

IAS 41

Agriculture Activities

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Scope

IAS 41 does not apply to:

- Land related to agricultural activity (see IAS 40, “investment Property” and IAS 16, “Property, Plant, and Equipment”)
- Intangible assets related to agricultural activity (see IAS 38, “Intangible Assets” and
- Biological assets held for the provision or supply of services
- Processing of agricultural produce after harvest; for example, processing grapes into wine and wool into yarn.



Scope

- Also does not apply to biological assets used for
 - research,
 - education,
 - transportation,
 - Entertainment and recreation,
 - customs control
 - Agro tourism
 - Agro sports



Definition

- Agricultural activities is the management of the
 - biological transformation process and
 - harvest of biological assets
 - for sale or
 - for conversion into agricultural produce or
 - into additional biological assets



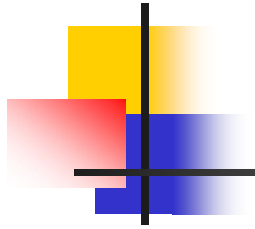
Features of agricultural activities

- Ability to change; biological transformation
- Management of change enhancing or stabilising, those conditions which are necessary for the process of change to take place
- Measurement of change quality or the quantity monitored as a routine management function.



Definition

- Biological asset are living animal or plant capable of biological transformation which comprises the processes of
 - growth,
 - degeneration,
 - production, and
 - procreation
- that bring about either qualitative or quantitative changes or both.



Definitions

- Agricultural produce is the harvested product of the entity's biological assets from point of harvest treated as inventory under IAS 2



Examples

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Felled trees	Logs, lumber
Plants	Cotton Harvested cane	Thread, clothing Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit



Definition

- Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.
- Disposal may occur through sale or through distribution at no charge or for a nominal charge.



Definition

- A group of biological assets is an aggregation of similar living animals or plants.
- Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.



Recognition and Measurement

- Recognize biological assets or agricultural produce when and only when:
 - controls the biological asset as a result of past events;
 - It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
 - The fair value or cost of the asset can be measured reliably.



Initial classification

- Consumable biological assets are those assets that may either be harvested as agricultural produce or sold as biological assets.
- Bearer biological assets are those biological assets other than consumable biological assets. Bearer biological assets are self-regenerating and can support more than one harvest.



Fair value

- ❖ measured on initial recognition and at each reporting date at its fair value less cost to sell.
- ❖ Changes in fair value recognized in profit or loss.



Fair value defined

- Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- An active market is a market where all the following conditions exist:
 - the items traded within the market are homogeneous;
 - willing buyers and sellers can normally be found at any time; and
 - prices are available to the public.



Fair values Hierarchy

Level One Mark-to-Market

- unadjusted quoted market prices
- principle market same as most advantageous market
- highest and best use by market participants (not necessarily the current entity use)

Level Two

- observable inputs - direct prices
- observable inputs - indirect prices
- Highest and best use by market participants

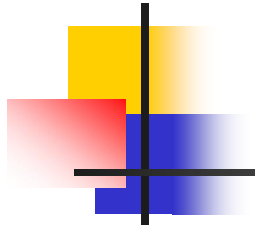
Level Three Mark-to-Model

- unobservable inputs
- no market data
- characteristics and assumptions of market participants
- risk adjustment
- highest and best use by market participants



Active market exists

- ❖ Use the un-adjusted quoted price
- ❖ the fair value of an asset is based on its present location and condition.
- ❖ If an entity has access to different active markets, - market that it expects to use.
- ❖ In some circumstances, fair value may be readily determinable even though market determined prices or values are not available for a biological asset in its present condition.



Fair Value

If an active market does not exist use

- ❖ The most recent market transaction price.
- ❖ Market prices for similar assets with adjustments to reflect differences
- ❖ Sector benchmarks.



Example

- the fair value of cattle at a farm is
 - the price for the cattle in the relevant market less
 - the transport and
 - other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge.



Exchange transaction

- Where an entity acquires a biological asset through an exchange transaction, the biological asset is measured on initial recognition and at each reporting date at fair value



Relevant market

- If an entity has access to different active markets, the entity uses the most relevant one.
- For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.



Contract with customers

- Entities often enter into contracts to sell their biological assets or agricultural produce at a future date.
- Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction.
- As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.



Analogizing the market value

- If an active market does not exist, uses one or more of the following,
- The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date.
- Market prices for similar assets with adjustment to reflect differences, and
- Sector benchmarks such as the value of an orchard expressed per export try, bushel, or hectare, and the value of cattle expressed per kilogram of meat.



Model the market value

- Market-determined prices may not be available.
- Uses the present value of expected net cash flows discounted at a current market-determined interest rate.
- Net cash flows that market participants would expect the asset to generate in its most relevant market.



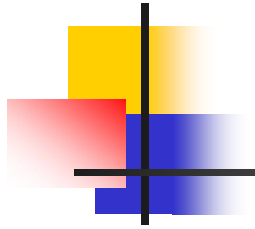
Present value of expected cash flows

- do not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest.
- Incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate.



Cost approximate fair value

- when:
- little biological transformation has taken place since initial cost incurrence
- for fruit tree seedlings planted immediately prior to the end of a reporting period; or
- the impact of the biological transformation on price is not expected to be material
- for the initial growth in a 30-year pine plantation production cycle.



Harvesting

- ❖ Harvesting is the detachment of produce from a biological asset or the cessation of the life processes of a biological asset.
- ❖ Agricultural produce harvested measured at fair value less costs to sell at the point of harvest.
- ❖ Subsequent to harvest treat as agricultural produce as inventories
- ❖ Value at lower of cost or net realisable



Example

- A maize farmer in Kimbwezi recognised biological assets at estimated fair value of Ksh 5.6 m as at the reporting date on 31st December 2013.
- On 15th March 2014, the farmer harvested 1 800 bags of maize each with open market value of ksh 3 250. As at 31st March 2014 the maize was in store pending sale at improved prices.
- Due to mishandling after harvesting, the maize was infested with weevils in May 2014, its is estimated each bag can fetch Ksh 1000 for refining as chicken feeds
 - Explain the accounting treatment in the quarterly financial statements as at 31st March 2014 and interim financial statement as at 30th June 2014



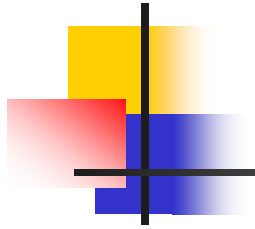
Disclosures

- description of each group of biological assets.
- Either in form of a narrative or quantified description.
- Preferably a quantified description of each group of biological assets, distinguishing between
 - consumable and
 - bearer biological assets
 - mature and
 - immature biological assets



Disclosure

- An entity shall provide a description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.



Disclosure

- An entity should disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.

An entity also disclose:

- The existence and carrying amount of biological assets whose title is restricted and the carrying amounts of biological assets pledged as security for liabilities;
- The nature and extent of restrictions on the entity's use or capacity to sell biological assets;
- The amount of commitments for the development or acquisition of biological assets; and
- Financial risk management strategies related to agricultural activity



Reconciliation

- Present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period.
- Include:
 - The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;
 - Increase due to purchases;
 - Increases due to assets acquired through a non-exchange transaction



Example of dairy farming

XYZ Dairy Ltd	31 Dec 2013	31 Dec 2012
Non- Current Assets		
Biological assets ó immature (a)	52,060	47,730
ó mature (a)	372,990	411,840
Subtotal ó biological assets	425,050	459,570
Property, plant and equipment	1,462,650	1,409,800
Total non-current assets	1,887,700	1,869,370



Statement of comprehensive income

Entity XYZ	Notes	
Total revenue		Dec 31 2013
Fair value of milk produced		518,240
Gains arising from changes in fair value less costs to sell of dairy livestock held for sale	3	39,930
		558,170



Statement of cash flows

	Dec 31, 2013
Cash flows from operating activities	
Cash receipts from sales of milk	498,027
Cash receipts from sales of livestock	97,913
Cash paid for supplies and to employees	(504,025)
Cash paid for purchases of livestock	(23,815)
Net cash from operating activities	68,100



Example Notes

- Entity XYZ is engaged in milk production.
- At December 31, 2013, the entity held 419 cows able to produce milk (mature bearer assets) and 137 heifers being raised to produce milk in the future (immature bearer assets).
- The Entity produced 157,584kg of milk with a fair value less costs to sell of Ksh 518,240 (The fair value of this agricultural produce is determined at the time of milking) in the year ended December 31, 2013.
- The Entity does not own any consumable biological assets.



Measurement disclosures

- Livestock are measured at their fair value less costs to sell.
- The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.
- Milk is initially measured at its fair value less costs to sell at the time of milking.
- The fair value of milk is determined based on market prices in the local area.



Reconciliation statement

	Ksh
Carrying amount at January 1, 2013	459,570
Increase due to purchases	26,250
Gain arising from changes in fair value less costs to sell attributable to physical changes	15,350
Gain arising from changes in fair value less costs to sell attributable to price changes	24,580
Decreases due to sales	(100,700)
Carrying amount at December 31, 2013	425,050



Financial Risk disclosures

- Risk exposure and management strategies
- The entity is exposed to financial risks arising from changes in milk prices.
- The entity does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices.
- The entity reviews its outlook for milk prices regularly in considering the need for active financial risk management.



Land supporting biological assets

- Biological assets that are physically attached to land (for example, trees in a plantation forest) are measured at their fair value less costs to sell separately from the land.
- IAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount.
- IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses.



Biological assets for rendering services

- animals or plants that are used primarily for non-productive purposes such as recreational parks or game farms, or in delivering a service to the public, for example dogs and horses used for policing



Biological assets used ...

- The following are not agricultural activities
 - management of native forest,
 - private game farms,
 - wild life conservancies and
 - Agro-tourism.



Agricultural produce

- After harvesting agricultural produce classified as inventories
- Value at lower of cost and fair value less cost to sell
- Cost is fair value at point of harvest plus cost of further processing
- processing of agricultural produce refers to any artificial process after the point of harvest



Intangible assets

- ▶ internally generated intangible asset meets the criteria for recognition as assets
- ▶ Example are patents, technology discovery, genetic formula discovery
- ▶ Note
- ▶ Research cost must be recognised as an expense
- ▶ Internally generated goodwill should not be recognized



Capitalisation of development cost

- ▶ a development phase recognized as an asset if
 - the technical feasibility
 - its intention to complete.
 - its ability to use or sell the intangible asset.
 - how the intangible asset will generate probable future economic benefits.
 - demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
 - the availability of adequate technical, financial and other resources to complete the development
 - its ability to measure reliably the expenditure attributable to it



Subsequent measurement

Subsequent to initial recognition;

- choose either the cost model or the revaluation model
- Revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.
- ❖ Cost model measure intangible assets at cost less any accumulated amortization and any accumulated impairment losses.



Example of intangibles

- Kenya's tissue culture banana – one of eastern Africa's great agricultural biotechnology success stories
- Cost of culture banana plantlets can be reduced by up to 60% through effective and efficient banana tissue culture practices that will increase affordability and accessibility of materials
- help control spread of Banana Bacterial Wilt



Biological assets used in rendering services

- Biological assets are used in many activities
- When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities
- Animals or plants that are used primarily for non-productive purposes such as recreational parks or game farms, or in delivering a service to the public, for example dogs and horses used for policing
- Accounted for as PPE!!!!



Example

- A farmer rearing a bull for tournament such as agricultural shows and bull fighting, the bull primarily generate income through prize winning
- A farmer is contracted by Heifer international to rear quality breed of bulls for production of semen



Proposed amendments to IAS 41

- a limited scope project relating to Bearer Biological Assets (BBAs)
- Bearer Biological Assets are long term crops such as Avocado trees, grape vines, Amarulla, Mukobella
- The dilemma is whether these assets would be better accounted for under IAS 16 rather than IAS 41.



Reason for amendments

- Usefulness of fair value information for BBAs,
- presentation of changes in fair value within the profit or loss – which in some instances can be large and distort profits.



Proposed amendments

	Current requirements	Proposed requirements
At initial recognition	<ul style="list-style-type: none">▶ Measured together with any agricultural produce attached (i.e., one unit of account)▶ Measured at fair value less costs to sell	<ul style="list-style-type: none">▶ Would be measured separately from any related agricultural produce (i.e., two units of account)▶ Would be measured at cost, accumulated until maturity



Proposed amendments

Subsequent measurement requirements

- ▶ Measured together with the agricultural produce until the point of harvest (see Table 2) (i.e., one unit of account until the point of harvest)
 - ▶ Measured at the end of each reporting period at fair value less costs to sell
 - ▶ Changes are recognised in profit or loss
- ▶ Would be measured separately from any related agricultural produce (i.e., two units of account)
 - ▶ Would be measured at either:
 - ▶ Cost, less any subsequent accumulated depreciation and impairment
 - ▶ Changes would be recognised in profit or lossOr
 - ▶ Fair value at each revaluation date, less any subsequent accumulated depreciation and impairment
 - ▶ Revaluation adjustments (and impairment, to the extent it reverses previous revaluation increases) would be recognised in other comprehensive income; all other changes would be recognised in profit or loss



Interactive session



- Questions and Discussions