

Non-Current Assets Held For Sale Disclosure: Uncovering Their Relevance For Companies

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Abstract:

Background: *The study examines the relevance of Non-Current Assets Held for Sale (NCAHS), an item within comprehensive income, as a predictor of the stock market value for a set of companies. The sale of NCAHS provides peripheral, non-recurring revenue and an economic benefit with the potential to contribute to cash flow and even company investment financing. However, the relevance of NCAHS and comprehensive income as metrics for predicting stock prices is controversial in the literature. The study contributes to the debate on the relevance of comprehensive income in assessing a company's performance in the market. It demonstrates that disclosing NCAHS reduces information asymmetry among accounting users, as it represents relevant information.*

Methodology: *The authors conducted the empirical investigation by applying Ordinary Least Squares (OLS) regression to panel data. This statistical method, known as OLS in panel data, is a commonly used approach for analysing relationships between variables in a dataset that spans multiple periods and entities.*

Results: *The analysis suggests that disclosing Non-Current Assets Held for Sale (NCAHS) plays a significant role in explaining stock prices. This finding aligns with the principles of Fundamental Analysis, a fundamental approach to evaluating financial assets, including stocks.*

Conclusion: *The result of the analysis suggests that the disclosure of Non-Current Assets Held for Sale (NCAHS) plays a significant role in explaining stock prices. This finding aligns with the principles of Fundamental Analysis, a fundamental approach to evaluating financial assets. Fundamental Analysis operates on the premise that investors can make informed investment decisions by assessing a security's intrinsic value, such as a stock, based on fundamental factors. These fundamental factors typically include financial metrics and accounting information. In the context of your study, the disclosure of Non-Current Assets Held for Sale would be one of these fundamental factors.*

Key Word: *Non-Current Assets Held for Sale, Disclosure, stock prices, predictability, investment.*

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I. Introduction

The reclassification of Property, Plant, and Equipment as the Brazilian Accounting Pronouncements Committee foresaw non-current Assets Held for Sale (NCAHS) - CPC No. 31 (2009) when the asset is available for immediate sale within one year after its classification date. This classification is unusual because property, plant, and equipment are typically meant to be recovered through use and unavailable for sale. This reclassification can signal two very different situations: either the company is facing economies of scale issues, or it intends to replace the property, plant, and equipment with a more modern one. In the first case, it is an adjustment of production to demand, and a long-term revenue reduction is expected; in the second, the company is interested in investing to modernise and become more efficient, which tends to increase long-term revenue.

In turn, CPC 47 (IFRS 15) defines revenue as an increase in economic benefits, allowing gains from the sale of NCAHS to be recognised as revenue. In this context, the 2018 Conceptual Framework, by adopting the term "income" instead of "revenue," also incorporates gains as income. Not distinguishing between recurring and non-recurring revenues implies that this gain is relevant information to be considered in Comprehensive Income. This conclusion differs from the FASB, which, although adopting the same concept of revenue, uses Net Income as the performance metric. In this case, NCAHS would be irrelevant because it represents a peripheral, non-recurring revenue, where the sale only results in exchanging a less liquid asset for a more liquid one without altering the company's Equity.

This study aims to test whether the disclosure of NCAHS improves the information about companies' performance, reinforcing the relevance of using Comprehensive Income as a more appropriate metric than Net Income. It intends to verify if NCAHS is relevant to users of accounting information, as it allows for estimating future stock prices, reducing information asymmetry, and more accurately reflecting the company's value.

The 2007-2008 subprime crisis increased concerns about whether financial statements accurately reflect companies' financial situations. The lack of consensus on the importance of NCAHS and the limited number of articles on the subject make this study relevant. An exception is Mazzioni, Oro, and Scarpin (2013), who

concluded that Net Income is a better estimator of companies' performance than Comprehensive Income, with such analysis being limited to the electric sector.

After this introduction, the second section of the paper reviews fundamentalist literature, which acknowledges that the financial statements indicate the value of companies. The third section describes the applied methodology, which involves estimating stock prices using Ordinary Least Squares (OLS) regression with panel data collected from Economática, covering companies that disclosed NCAHS from the fourth quarter of 2014 to the first quarter of 2019. The explanatory variables for stock prices were Net Profit, the IBOVESPA index, and NCAHS, with the latter treated as a dummy variable.

The analysis of the results is the subject of the fourth section, which indicates that the disclosure of Non-Current Assets Held for Sale (NCAHS) explains stock prices, as Ball and Brown (1968) predicted. According to Fundamental Analysis, there is a correlation between the value of assets and their market stock prices. Therefore, the increased availability of relevant information could contribute to estimating the prices of assets traded on stock exchanges, as anticipated by Olson and Mossman (2003). The fifth section presents the main concluding remarks of the paper.

II. Theoretical Framework

The issuance of the Accounting Pronouncement Committee (CPC) 31 is part of the process of aligning Brazilian accounting standards with international ones, aiming to enable international comparability among companies and transparency of their financial position, as pointed out by Niyama et al. (2005, p. 40-41), who state that convergence aims to:

Develop global accounting standards (...) comparable in financial statements (...) to assist capital market participants (...) in making economic decisions. Investors keen on market gains push for countries to provide financial statements of companies that can be compared.

IFRS 5 (2005) and CPC 31 (2009) classify a fixed asset available for immediate sale within one year after its classification date as NCAHS. They consider NCAHS a non-current asset that will be recovered through the sale. CPC No. 31 (2009) sets out the requirements for the classification of NCAHS, among which:

- a) The asset realisation will occur through sale or distribution to shareholders, not use.
- b) Management must have already adopted a firm program for selling the asset.
- c) The sale or distribution to shareholders will occur at the asset's fair value.
- d) The estimated timeframe for the realisation of the sale or distribution to shareholders is up to 12 months, with a more extended period being accepted if unforeseen events prevent a short-term sale.

It is worth noting that the deadline for completing the sale can be extended to up to two years if the delay is caused by events that the company did not trigger and if the company remains committed to its asset sale plan. Companies must separately present the revenue and expenses related to NCAHS in comprehensive income, as stipulated in CPC 31 (2009). This allows the accounting user to understand recurring and non-recurring revenues and gains contributing to the company's profit.

NCAHS generates non-recurring revenue from a peripheral activity and provides cash flow resources following IFRS 15 (2009). For the IASB, profit is a metric for the company's gross performance, unlike the FASB, which only considers recurring revenue.

The regulations CPC 00 R1 (2011), IFRS 15 (2015), CPC 47 (2016), and Law 11.638 (2007) consider the revenue from the extraordinary item NCAHS as revenue, even when segregated from ordinary revenues. Gains represent other items that fall within the definition of revenue, according to the conceptual framework 2018. As prescribed in CPC 31 (2009), "discontinued operations" must be presented separately from "continuing operations." According to CPC 31, the motivation for segregation is to disclose information that allows users of financial statements to assess the financial effects of discontinued operations and NCAHS write-downs. The purpose of highlighting NCAHS in the Current Assets is to reduce the possibility of reclassification to prevent manipulation of accounting information. According to Pietro Neto et al. (2011), more detailed information reduces information asymmetry.

With the international convergence process of accounting, the publication of CPC 31, which made it mandatory to disclose NCAHS data starting in 2010, allows users of accounting information to become aware of the intention to sell NCAHS before the sale, bringing more transparency to the market. Such a procedure occurs in the United Kingdom, which creates standards that prescribe increasing volumes of specific and general financial disclosure in company financial reports.

The disclosure of NCAHS data can thus reduce informational asymmetry between managers and accounting users, enabling investors to make inferences about the company's performance and prospects and, consequently, make investment decisions. It is the task of empirical accounting research to find countable items that contribute to improving the analysis of financial statements.

Regarding relevant information with value relevance, its disclosure promotes disclosure that, according to Verrecchia (2001), increases investor confidence in the entity. In line with this proposition, there is the

hypothesis of fundamental analysis that a company's values can be determined from its financial statements. Malkiel and Fama (1970) assert that the market value of a company's stock reflects the available information, sharing this belief despite their different perspectives. In this scenario, Scott (2009) believes that market efficiency should drive companies towards full disclosure, where the companies would pursue both the quantity and quality of information. Regarding this issue, Birchler and Bütler (1999) go so far as to state that information is a magical commodity: "...crucial for economic decisions."

The understanding of the potential sale of the NCAHS by the accounting user would also be ambiguous in terms of the company's efficiency. Considering that the company does not accumulate increasing inventories and demonstrates increasing economies of scale, a production situation in which it grows proportionally more than the increase in production factors, the recovery of the non-current asset through sale could be interpreted as motivated by the modernisation of its equipment. Thus, the impact of disclosing the NCAHS could potentially lead to an increase in the company's stock prices. On the other hand, if the company exhibits decreasing economies of scale and struggles to sell its products, the disclosure of NCAHS would indicate financial issues that may still need to be resolved. Mansoor (1988) states that one would expect a lower generation of future income due to the reduced number of Fixed Assets, which could decrease production and, consequently, lower revenue.

The dependability of the company's financial position, as indicated by the disclosure of NCAHS, is based on the proposition that the revenue generated from the sale of this asset can improve the company's situation. Nyiama Silva et al. (2013) endorse this proposition when they state that how a company generates revenue is irrelevant. Disclosing pertinent data can offer more transparency into the entity's financial situation.

For the company, the sale of NCAHS can aid in its growth process as it may enable the modernisation of its assets. Drawing on the revenue definition put forth by FASB (as cited in Kam, 1990, p. 237), it becomes evident that there is a concern to underscore that the increase in assets or the settlement of liabilities during a period, brought about by revenue, should result from *the delivery or production of goods, provision of services, or other activities that constitute the entity's principal or central ongoing operations*.

As per Barth, Beaver, and Landsman (2001), Saito (2011), and Black, Carnes, & Richardson (2000), an accounting figure holds value relevance if it exhibits a predictive correlation with the market capitalisation value. The studies conducted by Barua, Lin & Sbaraglia (2010) and McVay (2006) also support this notion.

The relevance of comprehensive income as a predictor of stock market value is disputed by Dhaliwal, Subramanyan, and Trezevant (1999) and advocated by Kanagaretman, Mathieu, and Sehata (2009) and Epstein et al. (2009). Nyiama and Silva (2013) debate the relevance of comprehensive income when they assert that how a company adds value is irrelevant.

In conclusion, the presentation and disclosure of comprehensive income are relevant to accounting users because they allow access to accounting information that will impact the entity's performance, enabling the prediction of future stock prices. The estimation becomes even more relevant as it concerns impairment losses and reclassifying assets held for sale. IFRS 5 (2009) stipulates that gains or losses not previously recognised before the date of sale of non-current assets or a group of assets held for sale should be recognised at the date of derecognition.

However, statistical relationships between stock performance and accounting data can be hindered by preconceived beliefs when one disregards some of the statistical relationships in investment decisions, diminishing the importance of statistical studies. As an example of a dependency relationship for analysts' investment decisions, we present the assertion by La Porta (1996) and Dechow and Sloan (1997) that the market tends to be less accurate in projecting the performance of stocks of low book-to-market companies, which the authors refer to as "naive extrapolation." Regarding the influence of preconceived beliefs, Keynes (1937) goes as far as to state that:

Professional investment can be compared to a newspaper competition in which competitors must choose the six most beautiful faces from a hundred photographs. The prize is awarded to the competitor whose selection most closely matches the average preferences of all competitors. So, each competitor must choose not the faces they find most beautiful but the ones they believe are most likely to attract the attention of other competitors, all approaching the problem from the same perspective. It is not about choosing those who, at best, are genuinely the most beautiful, nor even those that the average opinion genuinely thinks are the most beautiful. We reach the third degree, where we dedicate our intelligence to anticipating what the average opinion expects the average opinion to be. Moreover, there are some, I believe, who practice the fourth, fifth, and higher degrees. (KEYNES, 1937, Chapter 12)

The occurrence of sporadic situations in which investors' decision-making relies on the beliefs of others makes statistical studies of financial statements more relevant. As investors gain more detailed information about the actual condition of companies, they can have a better understanding of the companies' financial situations and the ability to make more precise projections about future income. This proposition supports Swanson, Rees, and Juarez-Valdes (2001) study. Such a forecast is also evident in Barua, Lin & Sbaraglia (2010) and McVay (2006) studies.

III. Methodology

The research selected data for the empirical test, including annual closing prices of the São Paulo Stock Exchange Index (Ibovespa) from December 2011 to September 2018, with quarterly data. Additionally, data on Net Profit for the same period and Comprehensive Income from quarterly financial statements from December 2011 to September 2018 were collected from the Economática database. The study is limited to companies listed on the IBOVESPA that disclosed Comprehensive Income in compliance with Laws 11.638/07 and 11.941/09 and provided stock quotes for the specified period.

The reading and analysis of the financial statements of various entities for the multiple periods under study were also conducted to gather the necessary information for the research. This information was then compiled and analysed using the econometric software Eviews, employing statistical data analysis.

In the preliminary stages, the employed model is based on the economic theory proposed by Ou and Penman (1989), which suggests that an accounting figure may have a predictive association with market capitalisation. We predetermined the explanatory role of Comprehensive Income on stock prices based on economic theory to avoid potential spurious regressions.

It is considering that the user's interpretation of Comprehensive Income (NCAHS) information considers the effect of its disclosure after analysing other accounting variables. The disclosure of NCAHS indicates that the intention to sell is either to modernise the company or to align production with the demand for its products, which could increase the company's efficiency. However, it is also possible that the company needs help selling its products and intends to reduce production capacity. In this case, it is reasonable to assume that the availability of NCAHS may lead users of accounting information to anticipate more significant losses for the company or a reduction in profitability, prompting them to invest in other companies' stocks. The study treated NCAHS as a binary dummy variable for this reason.

The study replicated the regressions estimated by Ordinary Least Squares (OLS) for panel data from the fourth quarter of 2014 to the first quarter of 2019 for the companies that disclosed NCAHS items. It involves a simple linear model with only two explanatory variables. Considering that the IBOVESPA and NCAHS variables did not exhibit unit roots, the return was calculated using the following expression:

$$PORTF_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

Where,

$PORTF_{it}$ = the return of the stock portfolio of the group of companies i that disclosed NCAHS in period t .

$P_{i,t}$ = The stock price of the shares of companies i , in period t

and $P_{i,t-1}$ = Stock price of the company i , in period $t-1$.

$NCAHS_{i,t}$ = In the quarters when the company reported NCAHS values on the balance sheet or statement of financial position, a value of 1 was assigned; for the remaining quarters, 0 was assigned. The disclosure of NCAHS values was treated as a qualitative variable.

IBOVESPA: It serves as a proxy for market participants' expectations regarding the economic outlook. Anticipations of a crisis could lead market participants to seek investments in financial assets instead of investing in the stock market. The use of such an index aligns with the use of financial reports containing economic information, which is characteristic of Fundamental Analysis. Using IBOVESPA can facilitate an interaction in the company's economic, financial, and equity environment.

It should be emphasised that the following equation was employed:

$$PORTF_{it} = \beta_0 + \beta_1 NCAHS_{it} + \beta_2 IBOVESPA + \varepsilon_t$$

The objective was to test the occurrence of variations in the quotes of Company i about variations in the values of NCAHS (Non-Current Assets Held for Sale). We sought to capture the behaviour of the variables both in the temporal and spatial dimensions to assess whether stock prices react to changes in Non-Current Assets Held for Sale, according to the assumptions of the Ordinary Least Squares (OLS) Model. Thus, estimates of the parameters β_0 , β_1 , and β_2 were obtained from samples with minimised residuals. A file with ACAO and NCAHS data was created in Eviews to perform panel data regressions.

The initial test was the Jarque Bera Test to check if the error distribution was normal and ensure the validity of parametric tests. The result indicated that the error distribution did not follow a normal distribution. Nevertheless, relying on the Central Limit Theorem (CLT), which allows the validity of tests for large samples, we employed parametric statistical tests supported by the CLT since 168 quarterly data points cover 6 (six) years of stock market evolution.

Augmented Dickey-Fuller (ADF) tests were also conducted to check each Company's unit roots in the PORTF and IBOVESPA variables at intercept and non-intercept levels.

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to assess whether stock prices react to changes in The application of Augmented Dickey-Fuller (ADF) tests was conducted to identify whether the series do not have unit roots, as performed by Fellet (2016). The test aims to ensure the stationarity of the series, a necessary condition to avoid violating the assumptions for asymptotic analysis. The economic interpretation of the stability of the Model's variables is that they have a long-term equilibrium relationship, moving together over time. The results of the unit root tests (ADF) are presented in Table 1.

Tests for the NCAHS variable were conducted to check whether the model errors were equal to or greater than 1, verifying the autocorrelation of the residuals. A unit root exists whenever there is autocorrelation of errors greater than or equal to one and when the mean of the errors is different from zero. It can only be stated that the errors have a Unit Root if the errors are increasing. In the conduct of the ADF test, we have the following considerations:

H0: There is a unit root.

H1: There is no unit root.

When the value of the ADF test is greater than the critical values for all confidence levels, one cannot reject the null hypothesis that there is a unit root, and in this case, the series is non-stationary.

Level variables tend to have a unit root because the next period's value is a function of its current value plus a growth rate. This growth rate causes the variable to increase over time.

With the test results, it was possible to reject the null hypothesis of a unit root. As seen, the ADF value is below the critical value, proving that the errors of this model are not autocorrelated. With this result, it is concluded that Ordinary Least Squares (OLS) is the best unbiased linear estimator (BLUE) for this model because all established assumptions were met. In other words, the use of the OLS model is excellent. The most minor error is achieved in the calculation of β_0 and β_1 .

The tests for the LCAO variable were conducted in all companies. Next, the equation was estimated in three versions and subjected to the Hausman test:

- (a) common intercept or pooled regression;
- (b) with fixed effects and
- (c) with random effects.

It is also necessary to inform that, based on the Durbin-Watson test, errors were not autocorrelated. The DW value of 2.4 was higher than the DU value of 1.6. A DW value close to 2 indicates no autocorrelation of errors.

IV. Results

It is worth noting that a statistically significant relationship between stock prices and NCAHS was found, as indicated by the probability value of 0.05, as shown in Table 2 below. The best estimate was with an 11-quarter lag, possibly because converting revenue into investment takes time for the company to finance the investment with the sale of NCAHS and increase asset profitability. It should be noted that the decision to invest carries high risks for the company's profitability.

The stock prices and NCAHS series are stationary variables, according to the ADF tests, as shown in the following tables. The stock price series, PORTF, rejects the stationarity hypothesis at 5%. Likewise, the IBOVESPA series did not indicate stationarity at 10%, as shown in the table below.

Tabela 1

variáveis	Modelos	Empresas						
		Triunfo	Mangels	Ceb	Bandeirante	Carbomil	Bahema	Hering
PORTF	β_0	0.0011	0.0064	0.0002	0.0153	0.0073	0.0048	0.0037
	$\beta_{0,t}$	0.0073	0.0282	0.0006	0.065	0.0432	0.0038	0.0066
	$\beta_c=0, \beta_t=0$	0.0001	0.0014	0.0000	0.0059	0.0004	0.0004	0.0015
IBOVESPA	β_0	0.0125						
	$\beta_{0,t}$	0.0260						
	$\beta_c=0, \beta_t=0$	0.07917						

Tabela 2

variável		erro padrão	estatistic t	Prob.
C		0.029852	-1.520.319	0.1361
ANCMV	0.112414	0.046777	2.403.205	0.0209
IBOVESPA	0.541940	0.194978	2.779.496	0.0082
R ²		0.327881		

The model with a relatively low R-squared value (0.3278821) is due to omitting other accounting variables that the accounting user should have included. However, the tests that allow for using OLS (Ordinary et al.) support the proposition of conducting an unbiased and consistent estimation. The p-value of 0.05 is an acceptable error threshold, allowing us to accept that NCAHS explains variations in stock price. The p-value represents a decreasing index of result reliability. The lower the p-value, the more we can believe that the observed relationship between the variables in the sample is a reliable indicator of the relationship between the respective variables in the population. Therefore, the disclosure of NCAHS allowed for greater predictability of stock prices.

The value of the coefficient β_1 , the slope coefficient, being less than 1, signifies that variations in the level of NCAHS have a relatively minor impact on changes in stock prices. One possible explanation could be that the stock price value results from a more significant number of variables, such as revenues, profits, and other company performance indicators. Fundamental analysis employs a broader range of balance sheet data in its projections.

V. Conclusion

This study has unveiled a statistically significant relationship between NCAHS (Non-Current Assets Held for Sale), temporary revenue, and stock prices. These findings align with the principles of Fundamentalists, suggesting that a deeper understanding of users' financial situations enables stock prices to reflect a company's value more accurately. Consequently, increased availability of relevant information can contribute to estimating asset prices traded on Stock Exchanges, as Olson and Mossman (2003) predicted, thereby reducing informational asymmetry between managers and accounting users.

Therefore, the distinction between revenue and gain may be irrelevant, as using equity-related values can bolster a company's growth or mitigate losses. The disclosure of NCAHS can foster transparency, as it is deemed relevant information (value relevance) owing to its potential impact on future earnings. These results align with the principles of Fundamental Analysis and the decisions made by the IASB to mandate the separate disclosure of NCAHS in financial statements.

In summary, disclosing Non-Current Assets Held for Sale (NCAHS) plays a significant role in elucidating stock prices. This finding is consistent with the tenets of Fundamental Analysis, a foundational approach to evaluating financial assets. Fundamental Analysis operates on the premise that investors can make informed investment decisions by assessing a security's intrinsic value, such as a stock, based on fundamental factors. In this study, the disclosure of Non-Current Assets Held for Sale emerges as one of these fundamental factors.

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