

#### **4.9 Non-current Assets Held for Sale and Discontinued Operations**

- 10.1.2.86 There are not expected to be any transition issues arising from discontinued operations.

*Paragraph 4.9.1.5 of the Code includes the following interpretation of IFRS 5:*

*In order to qualify as 'discontinued operations', the activities must cease completely; that is, responsibilities transferred from one part of the public sector to another (such as machinery of government changes – see section 2.5 of the Code) are not discontinued operations.*

*It is unusual for an activity in a local authority to cease completely, and therefore issues on transition are unlikely to arise.*

- 10.1.2.87 The impact on transition of re-measuring costs to sell at their present value where sale is expected beyond one year is not expected to be common and will only be required where material. Where authorities deem that the re-measurement of costs to sell is required, and the present value of costs to sell increase from a passage of time (representing the unwinding of the discount) it will be necessary to reduce the carrying amount of the asset and show the corresponding entry as a financing cost in Surplus or Deficit on provision of services.

*A non-current asset held for sale is measured at the lower of its carrying amount and its fair value less costs to sell. Costs to sell are measured at their present value; in other words, they are discounted. Where the sale is expected beyond one year, the discount should be unwound. This treatment was not a requirement under the SORP, and is therefore a change in accounting policy that might, in theory, require the accounts to be restated where the fair value less costs to sell of the asset is lower than its previous carrying amount.*

*The carrying amount of the asset will be reduced, and a financing cost recognised in the Comprehensive Income and Expenditure Account where the amounts are material. The entries would be*

<i>Dr General Fund (Financing and Investment Income and Expenditure) Cr Non-Current Assets Held for Sale</i>
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<i>With the unwinding of the discount</i>
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*In most cases, the cost to sell will be relatively insignificant, and the effect of unwinding the discount will therefore not normally be material. In such cases, no transition adjustments are required. However, the unwinding of the discount may be material in some circumstances (for example where the sale is of an asset with a significant size or complexity to generate significant costs to sell), in which case transition adjustments will be required.*

- 10.1.2.88 Where assets meet the criteria to be classified as held for sale they shall be treated as either non-current assets or current assets dependent on meeting the respective definitions.

*The following guidance is based on the assumption that all assets classified as surplus assets under the SORP are initially classified as Property, Plant and Equipment (Surplus Assets) under the Code. Authorities would therefore need to transfer an asset to a different category if it was classified as either*

*investment property or held for sale. An alternative approach would be to classify assets initially as held for sale, and transfer them if they did not meet the criteria to be classified as held for sale. Where an authority has adopted this approach, transactions required to move an asset between categories will be different to those shown in the guidance.*

*Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009 (assets classified as held for sale prior to 1 April 2009)*

- 10.1.2.89 The Code (following IFRS 1) requires authorities to classify and account for Non-current Assets Held for Sale in their opening IFRS balance sheet (1 April 2009) in accordance with chapter 4 section 9 of the Code (see also IFRS 5). In accordance with IFRS 1 First Time Adoption of IFRS the exemption of applying IFRS 5 prospectively (as opposed to retrospectively) is not permitted because the date of transition for authorities is after 1 January 2005. Accounting for Non-current Assets Held for Sale following chapter 4 section 9 of the Code is a change of accounting policy that will require authorities to restate their opening balances in respect of Non-current Assets Held for Sale.
- 10.1.2.90 The opening balance sheet (1 April 2009) will need to be restated for assets classified as held for sale prior to 1 April 2009.
- 10.1.2.91 In the event that the criteria under chapter 4 section 9 of the Code have not been met as at 31 March 2009, authorities shall reclassify the assets held for sale to non-current assets (i.e. Property, Plant and Equipment or Investment Property) and adjust the carrying amount of the asset to the level it would have been as at 1 April 2009 before the asset was classified as held for sale.

*An asset is classified as a non-current asset held for sale when the following criteria are met:*

*4.9.2.13 The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:*

*The asset (or disposal group) must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups).*

*The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated.*

*The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.*

*The sale should be expected to qualify for recognition as a completed sale within one year<sup>6</sup> of the date of classification and action 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.*

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<sup>6</sup> Events or circumstances may extend the period to complete the sale beyond one year, for example the delay in the completion of the sale is beyond the authority's control and there is sufficient evidence that the authority remains committed to the plan to sell the asset (or disposal group). Further information regarding the 'extension of the period required to complete the sale' is given in Appendix B of IFRS 5

Where the criteria are met, classification of the asset as a non-current asset held for sale is mandatory, and authorities should refer to the guidance under paragraph 10.1.2.92 below.

Authorities should note that, as per footnote 6, events or circumstances may extend the period to complete the sale beyond one year. In such circumstances, the asset is classified as held for sale, but will be presented in the Balance Sheet within non-current assets. Further details are given in Appendix B of IFRS 5.

Further guidance on the criteria can be found in paragraphs M3 – M7 of the Code Guidance Notes.

The requirements of paragraph 10.1.2.91 above apply mainly to assets classified as surplus assets under the SORP, and which do not meet the criteria to be classified as non-current assets held for sale. However, the requirements will also apply where assets that were not classified as surplus assets under the SORP do not fall within any other classification under the Code; these circumstances are expected to be uncommon, and may indicate that the asset was incorrectly classified under the SORP.

Each set of circumstances may give rise to different transition issues, and these are considered individually below.

### **Assets classified as Surplus Assets under the SORP**

#### Reclassified as Investment Property under the Code

An asset that was classified as a surplus asset under the SORP may meet the definition of an investment property under the Code where it is being held to generate rental income and/or capital gain. In particular, authorities will need to consider the treatment of assets that were classified as surplus under the SORP because the authority intended to dispose of them, but which do not meet the definition of a held for sale asset under the Code because rather than actively marketing the asset, the authority is waiting for the property market to recover. Such assets may meet the definition of an investment property if the authority is holding the assets for capital gain.

Under the SORP, surplus assets were held at the lower of net current replacement cost or net realisable value. In practice, this usually meant market value. Under the Code, investment properties are carried at fair value, which will normally be market value. In most cases, the only transition arrangement required will be to reclassify the asset as an investment property. Where the fair value of the investment property is materially different from the carrying amount of the asset under the SORP, the carrying amount of the asset will need to be restated. **The accounting arrangements for surplus assets reclassified as investment property are included in the Investment Property section of the guidance.**

#### Classified as Surplus Assets within Property, Plant and Equipment under the Code

Where an asset that was classified as a surplus asset under the SORP does not meet the criteria to be classified as either held for sale or as an investment property under the Code, the asset will continue to be classified as a surplus asset (within property, plant and equipment) under the Code.

*Classification as a surplus asset within property, plant and equipment under the Code will normally arise in one of two circumstances:*

- 1) Where the authority has ceased to use the asset for service delivery but has not, at the balance sheet date, decided whether to sell the asset, develop it for future sale, or develop it for future use in providing services. Classification of an asset as a surplus asset for this reason over a long period of time may focus attention on an authority's asset management arrangements. Authorities should note that assets that are being developed for use in the provision of services are not surplus assets (see paragraph 2.45.17 of BVACOP). Authorities should also note that land held for a currently undetermined future use may meet the definition of an investment property (see paragraph 8 of IAS 40).*
- 2) Where the authority has decided to sell the asset but, at the balance sheet date, the strict criteria in paragraph 4.9.2.13 of the Code (see above) had not been met. An example would be where the decision to sell the asset was taken shortly before the balance sheet date, but active marketing of the asset had not commenced.*

*The surplus assets class is a sub-class of property, plant and equipment. The Code interprets fair value for property, plant and equipment as 'the amount that would be paid for the asset in its existing use.' In the case of some specialised assets, this will be determined using the depreciated replacement cost method, and for plant and equipment, cost may be used as a proxy for fair value.*

*Authorities will therefore need to determine the existing use of the asset when assessing its fair value (as interpreted by the Code). Where an asset is being held for disposal, or in the absence of any decision as to the future use of the asset, it is recommended that the asset's fair value be assessed on the basis of its last use in providing services. In the 2011/12 Code, CIPFA/LASAAC has confirmed that surplus assets are to be valued on the basis of existing use value (using the same assumptions used in the asset's last revaluation as an operational asset).*

*Where the previous existing use value for an asset declared surplus prior to 31 March 2009 would still have been up to date at 31 March 2009, it would be appropriate to restate the value of the asset to its previous existing use value, adjusted for any material depreciation in the intervening period.*

*Where the previous existing use value for an asset declared surplus prior to 31 March 2009 would not have been up to date at 31 March 2009, the authority will need to consider obtaining existing use valuations, either by commissioning new valuations or other means (such as updating previous valuations by the use of indices and adjusting for depreciation). The value of the asset would be the figure representing the most recent (previous) service potential and assuming that this previous use is continuing. Where this value was determined using the DRC method, these assumptions would be important in establishing the modern equivalent asset.*

*The only exception to the previous paragraph would be where the number and total value of surplus properties is small and any variations (both in terms of overall carrying amounts and depreciation charges) are not material. In such cases, it would be acceptable to continue using the existing carrying amount of the asset (normally market value) until the asset was revalued (on an existing use basis), disposed of, or brought back into use.*

*It should be noted that market value is not generally acceptable as a valuation basis for surplus assets under the Code. Surplus assets are a subclass of property, plant and equipment, and the Code requires such assets to be carried at existing use value. This is also in line with the general principles within section 4.9 of the Code and IFRS 5 that losses on assets being held for disposal are recognised immediately, but gains are only recognised when they are realised on disposal. Allowing assets to be revalued to market value (which may be greater than the existing use value) would result in unrealised gains being recognised where an asset was declared surplus, but did not meet the criteria to be classified for sale. However, where the asset did meet the criteria to be classified as held for sale, no such gains would be recognised. The Code avoids this inconsistency by requiring all property, plant and equipment – including surplus assets – to be carried at existing use value.*

*Where the existing use value of surplus assets is materially different from their carrying amount under the SORP (normally market value), the carrying amount of the asset will need to be restated. The entries required are shown below under the Accounting Entries heading.*

### **Assets not classified as Surplus Assets under the SORP**

#### *Classified as Investment Property under the SORP but as Surplus Assets under the Code*

*It is possible (in some limited circumstances) that assets that were classified as investment property under the SORP will be classified as surplus assets under the Code. Assets previously classified as investment properties that are being used to deliver services may be reclassified as property, plant and equipment under the Code, but such assets would normally be classified as operational assets, not surplus assets. Reclassification of an asset from investment property under the SORP to surplus assets under the Code suggests that no decision had been taken to hold the asset for rental or gain.*

*In the event that assets that were correctly classified as investment property under the SORP are reclassified as surplus assets under the Code, the carrying amount of the asset will need to be restated on an existing use basis. **The accounting treatment will be the same as that for reclassifying investment property as property, plant and equipment (other than classifying the asset as surplus assets); this is included in the Investment Property section of the guidance.***

#### *Classified as Operational Assets under the SORP but as Surplus Assets under the Code*

*Assets that were classed as operational under the SORP are unlikely to be classified as surplus assets under the Code on transition to IFRS. However, in the event that this does occur, it is unlikely that any transition requirements will arise. Most operational assets under the SORP would have been carried at existing use value or, in the case of plant and equipment, historical cost may have been used as a proxy for existing use value. This is the same basis which is used for the valuation of surplus assets under the Code. It is therefore unlikely that there will be any material difference in the carrying amount of the asset; however, where there is a material difference, the carrying amount should be restated. The entries required are shown below under the Accounting Entries heading.*

*It is not expected that other assets carried at historical cost (infrastructure and community assets) will be reclassified as surplus assets within property, plant and equipment on transition to IFRS. The nature of the assets is such that they are unlikely to be sold, and in the unusual event that they are to be sold, the assets will normally remain operational until they meet the criteria to be classified as held for sale.*

*In the unlikely event that such assets are reclassified as surplus assets, the carrying amount of the asset should be restated to existing use value. The entries required are shown below under the Accounting Entries heading.*

### **Accounting Entries**

*The value of the asset under the Code (existing use value) may be different to that under SORP (market value in most cases). The value of the asset should be adjusted to reflect the revised value. The entries required are as follows:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With an increase in the value of the asset*

*OR*

*Dr Revaluation Reserve / Capital Adjustment Account  
Cr Property, Plant and Equipment (Surplus Assets)*

*With any decrease in the value of the asset; the debit entry will be to the Revaluation Reserve up to the balance (if any) on the Reserve in respect of the asset as at 31 March 2009, and thereafter to the Capital Adjustment Account.*

- 10.1.2.92 In the event that the criteria under chapter 4 section 9 of the Code have been met as at 31 March 2009, authorities shall reclassify surplus assets held for disposal to the classification of held for sale. From the date the criteria are met (note: this may be a different date to when the asset was reclassified under the SORP); reverse any depreciation charged and reinstate the carrying amount where this amount is lower than fair value less costs to sell. Further entries will be required to reverse any initial or subsequent revaluation gains recognised following reclassification that are in excess of cumulative impairment or revaluation losses (adjusted for depreciation that would have been charged had the impairment or revaluation losses not occurred) previously recognised in the Income and Expenditure account. Increases in fair value less costs to sell that are not in excess of previous impairment or revaluation losses (adjusted for depreciation) recognised in the Income and Expenditure Account will need to be recognised in the Capital Adjustment Account as opposed to the Revaluation Reserve. Any impairment or revaluation losses recognised in the Revaluation Reserve, following reclassification, will need to be recognised in the Capital Adjustment Account.

*The reclassification would need to be recognised in the opening 1 April 2009 Balance Sheet. The entries required are as follows:*

*Dr Non-Current Assets Held for Sale  
Cr Property, Plant and Equipment (Surplus Assets)*

*With the carrying amount of the asset at the date it met the criteria to be classified as held for sale.*

***The following paragraphs cover some further issues that need to be considered when restating the accounts. Because there are a number of issues, and these can arise in a variety of combinations, authorities will need to consider the individual circumstances for each asset reclassified as held for sale when restating the accounts.***

*Assets held for sale are initially measured at the lower of their carrying amount and fair value less costs to sell at the point they are classified as held for sale. Surplus assets under the SORP were carried at market value less costs to sell. It is therefore likely that, for an asset that met the criteria to be classified as held for sale under the Code (and measured at fair value less costs to sell) at some date after being classified as surplus under the SORP, no transition arrangements will be required. An exception would be where, under the SORP, a material amount of depreciation had been charged; in such cases the depreciation would need to be reversed. The entries required are as follows:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Capital Adjustment Account*

*With the reversal of any depreciation charged from the date the asset met the criteria for classification as a held for sale asset*

*Dr Capital Adjustment Account  
Cr Revaluation Reserve*

*With the reversal of any depreciation adjustment made when the depreciation was recognised.*

*Where the asset met the criteria to be classified as held for sale under the Code (and measured at fair value less costs to sell) at the point it was classified as surplus under the SORP, it is more likely that transition adjustments will be required.*

*A common scenario will be that the asset was revalued upwards (to market value less costs to sell) when it was classified as a surplus asset under the SORP. As the Code requires assets held for sale to be measured at the lower of fair value less costs to sell and their carrying amount at the point they are reclassified, any upward revaluation will need to be reversed. The entries required are as follows:*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With the revaluation previously recognised. Note that any subsequent depreciation would also need to be reversed (see the entries above)*

*If the asset has been revalued upwards since meeting the criteria to be classified as held for sale, this revaluation will also need to be reversed. The accounting entries required will be as follows:*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With the revaluation previously recognised. Note that any subsequent depreciation would also need to be reversed (see the entries above)*

*Where the upwards revaluation has the effect of reversing a previous impairment (or revaluation loss) recognised in the Income and Expenditure Account under the SORP, the Code requires the carrying amount of the asset to be increased, up to the value at which the asset would have been carried had the impairment (or revaluation loss) not occurred (allowing for subsequent depreciation).*

*The gain recognised in the value of the held for sale asset under the Code would have been accounted for as a movement in fair value that would have been recognised in Surplus or Deficit on the Provision of Services, (adjusted for depreciation, if required) and subsequently transferred to the Capital Adjustment Account. Under the SORP, the gain would have been recognised in the Revaluation Reserve, and would have increased the carrying amount of property, plant and equipment rather than held for sale assets. The following adjustment (in addition to the reversal of the revaluation discussed above) is therefore required:*

*Dr Non-Current Assets Held for Sale  
Cr Capital Adjustment Account*

*With the increase in the carrying amount of the asset that reverses an impairment or revaluation loss previously recognised in Surplus or Deficit*

*The asset may have been impaired (due to a general fall in prices) or revalued downwards (revaluation loss) under the SORP after the point at which it met the criteria for being classified as held for sale. This would result in a reduction in the carrying amount of property, plant and equipment (surplus assets). The Code would have required this loss to be accounted for as a movement in fair value (of a non-current asset held for sale) that would have been recognised in Surplus or Deficit (and subsequently transferred to the Capital Adjustment Account). This treatment applies even if there is a balance in respect of the asset in the Revaluation Reserve. The movement in fair value required under the Code may also be greater than would have been recognised as an impairment loss under the SORP; an example would be where the asset had been depreciated prior to the impairment being recognised. In these circumstances, the carrying amount under the SORP may be lower than under the Code, and therefore the movement in fair value under the Code to the revised fair value (less costs to sell) would be greater than the impairment under the SORP due to the higher initial carrying amount. The accounting entries required to restate the 1 April 2009 Balance Sheet are as follows. Note that any subsequent depreciation would also need to be reversed, see the entries above.*

*Adjust the value of Property, Plant and Equipment:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With the impairment or revaluation loss previously recognised under the SORP (up to the balance on the Revaluation Reserve in respect of the asset)*



*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Capital Adjustment Account*

*With the impairment or revaluation loss previously recognised under the SORP (in excess of the balance on the Revaluation Reserve in respect of the asset)*

*Dr Capital Adjustment Account  
Cr Non-Current Assets Held for Sale*

*With the movement in fair value of the asset held for sale*

*Worked examples of some possible scenarios are shown in the spreadsheet as Examples 1(a), 1(b), 1(c), 1(d) and 1(e).*

*Step 2 - Restate Comparative Figures for 2009/10 (assets classified as held for sale prior to 1 April 2009)*

- 10.1.2.93 Transactions during 2009/10 in relation to assets classified as held for sale that have not been sold as at 31 March 2010, will need to be restated in line with the Code. The required transactions will lead on from the adjustments carried out in step 1.

*Given the requirements in paragraph 4.9.2.13 of the Code (see above) that the sale must be highly probable and expected to complete within twelve months, it is anticipated that there will be few assets that met the criteria to be classified as held for sale prior to 1 April 2009 and which remain classified as held for sale, although some assets will be in this position where the sale is delayed but remains highly probable.*

*Most assets classified as held for sale at 1 April 2009 will have been sold (see Step 4 for the treatment for these assets); others will no longer meet the criteria to be classified as held for sale, and will need to be reclassified as property, plant and equipment. The Code does not permit investment properties to be subsequently classified as held for sale; therefore any asset classified as held for sale would previously have been classified as property, plant and equipment.*

- 10.1.2.94 In the event that the criteria under chapter 4 section 9 of the Code have not been met as at 31 March 2010, authorities shall reverse any 2009/10 transactions whilst the asset was classified as surplus assets held for disposal i.e. depreciation and revaluations under the SORP and if applicable reinstate any 2009/10 transactions that would have been charged if the original reclassification to surplus assets held for disposal had not taken place i.e. depreciation and revaluations under the Code.

*Assets classified as surplus assets under the SORP, and which did not meet the criteria to be classified as held for sale under the Code at 31 March 2009, may still not meet the criteria to be classified as held for sale under the Code during 2009/10. As noted under Step 1 above, in many cases the carrying amount of the asset under the SORP would be the same as under the Code. Where this was not the case, the entries made under the SORP would need to be replaced by the entries required by the Code (based on the revised carrying amount of the asset). Common adjustments will relate to depreciation charged in 2009/10 and any revaluations carried out during 2009/10. The accounting entries required to restate the 2009/10 accounts will be as follows:*

*Depreciation:*

*Dr / Cr General Fund (Non Distributed Costs)  
Cr / Dr Property, Plant and Equipment (Surplus Assets)*

*With the difference in the depreciation charge for 2009/10*

*Dr / Cr Capital Adjustment Account  
Cr / Dr General Fund (in the Movement in Reserves Statement)*

*With the reversal of the increased / decreased depreciation charge*

*Revaluation Increase:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With any additional increase in the value of the asset*

*Revaluation Decrease:*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*AND / OR*

*Dr General Fund (Non Distributed Costs)  
Cr Property, Plant and Equipment (Surplus Assets)  
Dr Capital Adjustment Account  
Cr General Fund (in the Movement in Reserves Statement)*

*With any additional decrease in the value of the asset; the debit entry will be to the Revaluation Reserve up to the balance (if any) on the Reserve in respect of the asset, and thereafter to the General Fund (and reversed thereafter to the Capital Adjustment Account).*

*Alternatively, an asset that met the criteria to be classified as held for sale as at 31 March 2009 may have ceased to meet the criteria during 2009/10 (for example, where a decision was taken not to sell the asset). In such cases, the asset will need to be reclassified as property, plant and equipment (surplus assets) and the 2009/10 accounts restated in line with the Code:*

*4.9.2.27 If the criteria in paragraph 4.9.2.13 are no longer met, the authority shall cease to classify the asset (or disposal group) as held for sale and shall value the asset at the lower of:*

*its carrying amount before the asset (or disposal group) was classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and*

*its recoverable amount at the date of the decision not to sell.*

*Where the asset was originally carried at historical cost, the adjustment to the carrying amount of the asset will be debited or credited to Surplus or Deficit on the Provision of Services. Where the asset was originally carried at*

*fair value, the adjustment to the carrying amount of the asset will be debited or credited to the Revaluation Reserve (note: a revaluation decrease is recognised up to the balance on the Revaluation Reserve and thereafter in the Surplus or Deficit on the Provision of Services). Further guidance can be found in paragraphs M26 – M31 of the Code Guidance Notes.*

*As assets carried at historical cost (i.e. infrastructure and community assets) are unlikely to be sold, the following guidance assumes the asset would have been carried at fair value.*

*The reclassification will need to be recognised in the comparative 2009/10 accounts. The entries required are as follows:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Non-Current Assets Held for Sale*

*With the carrying amount of the asset at 31 March 2010, to reflect the reclassification of the asset*

*Any depreciation charged under the SORP prior to the date that the asset ceased to meet the criteria for being classified as held for sale will need to be reversed. The entries required are as follows:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Non Distributed Costs)*

*With the depreciation charged in 2009/10 up to the date the asset was reclassified as Property, Plant and Equipment (Surplus Assets)*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the reversal of the depreciation charged in 2009/10 up to the date the asset was reclassified as Property, Plant and Equipment (Surplus Assets)*

*Dr Capital Adjustment Account  
Cr Revaluation Reserve*

*With the reversal of any depreciation adjustment recognised under the SORP (only relevant to assets with a balance on the Revaluation Reserve under the SORP)*

*The carrying amount of the asset would need to be restated; this could involve an increase or decrease in the carrying amount of the asset. The entries required are as follows:*

*Increase in Carrying Amount:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With any increase in the carrying amount of the asset*

*Decrease in Carrying Amount:*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With any decrease in the carrying amount of the asset (up to the balance on the Revaluation Reserve)*

*Dr General Fund (Non Distributed Costs)  
Cr Property, Plant and Equipment (Surplus Assets)*

*With any decrease in the carrying amount of the asset (in excess of the balance on the Revaluation Reserve)*

*Dr Capital Adjustment Account  
Cr General Fund (in the Movement in Reserves Statement)*

*With the reversal of any decrease in the carrying amount of the asset (in excess of the balance on the Revaluation Reserve)*

*A worked example is given in Example 2(a) in the spreadsheet*

- 10.1.2.95 In the event that the criteria under chapter 4 section 9 of the Code have been met as at 31 March 2010, authorities shall reverse the 2009/10 depreciation whilst the asset was classified as surplus assets held for disposal under the SORP. Further entries will be required to reverse any 2009/10 revaluation gains that have been recognised following reclassification that are in excess of cumulative impairment or revaluation losses (adjusted for depreciation that would have been charged had the impairment or revaluation losses not occurred) previously recognised in the Income and Expenditure account. Increases in fair value less costs to sell in 2009/10 that are not in excess of previous impairment or revaluation losses (adjusted for depreciation) recognised in the Income and Expenditure account, will need to be recognised in the surplus or deficit on provision of services, as opposed to the Revaluation Reserve. This adjustment shall be reversed to the Capital Adjustment Account and reported in the Movement in Reserves Statement. Any 2009/10 impairment or revaluation losses recognised in the Revaluation Reserve, following reclassification, will need to be recognised in the surplus or deficit on provision of services. This adjustment shall be reversed to the Capital Adjustment Account and reported in the Movement in Reserves Statement

*Where the asset was classified as held for sale in the opening 1 April 2009 Balance Sheet, and remains classified as held for sale at 31 March 2010, any depreciation or revaluation recognised in 2009/10 under the SORP will need to be derecognised in the restated 2009/10 accounts. If the fair value of the asset has decreased below its carrying amount, the movement in fair value will need to be recognised in the Surplus or Deficit on the Provision of Services. The entries required are as follows:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Non Distributed Costs)*

*With the depreciation charged under the SORP in 2009/10*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the reversal of the depreciation charged under the SORP in 2009/10*

*Dr Capital Adjustment Account  
Cr Revaluation Reserve*

*With the reversal of any depreciation adjustment recognised under the SORP in 2009/10 (only relevant to assets with a balance on the Revaluation Reserve under the SORP)*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With any revaluation gain recognised under the SORP in 2009/10*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With any revaluation loss recognised under the SORP in 2009/10 (up to the balance on the Revaluation Reserve)*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Non Distributed Costs)*

*With any revaluation loss recognised under the SORP in 2009/10 (in excess of the balance on the Revaluation Reserve)*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the reversal of any decrease in the carrying amount of the asset (in excess of the balance on the Revaluation Reserve)*

*Adjust the value of Non-Current Assets Held for Sale:*

*Dr General Fund (Non Distributed Costs)  
Cr Non-Current Assets Held for Sale*

*With the decrease in the fair value of the asset*

*Dr Capital Adjustment Account  
Cr General Fund (in the Movement in Reserves Statement)*

*With the reversal of the charge to the General Fund*

*Worked examples are shown as Examples 2(b) and 2(c) in the spreadsheet*

*Additional entries may be required where the held for sale asset was previously impaired, and the fair value of the asset increases. In such cases, a movement in the fair value of the asset should be recognised (up to the level of any impairment previously recognised, adjusted for depreciation).*

*The entries required are as follows:*

*Dr Non-Current Assets Held for Sale  
Cr General Fund (Non Distributed Costs)*

*With the reversal of the previous impairment (revaluation loss) up to the previous carrying amount of the asset (adjusted for any depreciation that would have been charged had the asset not been impaired)*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the reversal of the credit to the General Fund in respect of the reversal of the impairment*

*A worked example is shown in Example 2(d) in the spreadsheet.*

*Step 3 - Restate Comparative Figures for 2009/10 (assets classified as held for sale during 2009/10)*

- 10.1.2.96 Transactions in relation to assets classified as held for sale during 2009/10, that have not been sold as at 31 March 2010 will need to be restated in line with the Code.

*Where assets became surplus assets under the SORP during 2009/10, authorities will need to consider whether the assets met the criteria to be classified as held for sale at 31 March 2010. Alternatively, assets may meet the criteria to be classed as investment property, or may remain classified as surplus assets under Property, Plant and Equipment. The considerations and accounting entries required are essentially the same as those covered in Step 1 above, although accounting entries will be more detailed because of the need to report transactions in the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement.*

- 10.1.2.97 In the event that the criteria under chapter 4 section 9 of the Code have not been met as at 31 March 2010, authorities shall reverse any 2009/10 transactions whilst the asset was classified as Surplus Assets held for Disposal, reclassify the assets to Non-current Assets (i.e. Property, Plant and Equipment or Investment Property) and adjust the carrying amount of the asset to the level it would have been before the asset was classified as held for sale i.e. reflecting any 2009/10 transactions; depreciation or revaluations.

*Where an asset does not meet the criteria to be classified as either held for sale or as an investment property, the asset will continue to be classified as a surplus asset within Property, Plant and Equipment. In such circumstances, the value of the asset under the Code (existing use value) may be different to that under SORP (market value in most cases). The value of the asset should be adjusted to reflect the revised value. The entries required are as follows:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With an increase in the value of the asset*

*OR*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With any decrease in the value of the asset (up to the balance on the Revaluation Reserve in respect of the asset)*

*Dr General Fund (Non Distributed Costs)  
Cr Property, Plant and Equipment (Surplus Assets)*

*With any decrease in the value of the asset (in excess of the balance on the Revaluation Reserve in respect of the asset)*

*Dr Capital Adjustment Account  
Cr General Fund (in the Movement in Reserves Statement)*

*With the reversal of the revaluation decrease charged to the General Fund*

10.1.2.98 In the event that the criteria under chapter 4 section 9 of the Code have been met as at 31 March 2010, authorities shall reclassify surplus assets held for disposal to the classification of held for sale. From the date the criteria are met (note: this may be a different date to when the asset was reclassified under the SORP); reverse any depreciation charged and reinstate the carrying amount where this amount is lower than fair value less costs to sell. Further entries will be required to reverse any initial or subsequent revaluation gains recognised following reclassification that are in excess of cumulative impairment or revaluation losses. Increases in fair value less costs to sell that are not in excess of previous impairment or revaluation losses (adjusted for depreciation) recognised in the Income and Expenditure Account will need to be recognised in surplus or deficit on provision of services as opposed to the Revaluation Reserve. This adjustment shall be reversed to the Capital Adjustment Account and reported in the Movement in Reserves Statement. Any impairment or revaluation losses recognised in the Revaluation Reserve, following reclassification, will need to be recognised in the surplus or deficit on provision of services. This adjustment shall be reversed to the Capital Adjustment Account and reported in the Movement in Reserves Statement

*The reclassification would need to be recognised in the comparative 2009/10 accounts. The entries required are as follows:*

*Dr Non-Current Assets Held for Sale  
Cr Property, Plant and Equipment (Surplus Assets)*

*With the carrying amount of the asset at date it was classified as held for sale*

*The further issues discussed in Step 1 will again be relevant when accounting for assets that were classified as held for sale during 2009/10. For that reason, this following paragraph only covers the accounting entries required (which are more detailed than those under Step 1), and authorities should refer to the previous discussions.*

*Reversal of Depreciation Required:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Non Distributed Costs)*

*With the reversal of any depreciation charged under the SORP from the date the asset met the criteria for classification as a held for sale asset*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the reversal of any depreciation charged to the General Fund from the date the asset met the criteria for classification as a held for sale asset*

*Dr Capital Adjustment Account  
Cr Revaluation Reserve*

*With the reversal of any depreciation adjustment made when the depreciation was recognised.*

*Upwards revaluation on Reclassification:*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With the revaluation previously recognised. Note that any subsequent depreciation would also need to be reversed (see the entries above)*

*Revaluation since Reclassification:*

*Dr Revaluation Reserve  
Cr Property, Plant and Equipment (Surplus Assets)*

*With the revaluation previously recognised. Note that any subsequent depreciation would also need to be reversed (see the entries above)*

*Reversal of Impairment (in addition to the reversal of the revaluation):*

*Dr Non-Current Assets Held for Sale  
Cr General Fund (Non Distributed Costs)*

*With the increase in the carrying amount of the asset that reverses a previous impairment loss recognised under the SORP*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the statutory reversal of the credit to the General Fund*



*Reduction in Fair Value:*

*Adjust the value of Property, Plant and Equipment:*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr Revaluation Reserve*

*With the revaluation loss previously recognised under the SORP (up to the balance on the Revaluation Reserve in respect of the asset)*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Non Distributed Costs)*

*With the revaluation loss previously recognised under the SORP (in excess of the balance on the Revaluation Reserve in respect of the asset)*

*Dr General Fund (in the Movement in Reserves Statement)  
Cr Capital Adjustment Account*

*With the reversal of any credit to the General Fund*

*Adjust the value of Non-Current Assets Held for Sale:*

*Dr General Fund (Non Distributed Costs)  
Cr Non-Current Assets Held for Sale*

*With the decrease in the fair value of the asset*

*Dr Capital Adjustment Account  
Cr General Fund (in the Movement in Reserves Statement)*

*With the reversal of the charge to the General Fund*

*Worked examples of some possible scenarios are shown in the spreadsheet as Examples 3(a), 3(b), 3(c), 3(d) and 3(e).*

*Step 4 - Restate Comparative Figures for 2009/10 (assets classified as held for sale prior to 1 April 2009 and sold during 2009/10)*

10.1.2.99 Transactions in relation to assets classified as held for sale prior to 1 April 2009 and sold during 2009/10 will need to be restated in line with the Code. Transition issues will arise where the 1 April 2009 opening balance has been restated in line with step 1 or 2009/10 transactions have occurred that would have been reversed (see step 2) if the asset had not been sold i.e. depreciation and revaluation gains.

10.1.2.100 Authorities shall reverse the derecognition of the asset, action any adjustments in line with step 2 (it is assumed that the opening 1 April opening balance would have been restated in line with step 1) and derecognise the adjusted carrying amount of the asset reflecting the revised gain or loss in surplus or deficit on provision of services. The adjusted carrying amount shall be reversed to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

*Because the carrying amount of the asset under the SORP may be different to the carrying amount of the asset under the Code, a different gain or loss on disposal of the asset may be recognised in the restated 2009/10 accounts.*

*The entries required to reverse any depreciation, revaluation or impairment of the asset are covered in Step 1 (for the opening 1 April 2009 Balance Sheet) and Step 2 (for transactions in 2009/10). The following additional entries are required to reverse the disposal of property, plant and equipment (surplus assets) recognised under the SORP, and to recognise the disposal of a non-current asset held for sale under the Code.*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Other Operating Expenditure)*

*With the carrying amount of the asset at disposal under the SORP*

*Dr General Fund (Other Operating Expenditure)  
Cr Non-Current Assets Held for Sale*

*With the carrying amount of the asset at disposal under the Code*

*Dr / Cr General Fund (in the Movement in Reserves Statement)  
Cr / Dr Capital Adjustment Account*

*With any difference between the carrying amount of the asset under the SORP and the carrying amount of the asset under the Code*

*Dr / Cr Capital Adjustment Account  
Cr / Dr Revaluation Reserve*

*With the difference between any Revaluation Reserve balance in respect of the asset at the time of disposal under the SORP and under the Code*

*Entries in relation to the proceeds of sale, recognition of a capital receipt, and any costs of sale recognised as revenue expenditure will be the same under the Code as they were under the SORP, and no restatement of these transactions is required.*

*Worked examples of some possible scenarios are shown in the spreadsheet as Examples 4(a), 4(b) and 4(c).*

*Step 5 - Restate Comparative Figures for 2009/10 (assets classified as held for sale and sold during 2009/10)*

10.1.2.101 Transactions in relation to assets classified as held for sale and sold during 2009/10 will need to be restated in line with the Code. Transition issues will arise when 2009/10 transactions have occurred that would have been reversed (see step 3) if the asset had not been sold i.e. depreciation and revaluation gains.

10.1.2.102 Authorities shall reverse the derecognition of the asset, action any adjustments in line with step 3 and derecognise the adjusted carrying amount of the asset reflecting the revised gain or loss in surplus or deficit on provision of services. The adjusted carrying amount shall be reversed to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

*Because the carrying amount of the asset under the SORP may be different to the carrying amount of the asset under the Code, a different gain or loss on disposal of the asset may be recognised in the restated 2009/10 accounts.*

*The entries required to reverse any depreciation, revaluation or impairment of the asset are covered in Step 3. The following additional entries are required to reverse the disposal (of property, plant and equipment) recognised under the SORP, and to recognise the disposal (of a non-current asset held for sale) under the Code.*

*Dr Property, Plant and Equipment (Surplus Assets)  
Cr General Fund (Other Operating Expenditure)*

*With the carrying amount of the asset at disposal under the SORP*

*Dr General Fund (Other Operating Expenditure)  
Cr Non-Current Assets Held for Sale*

*With the carrying amount of the asset at disposal under the Code*

*Dr / Cr General Fund (in the Movement in Reserves Statement)  
Cr / Dr Capital Adjustment Account*

*With the difference between the carrying amount of the asset under the SORP and the carrying amount of the asset under the Code*

*Dr / Cr Capital Adjustment Account  
Cr / Dr Revaluation Reserve*

*With the difference between any Revaluation Reserve balance in respect of the asset at the time of disposal under the SORP and under the Code*

*As in Step 4, the entries in relation to the proceeds of sale, recognition of a capital receipt, and any costs of sale recognised as revenue expenditure do not need to be restated.*

*Worked examples of some possible scenarios are shown in the spreadsheet as Examples 5(a), 5(b) and 5(c).*