

# IAS 41 by CPA Richard Kamami

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## PRESENTATION OUTLINE

- Introduction to IAS 41
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- Ongoing Changes

# Introduction



- ❑ IAS 41 *Agriculture* sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

# Introduction



- ❑ The standard generally requires biological assets to be measured at **fair value less costs to sell**.
- ❑ IAS 41 was originally issued in December 2000 and first applied to annual periods beginning on or after **1 January 2003**.

# History



## History of IAS 41

| Date                                 | Development                              | Comments  |
|--------------------------------------|--|---|
| December 1999                        | Exposure Draft E65<br><i>Agriculture</i> | Comment deadline 31<br>January 2000   |
| <a href="#"><u>December 2000</u></a> | IAS 41 <i>Agriculture</i> issued         | Operative for annual<br>financial statements<br>covering periods<br>beginning on or after 1<br>January 2003 |

## History of IAS 41

[22 May 2008](#)

Amended by *Improvements to IFRSs* (discount rates)

Effective for annual periods beginning on or after 1 January 2009

[30 June 2014](#)

Amended by *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*

Effective for annual periods beginning on or after 1 January 2016

# Objective



## Objective

The objective of IAS 41 is to establish standards of accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

- ❑ IAS 41 applies to biological assets with the exception of bearer plants, agricultural produce at the point of harvest, and government grants related to these biological assets.
- ❑ It does not apply to land related to agricultural activity (IAS 16), intangible assets related to agricultural activity, (IAS 38) government grants related to bearer plants, and bearer plants.
- ❑ However, it does apply to produce growing on bearer plants

# Scope Cont'd



## Note:

Bearer plants were excluded from the scope of IAS 41 by *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*, which applies to annual periods beginning on or after 1 January 2016.



# Scope Cont'd



## Note:

❑ The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (*which is a living plant used solely to grow produce over several periods*) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture.

❑ The produce growing on bearer plants will remain within the scope of IAS 41.

# Key definitions



- ❑ **Biological asset** A living animal or plant
  
- ❑ **Bearer plant\*** A living plant that:
  - is used in the production or supply of agricultural produce
  - is expected to bear produce for more than one period, and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

# Key definitions-Cont'd



**Agricultural produce**

The harvested product from biological assets

**Costs to sell**

The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes

# Initial Recognition



- ❑ An entity recognises a biological asset or agriculture produce only when:-

## Discussion

# Initial Recognition



- ❑ An entity recognises a biological asset or agriculture produce only when:-
  - 1) The entity controls the asset as a result of past events,
  - 2) It is probable that future economic benefits will flow to the entity, and
  - 3) The fair value or cost of the asset can be measured reliably. [IAS 41.10]

# Measurement



Biological assets within the scope of IAS 41 are measured on initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured. [IAS 41.12]

# Measurement Cont'd



- ❑ Agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. [IAS 41.13]
- ❑ The gain on initial recognition of biological assets at fair value less costs to sell, and changes in fair value less costs to sell of biological assets during a period, are included in profit or loss. [IAS 41.26]
- ❑ A gain on initial recognition (e.g. as a result of harvesting) of agricultural produce at fair value less costs to sell are included in profit or loss for the period in which it arises. [IAS 41.28]

# Measurement Cont'd



- ❑ All costs related to biological assets that are measured at fair value are recognised as expenses when incurred, other than costs to purchase biological assets-*which are capitalized.*



# Measurement Cont'd



- ❑ IAS 41 presumes that fair value can be reliably measured for (most) biological assets. (CRITICISM)
- ❑ For an asset without a fair market value at time of initial recognition, the asset is measured at cost less accumulated depreciation and impairment losses
- ❑ If circumstances change and fair value becomes reliably measurable, a switch to fair value less costs to sell is required. [IAS 41.30]

# Measurement Cont'd



- The change in fair value of biological assets is part physical change (growth, etc) and part unit price change.
- Separate disclosure of the two components is encouraged, not required. [IAS 41.51]

# Other Issues



- ❑ Agricultural land is accounted for under [IAS 16](#) *Property, Plant and Equipment*.
  
- ❑ However, biological assets (other than bearer plants) that are physically attached to land are measured as biological assets separate from the land.
  
- ❑ In some cases, the determination of the fair value less costs to sell of the biological asset can be based on the fair value of the combined asset (land, improvements and biological assets). [IAS 41.25]

- ❑ Agricultural produce is measured at fair value less costs to sell at harvest, and this measurement is considered the cost of the produce at that time (for the purposes of [IAS 2 Inventories](#) or any other applicable standard).  
[IAS 41.13]

# Other Issues



- ❑ Intangible assets relating to agricultural activity (for example, milk quotas) are accounted for under [IAS 38](#) *Intangible Assets*.

# Other Issues-Government Grant



- Unconditional government grants received in respect of biological assets measured at fair value less costs to sell are recognised in profit or loss when the grant becomes receivable. [IAS 41.34]
- If such a grant is conditional (*including where the grant requires an entity not to engage in certain agricultural activity*), the entity recognises the grant in profit or loss only when the conditions have been met. [IAS 41.35]

- ❑ Aggregate gain or loss from the initial recognition of biological assets and agricultural produce and the change in fair value less costs to sell during the period\*  
[IAS 41.40]
- ❑ A description of an entity's biological assets, by broad group [IAS 41.41]

- ❑ Description of the nature of an entity's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period [IAS 41.46]
- ❑ information about biological assets whose title is restricted or that are pledged as security [IAS 41.49]



# Disclosures



- commitments for development or acquisition of biological assets [IAS 41.49]
- financial risk management strategies [IAS 41.49]
- reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences\* [IAS 41.50]

- ❑ Disclosure of a quantified description of each group of biological assets, distinguishing between consumable and bearer assets or between mature and immature assets, is encouraged but not required. [IAS 41.43]

If fair value cannot be measured reliably, additional required disclosures include: [IAS 41.54]

- description of the assets
- an explanation of why fair value cannot be reliably measured.
- if possible, a range within which fair value is highly likely to lie

# Illustration



If there is an active market for a certain asset or agricultural produce, the quote on that market is actually an appropriate basis for estimating the assets' fair value. If there is no such market, the following criteria are used for the fair value estimation:

- the most recent market transaction price
- market prices of similar assets
- sector standards

Refer to the Example

- ❑ If the fair value of biological assets previously measured at cost subsequently becomes available, certain additional disclosures are required. [IAS 41.56]
- ❑ Disclosures relating to government grants include the nature and extent of grants, unfulfilled conditions, and significant decreases expected in the level of grants. [IAS 41.57]

- ❑ Assumption that fair value prices are achievable always not realistic.
- ❑ IAS 41 does not contain specific information related to how often one should evaluate biological assets, deducing that the evaluation must be conducted on each closing date, because there are no existent regulations to stipulate a less frequent evaluation of biological assets.

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- ❑ *International accounting standard-IAS 41-Agriculture does not contain specific information related to how often one should evaluate biological assets.*



# Way forward on IAS 41



## Related Interpretations

None

## Amendments under consideration by the IASB

None