

Agriculture IAS 41 Presentation by:

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Presentation agenda



“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.”



Presentation agenda



1. Introduction – definitions
& scope

2. Measurement

3. Recognition

4. Government grants

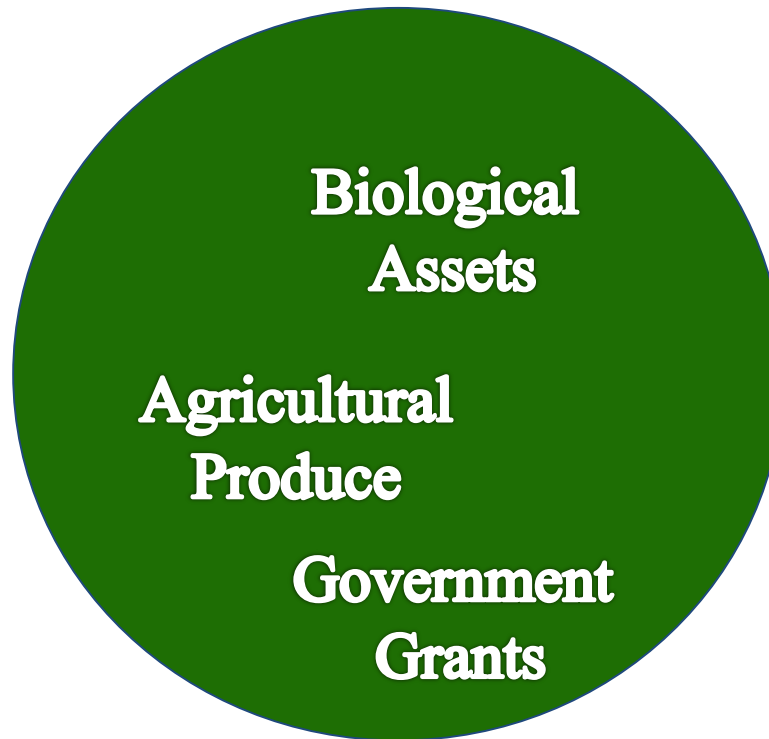
5. Bearer Plants

Definitions and Scope



**Agricultural
Produce after
point
of harvest**

**Intangible
Assets**



**Farm Land
& Buildings**

**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
 - Government grants related to a biological asset measured at fair value

Definitions and Scope



- ❖ **IAS 41 does not apply to land related to agricultural activity or intangible assets related to agricultural activity.**
- ❖ **It does not deal with processing of agricultural produce**

Definitions and scope



- ❖ Agricultural activity
- ❖ Agricultural produce
- ❖ Biological assets
- ❖ Biological transformation

Definitions and scope

Biological transformation comprises

- ❖ Growth
- ❖ Degeneration,
- ❖ Production
- ❖ Procreation

Causing qualitative or quantitative changes in a biological asset.

Definitions and scope

❖ Fair value.

❖ Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Definitions and scope



❖ **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

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

Examples Bearer Plants

- Tea bushes
- Coffee trees
- Sugar cane roots
- Fruit trees

Examples Agricultural Produce

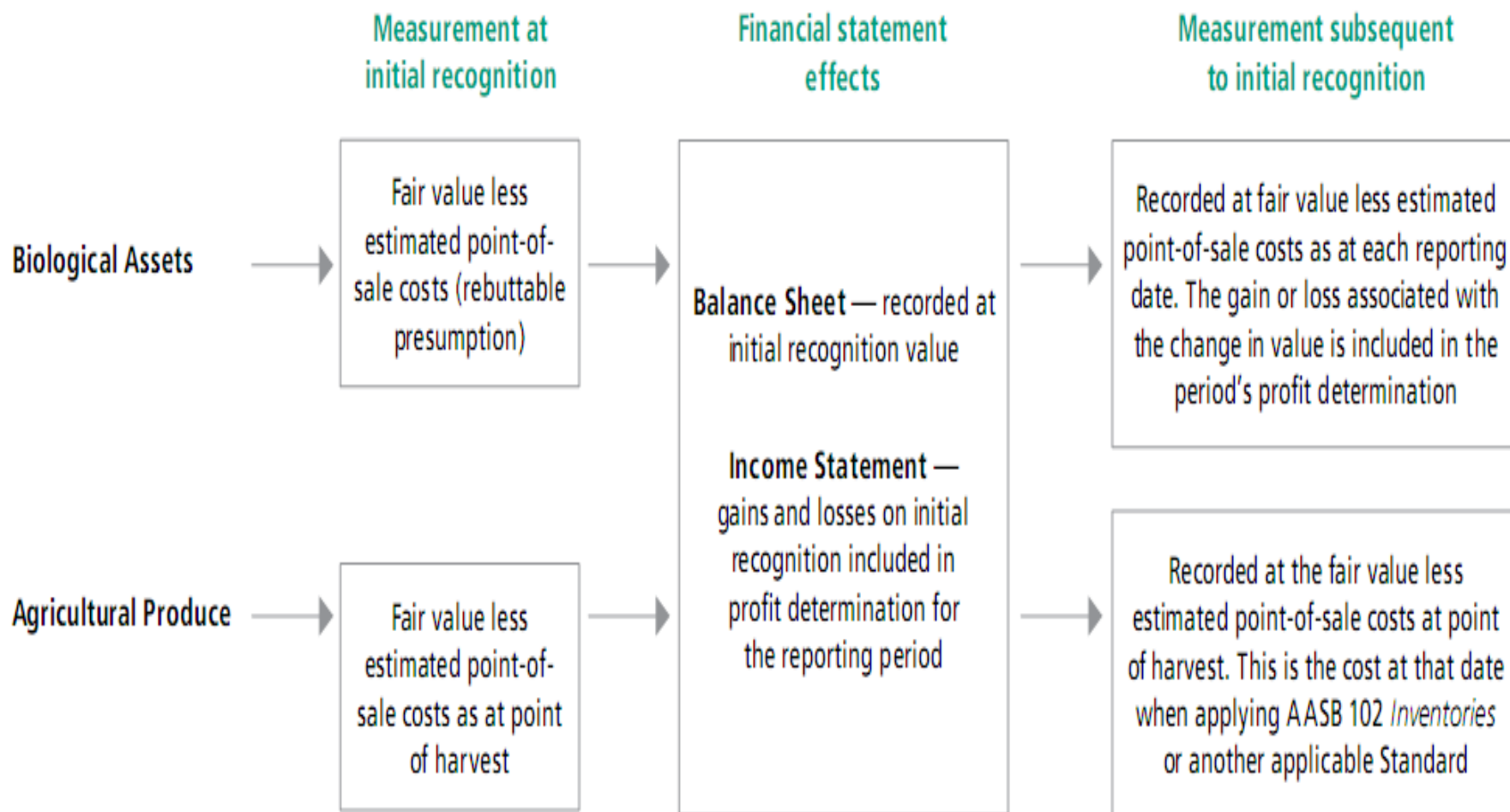


- Wool
- Cotton
- Harvested sugar cane
- Milk
- Picked tea leaves
- Latex

Examples Processed Products

- Sugar
- Cheese
- Cured ham
- Yarn
- Sausages

Accounting Treatment



Biological Assets



Recognition criteria

- **Control**
- High probability that future economic benefits associated with the asset will flow to the entity; and
- Fair value or cost of the asset can be measured reliably

Biological Assets Measurement



- A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs

Biological Assets Measurement



❖ Agricultural produce shall be measured at its fair value less estimated point-of-sale costs at the point of harvest.

Fair Value Of Biological Asset



- ❖ This is the quoted market price in an active market.
- ❖ In the absence of an active market, fair value could be determined by:
 - Most recent market transaction price
 - Market prices for similar assets with adjustment to reflect differences
 - Sector benchmarks

Absence Of Market



- ❖ 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

Biological Assets Subsequent Expenses



These are treated as capital or revenue expenditure based on the nature

Examples

- feeding
- veterinary services,
- planting

Biological Assets Gains and losses



- ❖ A gain or loss arising on initial recognition of a biological asset shall be included in profit or loss for the period in which it arises.

Government grants



- An unconditional government grant related to a biological asset measured at its fair when the government grant becomes receivable.

Government grants



- If a grant is conditional, an entity shall recognize the government grant as income when, and only when, the conditions attaching to the government grant are met.

Treatment Of Bearer Plants



- 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

Treatment Of Bearer Plants



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

Impairment of Bearer Plants



- Bearer plants under IAS 16 would have to be assessed for impairment under IAS 36 Impairment of Assets

Bearer Plants Further Issues



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.

Bearer Plants Further Issues



- Maintenance vs. capital expenditure decisions eg pruning and grafting
- Government grants relating to bearer plants are accounted for inline with IAS 20

Disclosures



- An entity shall disclose the aggregate gain or loss arising during the current period
- An entity shall provide a description of each group of biological assets.

Disclosures



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**

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.



IFRS 9 Financial Instruments

Initial measurement of financial instruments



All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Subsequent measurement of financial assets



IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications

- those measured at amortised cost and
- those measured at fair value.

Subsequent measurement of financial assets



Where assets are measured at fair value, gains and losses are either recognised

1. Entirely in profit or loss (fair value through profit or loss, FVTPL), or
2. Recognized in other comprehensive income (fair value through other comprehensive income, FVTOCI).

Classification Of Financial Instruments



- For debt instruments the FVTOCI classification is mandatory for certain assets unless the fair value option is elected.
- Whilst for equity investments, the FVTOCI classification is an election

Classification Of Financial Instruments



The classification of a financial asset is made at the time it is initially recognised

Debt instruments



A debt instrument that meets the following two conditions must be measured at amortised cost unless the asset is designated at FVTPL under the fair value option

1. Business model test
2. Cash flow characteristics test

Business model test



The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows

Cash flow characteristics test



The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other debt instruments must be measured at fair value through profit or loss (FVTPL)

Fair value option



Even if an instrument meets the two requirements to be measured at amortised cost or FVTOCI, IFRS 9 contains an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch')

Equity instruments

- All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to present value changes in 'other comprehensive income'.



Subsequent measurement of financial liabilities

- IFRS 9 doesn't change the basic accounting model for financial liabilities under IAS 39. Two measurement categories continue to exist: FVTPL and amortised cost.
- Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied. [IFRS 9, paragraph 4.2.1]



Fair value option

- IFRS 9 contains an option to designate a financial liability as measured at FVTPL
- If doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases



- A financial liability which does not meet any of these criteria may still be designated as measured at FVTPL when it contains one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not clearly closely related.



- IFRS 9 requires gains and losses on financial liabilities designated as at FVTPL to be split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount presented in profit or loss.

De-recognition of financial assets

- Financial assets are derecognized when
 - ❖ The asset has been transferred
 - ❖ The entity no longer controls the asset
 - ❖ Risks and rewards from the asset have been transferred



De-recognition of financial liabilities

- A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.



Reclassification

- For financial assets, reclassification is required between FVTPL, FVTOCI and amortised cost, if and only if the entity's business model objective for its financial assets changes
- If reclassification is appropriate, it must be done prospectively from the reclassification.
- An entity does not restate any previously recognised gains, losses, or interest.



Prohibition of Reclassification

- for equity investments measured at FVTOCI
- or where the fair value option has been exercised in any circumstance for a financial assets or financial liability





END

GOD BLESS YOU