



# **FINANCIAL REPORTING**

***IAS 41: Agriculture***

# **OBJECTIVE OF THE STANDARD**

The objective of this standard is to prescribe the accounting treatment and disclosures related to **agricultural activity**.

# **SCOPE OF THE STANDARD**

The standard applies to accounting for the following to the extent they are related to agricultural activity;

- ❖ Biological assets other than bearer plants
- ❖ Agricultural produce at the point of harvest
- ❖ Government grants

It shall not apply to;

- ❖ land related to agricultural activity under IAS 16 or IAS 40.
- ❖ bearer plants related to agricultural activity within the scope of IAS 16. But it applies on produce from such plants at the point of harvest.
- ❖ government grants related to bearer plants under IAS 20.
- ❖ intangible assets related to agricultural activity such as production quotas under IAS 38.
- ❖ right-of-use assets arising from a lease of land related to agricultural activity.

# AGRICULTURE RELATED DEFINITIONS

**Agricultural activity:** the management by an entity of the *biological transformation* and *harvest* of *biological assets* for sale or for conversion into *agricultural produce* or into additional *biological assets*.

**Biological asset:** a living animal or plant.

**Biological transformation:** comprises the processes of growth, degeneration, production, and procreation that cause *qualitative* or *quantitative* changes in a biological asset.

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

**Agricultural produce:** the harvested produce of the entity's biological assets.

**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
- ❖ has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

**BUT:** Plants such as trees cultivated to be harvested as agricultural produce are not bearer plants.

<b>Biological assets</b>	<b>Agricultural produce</b>	<b>Products that are the result of processing after harvest</b>
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products

Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IAS 41.

- REF: IAS 41 para 4
- Column one items are included in IAS 41 except for bearer plants
- Column two items are included in IAS 41 **BUT** only at the point of harvest. They are treated as inventory (or other applicable standard) after that point.
- Column three items are totally out of the scope of IAS 41

# RECOGNITION AND MEASUREMENT

## Recognition of a biological assets

Biological assets should be recognized if;

- ❖ It is probable that economic benefits will flow to the entity
- ❖ The cost or fair value of the asset can be reliably measured
- ❖ The entity **controls** the asset

## Measurement criteria

### Initial measurement

#### - biological assets are measured at;

- ❖ Fair value less costs to sell. Gains or losses on initial recognition of a biological asset at FVLCS should be taken to profit or loss (**as part of profit from operations**) in the period it arises. (such as when a calf is born)
- ❖ Cost if the fair value measurements are determined to be clearly unreliable. When the fair value becomes reliably measurable, then the fair value less costs to sell is used.

#### - Agricultural produce

At the point of harvest, agricultural produce should be recognized and measured at their fair value less cost to sell with gains or losses on initial recognition taken to **profit or loss (part of profit from operations)** in the period it arises. This fair value less costs to sell shall become the cost at the point of applying *IAS 2: Inventories or any other applicable standard*.

### Subsequently measurement

biological assets are kept at a fair value less costs to sell revalued yearly and taking any gains or losses to **profit or loss (part of profit from operations)**.

## **SUBSEQUENT MEASUREMENT OF BIOLOGICAL ASSETS CONT'D**

**Costs to sell:** These are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

IAS 41 encourages but does not require an entity to disclose a split of the change in fair value of a biological asset between:

- ❖ Changes attributable to the physical change in biological assets (may include growth, degeneration, production, procreation)
- ❖ Changes attributable to price changes.

# GOVERNMENT GRANTS

## Government grants related to biological assets

Such grants are governed by IAS 41 rather than IAS 20.

- ❖ If a grant is unconditional and it's in respect to biological assets measured at FVLCS, the grant is recognized as an income in the statement of profit or loss when it becomes receivable.
- ❖ If the grant is conditional and it's in respect to biological assets measured at FVLCS, an entity recognizes the grant as income to the statement of profit or loss only (or as and) when the conditions are met.
- ❖ If the government grant **relates** to a biological asset measured at cost less any accumulated depreciation and any accumulated impairment losses, IAS 20 applies.



# DISCLOSURES

- ❖ An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.
- ❖ An entity shall provide a description of each group of biological assets
- ❖ 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.

## **If the fair value cannot be measured reliably, an entity shall disclose;**

- ❖ a description of the biological assets
- ❖ an explanation of why fair value cannot be measured reliably
- ❖ the depreciation method used
- ❖ the useful lives or the depreciation rates used
- ❖ if possible, the range of estimates within which fair value is highly likely to lie
- ❖ the gross carrying amount and the accumulated depreciation at the beginning and the end of the period

**December 2022 question 5.....**

**June 2022 question 4.....**

**November 2019 question 2...**

March 2021 question 5