



Practical implications of Amendments to IAS 41 - Bearer Plants

Joint IFRS® Foundation,
PAFA and ICPAK IFRS
Conference and IFRS for
SMEs Workshop

August
2016



Practical issues on implementation of amendments

Although the amendments seem simple on the face of it, there are a number of areas in practice which prove challenging as below:

1. Capturing and tracking Initial costs
2. Identification of unit of account
3. Determining when to cease capitalisation of costs
4. Determining costs to capitalise

Initial costs

The changes require entities to capture and track new information for existing bearer plants i.e. costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Although, we understand that some entities already collect this information under the IAS 41 exception to fair value model, for other entities establishing systems to collect this information may be costly.

Unit of Account

Entities will need to identify the unit of account, i.e. does one account for a single tree or a field of trees? This is very important as impairment testing may be required, and keeping track of one tree vs a field of trees will have different practical challenges on record keeping.

We notes that IAS 16 does not prescribe the unit of measure, or the extent to which items can be aggregated and treated as a single item of property, plant and equipment. In consequence, applying the recognition criteria in IAS 16 to bearer plants will give an entity flexibility, depending on its circumstances.

Ceasing capitalisation

IAs 16 has the concept of “being in the condition intended by management” – at this point capitalisation of costs ceases and depreciation commences.

Entities will need to consider the point at which capitalisation ceases and depreciation begins.

Important questions include: Is it when the asset is capable of producing a crop? Or when it produces a mature crop? Would you really capitalise fertilizer, water, weeding etc. costs until maturity?

Costs to capitalise

Costs to capitalise will also include borrowing costs
(mandatory to capitalise these for PPE under construction)
– this will require more effort in getting details for the
comparative year which you are restating.

Closing remarks

We (KPMG) note that since the Amendments require the application of IAS 16 instead of the mandatory application of fair value measurement, we think that this change will result in a reduction of ongoing costs to measure bearer plants.

Our overall assessment is that the overall benefits of implementation of the Amendments are likely to outweigh costs associated with the implementation.

Q & A Session





Thank you

Stephen Obock

Senior Manager, Audit

KPMG Kenya

T: 020 280 6000 / 129

C: 0709 576 129 / 0712 601 624

E: sobock@kpmg.co.ke