

International Accounting Standard 41

Presentation by:

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Introduction



AS 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). The standard generally requires biological assets to be measured at fair value less costs to sell.

Introduction cont'd



This is also the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. However, IAS 41 does not deal with processing of agricultural produce after harvest; for example, processing grapes into wine and wool into yarn.

IAS 41 is effective for annual financial statements covering periods beginning on or after 1 January 2003.

History of IAS 41



Date	Developments	Comments
December 1999	Exposure Draft E65 <i>Agriculture</i>	Comment deadline 31 January 2000
December 2000	IAS 41 <i>Agriculture</i> issued	Operative for annual financial statements covering periods beginning on or after 1 January 2003
22 May 2008	Amended by <i>Improvements to IFRSs</i> (discount rates)	Effective for annual periods beginning on or after 1 January 2009
30 June 2014	Amended by <i>Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)</i>	Effective for annual periods beginning on or after 1 January 2016

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).

Scope



- 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, intangible assets related to agricultural activity, 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.

Definitions



Agriculture-related definitions

A biological asset is a living animal or plant.

A 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.

Agricultural produce is the harvested product of the entity's biological assets.

Definitions Cont'd



Agricultural produce is the harvested product of the entity's biological assets.

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

Definitions cont'd



Biological Assets	Agricultural Produce	Products that are the results of processing after harvest.
Sheep	Wool	Yarn, Carpet
Trees in a plantation forest	Felled trees	Logs, lumber
Plants	Cotton	Threads, Clothing
Sugar cane	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

Initial Recognition



An entity shall recognise a biological asset or agricultural produce when, and only when:

- (a) the entity controls the asset as a result of past events;
- (b) it is probable that future economic benefits associated with the asset will flow to the entity; and
- (c) 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] Because harvested produce is a marketable commodity, there is no 'measurement reliability' exception for produce

Measurement cont'd



- 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]
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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

Measurement cont'd



- IAS 41 presumes that fair value can be reliably measured for most biological assets. However, that presumption can be rebutted for a biological asset that, at the time it is initially recognised, does not have a quoted market price in an active market and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, the asset is measured at cost less accumulated depreciation and impairment losses.

Measurement cont'd



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Measurement cont'd



- However the entity must still measure all of its other biological assets at fair value less costs to sell. 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]
- 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]

Measurement cont'd



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

Government Grants



- An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.
- 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]

Disclosure



Disclosure requirements in IAS 41

- ❖ 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]
- ❖ 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]

Disclosure



Disclosure requirements in IAS 41

- ❖ information about biological assets whose title is restricted or that are pledged as security [IAS 41.49]
- ❖ commitments for development or acquisition of biological assets
- ❖ financial risk management strategies
- ❖ 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



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
- depreciation method
- useful lives or depreciation rates
- gross carrying amount and the accumulated depreciation, beginning and ending.

Case study