



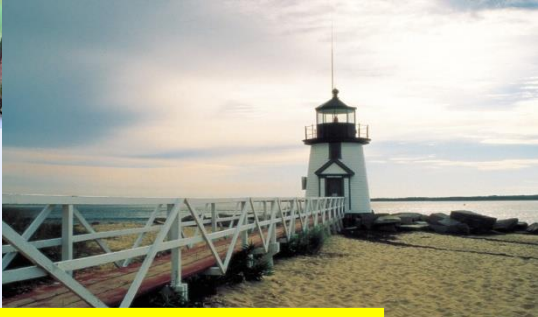


# **Agriculture**

## **IAS 41**



**IFRS Presentation By CPA**  
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**“While the agriculturist would continue tilling, his accountant would be busy in measuring all biological assets at fair value less expected point-of-sale costs at each reporting date.”**





# Overview of session

1. Introduction – definitions & scope

2. Measurement

3. Recognition

4. Government grants

5. Bearer Plants





# **Agriculture**

## **1. Introduction – definitions & scope**



# Definitions and scope

## Scope of IAS 41

**Agricultural  
Produce after point  
of harvest**

**Biological  
Assets**

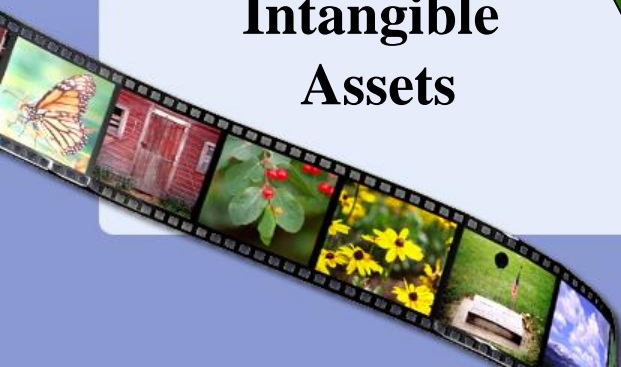
**Farm Land  
& Buildings**

**Agricultural  
Produce at point  
of harvest**

**Intangible  
Assets**

**Government  
Grants**

**Bearer  
plants**



# Definitions and scope



- ❖ IAS 41 shall be applied to account for the following when they relate to agricultural activity:
  - biological assets
  - agricultural produce at the point of harvest
  - government grants related to a biological asset measured at fair value less estimated point-of-sale costs
- ❖ IAS 41 does not apply to land related to agricultural activity or intangible assets related to agricultural activity.
- ❖ This standard is applied to agricultural produce, which is the harvested product of the entity's biological assets only at the point of harvest.
- ❖ This means that it does not deal with processing of agricultural produce..



# Definitions and scope



- ❖ **Agricultural activity** is the management of the biological transformation of biological assets for sale, into either agricultural produce or into additional biological assets.
- ❖ **Agricultural produce** is the harvested product of the entity's biological assets.
- ❖ **Biological assets** are living animals or plants.
- ❖ **Biological transformation** comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.





# Definitions and scope



- ❖ **Fair value** is the amount for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- ❖ **Harvest** is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.
- ❖ **Point-of-sale costs** include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, transfer taxes and duties. However, it does not include costs incurred to get assets to a market (e.g. transport costs)







# Definitions and scope

## ❖ A Bearer plant

A living plant that:

- a. Is used in the production or supply of agricultural produce
- b. Is expected to bear produce for more than one period, and
- c. Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.



# Definitions and scope



**Examples of biological assets, agricultural produce, and products that are the result of processing:**

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	Thread, clothing
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

# Definitions and scope

Biological transformation results in the following types of outcomes:

- (a) asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant); (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant); or (iii) procreation (creation of additional living animals or plants); or
- (b) production of agricultural produce such as latex, tea leaf, wool, and milk.





# Characteristics of Agriculture



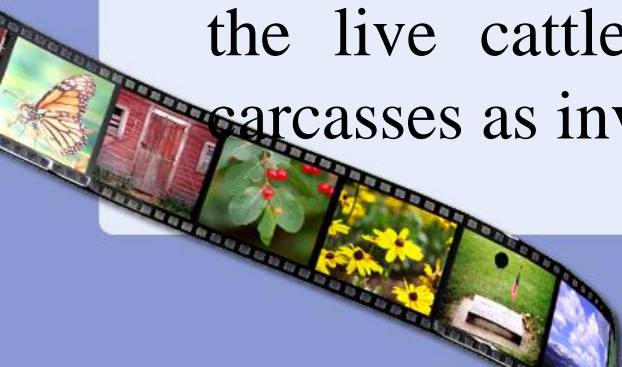
- (a) Capability to change. Living animals and plants are capable of biological transformation;
- (b) Management of change. Management facilitates biological transformation
- (c) Measurement of change. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation is measured and monitored as a routine management function.



# Practical Example - 1

- ❖ Entity A raises cattle, slaughters them at its abattoirs and sells the carcasses to the local meat market. Which of these activities are in the scope of IAS 41?

The cattle are biological assets while they are living. When they are slaughtered, biological transformation ceases and the carcasses meet the definition of agricultural produce. Hence, entity A should account for the live cattle in accordance with IAS 41 and the carcasses as inventory in accordance with IAS 2



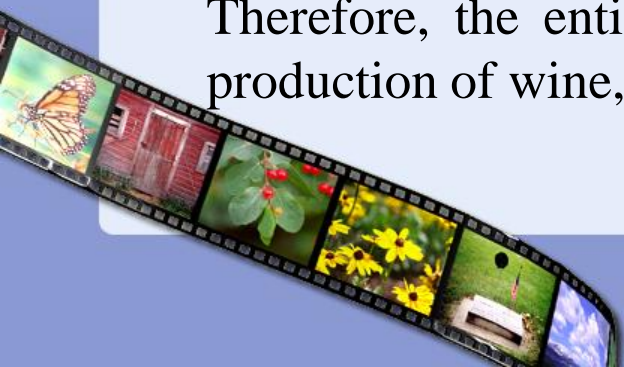
# Practical Example 2

- ❖ **Entity B grows vines, harvests the grapes and produces wine. Which of these activities are in the scope of IAS 41?**

The grapevines are bearer plants that continually generate crops of grapes. When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce.

Assets such as wine that are subject to a lengthy maturation period are not biological assets. These processes are analogous to the conversion of raw materials to a finished product rather than biological transformation.

Therefore, the entity should account for the harvested grapes and the production of wine, as inventory in accordance with IAS 2







# **Agriculture**

## **2. Measurement**

# Accounting for Agricultural activities



Measurement at  
initial recognition

Financial statement  
effects

Measurement subsequent  
to initial recognition

Biological Assets

Fair value less  
estimated point-of-  
sale costs (rebuttable  
presumption)

**Balance Sheet** — recorded at  
initial recognition value

Recorded at fair value less estimated  
point-of-sale costs as at each reporting  
date. The gain or loss associated with  
the change in value is included in the  
period's profit determination

Agricultural Produce

Fair value less  
estimated point-of-  
sale costs as at point  
of harvest

**Income Statement** —  
gains and losses on initial  
recognition included in  
profit determination for  
the reporting period

Recorded at the fair value less  
estimated point-of-sale costs at point  
of harvest. This is the cost at that date  
when applying AASB 102 *Inventories*  
or another applicable Standard

# Recognition & Measurement

- ❖ An entity shall recognise a biological asset or agricultural produce when and only when:
  - the entity controls the asset as a result of past events;
  - it is probable that future economic benefits associated with the asset will flow to the entity; and
  - the fair value or cost of the asset can be measured reliably.
- ❖ A biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably.
- ❖ Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest.





# Recognition & Measurement

- ❖ A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably.
- ❖ Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest.
- ❖ Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.



# Recognition & Measurement

- ❖ Fair value of the biological asset or agricultural produce is the quoted market price in an active market.
- ❖ In the absence of an active market, fair value could be determined by:
  - the most recent market transaction price provided there are no significant changes in economic circumstances –
  - market prices for similar assets with adjustment to reflect differences –
  - sector benchmarks –
- ❖ In the absence of market determined prices for the asset in its present condition, fair value can be determined as the present value of expected net cash flows from the asset discounted using a current market-determined pre-tax discount rate
- ❖ The cost of the biological assets may reflect fair value when biological transformation is minimal or its impact on price is immaterial



# How should subsequent expenses relating to agricultural activity be presented?



- ❖ It depends. Such costs may include feeding, veterinary services, planting, weeding, irrigation, fertilizer, and harvesting and slaughtering costs.
- ❖ IAS 41 does not prescribe the treatment of such costs. Prior to adoption of IAS 41, many agricultural businesses had a policy of capitalising some of these costs, particularly those relating to the development of immature plants or livestock up to the point they were productive.
- ❖ As IAS 41 does not prescribe the treatment of subsequent expenditure, such a treatment would still be permissible under IAS 41.







# **Agriculture**

## **3. Gains and losses**

# Gains and losses



- ❖ A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises.
- ❖ A loss may arise on initial recognition of a biological asset, because estimated point-of-sale costs are deducted in determining fair value less estimated point-of-sale costs of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.



# Gains and losses



- ❖ A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in profit or loss for the period in which it arises.
- ❖ A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.





# **Agriculture**

## **4. Government grants**



# Government grants



- ❖ An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs shall be recognised as income when, and only when, the government grant becomes receivable.
- ❖ If a government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.





# Agriculture

## 5. Bearer Plants Treatment



# **Bearer Plants Treatment**



- **A bearer plant should be accounted for as property plant and equipment in accordance with IAS 16**
- **Initial measurement is at cost**
- **Subsequent measurement is in line with either cost model or revaluation model**

# **Bearer Plants Treatment**



- **Agricultural produce growing on bearer crops is a biological asset measured at fair value in accordance with IAS 41**





# Previous Treatment Examples



- Consumable biological assets e.g. Pigs
- **Agricultural produce**
- Bearer livestock e.g. cows
- **Bearer plants e.g. tea bushes**
- Fair value measurement
- **Fair value measurement**
- Fair value measurement
- **Fair value measurement**

# Previous Treatment Examples



- Produce bearing biological assets e.g. fruit trees
- Fair value measurement
- Other biological assets e.g. sunflowers
- Fair value measurement



# New Requirements



- Consumable biological assets e.g. Pigs
- **Agricultural produce**
- Bearer livestock e.g. cows
- **Bearer plants e.g. tea bushes**
- Fair value measurement
- **Fair value measurement**
- Fair value measurement
- **In line with IAS 16**



# New Requirements



- Produce bearing biological assets e.g. fruit trees
- Maybe classified as bearer plants if there is no more than a remote chance that they will be sold as agricultural produce e.g. lumber
- Other biological assets e.g. sunflowers
- Fair value measurement





# Disclosures



- ❖ An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less estimated point-of-sale costs of biological assets.
- ❖ An entity shall provide a description of each group of biological assets.
- ❖ If not disclosed elsewhere in information published with the financial statements, an entity shall describe:
  - a) the nature of its activities involving each group of biological assets; and
  - b) non-financial measures or estimates of the physical quantities of:
    - i. each group of the entity's biological assets at the end of the period; and
    - ii. output of agricultural produce during the period.

## Bearer Plants Further Issues Maturity

For bearer plants, costs capitalization should cease when the bearer plants reach maturity. Judgment may be needed to identify when bearer plants reach maturity; and, hence, costs will cease to be capitalized and depreciation will commence.

Maintenance vs. capital expenditure decisions eg pruning and grafting

Government grants relating to bearer plants are accounted for inline with IAS 20



# Impairment of Bearer Plants

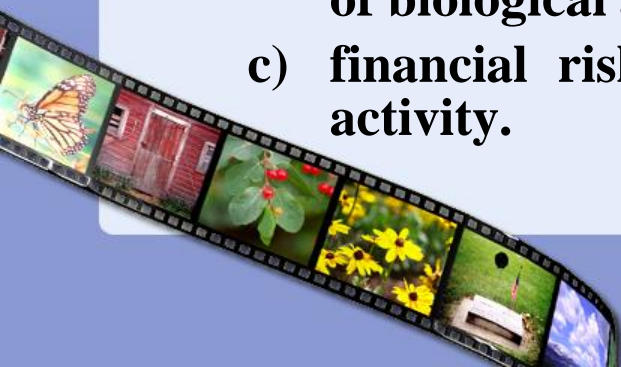


- Bearer plants under IAS 16 would have to be assessed for impairment under IAS 36 Impairment of Assets
- In applying a value-in-use model, significant that would be operating costs such as fertilizer. There could also be difficulties in determining cash inflows, in particular in estimating the price at which each future harvest might be sold.

# Disclosures



- ❖ An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.
- ❖ An entity shall disclose the fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest.
- ❖ An entity shall disclose:
  - a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
  - b) the amount of commitments for the development or acquisition of biological assets; and
  - c) financial risk management strategies related to agricultural activity.





# Disclosures

- ❖ An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
- a) the gain or loss arising from changes in fair value less estimated point-of-sale costs;
  - b) increases due to purchases;
  - c) decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale);
  - d) decreases due to harvest;
  - e) increases resulting from business combinations; and
  - f) other changes.

