**Fair value less costs of disposal**

The following guidance is from US GAAP but is substantially in line with IFRS 5 Non-Current Assets Held For Sale and Discontinued Operations, and illustrates how Fair Value Less Costs of Disposal is determined. Reference are to FASB Accounting Standards Codification (ASC)

360-10-35-43

A long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date. A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.

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Costs to sell are the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. Those costs include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. Those costs exclude expected future losses associated with the operations of a long-lived asset (disposal group) while it is classified as held for sale. Expected future operating losses that marketplace participants would not similarly consider in their estimates of the fair value less cost to sell of a long-lived asset (disposal group) classified as held for sale shall not be indirectly recognized as part of an expected loss on the sale by reducing the carrying amount of the asset (disposal group) to an amount less than its current fair value less cost to sell. If the sale is expected to occur beyond one year as permitted in limited situations by paragraph 360-10-45-11, the cost to sell shall be discounted.

360-10-35-39

The carrying amounts of any assets that are not covered by this Subtopic, including goodwill, that are included in a disposal group classified as held for sale shall be adjusted in accordance with other applicable GAAP prior to measuring the fair value less cost to sell of the disposal group. Paragraphs 350-20-35-51 through 35-57 provide guidance for allocating goodwill to a lower-level asset group to be disposed of that is part of a reporting unit and that constitutes a business. Goodwill is not included in a lower-level asset group to be disposed of that is part of a reporting unit if it does not constitute a business.

Assets held for sale are initially measured at the lower of their carrying amount or fair value less cost to sell. A loss should be recognized for any initial adjustment of the long-lived asset’s (disposal group’s) carrying amount to its fair value less cost to sell in the period the held for sale criteria are met. The fair value less cost to sell of the long-lived asset (disposal group) should be assessed each reporting period it remains classified as held for sale. Subsequent changes in the long-lived asset’s fair value less cost to sell (increase or decrease) would be reported as an adjustment to its carrying amount, except that the adjusted carrying amount should not exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale.

ASC 820 and fair value less costs to sell

The fair value less cost to sell measurement objective in ASC 360-20 consists of two separate components — (1) fair value and (2) cost to sell. The fair value component of this measurement should be determined in accordance with the principles of ASC 820 (i.e., exit price, market participants assumptions, etc.) and would include those costs that a willing buyer and willing seller would include in pricing the asset (i.e., the cash flows assumed in estimating the terminal value of the asset). Transaction costs expected to be incurred by the seller would be included in the estimate of costs to sell for purposes of applying ASC 360-10.

**Illustration 4-3: Measuring fair value less costs to sell**

Assume NYI Corp. purchases real estate from NJD, Inc. for $500. Included in that transacted fair value amount were certain costs that market participants consider in pricing the asset. Also assume that costs to sell, as defined in ASC 360-10, are $15. Assuming there was no bargain purchase, if NYI were to consider the real estate held for sale immediately after acquiring it, the real estate’s fair value presumably would be $500. Under ASC 360-10, however, the real estate held for sale would be measured at $485, i.e., fair value ($500) less costs to sell ($15).

Costs to sell

Costs to sell are the incremental direct costs to transact a sale (i.e., the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made). If the fair value of the disposal group is measured by a current market value or by using current selling prices for similar disposal groups, that fair value should be considered to be a current amount; and therefore, the fair value and the costs to sell usually should not be discounted.

Examples of costs to sell include:

* Broker commissions.
* Legal fees.
* Title transfer fees.
* Closing costs that must be incurred before legal title can be transferred. Costs that generally do not qualify as selling costs include:
* Insurance.
* Security services.
* Utility expenses.
* Other costs of protecting or maintaining the assets during the holding period.

By reflecting costs to sell in the value of a long-lived asset (disposal group), they are essentially being accrued. Accordingly, entities should make reasonable estimates of such costs and only include them in the valuation when the costs are probable and reasonably estimable. We recommend that entities establish valuation accounts or contra-assets against the long-lived asset’s fair value, such that when the costs to sell are actually incurred, the contra-asset is debited.

Initial adjustment to fair value less cost to sell and interaction with other standards

A long-lived asset or disposal group should be measured at the lower of its carrying amount or fair value less cost to sell. A loss should be recognized for any initial adjustment of the long-lived asset’s (disposal group’s) carrying amount to fair value less cost to sell in the period the held for sale criteria are met.

**Illustration 4-4: Recording the initial adjustment to fair value less costs to sell**

CHC Inc. operates two facilities that produce power tools and decides to consolidate its operations. On 1 July 20X2, CHC Inc.’s board commits to sell a manufacturing facility that has a carrying amount of $10 million. On 1 July 20X2, all of the held for sale criteria are met so after adjusting the individual assets and liabilities of the disposal group in accordance with generally accepted accounting principles; the entity estimates the fair value of the facility at $9 million. The costs to sell the building, including brokers’ commissions, legal fees and other closing costs, total $1 million. Accordingly, the entity records a $2 million loss (i.e., credit long-lived assets and debit loss on sale of facility) on 1 July 20X2, representing the excess of the $10 million carrying amount over the $8 million fair value less cost to sell. If the facility’s fair value less cost to sell was $12 million on 1 July 20X2, no gain would be recorded and the carrying value of the facility would remain at $10 million. Additionally, costs to sell would be expensed as incurred or deferred and expensed as part of the sale.