



Ind AS **Worked Example**

**Measurement of a
Disposal Group
Held for Sale**

Worked Example

Ind AS 105 – Measurement of a disposal group held for sale

Introduction

When a disposal group is classified as held for sale and presented in the books of accounts according to the accounting treatment specified in Ind AS 105 *Disposal Groups held for Sale*, this results in a reduction in the value of the entity as evident in the Balance Sheet.

This example shows a holistic picture of the Balance Sheet of an entity before and after the disposal group is classified as held for sale.

Question

TEM Ltd intends to dispose of a cash-generating unit (CGU). The carrying amount of the CGU (disposal group) as at 31 March 20x5 before classification as held for sale is –

	(CU)
Land and building	300
Plant and machinery	200
Furniture and fixture	100
Inventories	75
Trade receivables	<u>50</u>
Assets of the disposal group classified as held for sale	(A) <u>725</u>
Revaluation surplus (in relation to plant and machinery)	24
Deferred tax liability (in relation to revaluation surplus)	16
Trade payables	<u>85</u>
Equity and liabilities of the disposal group classified as held for sale	(B) <u>125</u>
Carrying amount of the disposal group classified as held for sale	(A – B) 600

The Balance Sheet of TEM Ltd before the CGU is held for sale is as follows:

Balance Sheet of TEM Ltd as at 31 March 20x5

	CU
Assets	
<i>Non-current assets</i>	
Land and building	2,500
Plant and machinery	1,000
Motor vehicles	100
Furniture and fixture	250
Intangible assets	40
Investment in equity instruments	120
<i>Current assets</i>	
Inventories	765
Trade receivables	196
Other current assets	1,588
Cash and cash equivalents	2,941
Total Assets	9,500
Equity and Liabilities	
<i>Equity</i>	
Share capital	4,200
Retained earnings	1,484
Other components of equity	180
<i>Non-current liabilities</i>	
10% Bonds	1,500
Deferred tax liabilities	556
<i>Current liabilities</i>	
Trade payables	271
Short-term borrowings	363
Short-term provisions	130
Current tax liability	816
Total Equity and Liabilities	9,500

Show how the Balance Sheet of TEM Ltd changes following classification of the CGU as held for sale.

What the standard says

The **paragraphs 15, 21 and 38 of Ind AS 105** are relevant in these contexts which are included in the end for ease of reference.

Solution

TEM Ltd estimates the following:

1. The recoverable amount of the disposal group is CU 520.
2. The impairment losses of land and building; and furniture and fixture are not determinable.
3. The impairment losses of other assets are –

Plant and machinery	CU 20
Inventories	CU 15
Trade receivables	CU 10
4. Trade payables can be settled at CU 80.

The allocation of impairment can be illustrated as under –

	Carrying amount before classification as held for sale	Allocated impairment loss /(gain)	Carrying amount after allocation of impairment loss/(gain)
Land and building	300	45 Allocated *	255
Plant and machinery	200	20 Determinable	180
Furniture and fixture	100	15 Allocated *	85
Inventories	75	15 Determinable	60
Trade receivables	50	10 determinable	40
	725 (A)	105 (A)	620 (A)
Revaluation surplus	24	12 Determinable	12
Deferred tax liability	16	8 Determinable	8
Trade payables	85	5 Determinable	80
	125 (B)	25 (B)	100 (B)
Carrying amount	600 (A – B)		520 (A – B)
Impairment loss		80 (A – B)	

***Allocated on a pro-rata basis**

Journal

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|-------------------------------|-------|-------|
| 1. Revaluation surplus | CU 12 | |
| Deferred tax liability | CU 8 | |
| Plant and machinery | | CU 20 |
| 2. Impairment loss | CU 80 | |
| Disposal group held for sale | | CU 80 |
| 3. Deferred tax asset (@ 40%) | CU 32 | |
| Deferred tax income | | CU 32 |

The resulting presentation of the disposal group classified as held for sale in the TEM Ltd's Balance Sheet is as follows:

Balance Sheet of TEM Ltd
(following classification of the CGU as held for sale)

	CU
Assets	
<i>Non-current assets</i>	
Land and building (2,500 – 300)	2,200
Plant and machinery (1,000 – 200)	800
Motor vehicles	100
Furniture and fixture (250 – 100)	150
Intangible assets	40
Investment in equity instruments	120
<i>Current assets</i>	
Inventories (765 – 75)	690
Trade receivables (196 – 50)	146
Other current assets	1,588
Cash and cash equivalents	2,941
<i>Assets directly associated with disposal group held for sale *</i>	620
Deferred tax asset relating to disposal group	32
Total Assets	9,427
Equity and Liabilities	
<i>Equity</i>	
Share capital	4,200
Retained earnings (1,484 – 80 + 32)	1,436
Other components of equity (180 – 24)	156
<i>Amount recognised in other comprehensive income and accumulated in equity relating to disposal group held for sale *</i>	12
<i>Non-current liabilities</i>	
10% Bonds	1,500
Deferred tax liabilities (556 – 16)	540
<i>Current liabilities</i>	
Trade payables (271 – 85)	186
Short-term borrowings	363
Short-term provisions	130
Current tax liability	816
<i>Liabilities directly associated with disposal group held for sale *</i>	80
Deferred tax liability relating to disposal group (16 – 8)	8
Total Equity and Liabilities	9,427

* Refer paragraph 38 in the next page

Paragraph 15 states that –

“An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.”

According to paragraph 21 –

“An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Ind AS or previously in accordance with Ind AS 36, *Impairment of Assets*.”

As per paragraph 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 balance sheet. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the balance sheet. 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 balance sheet or in the notes. 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.”

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