



# THE INTERPRETATION OF AASB 5 IN A LOCAL GOVERNMENT ENVIRONMENT

## INTRODUCTION

We are aware that a number of practitioners consider that AASB 5 - Non-Current Assets held for Sale and Discontinued Operations - will have a significant impact on local government accounts under AIFRS.

We don't hold that view, and here are our reasons.

## SCOPE OF THE STANDARD

**AASB 5.2.** The classification and presentation requirements of this Standard apply to all recognised *non-current assets* and to all *disposal groups* of an entity.

## CURRENT ASSETS

All current assets are **excluded** from the application of AASB 5.

The definition of *current assets* is contained in AASB 101:

**AASB 101.57** An asset shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
- (b) **it is held primarily for the purpose of being traded;** [our emphasis]
- (c) it is expected to be realised within twelve months after the reporting date; or
- (d) it is cash or a cash equivalent (as defined in AASB 107 Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

### For the Purpose of being Traded

There is no definition of this, or trading operations, that we can find in the Standards. We therefore have adopted the following:

**trade** *noun* 1. Buying and selling or exchange of commodities ...<sup>1</sup>

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1. Shorter Oxford English Dictionary 5th edition, Vol 2, p 3316



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Accordingly, if a Council has purchased (or manufactured/constructed, which would include purchased components) an item with the intention of selling it, we therefore consider it to be **held primarily for the purpose of being traded**, and it is therefore a *current asset*, and in turn excluded from the application of AASB 5.

## Examples of Assets Excluded - Inventory

1. Stores & materials, to which AASB 102 applies, and which are recognised at the lower of cost (calculated on a FIFO or weighted average cost basis) or realisable value.
2. Real Estate Developments, to which AASB 102 applies as above.  
We have some difficulties with the need for some Councils to disclose some of their large, long term, real estate developments as current assets where there is no realistic possibility that they will be sold for many years, but that is a separate issue.
3. Land and buildings acquired at auction of land sold for non-payments of rates, where the Council acquires at the reserve price with the intention of disposing of the land as opportunity offers - AASB 102 applies.  
These should NOT be included as property, plant & equipment as the Council has not acquired them for its own use. If Council's intention later changes, the transfer to PP&E is made at the time of the change in intention.

## PROPERTY, PLANT & EQUIPMENT

In general, AASB 116 applies to all *Property, Plant & Equipment*. However, it has been suggested that AASB 5 applies to assets that are about to be sold or traded.

For example, the new grader is being delivered on 2nd July, and the old one is sitting in the depot, ready for trade-in, on 30th June.

AASB includes provision for the following voluntary disclosures:

**AASB 116.79** Users of the financial report may also find the following information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) **the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with AASB 5; [our emphasis]** and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

**We therefore take the view that AASB 116 specifically contemplates that assets retired from active use for the purposes of sale or trade-in will be retained in Property, Plant & Equipment as a non-current asset.**

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If this is not the case, surely AASB 116 would refer to a requirement that they be recognised and measured under AASB 5?

*So AASB 5 does NOT apply to the ordinary turnover (churn) of property, plant & equipment assets.*

## NON-CURRENT ASSETS THAT ARE TO BE ABANDONED

**AASB 5.13** 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.

In these circumstances, AASB 136 - Impairment of Assets - applies.

## DISPOSAL GROUPS

**AASB 5.4** Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit. The group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded by paragraph 5 from the measurement requirements of this Standard. If a non-current asset within the scope of the measurement requirements of this Standard is part of a disposal group, the measurement requirements of this Standard apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell.

AASB 5 *would apply* in this case - IF THE OTHER CRITERIA ARE ALSO MET.

So, if Council is selling off a complete child-care centre, or its waste collection operation, or the like, the classification, measurement and disclosure requirements of AASB 5 could apply.

## DISCONTINUED OPERATIONS

**AASB 5.31** 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.

This is basically an expanded disposal group - where a disposal group may comprise only part of a cash-generating unit, a discontinued operation is a component of an entity that is a complete cash-generating unit. AASB 5 *would apply* in this case - IF THE OTHER CRITERIA ARE ALSO MET.

So, if Council is selling off all its child-care centres, or the like, the classification, measurement and disclosure requirements of AASB 5 could apply.

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## CERTAINTY OF SALE

**AASB 5.6** An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. [emphasis in AASB 5.]

**AASB 5.7** For this to be the case, 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**. [our emphasis]

**AASB 5.8** 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 program 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, except as permitted by paragraph 9, 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.

As a reliable rule-of-thumb, we suggest that if the sale is NOT

- (a) completed, or
- (b) subject to a fully enforceable contract for sale

by the time you are preparing Council's Annual Financial Statements, then

***AT BALANCE DATE ITS SALE WAS NOT HIGHLY PROBABLE,***

and accordingly AASB 5 would not apply.

## SUMMARY

So, we think that there's a lot of situations where AASB 5 does not apply. In fact, in most of the situations that we have encountered in local government in 4 States, AASB 5 would not apply.

***But you can't ignore it!***

***You must assess all situations for its application, and if it DOES apply, YOU MUST COMPLY.***

## Invitation to Comment

We have expressed our reasons for believing that the impact of AASB 5 - Non-Current Assets held for Sale and Discontinued Operations - will have limited impact on local government. If you disagree with any of the contents of this sheet, please let us know. It is only by open discussion that the industry can develop generally accepted best practice procedures for the application of AIFRS.

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