impairment loss	Net carrying amount of group elements at the date of classification as held for sale
Goodwill	1 500	1 500	<1 500>	0
Development costs	2 000	1 500	<327>	1 173
Property, plant and equipment	4 600	4 000	<873>	3 127
Inventories	2 400	2 200		2 200
AFS financial assets	1 800	1 500		1 500
Total	12 300	10 700	<2 700> (*)	8 000

(*) The impairment loss equates to the difference between the net carrying amount of the group (10,700) and its fair value less costs to sell (8,000).

At a later date, the fair value less costs to sell is estimated at 11,000 (an increase of 3,000 on the initial fair value less costs to sell).

The group's non-current assets, measured in line with their "original" standard, are remeasured immediately prior to the remeasurement of the disposal group. The AFS financial assets show a gain of 500.

Therefore, 500 of the 3,000 increase in value is due to the increase in value of the AFS financial assets. In line with IAS 39, the gain on remeasurement of these financial assets is recognised in the accounts, taking the carrying amount of the disposal group to 8,500.

Specific measurement provisions

Therefore, the impairment reversal may not exceed whichever is the lower of a) the initial impairment (2,700) and b) the amount by which the total value (11,000) exceeds the carrying amount (8,500). Therefore, it may not exceed 2,500.

As the impairment recognised for goodwill cannot be reversed, only the impairments allocated to development costs and property, plant and equipment may be reversed. These total 1,200, which is lower than the reversal limit calculated above, and they are therefore fully reversed.

	Net carrying amount of group elements at the date of classification as held for sale	New measurement of elements not subject to IFRS 5 measurement provisions	Allocation of impairment reversal	Net carrying amount of group elements classified as held for sale at the end of the reporting period
Goodwill	0	0	0	0
Development costs	1 173	1 173	327	1 500
Property, plant and equipment	3 127	3 127	873	4 000
Inventories	2 200	2 200	0	2 200
AFS financial assets	1 500	2 000	0	2 000
Total	8 000	8 500	1 200	9 700

Example 7:

When the carrying amounts of the non-current assets of the disposal group, measured in line with IFRS 5, are not sufficient to absorb the total loss expected on the sale of the group, should a provision be made for the remaining amount?

IFRS 5 does not answer this question. However, we believe that in line with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, a provision should only be made for the residual loss (which could not be offset by the carrying amounts of the non-current assets of the group measured in line with IFRS 5) in the event that the entity has a binding sale contract. Without a contract, an entity cannot be said to have an obligation, and thus a liability cannot be recognised.

WHAT HAPPENS IF CHANGES ARE MADE TO THE PLAN OF SALE?

It is not unusual for changes to be made to the plan of sale between the date on which a non-current asset is classified as held for sale, and the actual sale date. This could be due to changes in market conditions, to give one example.

If the changes are such that the IFRS 5 criteria for classification as “held for sale” are no longer met, the entity should measure the carrying value of each non-current asset at the lower of:

- Its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluation that would have been recognised had the asset (or disposal group) not been classified as held for sale; and
- Its recoverable amount at the date of the subsequent decision not to sell.

The idea is to present a statement of financial position **as if the non-current asset (or disposal group) had never been classified as held for sale.**

Presenting “discontinued operations”

WHAT IS A “DISCONTINUED OPERATION”?

“Discontinued operations” constitute the second topic addressed by the title of IFRS 5, after “non-current assets held for sale”.

Although the two topics are related, they do not map onto each other directly. It is not a case of stipulating on one side how the statement of financial position should be presented and, on the other side, how the statement of comprehensive income and statement of cash flows should be presented. So, why are these two topics covered by the same standard?

An operation may be classified as “discontinued” if the entity is either selling it or abandoning it. In the event that it is being sold, the classification as “held for sale” is a precondition for the classification as a “discontinued operation” when the sale has not yet taken place. Therefore, the following conditions must all be met for an operation to be classified as “discontinued”:

- The forthcoming sale concerns a disposal group which corresponds to a component⁽¹⁾ of the entity; and
- This disposal group:
 - represents a separate major line of business or geographical area of operations; or
 - is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
 - is a subsidiary acquired exclusively with a view to resale.

Thus, a non-current asset which is abandoned, held for sale or sold **individually** can never meet the definition of a discontinued operation.

Further, it might be necessary to present an operation as discontinued in the statement of comprehensive income where no assets or liabilities of the disposal group appear separately in the statement of financial position.

This applies when the sale of a component of the entity is effective before the end of the reporting period (i.e. the assets and associated liabilities of the disposal group have been derecognised) or when the operation concerned (also corresponding to a component of the entity) has been abandoned rather than sold.

(1) According to IFRS 5.31, a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity (CGU or group of CGUs).

WHEN IS AN OPERATION DISCONTINUED?

In practice, it is sometimes difficult to determine whether the proposed or actual sale (or abandonment) leads to the disposal of a component of the entity which would meet the definition of a discontinued operation set out in IFRS 5. Actually, the standard provides no criteria of size. Whether an operation is discontinued under IFRS 5 is therefore a matter of judgement.

This judgement must take account of the concept of relative importance in the Framework for the Preparation and Presentation of Financial Statements. In accordance with this principle, information is significant if its omission or inaccuracy could influence the economic decisions taken by users on the basis of the financial statements. It is thus necessary to assess whether a failure to present a disposal group separately in the statement of comprehensive income will be detrimental to the accurate picture which the financial statements should provide.

Certain groups have established a correspondence between the breakdown by geographical areas and lines of business (in accordance with IAS 14) and the level from which a disposal group should be regarded as a discontinued operation under IFRS 5. This essentially pragmatic approach should not prevent a case-by-case consideration of whether the criteria for classification as a discontinued operation are met. There is nothing in IFRS 5 to suggest that a disposal group which is smaller than a geographical area or a line of business presented separately in the segment reporting, could not be regarded as a discontinued operation. The exposure draft issued in September 2008 which aims to revise the definition of a discontinued operation however proposes to refer to the operating segment notion as defined in IFRS 8 (see the part relating to the major changes anticipated).

Example 8:

Under IAS 14, a wholesale group presented the following geographical areas as the primary format of its segment reporting: France, Europe (outside France), the Americas, and Asia. The secondary format listed the following lines of business: hypermarkets and supermarkets.

Presenting “discontinued operations”

Because China generates more than 50% of the turnover for the Asia zone, the disposal of all the supermarkets located in that country would appear to correspond to a discontinuation of operations, since China is a separate major geographical area.

Example 9:

A materials and construction group operates in a single country in two very specific lines of business: retail distribution and trade.

Over a given period, this group decides to dispose of its retail operations in the Northern area. In itself, this sale is not sufficiently large to meet the definition of a discontinued operation.

However, over the same period, the group announces its intention of selling its retail shops in the Western area, and then in the Southern and Eastern areas, if a buyer can be found.

These successive sales should be analysed as part of a co-ordinated plan to withdraw from retail distribution. Therefore, after the initial sale in the Northern area, the operations should be described as discontinued under IFRS 5.

Example 10:

A telecommunications group proposes to acquire a competitor active in the same geographical area. The regulatory authorities accept the business combination on the express condition that a number of the group's subsidiaries be sold within twelve months in order to meet competition rules.

At the time of acquisition, IFRS 3 and then IAS 27 should be applied, even though the control of some of these entities will be temporary. However, the consolidated assets and liabilities of the subsidiaries held for sale should be presented separately in the statement of financial position, in line with IFRS 5. The results generated by these entities from the takeover date should also be presented separately in the statement of comprehensive income, on the line “Profit for the period from discontinued operations”.

SPECIFIC PRESENTATION IN THE STATEMENT OF COMPREHENSIVE INCOME

When operations are classified as discontinued, the "Profit for the period from discontinued operations" must be presented on a separate line in the statement of comprehensive income. This profit is presented after the "Profit for the period from continuing operations" and before the "Profit for the period" (cf. illustration 2).

In detail, this specific line in the statement of comprehensive income consists of the following items:

- The income generated by the discontinued operation (of whatever nature), and the expenses directly attributable to the operation, net of tax, for the whole of the reporting period;
- Any losses on the measurement of the disposal group under the provisions of IFRS 5;
- The result of the sale at the time of the actual derecognition of the assets and associated liabilities of the disposal group.

A separate line for "Profit for the period from discontinued operations" should be presented in the statement of comprehensive income for discontinued operations classified as such during the last reporting period presented. In contrast to the requirements for the presentation of disposal groups in the statement of financial position, **IFRS 5 also requires a comparison to be made in the statement of comprehensive income for the presentation of the result of discontinued operations**, such that the scope of the result of continuing operations, for all the reporting periods presented, excludes any operations which have been sold or abandoned or which will be so in the year N+1. If an operation is classified as discontinued in N (the last reporting period presented), the results generated by this operation in N-1 and N-2 (the comparative periods presented) should also be separately presented on a specific line in the consolidated statement of comprehensive income, which is thus adjusted from previous publications.

It should be noted that this separate presentation in the statement of comprehensive income also applies to any adjustments made after the sale date which are directly associated with a sale which was presented as a discontinued operation. This applies in particular, with no time limit, to the implementation of a liability guarantee clause or an earn-out clause.

The breakdown of the single amount presented in the statement of

Presenting “discontinued operations”

comprehensive income as the net result generated by discontinued operations should be presented either in the statement of comprehensive income itself or in the notes (the solution most frequently adopted).

If changes to a planned sale mean that an operation can no longer be regarded as discontinued, the result that was previously presented separately should again be presented in the “Profit for the period from continuing operations”, and the comparative periods adjusted.

Finally, in line with IAS 33, Earnings per share, the basic and diluted amounts per share for the discontinued operation shall be presented either in the statement of comprehensive income or in the notes.

Illustration 2: Presentation of discontinued operations in the statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

	31 December N	31 December N-1
Revenue	2500	2600
Cost of sales	-1600	-1550
Gross profit	900	1050
Distribution, administrative and other costs	-400	-450
Research and development costs	-200	-250
Operating result	300	350
Finance costs	-100	-120
Other net financial income and charges	50	70
Financial result	-50	-50
Share of profit of associates	40	30
Income tax expense	-20	-30
Profit for the period from continuing operations	270	300
Profit for the period from discontinued operations-100		-150
Profit for the period	170	150
Attributable to owners of the parent	169	149
Attributable to non-controlling interests	1	1

SPECIFIC PRESENTATION IN THE STATEMENT OF CASH FLOWS

Except where a discontinued operation corresponds to a subsidiary acquired exclusively with a view to resale, net cash flows attributable to the operating, investing and financing activities of the discontinued operations should be presented separately, either directly in the statement of cash flows (see illustration 3), or in the notes (this also applies to previous reporting periods presented).

Illustration 3: Statement of cash flows including the separate presentation of cash flows for discontinued operations

STATEMENT OF CASH FLOWS

	31 December N	31 December N-1
Consolidated profit	170	150
Profit from discontinued operations	-100	-150
Profit from continuing operations	270	300
<i>Adjustments to reconcile the profit from continuing operations with the change in net cash from operating activities for continuing operations</i>		
(...)		
Net change in operating cash flows from continuing operations	200	150
Operating cash flows used by discontinued operations	-50	-50
Net cash from operating activities (I)	150	100
(...)		
Net change in investing cash flows from continuing operations	-150	-200
Investing cash flows used by discontinued operations	-10	-60
Net cash used in investing activities (II)	-160	-260
(...)		
Net change in financing cash flows from continuing operations	190	160
Financing cash flows resulting from discontinued operations	40	50
Net cash from financing activities (III)	230	210
Net increase in cash and cash equivalents (I+II+III)	220	50
Cash and cash equivalents at beginning of period	750	800
Effects of exchange rate fluctuations on cash	-70	-100
Cash and cash equivalents at end of period	900	750

Summary of the impact of IFRS 5 on the presentation of financial statements

In the statement of financial position

Classification as "held for sale"	Individual non-current assets	Disposal groups not corresponding to operations	Disposal groups corresponding to operations (*)		
Classification as "discontinued operations"			Disposal groups corresponding to operations (*)	Disposal groups to be abandoned	Operations already sold

In the statement of comprehensive income (and the statement of cash flows)

(*) Including subsidiaries acquired exclusively with a view to resale

A series of minor changes

In recent months there have been several amendments to IFRS 5. Most come in response to practical questions which arose following the application of concepts which were quite new for many groups.

AMENDMENT FOLLOWING PUBLICATION OF REVISED IAS 27 (JANUARY 2008):

One paragraph (33(d)) has been added in order to supplement the disclosures required from a company if during the year it has identified an operation corresponding to a discontinued operation under IFRS 5.

An entity should now disclose the amount of income from continuing operations and from discontinued operations attributable to owners of the parent.

The bottom of the statement of comprehensive income should be presented as follows (disclosures may also be provided in the notes):

	2009	2008
...	...	...
...	...	...
Profit from continuing operations	X	X
Profit from discontinued operations	X	X
Profit	X	X
Of which attributable to:		
Owners of the parent:		
Profit from continuing operations	X	X
Profit from discontinued operations	X	X
Profit attributable to owners of the parent	X	X
Non-controlling interests:		
Profit from continuing operations	X	X
Profit from discontinued operations	X	X
Profit attributable to non-controlling interests	X	X

An entity shall apply that amendment retrospectively for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendment shall be applied for that earlier period.

IMPROVEMENTS OF EXISTING STANDARDS : “PLAN TO SELL THE CONTROLLING INTEREST IN A SUBSIDIARY” (MAY 2008):

This improvement concerns situations when an entity is committed to a plan to sell the controlling interest in a subsidiary and in which the entity retains a non-controlling interest in its former subsidiary, taking the form of either an investment in an associate, an investment in a joint venture or a financial asset.

While only two paragraphs have been added to the current standard (8A and 36A), there was considerable debate due to the wide divergences in practice. The IASB has finally endorsed the position expressed by the IFRIC in a wording for rejection in July 2007.

Whatever the level of interest sold in a subsidiary, all assets and liabilities of that subsidiary should be presented on a separate line in the statement of financial position when the sale results in a loss of control. The separate presentation is justified by the fact that the sale will result in the end of full consolidation and in the derecognition of the assets and liabilities of the subsidiary.

For example, plans to sell 2% of a subsidiary held at 51% results in a loss of control and the end of full consolidation. All the consolidated assets and liabilities of the relevant subsidiary will be derecognised and presented on a separate line at the bottom of the statement of financial position.

In addition, the amendment provides guidance on cases where the subsidiary whose shares are sold corresponds to a discontinued operation under IFRS 5: the subsidiary's result will also be presented on a separate line in the statement of comprehensive income (on the line headed "profit from discontinued operations").

Entities should implement this amendment for reporting periods starting from 1 July 2009. Early application is permitted under certain conditions.

AMENDMENT FOLLOWING THE PUBLICATION OF INTERPRETATION IFRIC 17 ON DISTRIBUTION OF NON-CASH ASSETS TO OWNERS (NOVEMBER 2008):

This interpretation concerns the distributions of assets by an entity to its owners acting in their capacity as owners (other than distributions between entities under joint control).

The scope of IFRS 5 has been modified to expand the concept of non-current assets held for sale to include assets held for distribution to owners (paragraph 5A).

Additional details are provided on the criteria for the classification of non-current assets as held for distribution to owners (end of paragraph 8 and paragraph 12A). In order to determine whether the distribution is highly probable, the probability of shareholders' approval (if required in the jurisdiction) should be considered.

This new category of non-current assets or disposal groups will be measured as non-current assets held for sale. Distribution costs will be deducted from the fair value for purposes of comparison with the carrying amount of assets to be distributed. Finally, if a disposal group classified as held for distribution meets the definition of a discontinued operation, IFRS 5 provisions will apply.

A series of minor changes

These amendments shall be implemented prospectively for non-current assets (or disposal groups) classified as held for distribution to owners for reporting periods starting from 1 July 2009. Retrospective application is not permitted. Earlier application is permitted under certain conditions.

Major changes anticipated

The exposure draft published in September 2008 should culminate in the publication of a revised standard in the second half of 2009. This document may bring major changes, particularly regarding the definition of a discontinued operation.

EXPOSURE DRAFT FOR THE IMPROVEMENT OF EXISTING STANDARDS: “DISCLOSURES ON NON-CURRENT ASSETS (OR DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE OR DISCONTINUED OPERATIONS” (AUGUST 2008):

This draft amendment (the comment period ended on 7 November 2008) aims at clarifying the disclosure requirements for non-current assets (or disposal groups) classified as held for sale and for discontinued operations.

Two approaches were used in practice:

- the first was based on the idea that disclosures required by other standards should not apply to non-current assets (or disposal groups) held for sale or to discontinued operations, unless specifically mentioned. This is the case for IAS 33 (paragraph 68) which states that an entity should mention the basic and diluted earnings per share for discontinued operations either in the statement of comprehensive income or in the notes to the financial statements;
- the second was based on the idea that unless specifically mentioned, all disclosures required by other standards should be applied to non-current assets (or disposal groups) held for sale or to discontinued operations.

The IASB has adopted the former approach and has clarified this point in the scope of application.

Prospective application will apply for reporting periods starting from 1 January 2010. Early application should be permitted.

EXPOSURE DRAFT ON DISCONTINUED OPERATIONS: “PROPOSED AMENDMENTS TO IFRS 5” (SEPTEMBER 2008):

This document represents a major step in the modification of IFRS 5.

As part of convergence with US GAAP, it proposes to change the definition of a discontinued operation and to increase the disclosures to be provided for all components of an entity that have been disposed of or are classified as held for sale.

In order to eliminate the residual but significant differences between IFRS 5 and FAS 144, the exposure draft suggests that in the identification of a discontinued operation, reference should be made to the term “operating segment” as defined in IFRS 8 and to the term “business” as defined by the revised IFRS 3. Thus only operating segments and businesses acquired with a view to resale could be classified as discontinued operations.

This new definition would avoid the difficulties in applying the current definition, which refers to the idea of a “separate major line of business or geographical area of operations” which is difficult to assess. In practice, a number of groups previously relied on the guidance on segment reporting provided in IAS 14.

However, the new definition could restrict the latitude of the management in assessing the scope of an entity’s discontinued operations. Indeed, presenting the abandonment or disposal of an operation as a discontinued operation may be justified due to a strategic change (and the resulting impact on profitability) whatever the breakdown used for operating segments.

In view of this draft, companies should be very careful when applying IFRS 8 for the first time (application is mandatory for annual periods starting from 1 January 2009) due to the potential impact on the implementation of the future IFRS 5.

In terms of figures, the exposure draft suggests that data presented for discontinued operations must be IFRS-compliant and extracted from the statement of comprehensive income. What should seem obvious is in fact a safeguard against an extensive application of IFRS 8 requirements.

Indeed, figures provided under IFRS 8 may come from the application of accounting principles outside the scope of the IFRSs.

The second major part of the exposure draft concerns the level of disclosures for all components of an entity (disposed of or classified as held for sale), whether these components correspond to discontinued operations or not. An entity should also provide a breakdown of the major income and expense items constituting the profit for the period, if the component of an entity includes a non-controlling interest, the profit or loss attributable to the owners of the parent, and the major classes of cash flows (operating, investing and financing).

This proposal will certainly not be unanimously endorsed. It seems contradictory simultaneously to suggest a new definition of discontinued operations to ensure that only major operations will be subject to a specific presentation in the statement of comprehensive income, and at the same time to require that all realised or future sales of components should be subject to very detailed disclosures (whether or not they correspond to discontinued operations).

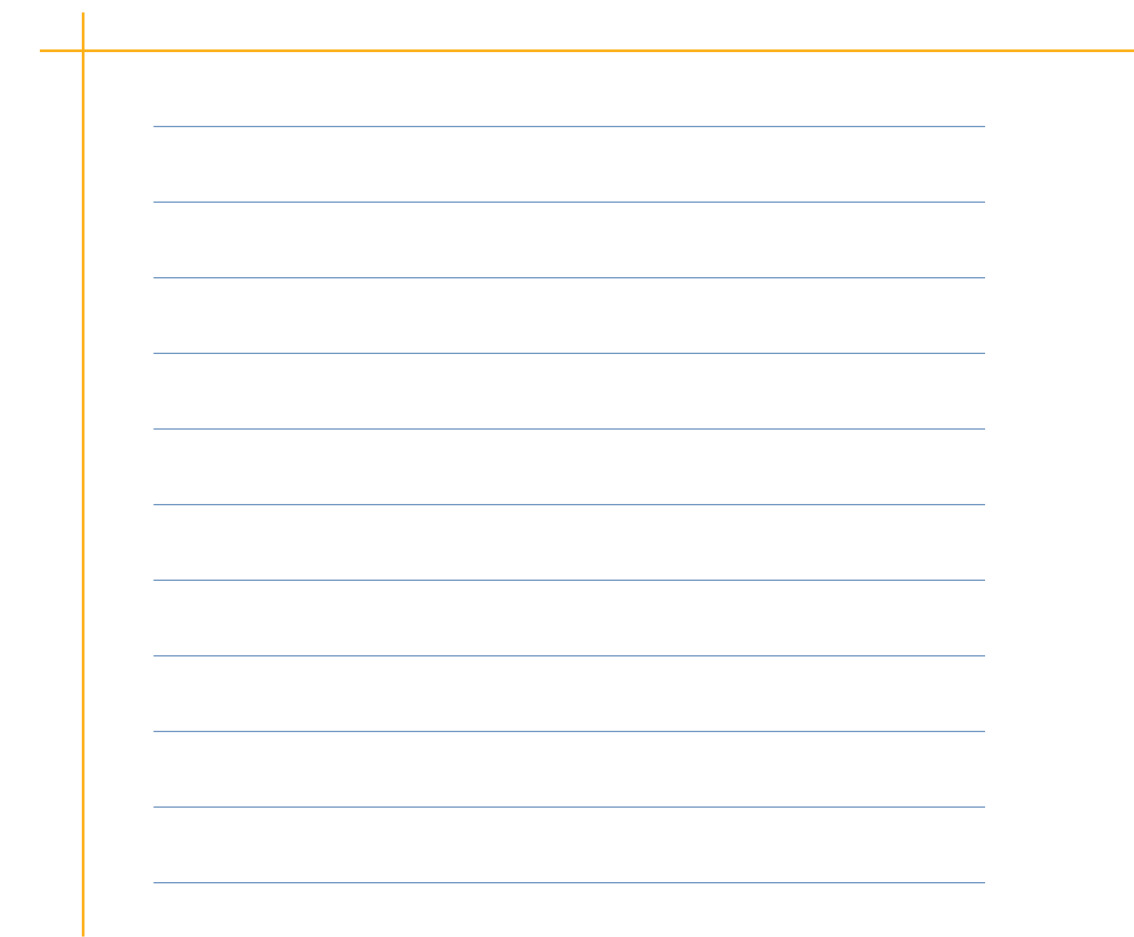
One may also question whether the financial statements' users will benefit from such a measure. Indeed, nothing prevents the issuers of financial statements from providing any useful disclosure on an operation.

Finally, the exposure draft proposes that the new definition of discontinued operations should be applied for all the comparative periods presented. In some cases, adjustments would thus be necessary to comparative periods in the statement of comprehensive income. The new provision on additional disclosures would be applied only to operations classified for the first time as held for sale or as discontinued operations during the reporting period when the amendment is first applied. Entities would therefore not be required to supplement disclosures if operations were reclassified in the statement of comprehensive income for comparative periods presented in line with the transitional provisions for the application of the new definition of a discontinued operation.

Against the background of the current crisis, it is likely that operations within the scope of IFRS 5 will become more common. Hence the importance of including in financial statements only the impact of transactions which will genuinely lead to major strategic changes for an entity. Such is also the objective stated by the IASB in reformulating the definition of discontinued operations.

Presenting the impact of these operations in the financial statements is a matter which may yet be subject to further change. The IASB and the FASB are conducting a project on financial statement presentation which has resulted in the publication of an initial discussion paper. One of the aims of this project is to bring cohesiveness to the primary financial statements. In practice, the main idea is that, for any given group of homogeneous assets or liabilities, it should be possible to track, line by line, the income and expenses associated with these groups and the related cash flows. This principle could have consequences for the presentation of non-current assets held for sale and of discontinued operations.

The two Boards have so far not specifically addressed the interactions between this project and the principles of presentation set out in IFRS 5. This work will doubtless be necessary before the publication of the exposure draft on financial statement presentation, which is expected during the second half of 2010. It would be a pity if the impact of this project on IFRS 5 were not addressed in a co-ordinated manner, resulting in multiple modifications to this standard.



Contacts :

Michel Barbet-Massin

Jean-Louis Lebrun

Mazars

DOCTRINE

61, rue Henri Regnault

92075 Paris - La Défense

Tel: +33 (0)1 49 97 60 00

Fax: +33 (0)1 49 97 60 01

www.mazars.fr

www.mazars.com