

Amendments to International Accounting Standard 41

To bear or not to bear

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Introduction

- Currently, all biological assets are measured and accounted for at their fair value less costs to sell. However, the International Accounting Standards Board (IASB) has now addressed concerns over fair value not being considered an appropriate measure of performance for certain biological assets, specifically bearer plants.

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Introduction cont'

- This Standard clarifies that an entity is required to apply the principles of this Standard to **bearer plants** **as well as** to items of property, plant and equipment used to develop or maintain
 - (a) biological assets and
 - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

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Scope

Scope of amendment

1. Defines a bearer plant as a plant that is used in the production or supply of agricultural produce, that is expected to bear produce for more than one period and that is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Scope

2. bearer plants are placed into production (i.e before they reach maturity and bear fruit) they should be measured at accumulated cost. This would mean that bearer plants are accounted for in the same way as self-constructed items of machinery.

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Scope cont'

3. Some crops, such as sugar cane, are perennial plants because their roots remain in the ground to sprout for the next period's crop. Under the proposals, if an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant.

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Scope cont'

4. Bearer plants will no longer be within the scope of IAS 41 instead, IAS 16 will apply.
5. IAS 41 will still apply to any agricultural produce growing on a bearer plant.
6. IAS 20 will now apply to government grants related to bearer plants

The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Bearer Plants

Bearer Plants are:

- (a) used in the production or supply of agricultural produce;
- (b) expected to bear produce for more than one period; and
- (c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Bearer Plants Cont'd

The following are not bearer plants:

- (a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
- (b) plants held for use in the production or supply of agricultural produce that are also intended to be harvested as agricultural produce or sold as living plants other than as incidental scrap sales (for example, trees that are cultivated both for their lumber and their fruit);

Bearer Plants Cont'd

(c) plants cultivated for sale only (for example, plants sold in a garden centre);

(d) annual crops (for example, maize and wheat); and

(e) produce growing on a bearer plant (for example, grapes growing on a vine).

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Agricultural Produce

The produce growing on the bearer plants will be a biological asset measured at fair value in accordance with IAS 41.

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Measurement for Bearer plants

Under IAS 41, bearer plants are currently measured at fair value less costs to sell both at initial recognition and subsequently (unless the measurement exception applies because fair value cannot be reliably measured). As a result of the amendments, bearer plants will be subject to all of the recognition and measurement requirements in IAS 16 as follows:

Measurement for Bearer plants

- Before maturity - bearer plants will be measured at their accumulated cost, similar to the accounting treatment for a self-constructed item of plant and equipment before it is 'available for use'
- After Maturity - costs capitalisation should cease when the bearer plants reach maturity. Entities will have a policy choice to measure the bearer plants using either the cost model or the revaluation model.

Measurement for Bearer plants

- If the revaluation model is selected, revaluations will need to take place with sufficient regularity to ensure the carrying amount does not differ materially from the asset's fair value had it been measured at the end of the reporting period, which may be as frequent as currently required by IAS 41.

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Measurement for Bearer plants

- Entities following either model will need to determine the useful life of the bearer plant in order to depreciate it. The useful life will need to be re-evaluated each year.

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Impairment

- Bearer plants under IAS 16 would have to be assessed for impairment under IAS 36 Impairment of Assets. Entities will, therefore, need to assess whether there are indicators that a bearer plant is impaired at the end of each reporting period. If such indicators exist, an impairment loss will be recognised if the carrying value is lower than the bearer asset's recoverable amount (being the higher of the asset's fair value less costs of disposal and its value in use).

	Current Requirements	New Requirements
At initial Recognition	<p>☐ Measured together with any agricultural produce attached (i.e., one unit of account)</p> <p>☐ Measured at fair value less costs to sell</p>	<p>☐ Measured separately from any agricultural produce attached (i.e., two units of account)</p> <p>☐ Measured at cost, accumulated until maturity</p>
Subsequent Measurement	<p>☐ Measured together with the agricultural produce until the point of harvest (i.e., one unit of account until the point of harvest)</p> <p>☐ Measured at the end of each reporting period at fair value less costs to sell, with changes recognised in profit or loss</p>	<p>Measured at:</p> <p>☐ Cost, less any subsequent accumulated depreciation and impairment, with changes recognised in profit or loss</p> <p>Or</p> <p>☐ 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) recognised in other comprehensive income; all other changes recognised in</p>

Agricultural produce

Agricultural produce will continue to be in the scope of IAS 41 and will be measured at fair value less costs to sell, with changes recognised in profit or loss as the produce grows. In the IASB's view, this requirement will ensure that produce growing in the ground as an annual crop (e.g., wheat) and produce growing on a bearer biological asset (e.g., grapes) will be accounted for consistently. As a result, changes in the fair value of such agricultural produce will continue to be recognised in profit or loss at the end of each reporting period

Government grants

- Since bearer plants will be excluded from the scope of IAS 41, any related government grants will be in the scope of IAS 20 instead. Under IAS 20, government grants related to bearer assets will either be:
 - Recognised as deferred income and then recognised in profit or loss on a systematic basis over the useful life of the asset Or
 - Deducted in calculating the carrying amount of the asset and then recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Transition

- The amendment should be applied retrospectively from periods beginning on or after 1 January 2016, and earlier application is permitted. The transitional guidance states that companies will be allowed to apply the fair value of bearer plants as their deemed cost at the beginning of the earliest period presented. A company with a December 2016 year-end will restate at 1 January 2015. It will have the following impact: -

Transition

1. The fair value of bearer plants at 1 January 2015 will be the deemed cost.
2. Depreciation for these bearer plants will be based on this deemed cost. Where fair value gains have been recognised in the past, the consequential increase in deemed cost will result in a higher depreciation expense in the future.
3. The restated statement of profit or loss for the 2015 year will exclude previously recognised fair value adjustments. Companies that previously recognised fair value gains will therefore see a decrease in profit; however, this will be comparable across periods presented

Post Transition

- The statement of financial position should include bearer plants as a class of property, plant and equipment. After initial recognition, the entire class should be measured at either cost or revaluation.
- In the event that companies decide to apply a revaluation model to their bearer plants in order to continue using their current measurement principles, this fair value movement will be recorded in other comprehensive income and not profit or loss.

The background of the slide features the Nini Limited logo, which consists of a large blue circle containing a white stylized 'N'. A yellow line with a yellow dot at its end extends from the 'N' towards the right. Below the circle, the word 'Nini' is written in a large, white, sans-serif font. At the bottom of the slide, the words 'Nini Limited' are written in a smaller, white, sans-serif font.

Question & Answers

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By Z. Muthui