IFRS in brief

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8 May 2008

More work to do for entities selling assets

What is the issue?

Impact on profit and loss	✓
Impact on balance sheet	✓
Impact on disclosures	✓
Impact on stakeholder communication	✓

In light of current market conditions, more entities are adopting business strategies that involve selling assets. Although this can be an effective option for entities, some may not be familiar with the accounting requirements associated with selling an asset. Many entities are new to the guidance in AASB 5 *Non Current Assets Held for Sale and Discontinued Operations* (it wasn't available under AGAAP) and are unaware of its reach and detailed requirements. Accounting errors in this area can significantly impact an entity's profit and balance sheet, so it's important to get it right the first time.

Who does it impact?

Entities that are selling, or planning to sell, a non current asset or a group of assets and liabilities (a disposal group) are impacted by AASB 5. In order for the asset or disposal group to be classified as held for sale, they must be available for immediate sale in their present condition and that sale must be highly probable. For example, the asset or disposal group must be actively marketed (ie, advertised in relevant newspapers) and given a reasonable price in relation to its fair value; the sale of the asset or disposal group must be expected to occur within one year; and it must be unlikely that the plan to sell will change or be withdrawn.

Why is it important to be aware of?

A plan to sell non current assets (such as real estate, machinery and other equipment, and trademarks) or disposal groups (groups of assets and liabilities that an entity intends to sell in a single transaction, such as a fleet of aircraft or a collection of properties) triggers some accounting requirements. It requires entities to determine the fair value less costs to sell of the asset or disposal group and, if that falls below the carrying amount of the asset or disposal group, record a loss.

There are also various presentation challenges associated with having an asset/disposal group held for sale.

For example, assets and liabilities in disposal groups are presented separately in the balance sheet as a single line within current assets or current liabilities.

Further, entities with a discontinued operation (that is, a disposal group that is a major line of business that is held for sale) should present it as a single amount on the face of the income statement. The information presented should include post tax profit or loss from discontinued operations; the post tax gain or loss recognised in the re-measurement to fair value less costs to sell; and, when realised, the post tax gain or loss upon disposal of the discontinuing operation. Entities should also disclose on the face of the cash flow statement or in the income statement the net cash flows attributable to a discontinued operation for the current period. Don't forget that comparative information is also required.

What do impacted entities need to do?

• Determine when you plan to sell the asset/disposal group. It sounds simple but it's not always the case; in practice, many questions arise around the date that assets/disposal groups can be classified as held for sale.

• For the sale of disposal groups, management must analyse the sale agreement and ensure that it matches the assets/liabilities to be reclassified to the disposal group. Where the disposal group includes a cash generating unit (CGU), entities must assign a portion of any associated goodwill to the group.

• Be aware of the criteria that determines whether a disposal group qualifies as a discontinued operation. For example, a CGU or group of CGUs that represent a major line of the entity's business might qualify as a discontinued operation if management has a specific plan to dispose of the operation in a single transaction.

• Be aware that AASB 5 will soon be amended via the IASB's Annual Improvements project, which will apply to annual periods beginning 1 January 09. The amendment will clarify that AASB 5 applies to parent entities that commit to selling part of an interest in a subsidiary, if that sale results in a loss of control. For example, if a parent reduces its interest in a subsidiary from 100% to 40%, the measurement and presentation requirements in AASB 5 would apply to the subsidiary in the parent's consolidated accounts. The parent's consolidated balance sheet and income statement would look quite different to what we are used to, so entities should communicate the presentation challenges discussed in this article to stakeholders.

PwC insight: Don't forget that…

• When working out the date that an asset or disposal group is held for sale, the classification date isn't the date that the Board of Directors' commit the entity to a sale if shareholder approval is still required.

• An asset or disposal group that is classified as held for sale must be available for sale in its present condition (ie, an asset couldn't be held for sale if renovations that will enhance its value have not yet been completed).

• If an entity sells an asset/disposal group soon after reporting date it should consider if the held for sale criteria were actually met at reporting date. If so, the AASB 5 requirements should be reflected in that period's accounts.

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The practical impacts of changes to segment reporting

Impact on profit and loss	✗
Impact on balance sheet	✓
Impact on disclosures	✓
Impact on stakeholder communication	✓

What is the issue?

Following the International Accounting Standards Board, the AASB issued AASB 8 *Operating Segments* to align segment reporting with the requirements in the US. AASB 8 replaces AASB 114 *Segment Reporting*.

It applies to annual reporting periods beginning 1 January 2009 - that's next year for December 2009 reporters - with early adoption permitted.

It fundamentally changes the way that entities identify and report their segments in Australia.

Who does it impact?

AASB 8 applies to for-profit entities that issue and/or trade equity or debt securities in a public market or who issue, or are in the process of issuing, any class of instrument in a public market.

Why is it important to be aware of?

Early adoption of the standard will be beneficial for some entities. AASB 8 has a narrower scope than its predecessor standard, which means that some entities that were previously within the scope of AASB 114 will have relief from reporting their segment information under AASB 8.

Not all entities within the scope of AASB 8 will be significantly impacted by the standard. However, all of these entities will have some work to do in order to prepare for first time adoption of it.

What do entities need to do upon first time adoption?

Identify the chief operating decision-maker (CODM), that is the person/s responsible for making strategic decisions about the entity's segments. For instance, it may be the CEO, chief operating officer, the senior management team, or the board of directors. Identifying the correct person/s within the entity is fundamental to the correct identification and measurement of reportable segments.

Be aware that more operating segments may be identified. We expect to see an increase in the number of segments disclosed. For example, internal business units of vertically integrated operations (such as some oil and gas companies) may become separately reportable. Management should consider the practicalities of presenting this information in the financial statements, particularly for companies' with segments that may include exploration, development, production, refining and marketing.

Comparatives will require restatement. Management should consider the impacts of AASB 8, resolve any issues and commence capturing the relevant data before its initial application.

Revisit goodwill impairment. Goodwill can't be allocated to a group of cash generating units larger than an operating segment. Changes in the identification and measurement of segments should be considered.

PwC insight: The practical impacts of AASB 8

We expect AASB 8 to bring more transparency to the way that management assesses the performance of their business. Segment information will be at risk of greater scrutiny and criticism from shareholders and analysts. Entities should ensure their stakeholder communication on how segment information is determined and reconciled to the financial statements is clear.

PwC's experience with the US equivalent standard has shown that identifying the CODM can be problematic. Judgements about the level of operations that are regularly reviewed by the CODM have been challenging and subject to regulatory scrutiny.

PwC publication: A practical guide to segment reporting

PwC has published a Q&A paper on AASB 8 to help guide entities through first time adoption of the standard and effectively manage common application issues. The paper also shares practical experience from the PwC US team who have worked extensively with the US equivalent segment reporting standard. The paper can be downloaded for free from www.pwc.com/au/ifrs.

Resources to help you keep up to date with IFRS developments

- **IFRS News** summarises news from the International Accounting Standards Board (IASB) and International Financial Reporting and Interpretations Committee (IFRIC). It is published monthly at www.pwc.com/ifrsnews
- **AASB Action Alert** covers the activities of the Australian Accounting Standards Board and how it will respond to recent IASB pronouncements. It is usually published monthly and is available at www.aasb.com.au
- **IASB Update** covers the activities of the IASB and decisions reached at its most recent meeting. It is usually published monthly and is available at www.iasb.org
- **IFRIC Update** covers the activities of IFRIC and tentative decisions reached at its most recent meeting. It is usually published every two months and is available at www.iasb.org