IMPLICATION OF IFRS 5 IN ENTITIES INSOLVENCY ACCOUNTING

IMPLICAŢIILE IFRS 5 ÎN CONTABILITATEA ENTITĂŢILOR ÎN INSOLVENŢĂ

A. MONEA[1], A. DAVID[1], A. BĂNEŞ[2]

[1]University of Petroşani, Faculty of Science,Petroşani, Romania; alinmonea@gmail.com
[2] Banat's University of Agricultural Sciences and Veterinary Medicine Timişoara, Agricultural Management Faculty, Timisoara, Romania

***Abstract**: IFRS 5 refers to the International Financial Reporting Standards relating to Non-current assets held for sale and discontinued operations. If a non-current asset is 'held for sale', the economic benefit of that asset is obtained through the asset's sale rather than through its continuous use in the business (future economic benefit). Such assets cease to be depreciated as they are no longer being consumed by the business.*

Key words*: *discontinued operation, sale transaction, non-current asset

INTRODUCTION

When an individual or organization can no longer meet its financial obligations with its lender or lenders as debts become due. Insolvency can lead to insolvency proceedings, in which legal action will be taken against the insolvent entity, and assets may be liquidated to pay off outstanding debts.

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. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

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

a) represents a separate major line of business or geographical area

of operations;

b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

c) is a subsidiary acquired exclusively with a view to resale.

An entity shall disclose:

a) a single amount on the face of the income statement comprising the total of:

i) the post-tax profit or loss of discontinued operations; and

ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

b) an analysis of the single amount in a) into:

i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

ii) the related income tax expense as required by paragraph 81(h) of IAS 12;

iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

iv) the related income tax expense as required by paragraph 81(h) of IAS 12.

RESULTS AND DISCUTIONS

The asset (or disposal group) 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 its sale must be *highly probable*.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated.

Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and 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.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) 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 (or disposal group).

Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16 *Property, plant and equipment*.

When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement is met and it is highly probable that any other criteria that are not met at that date will be met within a short period following the acquisition (usually within three months).

If the criteria are met after the balance sheet date, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the balance sheet date but before the authorisation of the financial statements for issue, the entity shall disclose the information in the notes.

Non-current assets that are to be abandoned

An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria, the entity shall present the results and cash flows of the disposal group as discontinued operations at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Measurement of a non-current asset (or disposal group)

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.

If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value.

Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRSs.

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this IFRS, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable IFRSs before the fair value less costs to sell of the disposal group is remeasured.

Recognition of impairment losses and reversals

An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised.

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 IFRS or previously in accordance with IAS 36 *Impairment of assets*.

An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group to the extent that it has not been recognised but not in excess of the cumulative impairment loss that has been recognised, either in accordance with this IFRS or previously in accordance with IAS 36, on the non-current assets that are within the scope of the measurement requirements of this IFRS.

The impairment loss (or any subsequent gain) recognised for a

disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36.

A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition. Requirements relating to derecognition are set out in:

a) paragraphs 67-72 of IAS 16 for property, plant and equipment; and

b) paragraphs 112-117 of IAS 38 *Intangible assets* for intangible assets.

An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Presentation of a non-current asset or disposal group classified as held for sale

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 on the face of the balance sheet or in the notes, except as permitted. An entity shall present separately any cumulative income or expense recognised directly in equity relating to a noncurrent asset (or disposal group) classified as held for sale.

If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition, disclosure of the major classes of assets and liabilities is not required.

An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the balance sheets for prior periods to reflect the classification in the balance sheet for the latest period presented.

CONCLUSIONS

An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

a) a description of the non-current asset (or disposal group);

b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

c) the gain or loss recognised, if not separately presented on the face of the income statement, the caption in the income statement that includes that gain or loss;

d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 *Operating segments*.

An extension of the period required to complete a sale does not preclude an asset (or disposal group) 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 (or disposal group).

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