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Issues of Accounting and Valuation of Disposed Assets

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Abstract: This article presents the criteria for recognizing long-term assets held for sale based on international standards. Also, proposals are developed for disclosing information on long-term assets held for sale and disposal groups in financial statements.

Keywords: Long-term asset, disposal group, financial statement, selling expenses, depreciation, impairment.

Introduction: Long-term assets play an important role in the organization of business entities. The multifaceted problem of accounting for long-term assets has been studied by many researchers throughout almost the entire history of the formation and development of accounting. However, at present, the complex processes of forming market relations in the economy require a deep reconsideration of the views of accountants and economists.

In international practice, there are specific features of accounting for long-term assets. In particular, international financial reporting standards provide for a separate category of long-term assets intended for sale, and it is relevant to study the procedure for their recognition and valuation.

Review of Literature

Theoretical and practical aspects of the outflow and valuation of long-term assets, in particular, the view that in the economic literature the term "capital investments" includes expenses for the formation and restoration of fixed assets, were expressed in a number of scientific works by A.Abdullaev, I.A. Zavalishina,. [1], [2], [3].

Some economists put forward the idea that the purchase of one's own shares should be recognized as an investment activity. In particular, Dr. Phil., Prof. K.B. Urazov, in his treatise “Conceptual Issues of Accounting in the Conditions of Economic Liberalization,” emphasizes that “Enterprises purchase private shares for various purposes, for example, to obtain a monopoly over the property of an enterprise from certain individuals or to obtain additional income by selling the purchased private shares when their market price increases. Therefore, we consider it appropriate to recognize the purchase of their own private shares by enterprises as a type of financial investment.”[4] According to I.N. Ismanov, equity and debt securities should be revalued periodically in accordance with market conditions. Positive differences in the revaluation of these securities are reflected in the debit of the property revaluation adjustment account.[5]

At the same time, IFRS 5 does not provide clear instructions on the specific section of the financial statements in which a long-term asset should be presented, which leads to some disagreement among specialists on this issue. For example, Yu.A. Vasiliev emphasizes that "long-term assets held for sale (or disposal groups)" should be presented as part of current assets, since Step 3 of this standard provides for their reclassification to current assets when they meet the criteria for classification as held for sale[6].

J. Richard discusses the accounting principles for the valuation of long-term assets. In his opinion, "static accounting is an accounting system that allows you to determine whether the proceeds from the sale of all assets of an enterprise are sufficient to cover its payables or not. Static accounting contradicts the principle of continuity of the enterprise's activities"[7].

There is another point of view on this matter. For example, V. Borisenko emphasizes that the specified assets should be shown separately in the statement of financial position. The basis of this position is the rules of paragraph 38 of IFRS 5, which establish an obligation for companies to show long-term assets classified as held for sale (assets and liabilities of the disposal group) separately from other assets (liabilities)[8].

In our opinion, none of the methods indicated contradicts the requirements of IFRS 5, namely the presentation of long-term assets (disposal groups) held for sale in the report.

However, the results of the analysis showed that, although the above economists have comprehensively studied the accounting for long-term assets, we believe that some aspects were not taken into account. In particular, the issues of disposal of long-term assets were not considered in detail.

METHODOLOGY

Methods such as monographic observation, comparison, grouping, systematic approach, induction and deduction were used to study the importance and necessity of accounting for long-term assets intended for sale.

RESULTS

The desire of business entities to increase the efficiency of their financial and economic activities has led to an increased interest in analyzing their business processes. According to the results of such analysis, business entities are often forced to sell long-term assets, close certain business lines, liquidate branches or completely sell subsidiaries. Such actions can have a significant impact on the financial position of the business entity, its future performance and cash flows, which can lead to a violation of one of the basic principles of preparing financial statements - the going concern principle.

These situations require the formation of a separate approach in accounting and the preparation of reports on such operations in accordance with the requirements of International Financial Reporting Standard (IFRS) No. 5, "Non-current Assets Held for Sale and Discontinued Operations".

Business entities may decide to dispose of individual long-term assets (fixed assets, intangible assets), as well as a group of assets and associated liabilities. IAS 5 provides for the concept of a "disposal group" for this situation.

According to IFRS 5, "a disposal group is a group of assets and liabilities directly attributable to those assets that are disposed of together in a single transaction, whether through sale or otherwise." A disposal group can include any assets and liabilities (both current and non-current) and cash-generating units or parts thereof. Examples of a disposal group include: a subsidiary; a manufacturing division; a business line consisting of several manufacturing facilities.

A non-current asset (disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. For example, if a company decides to sell a car, its carrying amount will be recovered principally through the proceeds from the sale. In this sense, this car fully meets the definition of "held for sale."

In order for an asset (disposal group) to be classified as held for sale, the following criteria must be met:

The non-current asset (disposal group) must be available for immediate sale in its present condition (in accordance with normal market conditions for the sale of such assets);

The sale process must be highly probable.

For the sale process of a non-current asset to be highly probable, the following conditions must be met simultaneously:

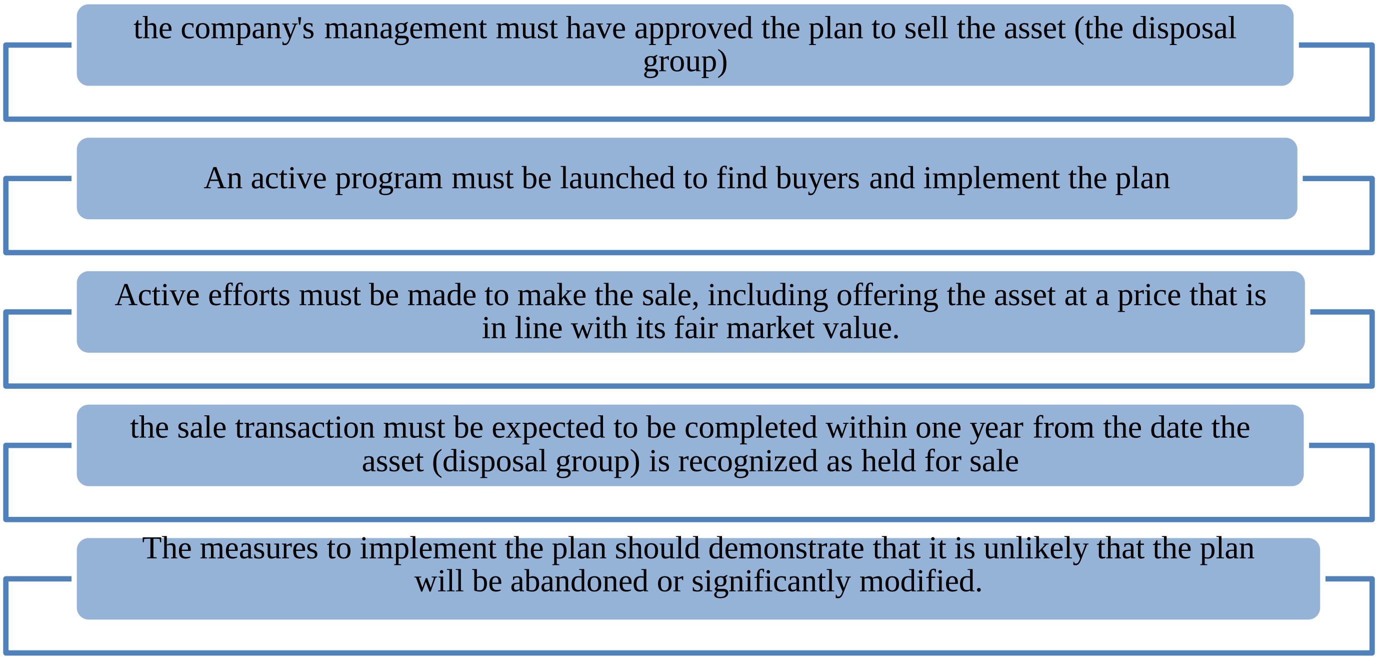

Figure 1. The process of selling a long-term asset is highly contingent

However, in practice, the sale process may not be completed within 12 months, which means that one of the established criteria is not met. If the delay in the sale is due to reasons beyond the control of the company, but at the same time the company's management has not abandoned its intention to implement the sale plan, then the asset (disposal group) continues to be classified as held for sale.

From the point of view of IFRS 5, this situation is an exception to the requirement to establish a one-year limit for the sale period. Since the conditions established for the application of the exception in accordance with this standard (the necessary measures to eliminate the deficiencies have been taken by the company in a timely manner and the impeding factors have been eliminated in a timely manner) are met. Therefore, the company continues to classify the production facility as a non-current asset held for sale.

The decision to classify the asset as held for sale is made on the date when the criteria are met. If the classification criteria are met after the end of the reporting period but before the financial statements are issued, the relevant information should be disclosed in the notes.

We will consider in detail the main requirements of IFRS 5 for accounting for non-current assets classified as held for sale.

Stage I. Before an asset (disposal group) is first classified as held for sale, the carrying amount of the asset (all assets and liabilities in the group) is measured in accordance with the standards governing their accounting.

In other words, an entity should apply its usual accounting policies for non-current assets until all the criteria for classifying these assets as held for sale are met. If a subsidiary is classified as held for sale, any of its assets and liabilities (including current assets, assets and liabilities to which the requirements of IFRS 5 do not apply) are measured in accordance with the relevant standards. Their list is determined by the nature of the assets and liabilities of the subsidiary. If the disposal group is a newly acquired company that meets the criteria for classification as held for sale at the time of acquisition, then it should be measured at fair value less costs to sell in accordance with the provisions of IFRS 5.

Stage II. At the date of classification as held for sale, a non-current asset (disposal group) is measured at the lower of its carrying amount and its fair value less costs to sell. The initial decrease in the carrying amount to its fair value (less costs to sell) is recognized by the company as an impairment loss.

However, reclassified non-current assets (either individually or as part of a disposal group) shall continue to be accounted for in accordance with the standards that applied to them before reclassification, unless the requirements of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are applicable to their measurement. Assets to which this standard does not apply include:

financial assets;

investment property measured at fair value;

assets recognized as a result of employee benefits;

deferred tax assets, etc.

A special approach is required to assess assets included in a disposal group. The fair value of a disposal group classified as held for sale is calculated for the entire group of assets, i.e. not as the fair value of individual assets, but less the fair value of the liabilities included in them. In this case, the impairment loss related to the disposal group is allocated among the non-current assets to which IFRS 5 applies. The following procedure should be followed when allocating the loss among the non-current assets included in the group: first, the carrying amount of goodwill is reduced, and then the remaining part of the loss is distributed among the non-current assets included in the disposal group in proportion to their carrying amounts.

Stage III. In accordance with the requirements of IFRS 5, the following processes are performed during the period of classification of a non-current asset (disposal group) as held for sale:

Depreciation on non-current assets (including assets that are part of a disposal group) is discontinued;

The non-current asset (disposal group) is measured at the lower of its carrying amount and fair value less costs to sell;

The non-current asset (all assets and liabilities included in the disposal group) is presented separately from other assets (liabilities) in the consolidated financial statements.

At each reporting date, an asset (disposal group) held for sale is measured at the lower of its carrying amount and fair value less costs to sell. As a result, the decrease in the carrying amount to fair value less costs to sell is recognized as an impairment loss of the asset (or disposal group) and is reflected as a loss at the date of initial classification.

If, in subsequent periods, the fair value less costs to sell increases, the company recognizes a reversal of the previously recognized impairment loss. Such gain shall not exceed the total of previously recognized losses (including losses accumulated in all periods, including losses accumulated after the non-current asset (or disposal group) was classified as held for sale).

Any gain or loss that was not recognized up to the date of sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

If the criteria for classifying an asset (disposal group) as held for sale are no longer met, its classification should be terminated, i.e. the asset should be reclassified to its previous category. In this case, the asset is measured at the lower of:

the carrying amount of the asset (disposal group) at the date it was classified as held for sale, net of depreciation and, if the asset (disposal group) has never been so classified, revaluations;

the recoverable amount at the date the decision is made not to sell.

The result after adjusting the carrying amount is included in profit or loss from continuing operations in the period in which the criteria for classifying the asset as held for sale are no longer met.

CONCLUSION

1. The following basic requirements for disclosing information about non-current assets (or disposal groups) held for sale in the financial statements and their notes should be observed:

Non-current assets (or disposal group assets) held for sale should be presented separately from other assets in the statement of financial position;

Liabilities of the disposal group held for sale should also be presented separately from other liabilities in the statement of financial position;

Offsetting of these assets and liabilities is prohibited;

The main categories of assets and liabilities held for sale should be disclosed separately in the statement of financial position or in the notes thereto;

Gross income (or expenses) related to non-current assets (or disposal groups) held for sale and presented separately from other comprehensive income should be disclosed separately;

comparative information is not required to be restated.

2. In our opinion, non-current assets that meet the criteria for classification as held for sale should be presented separately in the company's statement of financial position and special accounting rules should be applied to them. The accounting requirements are related to the economic substance of such assets. Since the carrying amount of these assets is expected to be recovered not as a result of continuing use, but through their sale, their accounting is a valuation process, not a process of linking the carrying amount to income through depreciation.

3. The information presented in accordance with IAS 5, "Non-current Assets Held for Sale and Discontinued Operations," allows users of financial statements to evaluate the financial results from the sale of non-current assets and disposal groups, and to more reliably predict the profitability, financial position and cash flows of the company.

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