# Use SAP BusinessObjects Financial Consolidation to meet IFRS 5 requirements

## Applies to:

SAP BusinessObjects Financial Consolidation 10.0


## Summary

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* specifies the accounting for assets held for sale and the presentation of discontinued operations in the financial statements. This article points out the practical issues that arise when putting IFRS 5 in practice, and explains how new features in SAP® BusinessObjects™ Financial Consolidation 10.0 can be leveraged to this end.



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## Summary

Version 10.0 of SAP BusinessObjects Financial Consolidation is delivered with a new feature enabling the selection of reporting units in rules according to a new scope property - that can be customized - independent from their behavior as regards consolidation. This new feature can be leveraged to facilitate the processing of disposal groups and discontinued operations in accordance with IFRS 5.

This document is intended to help SAP BusinessObjects Financial Consolidation users who would consider enhancing their configuration to this end.

Firstly, this document summarizes IFRS 5 requirements, focusing on aspects relating to consolidated financial statements. It points out that many practical issues arise when it comes to putting IFRS 5 into practice. Secondly, this document presents a brief overview of how to configure and use the new “scope custom property” feature of SAP BusinessObjects Financial Consolidation 10.0. Lastly, the final part is dedicated to the starter kit for IFRS: how to deal with IFRS 5 in the current starter kit? What enhancements could be considered in order to automate – as far as possible – the processing of disposal groups and discontinued operations?

As explained further in the document, IFRS 5 does not give enough guidance on how to account for certain transactions (for example, intercompany balances and transactions involving disposal groups). Besides, some of its provisions may seem conflicting with other standards (for example, presentation of reclassification adjustments on other comprehensive income).

Therefore, the possible enhancements described in the last part of the document will not be implemented in the starter kit for IFRS. Indeed, it would imply to take too many assumptions that would remain questionable.

Lastly, it should be reminded that the project of amending IFRS 5 – in a joint project with the FASB – is still on the agenda of the IASB, even though no more planned for 2011. Provided that the future version of IFRS 5 includes more guidance, it will then be time to enhance the starter kit for IFRS.

# IFRS 5 requirements

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* specifies the accounting for assets held for sale and the presentation of discontinued operations.

## Definitions

A **disposal group** is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include current and non-current assets.

A **non-current asset (or disposal group) should be classified as held for sale** if the following conditions are met:

- The asset (or disposal group) must be available for immediate sale in its present condition.
- The sale must be highly probable. IFRS 5 lists several conditions that must be satisfied for the sale to qualify as highly probable (from which the deadline: the sale should be completed within one year from the date of classification)

*Examples of individual non-current assets held for sale: headquarters building, investment property …*
*Examples of disposal groups: a plant, a store …*

A di**scontinued operation** is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale. (IFRS 5.32)

This definition does not give much guidance. Judgment is necessary in determining whether a ceased activity is major enough to qualify as discontinued. In practice, the disclosure of discontinued operations usually focuses on very significant operations (e.g. disposal of a reportable segment as defined in IFRS 8).

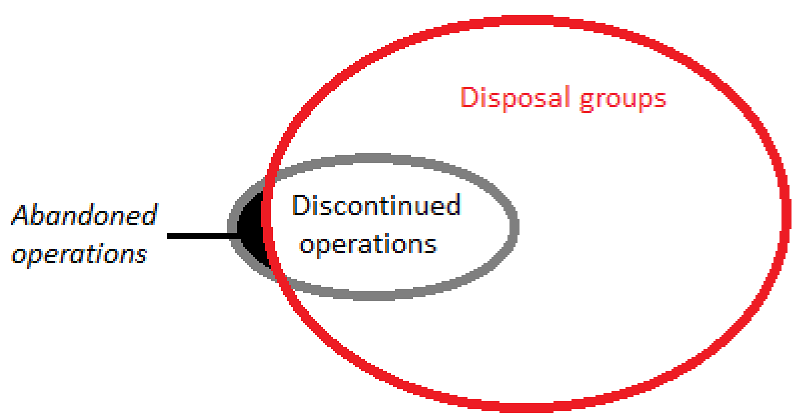
**What differences between a disposal group and a discontinued operation?**

As explained before, not all disposal groups are discontinued operations: a disposal group qualifies as a discontinued operation only if it represents a major line of business or geographical area of operations.

Conversely, not all discontinued operations (but most of them actually) are disposal groups: an operation that is to be abandoned or scrapped may meet the criteria of a discontinued operation but cannot be classified as held for sale (because it will not be sold).

It implies that it will be presented as discontinued operations only when it is actually abandoned (and not from the date the decision of abandon is taken) as explained in the example below.

*Guidance on implementing IFRS 5 – example 9*




*"In October 2005 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 2006. In the financial statements for the year ended 31 December 2005, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 2006, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by IFRS 5 (33)&(34).*

## Individual assets held for sale

### Classification and measurement principles

Non-current assets classified as held for sale must be presented separately from other assets in the statement of financial position. The Implementation Guidance accompanying IFRS 5 includes an illustration of presentation on the face of the statement of financial position where those assets and liabilities are presented separate from, but within, current assets and liabilities.

Any cumulative income or expense recognized in other comprehensive income relating to a non-current asset classified as held for sale (for example, fair value changes on a financial asset previously classified as available for sale under IAS 39) should be presented separately.

A non-current asset classified as held for sale must be measured at the lower of its carrying amount and fair value less costs to sell.

### In practice

Except for the statement of other comprehensive income (see below), the classification and measurement of individual non-current assets held for sale do not raise any particular issue when it comes to producing the consolidated statements as they have already been accounted for properly in the local statements.

The identification of other comprehensive income (OCI) items relating to those assets is more difficult. Indeed, unlike P&L items, components of OCI (defined by IAS 1 as income or expenses that are not recognized in P&L) are not booked in dedicated accounts in the general ledger; they are credited directly to equity. Therefore, they have to be identified from all the movements recognized in equity during the period.

Moreover, IFRS 5 does not specify whether related income tax or reclassification adjustments should be presented separately. As a reminder, this information is required by IAS 1 for all OCI items except for share of other comprehensive income of associates and joint ventures accounted for using equity method. In the XBRL taxonomy, income and expense recognized in other comprehensive income relating to non-current assets or disposal group classified as held for sale are presented on a single row (as those related to equity-accounted entities) without any detail regarding income tax or reclassification adjustment. This issue is analyzed more deeply below when dealing with disposal groups.

## Disposal groups held for sale

### Classification and measurement principles

IFRS 5 requirements are basically the same as those listed above for individual assets. However measurement principles are more detailed as a disposal group may include several types of assets and liabilities (all are not within the scope of IFRS 5) and may raise the issue of allocating the impairment loss.

### In practice

From a consolidation point of view, a disposal group can be a part of a consolidated entity, a whole consolidated entity or a group of consolidated entities. Where a disposal group is part of a consolidated entity, it does not call for additional comment as it amounts to dealing with individual non-current assets held to sale (see above). Where a disposal group corresponds to a whole consolidated entity or a group of entities, central adjustments are needed as the assets and liabilities of those entities are not handled as held for sale in the local statements.

Central adjustments should consist in:

- reclassifying assets on one hand and liabilities on the other hand to the dedicated lines in the statement of financial position
- applying IFRS 5 measurement principles (the lower of carrying amount and fair value less costs to sell)

Additional issues have to be carefully looked at:

- elimination of intercompany balances where a disposal group is involved
- cash and cash equivalents included in disposal groups
- identification of OCI items relating to disposal groups

### Intercompany balances

Neither IFRS 5 nor IAS 27 specifies the treatment for the elimination of intercompany balances between disposal groups and other entities within the group. This suggests that the normal consolidation rules, which require the elimination of all intra group balances, still apply.

However the question remains whether clearing accounts (used in the starter kit to balance elimination entries entity by entity) are to be reclassified or not where they are part of a disposal group. The illustrative example displayed in appendix 1 explains why they should not.

### Cash and cash equivalents included in disposal groups

Where a disposal group includes cash and cash equivalents, these amounts are reclassified in assets held for sale or liabilities relating to a disposal group (for bank overdrafts meeting the criteria of cash equivalents) in the statement of financial position. IFRS 5 does not specify the way they should be disclosed in the statement of cash flows. Two options can be considered:

- cash and cash equivalents included in disposal groups are included in the cash position displayed in the statement of cash flows (and are therefore part of the reconciliation items between the statement of financial position and the statement of cash flows)
- they are no more seen as cash items in the statement of cash flows; the reclassification from cash and cash equivalents to assets held for sale would then have to be displayed in the statement of cash flows (to explain the change in cash amounts) even though there is no real cash movement.

In the examples we have found, the first option was always the one chosen.

### OCI items relating to disposal groups

Similar questions as those for individual assets arise but one is particularly tricky: should reclassification adjustments generated by the disposal (for example, recycling of the foreign currency translation reserve where the disposal group includes a foreign operation) be presented as OCI items relating to disposal groups or should they be presented as reclassification adjustments on their originated line item (exchange differences on translation in our example)? Choosing the first option would lead to significantly reduce the cases where reclassification adjustments on certain items (especially exchange differences on translation) are disclosed. Indeed, most of outgoing subsidiaries can be regarded as disposal group before the effective disposal (only abandoned operations would not meet the conditions).

Moreover one can argue that after disposal the related items are no more classified as held for sale in the balance sheet (as they do not exist anymore in the balance sheet). Therefore, a literal interpretation of IFRS 5 could lead to use the dedicated line item (OCI related to non-current assets or disposal group classified as held for sale) only for items that are still in the balance sheet at the end of the period. In that case, reclassification adjustments would be disclosed in their originated category.

## Discontinued operations

As regards discontinued operations, IFRS 5 only includes specific requirements for presentation (and not measurement principles). However, a discontinued operation may also qualify as a disposal group held for sale and be therefore subject to the related measurement rules.

### Presentation in the financial statements

IFRS 5 requires the presentation of a single amount in the statement of comprehensive income (or in the income statement if this statement is published) comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation.

Further information is required (e.g. analysis into pre-tax and tax effect of both amounts above, allocation between owners and non-controlling interests …) but can be disclosed in the notes. The same is true for cash flows.

**Comparative information is restated** so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

Discontinued operations can qualify as disposal groups or not depending whether they are discontinued because they are to be sold or because they are abandoned. Discontinued operations that qualify as disposal groups are subject to the classification and measurement requirements explained above for their assets and liabilities in addition to the disclosures requirements regarding income statement.

As regards abandoned operations, the classification in the balance sheet does not raise any issue as the assets and liabilities have already been disposed of where the operation is classified as discontinued (because an operation to be abandoned cannot be treated as a discontinued operation before it has actually been abandoned).

### In practice

From a consolidation point of view, a discontinued operation can be a part of a consolidated entity, a whole consolidated entity or a group of consolidated entities. Where it is part of a consolidated entity, it does not call for additional comment as it is supposed to be accounted for properly in the local statements.

Where a discontinued operation corresponds to a whole consolidated entity or a group of entities, central adjustments are needed because the operation is not classified as discontinued at local level.

Profit or loss attributable to discontinued operations include the profit or loss of the discontinued operations themselves as well as gains and losses recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. It may cause difficulties when it comes to automating the reclassification because part of the information is not in the discontinued operation’s ledgers but in the owner company’s one.

Other practical issues have to be pointed out regarding especially the following topics:

- elimination of intra group transactions
- restatement of comparative information

### Intercompany transactions

The elimination of intra group transactions in the income statement is less straightforward than the elimination of intra group balances (see disposal groups above). It raises the issue of allocating fairly the profit or loss between continuing and discontinued operations.

*Let’s take an example.*

*Parent company P owns companies A and B. Company A sells merchandises to B for CU 100 with a cost of CU 70. B sells these products outside the group for CU 150. Company B is classified as a discontinued operation.*

*The question is the following: what profit should be reported in the income statement for continuing operations on one hand and for discontinued operations on the other hand?*

*If intra group are eliminated in full, group P will report no sales (sales of company A are eliminated in full as they correspond to intra group transactions, sales of company B are reclassified as part of the profit of discontinued operations). Net profit of 80 should be split between continuing and discontinued operations. IFRS 5 is silent on how to allocate this profit. IFRS 5 only states that the information disclosed should enable users of the financial statements to evaluate the financial effects of discontinued operations. It may imply that the accounting can be different depending on the situation post-disposal.*

*In our example, if transactions between A and B are expected to cease after B’s disposal, it would seem appropriate to allocate the entire net profit of 80 to discontinued operations as it will no more be recorded after disposal. Conversely, if transactions between A and B are expected to continue after B’s disposal, it may seem more appropriate to display a net profit of 30 for continuing operations (because this profit will remain after the disposal) and a net profit of 50 for discontinued operations (that will no more benefit to the group after disposal). But is it possible to show a profit of 30 for continuing operations without reporting any sales (that would have been eliminated as intra group)?*

This question has already been raised by many as one of the most complex implementing issue surrounding the accounting for discontinued operations. Neither the IASB nor the FASB have given practical answers so far. However, as suggested in the proposed revision of IFRS 5 below, it seems that the elimination of these transactions is mandatory.

Staff draft of Exposure Draft Discontinued Operations (Re-exposure of proposed amendments to IFRS 5) - July 2010

"An entity shall disclose for each discontinued operation (..):

(a) a description of the nature of the activities that give rise to the continuing involvement;

(b) the period of time during which the involvement is expected to continue;

(c) for all periods presented:

(i) the amounts presented in continuing operations after the disposal date that were eliminated in consolidated financial statements as intragroup transactions (including transaction amounts eliminated between the group and disposed-of equity method investments) before the disposal date; and

(ii) the amounts of any cash inflows from or cash outflows to the discontinued operation after the disposal date".

We will further investigate on this question from a configuration standpoint in the last part of the document.

### Comparative information

Comparative information needs to be restated so that the discontinued operations presented in the P&L include all operations that have been discontinued by the end of the reporting period for the latest period presented. This contrasts with IFRS 5 requirements for disposal groups held for sale that do not require any restatement of comparatives.

It means that where a discontinued operation also qualifies as a disposal group, comparative information does not follow the same principles for the statement of financial position than for the statement of comprehensive income (for the P&L section).

For example, if an operation qualifies as discontinued during 2010, it will be classified as discontinued in the statement of comprehensive income for the whole of 2010 and also in the 2009 comparatives. If it also qualifies as a disposal group, its assets and liabilities will be presented as such at the end of 2010 but not in 2009 comparatives.

In SAP BusinessObjects Financial Consolidation, restatements of prior periods rely on native features (consolidation variant). From a configuration standpoint, it should be noticed that the rules to be triggered for the comparatives "re-run" may be different than the ones used for the current period because only P&L items will have to be reclassified.

## Other provisions and specific cases

### Investments classified as held for sale in the local statements

In the starter kit, local statements entered in the reporting units" packages are supposed to be IFRS compliant. Then, if a subsidiary, a joint venture or an associate meets the criteria to be classified as held for sale, the related investment in the owner company's local statements will be classified in the dedicated account "assets held for sale".

It may raise some issues for the consolidation process purposes as this investment should still be eliminated in the consolidated statements, and yet the account "assets held for sale" is not subject to any analysis (by share or by partner). Therefore, the needed information would not be available.

### Interests in joint-ventures and associates classified as held for sale

Both IAS 28 (investments in associates) and IAS 31 (investments in joint-ventures) have been amended by IFRS5 to specify that once classified as held for sale, associates and joint-ventures should be accounted for in accordance with IFRS 5 (and no more with respectively IAS 28 and IAS 31).

What does it mean in practice?

As regards associates – and joint-ventures accounted for using equity method- the equity accounting will cease from the date where the conditions for classification as held for sale are met. At this date, the interest in the associate or joint-venture is depreciated if the fair value less costs to sell is lower than its carrying amount (being its value under equity method) and reclassified to the dedicated line item in the statement of financial position (assets held for sale). The share in the profit or loss of the associate or joint-venture is no more recognized in the consolidated statements.

In the same manner, proportionate consolidation ceases for other joint-ventures once classified as held for sale. The share in the joint-venture's assets and liabilities is depreciated if need be (according to IFRS 5 measurement principles) and reclassified to the dedicated lines of the balance sheet. However IFRS 5 does not specify how to account for changes in these assets and liabilities that arise between the date from which they are classified as held for sale and the date the joint-venture is actually disposed of. Some of these changes arise from transactions booked in the P&L, some do not. Given that the share in the profit or loss of the joint venture should not be recognized any more, it seems appropriate not to take into account the related balance sheet movements. However, it is unclear whether other movements should be taken into account or not. And if they should be, it seems difficult to identify them separately from P&L-related movements.

### De-classification from held for sale

When a disposal group has been classified as held for sale but the criteria set out in IFRS 5 are no longer met, it should be "de-classified" from held for sale (from the date it stops fulfilling the conditions) and remeasured at the lower of :

- its carrying amount before classification as held for sale (adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale)
- its recoverable amount at the date of the de-classification.

In the comparative period(s), the balance sheet amounts are not restated (which means that those disposal groups are displayed as held for sale in the comparative figures) except when the "de-classified" item is an investment in an associate or a joint-venture. In those cases, any prior financial statements in which this investment has been accounted for in accordance with IFRS 5 have to be amended; this involves changing presentation as well as measurement (as if the equity method or the proportionate consolidation has been continuously used).

### De-classification from discontinued

When a disposal group ceases to qualify as held for sale, the results of its operations previously presented in discontinued operations should be reclassified and included in income from continuing operations for all periods presented. It means that comparative information should be restated.

### Subsidiary acquired exclusively with a view to resale

A subsidiary acquired exclusively with a view to resale qualifies as a discontinued operation if it meets the criteria of classification as held for sale (available for immediate sale in its present condition and sale highly probable). It means that it does not require being significant enough to qualify as discontinued.

At the acquisition date the group can choose one of the two following methods: full consolidation approach or short-cut method (as described in IFRS 5 implementation guidance). The full consolidation approach does not call for any comment as it amounts to apply successively IFRS 3 (as for any business combination) and IFRS 5 requirements.

The short-cut method is a simplified approach permitted by IFRS 5. It only requires measuring the fair value less costs to sell of the newly acquired subsidiary (as a single investment asset would be). This amount is added to the fair value of the subsidiary's liabilities to ascertain the value of the subsidiary's assets. In the statement of financial position, its assets are put together on the single line "assets held for sale" and its liabilities accordingly in "liabilities related to a disposal group".

At the acquisition date, the statement of financial position is the same whatever the method. It will not be the case later because the subsidiary's profits generated post-acquisition will not be recognized when using the short-cut method. In that method, the only impact on income statement could be an impairment loss if the subsidiary's fair value decreases. However, it should be reminded that such a subsidiary is supposed to be sold quickly (within one year). Thus the choice of an accounting method will generally have a very limited impact.

### Impact on financial statements - summary

The impact of IFRS 5 requirements on the financial statements presented can be summarized as follows:

| | Balance sheet | Income statement | Other comprehensive income |
|---|---|---|---|
| Individual assets held for sale | v | | v |
| Disposal groups that do not represent a segment* | v | | v |
| Disposal groups that represent a segment* | v | v | v |
| Abandoned segments* | | v | |
| Segments* already disposed of | | v** | |

** meaning: a separate major line of business or geographical area of operations*
*** due to the restatement of comparative periods*

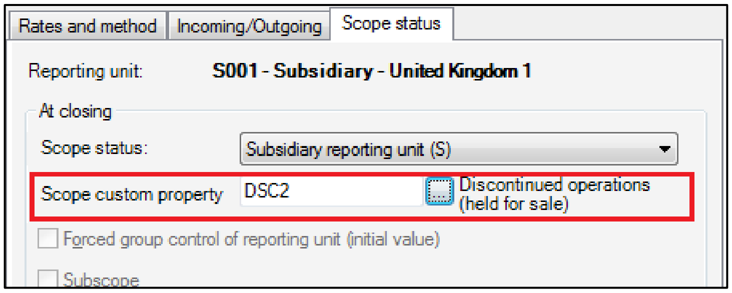
Comparative information is never restated in the balance sheet, or in the comprehensive income as regards components of other comprehensive income. In contrast, comparative information should be restated for profit and loss items.

## New features in SAP BusinessObjects Financial Consolidation 10.0

SAP BusinessObjects Financial Consolidation 10.0 offers a new option to select reporting units in the rules based on a property allocated in the scope.

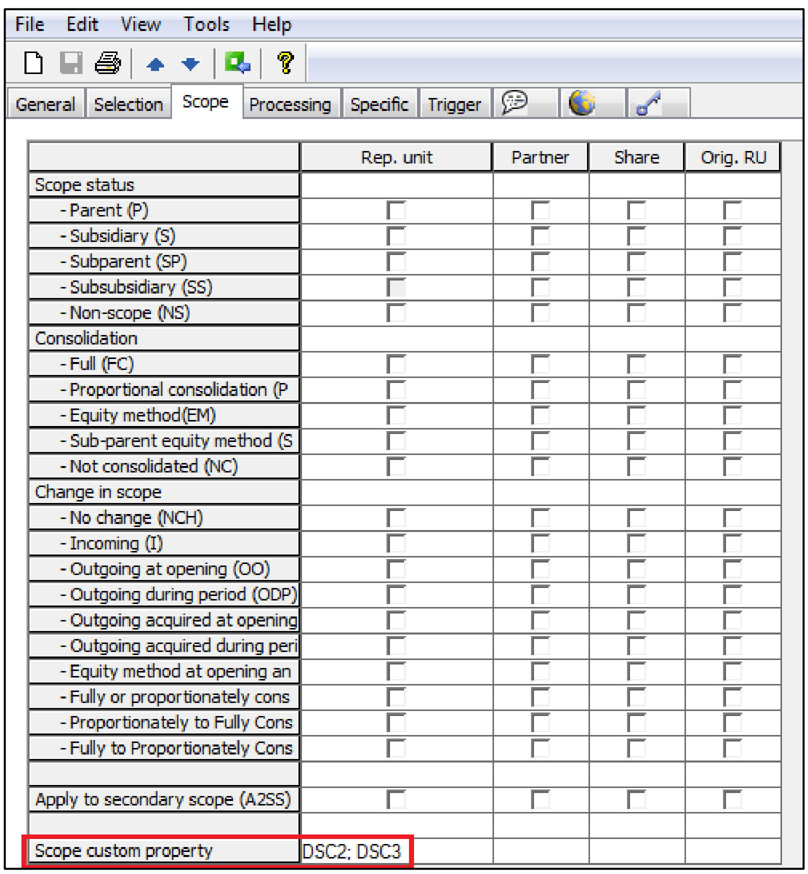
### How does it work?

In the scope builder, it is now possible to allocate a value[1] of the new "scope custom property" to any entity in the consolidation scope (in our example below, the entity S001 has been flagged as a discontinued operation held for sale).




The values of this new property are freely set in the Dimension Builder when the configuration is built, as for any other reference table.

The scope custom property is available for selection in the scope tab of any consolidation rule. It makes it possible to select specific reporting units (such as those identified as discontinued operations) in order to apply to them dedicated rules.

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[1] But only one value (multiple entries are not allowed). It means that the scope custom property is to be used for one purpose only (in our case: processing the discontinued operations) or for multiple purposes that cannot be concomitant.

This selection is independent from the reporting unit's behavior as regards both its consolidation method and its change in scope. Multiple selections are allowed (as shown in the example above).

### From a configuration standpoint

The configuration principles to use this feature can be summarized as follows:

- populate the new reference table "scope custom property" in the Dimension Builder

  Once created the reference values (for example: "discontinued operations", "disposal groups" …) can be used in the scope builder and allocated to one or several reporting units.

- create dedicated rules

  The reference values of the scope custom property previously created are then available for selection in the scope tab of consolidation rules. Dedicated rules can therefore be configured to automate some of the reclassification entries needed for disposal groups and / or discontinued operations.

# IFRS 5 in the starter kit for IFRS

## In the current starter kit for IFRS

### Assets and disposal groups held for sale

The current starter kit provides 3 balance sheet accounts for assets held to sale and disposal groups:

- A3000 Non-current assets or disposal groups classified as held for sale
- A3100 Non-current assets or disposal groups classified as held for distribution to owners
- L3000 Liabilities included in disposal groups classified as held for sale

For individual assets or disposal groups that are part of an entity, the transfer from original accounts to these specific ones is made in the package using transfer flow (F50).

When disposal groups correspond to a whole consolidated entity or a group of consolidated entities, transfer is to be made centrally by manual journal entries.

These assets and the corresponding liabilities are presented separately in the statement financial position.

As regards the statement of other comprehensive income, manual journal entries are necessary as explained further in this section.

### Discontinued operations

Where discontinued operations are to be sold, the same principles as for disposal groups apply regarding the balance sheet items.

In the income statement, the account P7000 Profit (loss) from discontinued operations is available in the starter kit. It can be used directly in the package where a discontinued operation is part of an entity or centrally by manual journal entries where it corresponds to a whole entity or a group of entities.

The restatement of comparative periods follows the same procedure as a change in accounting policies.

## Possible enhancements

Based on IFRS 5 requirements described in the previous section, the starter kit could be enhanced in order to ensure, on a more automated basis, the appropriate presentation of both assets and disposal groups held for sale and discontinued operations in the consolidated financial statements.

### Configuring the scope custom property

To cover IFRS 5 requirements (as further explained below for each financial statement), 3 reference values need to be created in the scope custom property table:

- one for disposal groups that do not qualify as discontinued □ only balance sheet items are reclassified
- one for disposal groups that qualify as discontinued □ balance sheet and P&L items are reclassified
- one for abandoned operations or already disposed of operations that qualify as discontinued □ only P&L items are reclassified

### Statement of financial position

The objective is to reclassify assets and liabilities of disposal groups held for sale – regardless of whether they qualify as discontinued operations or not – on the dedicated line items in the statement of financial position.

It shall be noticed that measurement adjustments, when need be, are to be made by manual journal entries. Indeed, the information required (fair value less costs to sell) is not currently available in the package and would be difficult to use even if available because of the complex rules defined by IFRS 5 to allocate the impairment loss within a disposal group.

The following questions have to be looked at:

- Which accounts to be reclassified? Using which flow?

- At which level of amount (local, converted or consolidated)? Which audit-ID?
- What to do with the reclassification entries existing at opening?
- What impact on the statement of cash flows calculation?

### Accounts / flows

The assets of disposal groups should be reclassified to the dedicated account A3000 Non-current assets or disposal groups classified as held for sale. The liabilities of disposal groups are reclassified to the symmetric account L3000 Liabilities included in disposal groups classified as held for sale.

As explained in the previous section, the reclassification should apply to any asset and any liability account except clearing accounts. To select these accounts in the consolidation rule, it will be necessary to create a new filter based on:

- the characteristic class (A,L), and
- a list of elementary items to be excluded (equity accounts – because they are included in the class L – and clearing accounts).

As regards flows, the easiest solution consists in selecting the closing position to reclassify on the dedicated accounts using transfer flow (F50).

### Level of amount / audit-ID

The question of selecting the right level of amount (local, converted, consolidated) calls for some comments:

- Individual assets held for sale and disposal groups that are part of an entity are reclassified as such in the packages, which means at local level
- Adjustments to fair value less costs to sell, when need be, have to be done by manual journal entries; if the entity being part of the disposal group uses a foreign currency, these entries should be recorded in its currency (meaning: at local level)
- When a disposal group corresponds to a whole entity or a group of entities, the reclassification should include goodwill if any, which only exists at consolidated level

To meet these different needs, the straightforward solution seems to provide for several rules thus covering each level of amount.

However, it would imply to create as many audit-IDs as exiting levels of amount (actually twice this number as each automatic audit-ID gives rise to the equivalent manual audit-ID according to the configuration principles set out in the starter kit).

Furthermore, consolidation rate applies to some of the audit-IDs generated at converted amount but not to all of them. It makes it necessary to create two audit-IDs for reclassification at converted level (one that will be subject to consolidation rate and one that will not). Otherwise, the reclassification will not be correct at consolidated level if the disposal group includes a reporting unit under proportionate consolidation.

Lastly, the reclassification of investments accounted for using equity method (account A1500) cannot be made using this principle as it is automatically populated at consolidated level but keeps the original audit-IDs (for audit purposes).

As a conclusion, making the reclassification at each level of amount would lead to create 8 audit-IDs and 4 different rules (1 at each level of amount for assets and liabilities other than investments under equity method and 1 for that specific account). Even if this solution remains possible, we rather suggest creating a single rule triggered at consolidated level (and accordingly 2 audit-IDs generated at consolidated level). This rule would be processed during the last part of the consolidation process just before the rules dedicated to the cash flow statement calculation.

### Reclassification entries at opening

The criteria to be met for classification as held for sale implies that the corresponding assets and liabilities should not remain on the balance sheet over one year. However, in case of interim closing, they may be classified as held for sale in more than one consolidation. Therefore, the question remains on how to handle reclassification entries that may exist in opening balances.

The solution could consist in reversing systematically all opening entries (selection based on the audit-IDs). It would enable to handle in the same rule all cases that may exist: disposal groups that are still classified as held for sale at the end of the period (reclassification will be re-made based on the closing position), disposal groups that have been disposed of during the period, assets and liabilities that were classified as held for sale but no more meet the criteria at the end of the period. This rule would be included in the subset 02-BGN dedicated to the beginning of consolidation.

#### Impact on cash flows calculation

As explained in the previous section, IFRS 5 does not specify how to present in the statement of cash flows cash and cash equivalents included in disposal groups. If we consider that these amounts of cash and cash equivalents should be presented as such in the statement of cash flows, the following enhancements are needed in the starter kit:

- A new consolidation rule (in the subset FSP) has to be configured to adjust the automatic calculation of both cash at beginning and cash at closing in the statement of cash flows, so that these amounts include cash reclassified in disposal groups. The selection of this rule should be based on the audit-IDs dedicated to the reclassification of disposal groups.
- The retrieval report C23-15 Statement of cash flows – changes in cash and cash equivalents should be enhanced to include dedicated line items for cash and cash equivalents included in disposal groups. It will make it easier to reconcile the amounts of cash and cash equivalents in the statement of cash flows and the equivalent items in the balance sheet. Moreover, it will meet IAS 7 requirements as regards the information to be disclosed.

### Statement of comprehensive income – P& L items

The objective is to reclassify profit and loss items attributable to discontinued operations on the dedicated line item in the income statement (or in the statement of comprehensive income if a single statement is presented).

Profit and loss attributable to discontinued operations includes:

- the profit or loss of the discontinued operations (including the gains and losses, if any, that are recognized on measurement to fair value less costs to sell of their assets and liabilities)
- the gains and losses recognized on the disposal of these operations.

Profit or loss of the discontinued operations – including the impact of remeasurement to fair value less costs to sell – can be easily identified as it corresponds to the profit or loss of the reporting units flagged as discontinued in the scope. Therefore, it is possible to configure consolidation rules to reclassify the corresponding amounts to the “discontinued part” of the income statement.

It is less straightforward for gains and losses recognized on disposal. Indeed, these items are not recognized in the discontinued operations’ ledgers but in the corresponding parent entities’ ones. However, they can be identified using the “share” detail that is necessarily filled in when a gain or loss on disposal of shares is accounted for.

The reclassification of income statement items only applies to discontinued operations (whether held for sale or abandoned).

Similar issues arise as those listed above for balance sheet items but the question of intercompany transactions is particularly tricky.

#### Intercompany transactions

As explained in the previous chapter, IFRS 5 is silent on how to account for intra group eliminations where they involve discontinued operations. None of the different solutions that have been considered through the example is fully satisfactory:

- making the accounting treatment dependant from the post-disposal situation (whether the transactions will continue or not) can be relevant; however, it implies that the elimination would be made by manual journal entries as no automatic rule can be configured that way.
- if the eliminations are to be carried out automatically, the only acceptable way would consist in allocating net profit between continuing and discontinued based on the current contribution of these

reporting units (as if the transactions are expected to continue in our example). From a configuration standpoint, it implies that P&L clearing accounts are reclassified (see appendix 2). As a consequence clearing accounts are no more balanced at group level (because the counterpart is in the discontinued profit or loss) which is contrary to the configuration principles of the starter kit. Moreover, as already explained in the previous chapter, profit from continuing operations will be inconsistent with reported revenues.

In that context, we cannot provide any opinion on a preferred solution. Nevertheless, some of the following advice may be helpful:

- if the option for manual journal entries is preferred, it will be necessary to reverse the automatic journal entries that eliminate intragroup transactions. Indeed, it is not possible in the scope tab of a rule to exclude reporting units on the basis of the scope custom property . Therefore, normal elimination rules (subset 08-ELIM) will still apply and additional rules will cancel these entries where one or the other reporting unit is flagged as discontinued
- if the option 1 presented in appendix 2 is chosen (elimination of intragroup transactions then reclassification of discontinued operations with clearing accounts being part of it), control reports (included in the book C-42) will have to be carefully adapted as P&L clearing accounts will no more be balanced in case of discontinued operations.

#### Reclassification for entities identified as discontinued

Profit and loss accounts should be reclassified to the dedicated account P7000 Profit (loss) from discontinued operations. Depending on the option chosen for intercompany transactions, these accounts may include or not clearing accounts. In the first case, the selection can be based on the characteristic Class whereas in the second option a filter should be created.

As for balance sheet items we suggest configuring a single rule triggered at consolidated level and using the same audit-ID as for balance sheet reclassification.

#### Reclassification of gains & losses recognized in other entities' ledgers

Gain or loss on disposal of discontinued operations can be identified using the “share” detail where it corresponds to a sale of shares (which should always be the case according to our assumptions).

Amounts recorded on the corresponding account (P1615) may have been recognized at local level (whether in the package or by manual journal entry using audit-ID INV31) or at converted level (INV 32). As for other rules, we suggest that this reclassification is made only at consolidated level.

It should be noticed that the account P7000 is not analyzed by share as opposed to the account P1615. Therefore, the processing row that populate the account P7000 should be configured with “no member” as destination for the share dimension.

#### Impact on cash flows calculation

Some P&L accounts are used to calculate items of cash flow statement (e.g. P1615). Therefore the reclassification to the discontinued part of the income statement may generate wrong data in the statement of cash flows.

The best solution would be to configure a new consolidation rule (in the subset FSP) to exclude the audit-IDs used for reclassification from the calculated items of cash flows where based on a P&L account.

### Statement of comprehensive income – OCI items

#### Current calculation

Before considering possible enhancements, it is worth reminding how OCI items are handled in the current starter kit.

In the starter kit, dedicated equity accounts are used to identify components of other comprehensive income. For example, gain and losses on revaluation of PPE are recognized through the equity account ‘revaluation surplus, before tax’.

Data displayed in the comprehensive income is calculated by consolidation rules, which establish the link between the account/flow/entity selection and the corresponding rows of the statement (stored on the dimension "analysis" also used for the statement of cash flows). To comply with the 2011 XBRL taxonomy, the latest release of the starter kit includes a statement of comprehensive income line item named "Other comprehensive income related to non-current assets and disposal groups classified as held for sale". This line item is not automatically calculated as no corresponding equity account has been created. It is to be populated by a manual journal entry that reclassifies OCI items relating to assets held for sale from their original line items (e.g. changes in value of available-for-sale financial assets) to this dedicated row.

#### Possible enhancements

This being said, the only way to identify OCI items relating to assets held for sale would be to make available a separate equity account in which they can be recognized separately. This account could be used in the package for OCI items that relate to an individual asset held for sale or to a disposal group that is part of an entity. It could also be used as destination account for the reclassification of all OCI items relating to reporting units that constitute or form part of a disposal group.

From a configuration standpoint, this enhancement requires the following actions:

- creation of two new accounts (one for group and one for non-controlling interests) to be made available through an update of the category scenario
- creation of a new value for the characteristic RULE-SEL of the account table and update of several account filters so that the split between group and NCI can be made automatically by existing rules
- new lines in the mapping table MAPPING2 to calculate automatically the line item "OCI related to NC assets held for sale and disposal groups" in the statement of comprehensive income
- new consolidation rule to reclassify OCI items of reporting units flagged as held for sale (whether discontinued or not) ; according to the interpretation given to IFRS 5 and IAS 1 as regards positioning the reclassification adjustments (on the originated item or on the dedicated one, see previous chapter), this rule will apply or not to outgoing entities
- new consolidation rule to reverse reclassification entries existing at beginning

### How to handle specific cases in the configuration?

#### Investments classified as held for sale in the local statements

If a subsidiary, a joint venture or an associate meets the criteria to be classified as held for sale, the related investment in the owner company's local statements will be classified in the dedicated account "assets held for sale". As explained before, it will raise some issues for the consolidation process as this account is not analyzed by share and is not either taken into account for elimination of investments.

It would be possible to enhance the configuration so that this account is analyzed by share and included in the consolidation of investments process. However, those rules are particularly complex making any enhancement tricky. We rather suggest that the operating process be adapted accordingly. Local users would be asked to maintain all consolidated investments in the dedicated account A1810 whether directly or by reclassification from assets held for sale on the audit-ID PACK11 (used for adjustments in the package).

#### Equity accounting and proportionate consolidation

Once an associate or a joint venture is classified as held for sale, IFRS 5 measurement principles have to be applied instead of, respectively, IAS 28 or IAS 31. As a consequence, equity accounting and proportionate consolidation should cease from the date of classification. As explained in the previous chapter, IFRS 5 does not give enough guidance especially as regards proportionate consolidation.

From a configuration standpoint too, these principles raise some issues.

The equity accounting or proportionate consolidation should stop from the date they qualify as held for sale. But, in SAP BusinessObjects Financial Consolidation, it is not possible to specify such information when declaring a reporting unit as a disposal group in the scope. The only possibility would be to add more values in the scope custom property table to distinguish between disposal groups classified as held for sale at the beginning from those classified as such at the end of the period. In the first case, the reclassification would be processed using the opening position, in the other case the closing one.

If the opening position is used, the question of dealing with the P&L of the period and the balance sheet movements is essential. Because the interested reporting units are part of the consolidation scope, whether under equity method or proportionate consolidation, their package data are automatically integrated in the consolidated statements. To stop this recognition, it would be necessary to configure dedicated rules that would reverse the automatic entries previously recognized (by the consolidation engine or by other rules as it is not possible in the scope tab of a rule to exclude reporting units that have the property “held for sale” ).

If the closing position is used (meaning that the classification as held for sale is supposed to take place at the end of the period), the processing is far simpler as the generic rules configured for reclassifying balance sheet items of disposal groups are enough.

In that context, it is worth considering a solution that would come from the operating process. If the package data entered for these reporting units correspond to their positions at the date they are classified as held for sale, there is no need for additional rules. Given that the classification of joint ventures or associates as held for sale is not so frequent, it seems possible to ask the consolidation manager to use the package that fits the best the situation at this date. For example, if an associate qualifies as held for sale from 31 March 2011, the package filled in for the consolidation at 31 March 2011 will also be used for subsequent consolidations (e.g. 30 June 2011) until complete disposal.

This solution would also be suitable in case where joint-ventures or associates are part of a discontinued operation. Profit and loss items declared in the package are supposed to be those recognized from the beginning of the period until the date of the classification as held for sale or the date of abandon. They would be reclassified in the discontinued part of the income statement as for any other discontinued operation.

### Declassification from held for sale

In contrast with the principles applying to other assets held for sale or disposal groups, the declassification of a joint-venture or an associate from held for sale gives rise to the restatement of prior periods. Where such an investment no longer meets the criteria to be classified as held for sale, the equity method or proportionate consolidation should be re-applied as if it has never been stopped. Any prior financial statements should be restated.

In the starter kit, this will be done using another variant for previous consolidations so that the opening balances are as if these investments have never been classified as held for sale. No additional configuration is therefore necessary.

### Subsidiary acquired exclusively with a view to resale

A subsidiary acquired exclusively with a view to resale can be accounted for at acquisition date using either the full consolidation approach or the short-cut method. If the full consolidation approach is chosen, no additional configuration is needed as the reclassification of balance sheet as well as P&L items would rely on the same rules as those used for other discontinued operations.

If the short-cut method is applied, the main difference is that the incoming subsidiary’s income statement should not be taken into account in the consolidated statements. It might be possible to configure additional consolidation rules that would reverse the automatic recognition. However, we rather suggest that the operating process be adapted accordingly. In that case, no package would be entered for the incoming entity. The amount of its assets and liabilities would be entered using a manual journal entry.

## Appendix 1 - Elimination of intercompany balances

In the following example, reporting units A and B are wholly owned by the same parent company and included in its consolidated statements. At the reporting date, A has to be classified as held for sale.

Separate statements are the following for reporting units A and B:

**A's financial statements**

| | |
|---|---|
| Trade receivables | 1 000 (towards entity B : 100, third parties : 900) |
| Cash | 1 000 |
| Equity | 500 |
| Trade payables | 1 500 (towards entity B : 200, third parties : 1300) |

**B's financial statements**

| | |
|---|---|
| Trade receivables | 200 (towards entity A : 200) |
| Equity | 100 |
| Trade payables | 100 (towards entity A : 100) |

The consolidated balance sheet, before A is classified as held for sale, is as follows:

| | | | A | B | Total |
|---|---|---|---|---|---|
| A2210 | Trade receivables | PACK01 | 1 000 | 200 | 1 200 |
| | | ELIM10 | -100 | -200 | -300 |
| | | *total* | *900* | *0* | *900* |
| A2610 | Cash on hand | PACK01 | 1 000 | | 1 000 |
| | Total assets | | 1 900 | 0 | 1 900 |
| E1610 | Retained earnings | PACK01 | 500 | 100 | 600 |
| L2310 | Trade payables | PACK01 | 1 500 | 100 | 1 600 |
| | | ELIM10 | -200 | -100 | -300 |
| L23CL | Clearing account | ELIM10 | 100 | -100 | 0 |
| | *Total trade payables* | | *1 400* | *-100* | *1 300* |
| | Total E&L | | 1 900 | 0 | 1 900 |

Upon A's classification as held for sale, its assets and liabilities have to be classified separately.

### 1st option: reclassification includes clearing accounts

As shown below, this option is not satisfactory:

- The clearing account is not balanced (does not equal zero) at consolidated level
- Trade payables show a debit balance
- The amount of liabilities displayed as related to disposal groups is not correct

| | | | A | B | Total |
|---|---|---|---|---|---|
| A2210 | Trade receivables | PACK01 | 1 000 | 200 | 1 200 |
| | | ELIM10 | -100 | -200 | -300 |
| | | reclas. | -900 | | -900 |
| | | **total** | **0** | **0** | **0** |
| A2610 | Cash on hand | PACK01 | 1 000 | | 1 000 |
| | | reclas. | -1 000 | | -1 000 |
| | | **total** | **0** | | **0** |
| A3000 | NC assets & disposal groups | reclas. | 1 900 | | 1 900 |
| | Total assets | | 1 900 | 0 | 1 900 |
| E1610 | Retained earnings | PACK01 | 500 | 100 | 600 |
| L2310 | Trade payables | PACK01 | 1 500 | 100 | 1 600 |
| | | ELIM10 | -200 | -100 | -300 |
| | | reclas. | -1 300 | | -1 300 |
| | | **total** | **0** | **0** | **0** |
| L23CL | Clearing account | ELIM10 | 100 | -100 | 0 |
| | | reclas. | -100 | | -100 |
| | | **total** | **0** | **-100** | **-100** |
| | *Total trade payables* | | *0* | *-100* | *-100* |
| L3000 | Liabilities / disposal groups | reclas. | 1 400 | | 1 400 |
| | Total E&L | | 1 900 | 0 | 1 900 |

**2d option: clearing accounts are not reclassified**

(extract – assets side is not affected by the option chosen)

This option seems preferable as it shows:

- a balanced clearing account
- a correct amount for liabilities related to disposal groups

| | | | | | |
|---|---|---|---|---|---|
| E1610 | Retained earnings | PACK01 | 500 | 100 | 600 |
| L2310 | Trade payables | PACK01 | 1 500 | 100 | 1 600 |
| | | ELIM10 | -200 | -100 | -300 |
| | | reclas. | -1 300 | | -1 300 |
| | | **total** | **0** | **0** | **0** |
| L23CL | Clearing account | ELIM10 | 100 | -100 | 0 |
| | | **total** | **100** | **-100** | **0** |
| | *Total trade payables* | | *100* | *-100* | *0* |
| L3000 | Liabilities / disposal groups | reclas. | 1 300 | | 1 300 |
| | total E&L | | 1 900 | 0 | 1 900 |

## Appendix 2 - Elimination of intercompany transactions

Let us go back to the example described in the chapter IFRS 5 requirements. Parent company P owns companies A and B. Company A sells merchandises to B for CU 100 with a cost of CU 70. B sells these products outside the group for CU 150. Company B is classified as a discontinued operation.

If B were not classified as discontinued the income statement would be as follows:

| | | | A | B | Total |
|---|---|---|---|---|---|
| P1110 | Revenues | PACK01 | 100 | 150 | 250 |
| | | ELIM10 | -100 | | -100 |
| | | total | 0 | 150 | 150 |
| P1120 | Cost of sales | PACK01 | -70 | -100 | -170 |
| | | ELIM10 | | 100 | 100 |
| | | total | -70 | 0 | -70 |
| P11CL | Clearing account | ELIM10 | 100 | -100 | 0 |
| | Gross profit | | 30 | 50 | 80 |
| | Net profit | | 30 | 50 | 80 |

Upon B's classification as discontinued, its income and expenses have to be classified as such in the income statement. However, the question remains how to account for the elimination of the transactions between A and B.

### Option 1: clearing accounts are part of reclassification

As shown below, this option is not fully satisfactory:

- The clearing account is not balanced (does not equal zero) at consolidated level
- Total cost of sales is positive (credit balance)
- But, profit allocation between continuing and discontinued operations is correct

| | | | A | B | Total |
|---|---|---|---|---|---|
| P1110 | Revenues | PACK01 | 100 | 150 | 250 |
| | | ELIM10 | -100 | | -100 |
| | | reclas | | -150 | -150 |
| | | total | 0 | 0 | 0 |
| P1120 | Cost of sales | PACK01 | -70 | -100 | -170 |
| | | ELIM10 | | 100 | 100 |
| | | reclas | | 0 | 0 |
| | | total | -70 | 0 | -70 |
| P11CL | Clearing account | ELIM10 | 100 | -100 | 0 |
| | | reclas | | 100 | 100 |
| | | total | 100 | 0 | 100 |
| | *Total cost of sales* | | *30* | *0* | *30* |
| | Gross profit | | 30 | 0 | 30 |
| P7000 | Profit (loss) from discontinued op. | reclas. | | 50 | 50 |
| | Net profit | | 30 | 50 | 80 |

**Option 2: clearing accounts are not reclassified**

This option is not satisfactory either as profit allocation between continuing and discontinued is not correct.

| | | | A | B | Total |
|---|---|---|---|---|---|
| P1110 | Revenues | PACK01 | 100 | 150 | 250 |
| | | ELIM10 | -100 | | -100 |
| | | reclas | | -150 | -150 |
| | | total | 0 | 0 | 0 |
| P1120 | Cost of sales | PACK01 | -70 | -100 | -170 |
| | | ELIM10 | | 100 | 100 |
| | | reclas | | 0 | 0 |
| | | total | -70 | 0 | -70 |
| P11CL | Clearing account | ELIM10 | 100 | -100 | 0 |
| | | reclas | | | 0 |
| | | total | 100 | -100 | 0 |
| | *Total cost of sales* | | *30* | *-100* | *-70* |
| | Gross profit | | 30 | -100 | -70 |
| P7000 | Profit (loss) from discontinued op. | reclas. | | 150 | 150 |
| | Net profit | | 30 | 50 | 80 |

## Related Content

For a comprehensive analysis of how SAP BusinessObjects Financial Consolidation starter kit for IFRS meets IFRS requirements:

http://www.sdn.sap.com/irj/scn/index?rid=/library/uuid/30e1952a-2649-2d10-12be-8c6d72681f20

A technical summary of IFRS 5 written by the IASB staff:

http://www.ifrs.org/NR/rdonlyres/00C73ADF-F604-444E-8FF3-23A2698CED8C/0/IFRS5.pdf

To a deeper analysis of IFRS 5 published by Deloitte:

http://www.iasplus.com/dttpubs/0803ifrs5guide.pdf

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