ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

DISCONTINUED OPERATIONS

(GRAP 100)

Issued by the
Accounting Standards Board

February 2013

Acknowledgement

This Standard of Generally Recognised Accounting Practice (GRAP) on *Discontinued Operations* is drawn primarily from the IFRS Accounting Standard on *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5) issued by the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of IFRS Standard 5 are reproduced in this Standard of GRAP with the permission of the IASB.

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GRAP 100

DISCONTINUED OPERATIONS

This Standard was originally issued by the Accounting Standards Board (the Board) in February 2010. Since then, it has been amended by:

- The measurement, presentation and disclosure requirements related to non-current assets held for sale were withdrawn in February 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*

Introduction

This pronouncement is set out in paragraphs .01 to .21. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The objective of this Standard is to specify the presentation and disclosure of discontinued operations. In particular, this Standard requires the results of discontinued operations to be presented separately in the statement of financial performance with additional disclosures provided in the notes to the financial statements.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in presenting and disclosing discontinued operations.

.03 The disclosure requirements of this Standard do not apply to the combining entities in a merger.

Definitions

.04 The following terms are used in this Standard with the meanings specified:

<u>Cash-generating assets</u> are assets managed with the objective of generating a commercial return.

A <u>cash-generating unit</u> is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

A <u>component of an entity</u> is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

<u>Discontinued operation</u> is a component of an entity that has been disposed of and:

(a) represents a distinguishable activity, group of activities or geographical area of operations;

(b) is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or

(c) is a controlled entity acquired exclusively with a view to resale.

<u>Non-cash-generating assets</u> are assets other than cash-generating assets.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Discontinued operation

.05 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, a group of cash-generating units or non-cash-generating assets while being held for use.

.06 A distinguishable activity or group of activities in the context of this Standard refers to the disposal of a significant operating activity within the entity. For example, an electricity distribution unit within a municipality may be a distinguishable activity or group of activities that can be disposed of separately.

.07 In disposing of a component, an entity may dispose of the assets and liabilities (if any) either individually or in small groups. The effect is that the settlement of the liabilities may occur over a period of time. To qualify as a discontinued operation, the disposal must occur within a single co-ordinated plan.

.08 An entity may dispose of a component without it being sold or transferred to another entity, for example, groups of assets that will be used to the end of their economic life or activities that will be ceased rather than sold. Components disposed of in this way are disposed of through abandonment. An abandoned component would be a discontinued operation if it otherwise satisfies the criteria in the definition of a discontinued operation. If assets or activities within a component are temporarily taken out of use or ceased, they should not be accounted for as a discontinued operation. Similarly, changing the scope of a component or the manner in which an activity is undertaken does not constitute an abandonment.

Presentation and disclosure of discontinued operations

.09 An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations.

Presenting discontinued operations

.10 An entity shall disclose:

(a) a single amount on the face of the statement of financial performance comprising the total of:

(i) the post-tax surplus or deficit of discontinued operations; and

(ii) the post-tax gain or loss recognised on the disposal of the discontinued operation;

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

(i) the revenue, expenses and pre-tax surplus or deficit of discontinued operations;

(ii) the related income tax expense as required by paragraph .81(h) of the IAS Standard on *Income Taxes* (where applicable); and

(iii) the gain or loss recognised on the disposal of the discontinued operation. The analysis may be presented in the notes or on the face of the statement of financial performance. If it is presented on the face of the statements of financial performance it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations; and

(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or on the face of the financial statements.

.11 An entity shall re-present the disclosures in paragraph .10 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the reporting date for the latest period presented.

.12 Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

(a) the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser;

(b) the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and other obligations retained by the seller; and

(c) the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

Disclosing discontinued operations

.13 An entity shall disclose the following information in the notes in the period in which the disposal of a component occurs:

(a) a description of the component;

(b) a description of the facts and circumstances of the disposal; and

(c) if applicable, the segment in which the component is presented in accordance with the Standard of GRAP on *Segment Reporting*.

.14 Additional disclosures about discontinued operations may be necessary to comply with the general requirements of the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1), in particular paragraphs .17 and .91 of that Standard.

Transitional provisions

Initial adoption of the Standards of GRAP

.15 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

Amendments to Standards of GRAP

.16 ***An entity shall apply the amendments as follows:***

(a) ***Changes to the way in which non-current assets held for sale are measured, shall be applied prospectively at the beginning of the period in which these amendments are adopted.***

(b) ***Changes to the way in which non-current assets held for sale are classified and presented on the statement of financial position and accompanying notes, shall be applied retrospectively by adjusting information for the earliest period presented.***

.17 An entity shall apply the amendments to this Standard as follows:

(a) Any changes to the way in which non-current assets held for sale are measured, are applied prospectively at the beginning of the year in which the amendments are adopted. This means that an entity would assess the residual values, useful lives, depreciation methods, and any indicators of impairment at the beginning of the period in which the amendments are adopted and need not be done for prior periods.

(b) Any changes to the way in which non-current assets held for sale are classified and presented on the statement of financial position and the notes, are applied retrospectively by adjusting the comparative information presented for the different asset and liability line items on the statement of financial position.

.18 ***Paragraph .04 was amended by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments prospectively for annual financial periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

Effective date

Initial adoption of the Standards of GRAP

.19 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999 as amended.***

Entities already applying Standards of GRAP

.20 An entity shall apply the amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 April 2015, it shall disclose that fact.

Withdrawal of the Standard of GRAP on *Non-current Assets Held for Sale and Discontinued Operations* (2010)

.21 This Standard supersedes the Standard of GRAP on *Non-current Assets Held for Sale and Discontinued Operations* issued in February 2010.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for non-current assets held for sale and discontinued operations. This basis for conclusions accompanies, but is not part of, this Standard.

Background

BC1. When the Board commenced its development of the Standards of GRAP, it assessed which Standards should be included in a comprehensive accounting framework. This assessment was largely based on the standards that had been issued by other standard setters such as the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB).

BC2. At this time, the IASB had issued the IFRS Accounting Standard on *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5), which prescribes measurement, presentation and disclosure requirements for non-current assets that will be sold within a year of the reporting date and, presentation and disclosure requirements for discontinued operations. The IPSASB had not issued an equivalent Standard, nor did it prescribe specific requirements in existing IPSAS in relation to non-current assets held for sale or discontinued operations. The IPSASB had also not included this IFRS Accounting Standard in its planned convergence project.

BC3. In considering the appropriateness of IFRS 5 for the public sector, the Board considered whether the information that resulted from the application of IFRS 5 would be relevant to the users of the financial statements in the public sector. The Board concluded that the information that would result from the application of IFRS 5 in the public sector would be useful to users for the following reasons:

- Non-current assets, such as land, infrastructure assets and equipment, are critical to the delivery of services in the public sector. If these assets are going to be sold rather than used to deliver services, users of the financial statements should be aware of this fact. As a result, the prominence that IFRS 5 gives these issues would result in useful information to the users of the financial statements.
- Where assets are going to be sold rather than used, they would be measured at the lower of their fair value less costs to sell and their carrying value. The effect is that the asset would be assessed for impairment.
- Where management is committed to sell a non-current asset within one year from the reporting date, separate presentation of these assets is required on the statement of financial position. This change in presentation is useful as assets that are going to be sold within a year are no longer "non-current".

BC4. Based on the Board's assessment of the usefulness and relevance of the information to users of the financial statements, the Board issued the previous version of this

Standard, and was based on the equivalent IFRS Accounting Standard.

Rationale for amendments

BC5. In 2009, the IASB issued an IFRS for SMEs® Accounting Standard. While the SMEs Accounting Standard is based on the full suite of IFRS Accounting Standards, a number of simplifications were made. One area that was simplified in the SMEs Accounting Standard when compared to the full suite of IFRS Accounting Standards is the treatment of non-current assets held for sale and discontinued operations. The SMEs Accounting Standard only requires an impairment test once management intends to sell rather than use a non-current asset and, disclosures are made in the notes to the financial statements about the details and timing of the intended sale.

BC6. As a result of the issue of the SMEs Accounting Standard, the Board was requested by its constituents to consider the appropriateness of the simplifications in this Standard for the public sector. The Board issued the Discussion Paper on *Comparison of the Standards of GRAP to the IFRS for SMEs*, requesting views on the proposals in the SMEs Standard. Respondents were also asked to comment on any practical application or implementation issues that they had experienced during the adoption of the previous version of this Standard.

BC7. A number of issues were raised by respondents in relation to the application of the previous version of this Standard in the public sector, specifically the appropriateness of the principles in the previous version of this Standard for the public sector. The following two issues were raised consistently by a variety of respondents:

(a) Sales of assets in the public sector are frequently not completed within 1 year because of the various levels of legislative approval required. This means that the classification on the statement of financial position as assets "held for sale" was often retained for a number of reporting periods. This raises questions about the relevance of this information.

(b) While certain assets are sold in an exchange transaction in the public sector environment, many assets are disposed of through a transfer or distribution where no or only nominal consideration is received. As the previous version of this Standard only deals with sales at fair value, there were many disposals of assets for which no specific requirements existed.

Based on these experiences, many respondents indicated that users may find disclosures about a sale or disposal more useful than the measurement and presentation requirements currently included in the previous version of this Standard.

BC8. Based on the feedback received, the Board agreed to reconsider the requirements of the previous version of this Standard. A suggestion that was made during the consultation on the SMEs Standard was to separate the requirements for assets and disposal groups held for sale from the requirements for discontinued operations. It was further suggested that the requirements for assets or disposal groups held for sale should be aligned with the SMEs Standard, while the requirements of the previous version of this Standard for discontinued operations should be retained. The Board agreed to explore this suggestion in proposing amendments to the previous version of this Standard.

BC9. In considering whether amendments to the previous version of this Standard are appropriate, the Board also noted the current approach and future work of the IPSASB regarding these transactions. As noted above, the IPSASB currently has no specific requirements for non-current assets held for sale, nor does it intend undertaking a project in this regard. In particular, concerns have been expressed about the appropriateness of IFRS 5 for the public sector. On this basis, the Board noted that amending the previous version of this Standard would align the Standards of GRAP more closely to the requirements of the IPSAS.

Non-current assets and disposal groups held for sale

BC10. In reviewing the existing requirements for assets held for sale, the Board considered how the measurement, presentation and disclosure requirements could be simplified but still produce information that meets users' needs.

BC11. The previous version of this Standard requires assets or disposal groups that are held for sale to be measured at the lower of their carrying value and their fair value less costs to sell. As the effect of this requirement is that entities assess any assets they plan to sell for impairment, the Board considered that this could be accommodated within the existing asset- and impairment-related Standards. The Board also agreed that the impairment considerations should be applied to disposals of non-current assets broadly and not limited to those that are sold in an exchange transaction. As a result, the Board did not support outlining specific measurement requirements for assets held for sale over and above those already required in existing Standards.

BC12. In deliberating whether specific presentation requirements are necessary, the Board considered whether specific users of the financial statements, for example analysts, might be disadvantaged by including assets that will be disposed of by entity in a "non-current" classification on the statement of financial position. The Board concluded that these users should be provided with sufficient information about the value of such assets and the intended timing of their disposal. This would allow the financial statement information to be adjusted when calculating certain ratios. Consequently, instead of specific presentation on the face of the statement of financial position, the Board agreed that the needs of users could be better met by disclosing information about disposals of assets in the notes to the financial statements. As a result, amendments have been made to GRAP 1.

BC13. The disclosures added to GRAP 1 require entities to disclose information about significant assets and groups of assets and liabilities, or components (as defined in this Standard), that will be disposed of in future reporting periods. An entity provides these disclosures once management has made a decision to dispose of certain assets, groups of assets and liabilities or components. The Board agreed that disclosure at this point provides users with more timely information about the intended disposal of an entity's resources. Unlike the previous requirements of this Standard, presentation and disclosure of such information was only triggered once an entity had entered into a binding sale agreement. This meant that information was provided to users only once the sale was almost completed and, also only provided information about those disposals effected through a sale rather than through a variety of means, including sale, transfer or abandonment.

BC14. The Board concluded that information should only be disclosed about those assets or groups of assets and liabilities that are significant to an entity or its operations.

Controlled entities acquired with a view to disposal

BC15. The Standard of GRAP on *Consolidated and Separate Financial Statements* (GRAP 6) currently requires controlled entities acquired with a view to their subsequent resale to be consolidated and measured, presented and disclosed using the requirements in the previous version of this Standard for assets and disposal groups held for sale. The Board agreed that the accounting approach for non-current assets could be applied to investments in controlled entities. As a result, specific disclosures regarding investments in controlled entities that are acquired and held for resale have been added to GRAP 6.

Discontinued operations

BC16. The presentation and disclosure requirements for discontinued operations have been retained in the revised version of this Standard.

Comparison with the IFRS Accounting Standard on *Non-current Assets Held for Sale and Discontinued Operations* (April 2009)

This Standard is drawn primarily from IFRS 5. The main differences between this Standard and IFRS 5 are as follows:

- Unlike IFRS 5, this Standard does not prescribe measurement, presentation and disclosure requirements for non-current assets and disposal groups that are held for sale. This Standard only outlines presentation and disclosure requirements for discontinued operations.
- This Standard has incorporated consequential amendments to be consistent with other Standards of GRAP.
- This Standard has been amended to refer to non-cash-generating assets that are relevant to the public sector.
- Definitions of “management, non-cash-generating units, recoverable service amount and value in use of a non-cash-generating asset” have been included in this Standard as the definitions are relevant to the understanding of this Standard.
- This Standard refers to “distinguishable activity” instead of “major line of business” to define a “discontinued operation” and added a paragraph to explain “distinguishable activity”.
- This Standard does not include the requirement in IFRS 5 for the disclosure of the amount of revenue from continuing operations attributable to owners of the controlling entity as the concept of “revenue attributable to owners of the controlling entity” has not been considered as yet in the public sector environment.
- This Standard has not been amended for the changes to IFRS 5 as a result of the amendments to the IAS Standard on *Presentation of Financial Statements*.
- Transitional provisions applicable to this Standard are different to those included in IFRS 5.