Ind AS
Case Study

Measurement Rules for
Disposal Groups Held for Sale

CASE STUDY

Ind AS 105 – Measurement Rules for Disposal Groups Held for Sale

Scenario

On 1 April 20x2, the carrying values of assets of the disposal group held for sale for ABC Ltd. were as follows –

	CU
Land and building	120
Plant and machinery	60
Intangible assets	30
Inventories	40
Trade receivables	25
Total	**275**

The sale transaction was expected to be completed within 1-year period after the disposal group has been classified as held for sale. During the initial 1-year period, circumstances arose that were previously considered unlikely and, as a result, the disposal group (previously classified as held for sale) is not sold by the end of the reporting period, ie, 31 March 20x3.

An impairment review was conducted to determine if and by how much the disposal group held for sale have been impaired. ABC Ltd. estimates that the disposal group will be sold by 31 May 20x3 at a price of CU 205 and the direct costs of selling the disposal group would be CU 5.

At 31 March 20x3, the assets are measured as follows –

- **Land and building**
  The fair value is not determinable.
- **Plant and machinery**
  The fair value is not determinable.
- **Intangible assets**
  ABC Ltd. has an open offer of CU 10 for the intangible assets. Therefore, the impairment loss is CU 20 (CU 30 – CU 10).

- **Inventories**

  ABC Ltd. realises that the inventories (8 units, purchased at CU 5 per unit) is not that it would choose to acquire the market place. An equivalent product is available for CU 4 per unit. The existing inventory, in its present physical form, can be sold at CU 2.25 per unit. Alternatively, if the existing inventory is replaced by the new equivalent product, an amount of CU 1.50 per unit is to be paid.

  Ind AS 2 *Inventories* states that if the inventories are damaged or become obsolete or inadequate, or their selling prices have declined, the amount realisable may be less than the amount recognised at cost. Sometimes, it may so happen that the estimated costs of completion or the selling costs have increased. These circumstances call for a write-down of the inventories below cost to the net realisable value as assets should not be carried in excess of what they are expected to realise from their sale or use.

  In regard to the inventories, ABC Ltd. will have the following 2 options –

  - To sell the inventory at CU 2.25 per unit and reacquire the equivalent stock at CU 4 per unit. In this case, it has to incur an additional cost of CU 1.75 (CU 4 – CU 2.25) per unit; or
  - To replace the inventory by paying CU 1.50 per unit.

  Obviously, the second option is cheaper. Therefore, the value of the inventory is CU 20 [8 x (CU 4 – CU 1.50)] and, in turn, the impairment loss is CU 20 (CU 40 – CU 20).

- **Trade receivables**

  The entire trade receivable of CU 25 is owed by a customer who experienced cash flow problems to the period end, ie, 31 March 20x3. ABC Ltd. agrees to accept a payment of CU 22 in full and final settlement of the debt and to defer the payment until 31 March 20x4. ABC Ltd. would expect a return of 10% on sums invested for 1 year.

  A trade receivable is an entity's right to consideration that is unconditional, ie, only the passage of time is required before payment of that consideration is due.

  As per Ind AS 109 *Financial Instruments*, impairment loss on a financial asset (in this case, trade receivable) is to be calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (ie, 10%). Therefore, the carrying amount of trade receivable is: CU [{25 – (25 – 22)} ÷ 1.10] = CU 20, and in turn, the impairment loss is CU 5 (CU 25 – CU 20).

Impairment procedure

As per Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations,* the assets of the disposal group held for sale are to be separately classified below current assets in the Balance Sheet. No further depreciation or amortisation would be charged on those assets. The assets will be measured at the lower of their current carrying amounts at the date of the classification (or subsequent measurement) and their fair value less costs to sell. In this case, the total carrying amount after re-measurement is CU 200 (CU 205 – CU 5).

There are 3 scoped-in assets (ie, land and building, plant and machinery, and intangible assets) and 2 scoped-out assets (inventories and trade receivables). The impairment loss of CU 20 will first be allocated to inventories. Thereafter, the impairment loss of CU 5 will be allocated to trade receivables. Lastly, impairment loss of CU 20 will be allocated to intangible assets. The remaining impairment loss of CU 30 [CU 275 – CU 200 – (CU 20 + CU 20 + CU 5)] will be allocated to land and building; and plant and machinery on a *pro-rata* basis of their carrying amount, ie, CU 120 : CU 60 = 2 : 1.

Therefore, on 31 March 20x3, the carrying amounts of assets of the disposal group held for sale are as follows –

Assets	Basis	CU
Land and building	Pro-rata allocation of 2/3	100 (120 – 20)
Plant and machinery	Pro-rata allocation of 1/3	50 (60 – 10)
Intangible assets	Realisable value	10 (30 – 20)
Inventories	Realisable value	20 (40 – 20)
Trade receivables	Realisable value	20 (25 – 5)
	Total	**200**

Disposal Group Held for Sale

Date	Heads of Account	Dr	Cr	Balance
20x2				
Apr 1				275
20x3				
Mar 31	Impairment loss		75	200

If the fair value *less* costs to sell of the disposal group is lower than the aggregate carrying amount of the disposal group, then an impairment loss is recognised in profit or loss. Also, the recognition of an impairment loss creates a deferred tax asset, which is CU 75 x 40% (assumed tax rate) = CU 30.

Journal

• Impairment loss	CU 75	
Disposal group held for sale		CU 75
• Profit or loss	CU 75	
Impairment loss		CU 75
• Deferred tax asset	CU 30	
Deferred tax income		CU 30
• Deferred tax income	CU 30	
Profit or loss		CU 30

The disposal group held for sale and the corresponding deferred tax asset will appear in Balance Sheet as under –

Balance Sheet (Extract)

	CU
Assets	
Non-current Assets	xxx
Current assets	xxx
Disposal group held for sale (Net ie. CU 200 – CU 30*)	**170**

* *Deferred tax asset*