Appendix 1 – Illustrative example

Sale of a non-current asset

Scenario:

On 1 November 20X1, XYZ acquired a building to house its production facilities for $12m. XYZ carries all buildings at fair value and the building was assessed as having a useful life of 10 years. At:

- 1 April 20X2, XYZ decided to sell the building
- 1 May 20X2, XYZ placed the building with an agent for immediate sale. The agent charges selling costs of 5 per cent. The fair value of the building was $12.2m
- 30 June 20X2, (balance date) the fair value less costs to sell was $12.5m.

The building was sold on 1 August 20X2 for $13m (net of selling costs).

Accounting treatment for an asset held for sale



In accounting for this scenario the building has become held for sale.

For this illustrative example:

a. prior to applying AASB 5 , the building is revalued under AASB 116 – the asset is at fair value and a net valuation approach is adopted (this approach writes back accumulated depreciation and then adjusts the gross value to fair value).
b. apply AASB 5 :
    - the asset is measured at the lower of carrying amount (i.e. $12.2m) and fair value less costs to sell (treated as an impairment loss) – calculated as follows:

Fair Value	–	Cost to sell (5% of $12.2m)	=	Fair value less costs to sell
$12.2m		$0.61m		$11.59m

    - the account 'accumulated impairment' is similar to 'accumulated depreciation', being an offset account rather than a direct adjustment to the carrying amount of the asset.

c. at the 30 June 20X2 balance date, the asset is required to be remeasured. The asset's fair value less costs to sell has now increased to $12.5m, but no adjustment is required as the carrying amount of $11.59m is less than $12.5m. However, the previous impairment loss can be reversed, but only to the extent of that previously recognised ($0.61m).

Illustrative example: Held for sale accounting treatment	Debit $'000	Credit $'000
1 November 20X1		
Dr. Building	12,000	
Cr. Cash		12,000
Acquisition of building		
1 April 20X2		
No journal transaction – XYZ's intention to sell without making specific plans does not constitute held for sale.		
1 May 20X2		
Dr. Depreciation – building [($12m / 120mths) * 6mths]	600	
Cr. Accumulated depreciation – building		600
Depreciation on building until 1 May 20X2		
Immediately prior to classification as held for sale:		
Dr. Accumulated depreciation – building	600	
Cr. Building		600
Dr. Building [$12.2m - $11.4m]	800	
Cr. Asset revaluation reserve		800
Revalue building under AASB 116 [a)] prior to applying AASB 5		
Once held for sale:		
Dr. Impairment loss (expense)	610	
Cr. Accumulated impairment loss – building		610
Apply AASB 5 [b)] lower of carrying amount and fair value less costs to sell		
Subsequent accounting:		
30 June 20X2		
Dr. Accumulated impairment loss – building	610	
Cr. Reversal of asset write-down (revenue)		610
Balance date [c)]		
1 August 20X2		
Dr. Sale proceeds (cash or receivable)	13,000	
Cr. Building		12,200
Cr. Gain on sale (income)		800
Sale of building*		

** As per paragraph 41 of AASB 116, the revaluation surplus included in equity for the item of property, plant and equipment sold may be transferred directly to retained earnings when the asset is derecognised.*