



Accounting For Non-Current Assets Held For Sale And Discontinued Operations

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ABSTRACT

Today in Uzbekistan there are some issues in the practical application of IFRS. To find a solution to these problems, in this article we want to reveal the essence of IFRS 5 “Non-current assets held for sale and discontinued operations” and give some explanations of the organization of accounting for non-current assets held for sale according to international accounting standards and the preparation of financial statements, showing their practical application using the specific examples.

Keywords:

IFRS, non-current assets, discontinued operations, disposal, cash-generating unit, sale, buyer, enterprise component, impairment.

Introduction. In order to provide the necessary information environment for foreign investors and expand opportunities for access to international financial markets through an accelerated transition to international financial reporting standards, as well as improving the system of training specialists in the field of accounting and auditing according to international standards, a Resolution of the President of the Republic of Uzbekistan dated 24.02 was adopted. 2020 № PP-4611.

According to this Resolution, joint-stock companies, commercial banks, insurance organizations and legal entities classified as large taxpayers compiled financial statements for 2021 based on IFRS.

However, there are some problems in practical issues of applying IFRS in Uzbekistan. This:

1. Lack of experience and education in the field of international standards.
2. Lack of methodological support. The entire set of documents for those implementing IFRS consists of Resolution No. PP-4611 dated February 24, 2020, IFRS standards translated into Uzbek, and tax reporting forms from Appendix № 13 to the Resolution of the State

Tax Committee, reg. №c3221 dated 02/24/2020

3. There are no approved deadlines for submitting financial statements under IFRS.

4. There is no transformation algorithm from NAS to IFRS.

5. The fundamental difference between IFRS and NAS is that professional judgment plays an important role in IFRS. This is exactly what we don't have yet, because these skills are acquired over years.

To find a solution to these problems, in this article we want to reveal the essence of IFRS 5 “Non-current assets held for sale and discontinued operations” and give some explanations of the organization of accounting for non-current assets intended for sale according to international standards and the preparation of financial statements, showing their practical application using specific examples.

Methodology. When conducting research work on this topic, the conceptual foundations of international financial reporting standards were studied, regulatory framework for accounting regulation in Uzbekistan and abroad, scientific works of foreign and domestic

economists were used on the accounting of non-current assets intended for sale and discontinued operations on the basis of IFRS using methods of data collection, generalization, grouping, comparison, induction and deduction, comparison and reflection in financial statements.

Results. In order for us to classify non-current assets as held for sale, two conditions must be met. To do this, the asset must be:

1. Available for immediate sale in its current condition.

2. Sale must be highly probable.
 A sale of the highest degree is likely to occur when the following conditions are met:
 - the price is determined and comparable to the current fair value;
 - the sale must occur within a year;
 - management must accept a plan for the sale of the asset (disposal group);
 -an active search for a buyer is underway.
 Once we have classified a non-current asset as held for sale, we must take the following 4 steps:

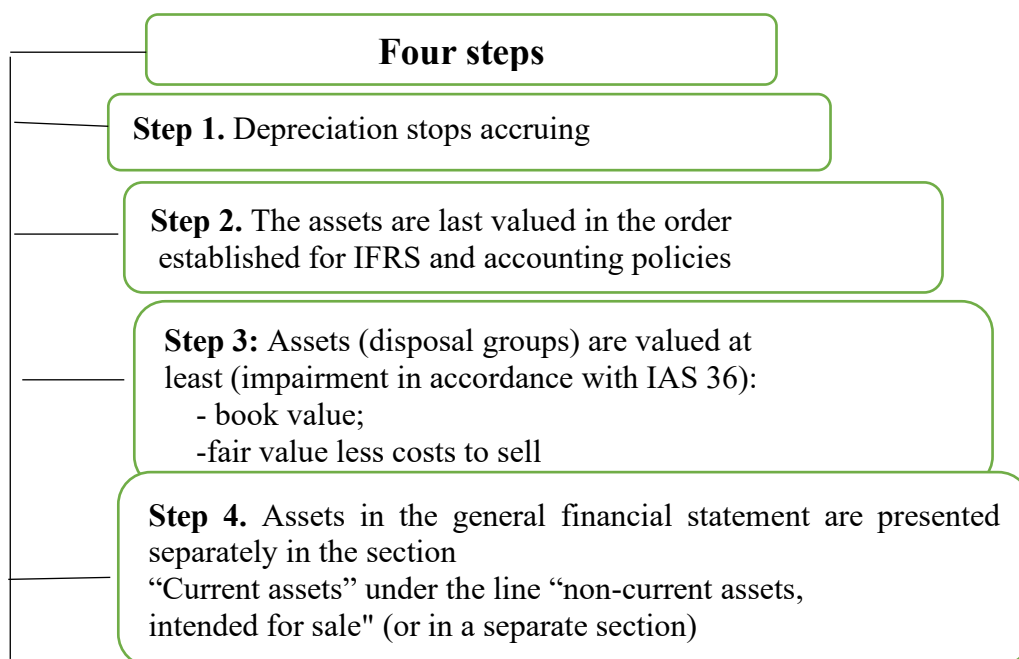


Figure 1. Four steps

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

- a separate significant type of activity or geographical area of operations;
- is part of a single coordinated plan for the disposal of a separate significant line of business or geographic area of operations; or

-is a subsidiary acquired solely for the purpose of subsequent resale.

Analysis. When we talk about discontinued or terminated activities, we need to immediately remember and consider 2 standards. These are IFRS 37 and IFRS 5.

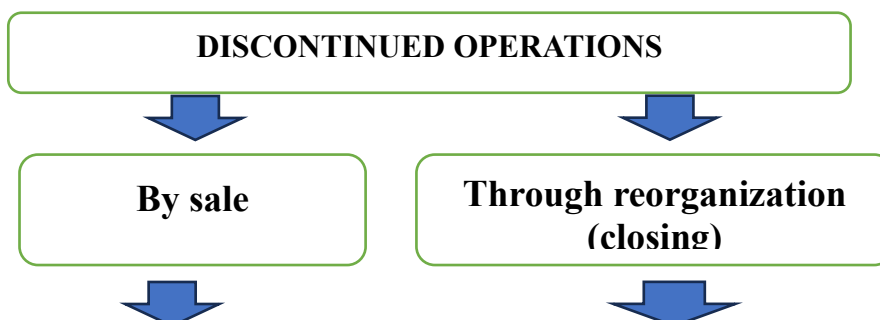




Figure 2. Methods of Discontinued Operations

The fact is that the termination of an activity, business, or part of a business can be carried out in 2 ways. 1 way by selling. That is, when we sell lines of business, we sell some operating segment. The sale involves a transaction where there is a buyer and a seller and we receive compensation for the sale. Another option is that we decided to close some segment, some direction. That is, this is a different story. We have no buyer, we have no proceeds, we are not selling, we are ceasing our activities. Therefore, IFRS 5 only applies if the activity is terminated by sale. When we sell part of an activity, that’s when IFRS 5 works.

If there is no sale transaction, we simply close it, in which case IFRS 37 “Provisions, contingent liabilities and assets” must be applied. Accordingly, different standards, different requirements. IFRS 5 requires us to reclassify, that is, present separately on the balance sheet the assets and liabilities of discontinued operations.

IFRS 5 covers two parts. The first part is when we sell a specific asset, a local asset, fixed assets, buildings, structures, that is, some kind of separate asset. And the second part of the standard is precisely the termination of activity as a result of a sale, when we sell a line of activity, sell a part, a piece of our business, and this part has not only assets, but also liabilities. Therefore, when we apply IFRS 5, we separately highlight this area of activity. We identify the

assets and liabilities that relate to it and classify them into separate items on our balance sheet unless a disposal occurs before the reporting date and the transaction is not completed.

Thus, a discontinued operation is an integral part (component) of an entity that has been classified as held for sale. You should:

1. Reclassification of assets and liabilities as discontinued operations if the criteria are met.
2. As of the reporting date, impairment test.
3. In reporting:
 - In the general financial statement in current assets “Assets from discontinued activities”, in current liabilities “Liabilities from discontinued activities”.

- Operating profit and loss – results for terminated/discontinued and continuing operations are disclosed separately.

In the statement of comprehensive income, discontinued operations should be presented as:

- profit or loss after tax from discontinued operations (including impairment to fair value less costs to sell);
- previous periods must be retrospectively adjusted, and data on discontinued operations must be highlighted.

Let's explain this with an example. An example of reporting discontinued operations in Table 1.

Table 1. Reflection of discontinued operations in reporting

Indicators	2022 in thousand UZS	2021 in thousand UZS
Revenue	365 000	258 000
Cost price	280 000	200 000
Gross profit	85 000	58 000

Administrative and commercial expenses	40 000	35 000
Profit before tax	45 000	23 000
Tax	15 000	8 000
Profit for the year	30 000	15 000

Let's say we have the reporting of a certain company. This particular company will not represent a discontinued operation, which is implemented in IFRS 5.

There are data for 2021 and 2022. As you can see from the table, the company is gaining momentum very well. Revenue in 2021 is 258 000 thousand UZS, next year 365 000 thousand UZS. And last year's profit was 15 000 thousand UZS, this year's profit is 30 000 thousand UZS.

And then on some page 58 of the report in a note the following information is written that at the end of 2022 we classify our

manufacturing subsidiary as held for sale. The share in income turnover is 95%. What does it mean? This means that, in essence, the parent company sells 95% of its business, component.

Will such information be useful to an investor? This information will not be useful for the investor. Because the investor expects that this is how activities will continue based on the reporting. In fact, such reporting misleads investors.

How to prepare reports correctly based on IFRS 5? Let's see this.

Table 2.
Reflection of discontinued operations in reporting

Indicators	IFRS 5	
	2022 in thousand UZS	2021 in thousand UZS
Revenue	18 250	12 900
Cost price	14 000	10 000
Gross profit	4 250	2 900
Administrative and commercial expenses	2 000	1 750
Profit before tax	2 250	1 150
Tax	750	400
Profit from continuing operations	1 500	750
Profit from discontinued operations	28 500	14 250
Profit for the year	30 000	15 000

From the table data you can see that all costs, all revenues of this 95% component of the company that is being disposed of are shown in one line "Profit from discontinued operations". The rest of the report is based on continuing operations, which represent 5% of the group's turnover.

Conclusion. Essentially, what is reporting for? Users, firstly, understand the results of the company's activities and secondly, on the basis of these reports, the investor builds his assessments regarding future events. Let's say he predicts and understands that, based on these reports, most likely next year in 2023 he will receive an amount of at least no less than 30 000 thousand UZS.

But the investor sees that in fact the group's turnover is 18 250 thousand UZS, the group's profit from continuing operations is 1 500 thousand UZS. And the result of discontinued activities is 28 500 thousand UZS, so it will, in fact, be discontinued.

Now, naturally, the investor will make the appropriate decision.

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