



IPSAS and PFM conference

17th June, 2021



The Scope of Biological Assets in Government

- **Definition and relevant IPSAS**
- **Mapping Biological Assets within the Public Sector in Kenya**

Definition and relevant IPSAS

1



Background



- Although most of you do NOT deal with agriculture, it is still one of the most important industries in the world.
- It is so important and so different from other industries that it has its own standard.
- In many developing countries, agricultural activities represent one of the most important sources of income.
- Unlike other industries, agriculture works with living animals and plants. By definition, living animals and plants are born, grow and die.

Applicable IPSAS



IPSAS 27/IAS 41

Agriculture



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Definition



The management of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets



Definition



Biological asset

- Living animal or plant capable of biological transformation which comprises the processes of growth, degeneration, production, and procreation that bring about either qualitative or quantitative changes or both.

Types

- Consumable biological assets are those assets that may either be harvested as agricultural produce or sold as biological assets.
- Bearer biological assets are used in production or supply of agricultural produce that is expected to produce for more than 1 period. Bearer biological assets are self-regenerating

Definition



- A bearer plant is a plant that:
 - Is used in the production or supply of agricultural produce
 - Is expected to bear produce for more than one period
 - Has a remote likelihood of being sold as agricultural produce except for incidental scrap sales
- NOTE
 - Determining whether a plant is a bearer plant is critical as it drives the subsequent measurement of the plant. Judgment is required in determining if the definition is met, especially in deciding if sales of the plant itself are incidental scrap sales.

Definition



- Harvesting is the detachment of produce from a biological asset or the cessation of the life processes of a biological asset.
- Subsequent to harvest treat as inventories



Common features



- **Ability to change** - biological transformation
- **Management of change** - enhancing or stabilising, those conditions which are necessary for the process of change to take place
- **Measurement of change** - in quality or the quantity monitored as a routine management function.

Does Not Include



- a. Land related to agricultural activity (see IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant, and Equipment*);
- b. Intangible assets related to agricultural activity (see IPSAS 31, *Intangible Assets*); and
- c. Biological assets held for the provision or supply of services.

Does Not Include



- ▶ Animals or plants that are used primarily for non-productive purposes such as research, education, transportation, entertainment, recreational parks or game farms, or in delivering a service to the public, for example dogs and horses used for policing.
- ▶ Management of native forest, private game farms, wild life conservancies and agro-tourism.
- ▶ The value from such animals and plants has different goals e.g. Parks manage wildlife for conservation purposes not to generate profits.

Biological assets, Agricultural produce, and products



Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	carpet
Trees in a plantation	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

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Biological assets, Agricultural produce, and products



- 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 IPSAS 27/IAS 41?

Biological assets, Agricultural produce, and products



- 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 IPSAS 27/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 IPSAS 27/IAS 41 and the carcasses as inventory in accordance with IPSAS 12/IAS 2*

Biological assets, Agricultural produce, and products



- Entity B grows vines, harvests the grapes and produces wine.
- Which of these activities are in the scope of IPSAS 27/IAS 41?

Biological assets, Agricultural produce, and products



- Entity B grows vines, harvests the grapes and produces wine. Which of these activities are in the scope of IPSAS 27/IAS 41?

The grapevines are biological assets that continually generate crops of grapes. When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce. The grapevines continue to be living plants and should be recognised as biological assets.

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 grapevines in accordance with IPSAS 27/IAS 41 and the harvested grapes and the production of wine, as inventory in accordance with IPSAS 12/IAS 2

Biological assets, Agricultural produce, and products



Pharmaceutical companies

- Some pharma companies grow their own plants in order to produce drugs. Is this an agricultural activity?

Diary producers

- If a company grows its own bacteria and cultures and then adds them to its yoghurts, Is this an agricultural activity?

Jewelry producers

- Jewelry producers produce their own pearls by planting foreign objects (such as pieces of shells or parasites) into the soft bodies of living oysters. Then, the oyster produces a pearl by secreting crystalline substance around the object to protect itself. Is this an agricultural activity?
- On the other hand, not everything involving living plants or animals is agricultural activity.

Recognition and measurement

2



Initial recognition



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 asset will flow to the entity; and
- The fair value or cost of the asset can be measured reliably.

Initial Measurement



- Measured on initial recognition and at each reporting date at its fair value less cost to sell.
- Changes in fair value recognized in profit or loss.



Initial Measurement



Fair Value

- If an active market exists - *quoted price*

The fair value of an asset is based on its present location and condition. Accordingly, the fair value of cattle on a farm is the price for the cattle in the relevant market less the transport and other costs of transporting those cattle to that market.

- If an entity has access to different active markets, - *market that it expects to use.*
- If an active market does not exist use;
 - ✓ *The most recent market transaction price.*
 - ✓ *Market prices for similar assets with adjustments to reflect differences*
 - ✓ *Sector benchmarks.*

In some circumstances, fair value may be readily determinable even through market determined prices or values are not available for a biological asset in its present condition.

Expected net cash flows



- Market-determined prices may not be available.
- Uses the present value of expected net cash flows discounted at a current market determined interest rate.
- Net cash flows that market participants would expect the asset to generate in its most relevant market.

Present value of expected cash flows



The present value of expected cash flows;

- Do not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest.
- Incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate.

Disclosures



- A description of each class of biological assets
- The methods and significant assumptions applied in determining the fair value
- A reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period,
- The gain and loss arising from changes in fair value less costs to sell
- Increases resulting from purchases.
- Decreases resulting from harvest.
- Increases resulting from business combinations.
- Net exchange differences arising on the translation of financial statements into a different presentation currency and on the translation of a foreign operation into the presentation currency of the reporting entity.
- Other changes.

Measurement at cost



The presumption that fair value can be measured reliably can be rebutted **only on initial recognition** for a biological asset for which market-determined prices or values are not available or are clearly unreliable.

- *measure at cost less any accumulated depreciation and any accumulated impairment losses.*
- *measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest.*

Disclosures



- A description of each class of its biological assets.
- An explanation of why fair value cannot be measured reliably
- The depreciation method used
- The useful lives or the depreciation rates used
- The gross carrying amount and the accumulated depreciation at the beginning and at the end of the period.

Government grants



- unconditional grant related to a biological asset measured at its fair value less costs to sell recognised in profit or loss when becomes receivable
- If conditional include in profit and loss when the conditions attaching to the government grant are met.
- IPSAS 23/IAS 20 is applied to a grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses

Disclosures



- Nature and extent of government grants recognized
- Unfulfilled conditions and other contingencies attaching to grants
- Significant decreases expected in the level of grants.

Biological assets in Government



Guidelines on Asset And Liability Management in the Public Sector- July 2020

- Appendix 4: Schedule of Useful Lives and Depreciation
 - ✓ Biological assets useful life estimation is not applicable
- Appendix 5: Asset Categories and Capitalisation Thresholds
 - ✓ Biological assets capitalization at Kshs 200,000

Transitional Provision



Where an entity initially recognizes biological assets or agricultural produce on the first-time adoption of the accrual basis of accounting, the entity shall report the effect of the initial recognition of those assets, and that produce as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which this Standard is first adopted.

Thank You

