

## Exposure Draft (ED)79 Summary—*Non-current Assets Held for Sale and Discontinued Operations*

This summary provides an overview of Exposure Draft (ED) 79, *Non-current Assets Held for Sale and Discontinued Operations*.

<b>Project objective:</b>	Exposure Draft (ED) 79 proposes accounting guidance for non-current assets that are classified as held for sale and the presentation and disclosure for discontinued operations. This proposed IPSAS is aligned with IFRS 5, <i>Non-current Assets Classified as Held for Sale and Discontinued Operations</i> to fill a gap in existing IPSAS literature.
<b>Project stage:</b>	The IPSASB issued ED 79 in April 2021.
<b>Next steps:</b>	The International Public Sector Accounting Standards Board® (IPSASB®) seeks feedback on ED 79 to guide the development of a final International Public Sector Accounting Standard®(IPSAS®) that established requirements for accounting for non-current assets that are classified as held for sale and the presentation and disclosure of discontinued operations.
<b>Comment deadline:</b>	ED 79 is open for public comment through October 25, 2021.
<b>How to respond:</b>	Respondents are asked to submit their comments electronically through the IPSASB website, using the “ <a href="#">Submit a Comment</a> ” link. Please submit comments in both a PDF <u>and</u> Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

## Why the IPSASB Undertook this Project

The purpose of this project is to develop a new standard that provides guidance on the accounting for non-current assets classified as held for sale and the presentation and disclosure requirements for discontinued operations.

### Objective

Public sector entities may look to dispose of non-current assets that are no longer used by the entity to provide services. The entity may look to dispose of the asset through different methods, one such way it to sell these assets commercially.

Currently IPSAS do not include guidance on how to account for non-current assets when they are made available for sale. Constituents have highlighted this gap in IPSAS and noted that this project should be added to the IPSASB's Work Program. Therefore, the objective of this project is to fill this gap.

### Rationale for the Project

Theme B of the *IPSASB's Strategy and Work Plan 2019-2023* is 'Maintaining alignment with IFRS'. The IPSASB considers it is important to maintain alignment with IFRS where appropriate because it:

- (a) Provides consistent principles and accounting outcomes when the economics of the transactions are the same;
- (b) Reduces unnecessary differences which minimizes the cost of preparing consolidated financial statements; and
- (c) Allows the IPSASB to leverage resources and best practices in financial reporting in the private sector when the transactions are the same.



## Scope of ED 79

ED 79 applies to non-current assets (or disposal groups) when they meet the criteria to be held for sale.

A key ED 79 principle is that the carrying amount of the asset will be recovered principally through a sale.

### Criteria to be Classified as Held for Sale

A non-current asset (or disposal group) must meet **ALL** the following criteria to be classified as held for sale:

- Carrying amount will be recovered principally through sale rather than continuing use;
- The asset must be available for immediate sale in its present condition subject to usual and customary terms; and
- The sale is highly probable.

For a sale to be highly probable the following must be met:

- Management must be committed to the plan to sell the asset;
- An active program to locate a buyer and complete the plan has been initiated;
- The asset must be marketed at a price reasonable in relation to its fair value;
- The sale is expected to be completed within 12 months; and
- Actions required to complete the plan indicate the plan is unlikely to significantly change or be withdrawn.

### Exemptions to the ED 79 Measurement Requirements

Exclusions to the measurement requirements of ED 79 are:

- Assets arising from IPSAS 39, *Employee Benefits*;
- Financial assets within the scope of IPSAS 41, *Financial Instruments*;
- Non-current assets that are accounted for in accordance with the fair value model in IPSAS 16, *Investment Property*;
- Non-current assets that are measured at fair value less costs to sell in accordance with IPSAS 27, *Agriculture*;
- Groups of contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts; and
- Deferred tax assets within the scope of the relevant international or national accounting standard dealing with income taxes.

## Scope - Public sector specific issues

The IPSASB considered aspects of the public sector and the way the public sector uses and disposes of assets when developing the requirements of ED 79 are applicable.

### **What is meant by available for immediate sale?**

Some public sector assets may require legislative or regulatory approval before they can be sold. In these circumstances an asset is not available for immediate sale until such approval has been granted.

### **What if it takes longer than 12 months to sell?**

Sometimes it may take longer than 12 months to sell an asset. ED 79 allows for an extension of the period to complete the sale if the delay is caused by events or circumstances outside the entity's control and the entity is still committed to its plan to sell the asset.

### **What if the asset is idle or retired from active use?**

On occasion, a public sector entity may have assets that are no longer being used, they may be idle and could be used in the future or they may have been retired from active use. Any such assets are not within the scope of ED 79 because the criteria to be classified as held for sale has not been met.

### **What about transferred assets?**

For an asset to be classified as held for sale it must be probable that a sales transaction will occur and the carrying amount of the asset is expected to be recovered through sale.

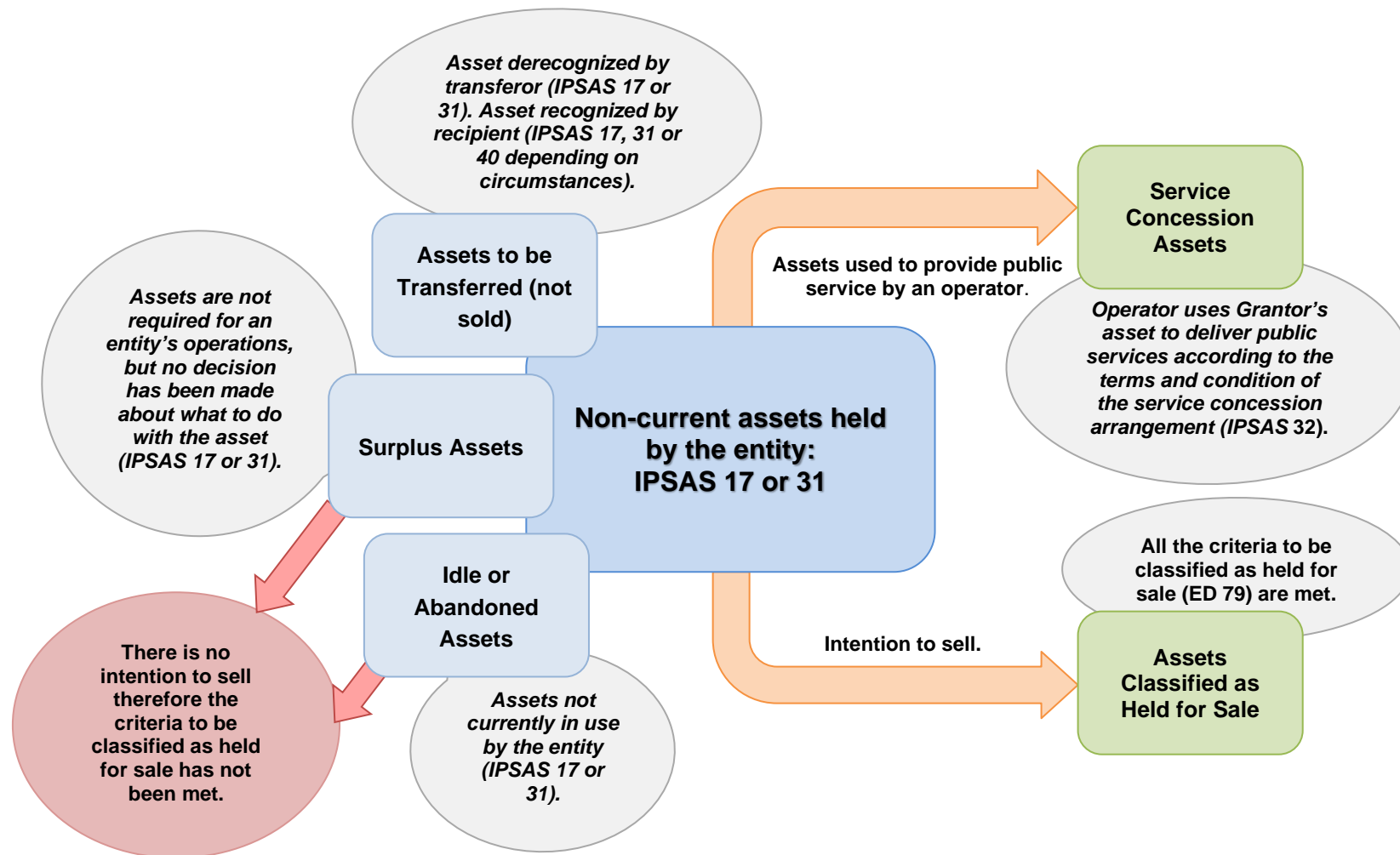
Public sector assets may be transferred between public sector entities as non-exchange transactions. Since the carrying amount of the asset is not recovered through sale, these transactions are outside the scope of ED 79.

### **Non-current assets that are to be abandoned cannot be classified as held for sale.**

ED 79 specifically excludes abandoned assets from being classified as held for sale. This is because the carrying amount of abandoned assets will not be recovered through a sales transaction, which is a fundamental aspect of ED 79.

Unless fully depreciated, abandoned assets will continue to be depreciated and/or impaired until they are derecognized.

## Which Assets are within the Scope of ED 79?



## Definitions

ED 79 introduces new definitions into IPSAS literature:

- Component of an entity;
- Disposal group; and
- Discontinued operation.

### Definitions in ED 79

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.

ED 79 relies on the definition of a component of an entity because it is a key aspect of a discontinued operation for which ED 79 provided guidance on the presentation and disclosure of these operations.

A **disposal group** is 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 public sector combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 90A–90H of IPSAS 26, *Impairment of Cash-Generating Assets* or if it is an operation within such a cash-generating unit.

ED 79 relies on the definition of a disposal group because non-current assets classified as held for sale can be either single standalone assets or a group of assets – i.e., a disposal group.

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

- Represents a separate major operation or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or
- Is a controlled entity acquired exclusively with a view to resale.

ED 79 provides the requirements for the presentation and disclosure of discontinued operations. Although IPSAS 1, *Presentation of Financial Statements* includes some requirements for discontinued operations, this term was not defined. ED 79 fills this gap.

## Accounting for Non-current Assets Classified as Held for Sale and Discontinued Operations

ED 79 proposes accounting requirements for assets classified as held for sale regarding:

- Measurement; and
- Presentation and disclosure.

ED 79 also proposes requirements for the presentation and disclosure of discontinued operations.

### Non-Current Asset Classified as Held for Sale

#### Measurement

Immediately prior to classification as held for sale, the carrying amount of the asset is measured in accordance with applicable IPSAS.

- Historical cost model – depreciate and impair if necessary; or
- Current value model – reverse accumulated depreciation and revalue.

After classification, the asset is measured at the lower of carrying amount and fair value less costs to sell.

#### Presentation and Disclosure

Non-current Assets (or a disposal group) held for sale are disclosed separately from other assets in the statement of financial position. If there are any liabilities, these are also disclosed separately from other liabilities. These assets and liabilities shall not be offset.

When assets held for sale are measured at their carrying amount, the fair value of such assets is to be disclosed when it is materially different.

### Discontinued Operations

ED 79 requires entities to provide information on discontinued operations that is useful to users of financial statements. This includes providing:

- The results of discontinued operations, presented as a single amount;
- An analysis of this single amount;
- The cashflows attributable to the operating, investing, and financing activities of discontinued operations; and
- The amount of income from continuing operations and from discontinued operations attributable to the owners of the controlling entity.

### Other Impacts of ED 79

#### Depreciation/Amortization

Once an asset is classified as held for sale it is no longer depreciation or amortized.

#### Impairment

The requirements of IPSAS 21, *Impairment of Cash-Generating Assets* and IPSAS 26, *Impairment of Non-Cash-Generating Assets* are not applicable as ED 79 provides guidance for recognition and measurement of these assets.

## Next Steps

The deadline for comments is **October 25, 2021**.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.



### How Can I Comment on the Proposals?

The ED requests comments on a Specific Matter for Comment (SMC).

Respondents may provide comments and answers on the SMC. They are also welcomed to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will consider all feedback and discuss responses at its public meetings after the comment period has ended.

### Specific Matter for Comment

The IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes.

This additional proposed disclosure is shown at paragraph 52 of the ED.

Do you agree with this disclosure proposal? If not, why not?

### Stay Informed

The IPSASB’s website will indicate the meetings at which feedback on ED 79 will be discussed. The dates and locations of IPSASB meetings are at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/non-current-assets-held-sale-and-discontinued-operations>