



**INTERNATIONAL FEDERATION  
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**Agenda Item  
7**

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**DATE:** September 30, 2008  
**MEMO TO:** Members of the IPSASB  
**FROM:** Qi Chang  
**SUBJECT:** Agriculture

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**OBJECTIVE OF THIS SESSION**

**To consider** the Rules of the Road analysis and the Project Brief, and **agree** the analysis or provide alternative directions.

**To consider** first draft of an IPSAS, ED XX, Agriculture and **provide** directions for further development with a goal towards approving an ED at the February 2009 meeting.

**AGENDA MATERIAL**

- 7.1 “Agriculture: Rules of the Road Analysis”
- 7.2 Project Brief – project initiation document
- 7.3 Markup of IAS 41
- 7.4 IAS 41, “Agriculture”

**ACTION REQUIRED**

The Members are asked to:

- **Discuss issues** outlined in the Rules of the Road analysis and Project Brief, identifying any other issues; and
- **Provide** directions in order to allow further development of the Exposure Draft (ED) for approval at February 2009 IPSASB meeting.

**BACKGROUND**

A project to develop an IPSAS primarily drawn from IAS 41, *Agriculture* is in the current Work Plan and is in accordance with IPSASB’s strategic theme of IFRS convergence. This project has high relevance in some jurisdictions and is seen as a potential “quick win” in moving towards convergence. In reviewing this potential project, staff has considered IAS 41 as well as the South African GRAP 101 on agriculture.

## GUIDELINES FOR MODIFYING IASB DOCUMENTS

### AGRICULTURE

Consistent with all IFRS convergence projects, the starting point is an analysis of public sector issues using the IPSASB, *Guidelines for Modifying IASB Documents* (Rules of the Road). The Rules of the Road have been applied to IAS 41, *Agriculture* to determine whether this should be an IFRS convergence project or whether a public sector specific project is needed.

In reviewing IAS 41, staff has identified a number of potential public sectors issues as follows:

#### 1. *Scope and Classification of Biological Assets*

In IAS 41, *biological assets* may be classified as *consumable biological assets* and *bearer biological assets* for disclosure purposes. Alternatively, entities may distinguish between mature and immature assets. (see paragraph 44, IAS 41).

*Consumable biological assets* are those biological assets that are to be harvested as agricultural produce or sold as biological assets, for example, where cows are bred as a food source, the resulting beef is agriculture produce. Such assets embody future economic benefits. *Bearer biological assets* are self-regenerating assets other than consumable biological assets, for example dairy cattle rather than beef cattle, grape vines and fruit trees. *Consumable* and *bearer biological assets* generate net cash inflows for an entity and therefore embody future economic benefits.

Staff has some concern that these classifications of biological assets do not adequately reflect all biological assets in the public sector. Some biological assets may be cultivated and raised for public welfare purposes rather than productive purposes – they do not normally generate net cash inflows for an entity but embody service potential. For example, dogs and horses used for policing, and forests held for water and soil conservation may embody service potential rather than economic benefit.

Staff believes that the IPSASB should consider whether requirements for biological assets that embody service potential need to be included. Some issues would need to be addressed including defining the categories of biological assets, and most importantly whether some of these assets are related to agricultural activity.

#### 2. *Definition of and Accounting for Government Grants*

In IAS 41, the general definitions include *government grants* (see paragraph 8, IAS 41). IAS 41 relies on the definition in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IAS 41 provides requirements and guidance for the treatment and accounting for government grants related to a biological asset (see paragraphs 34 to 38, IAS 41). There is no IPSAS directly equivalent to IAS 20 and the definition of government grants in IAS 20 has not been adopted in the current suite of

IPSASs. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* deals with accounting for government grants received in non-exchange transactions. Staff therefore considers that the definition of government grants in IAS 41 and the requirements on accounting for such grants in paragraphs 34-38 of IAS 41 may be unnecessary, as accounting for such grants is presumably addressed in IPSAS 23.

**3. *Measurement for Biological Assets Acquired at No or Nominal Cost***

IAS 41 does not deal with the measurement for biological assets acquired at no cost or nominal cost. A public sector entity may acquire assets at no cost or nominal cost; for example, the entity acquires naturally generated biological assets at no cost from another public sector entity. The South African GRAP includes this guidance and it is also consistent with the approach to recognition and measurement in other IPSASs dealing with assets, e.g. IPSASs 12, 16, 17 and 18.

**4. *Clarification of Scope***

The scope of IAS 41, “Agriculture”, applies to agricultural produce only at the point of harvest. Commentary in IAS 41 states that, thereafter, IAS 2, “Inventories” or another applicable Standard is applied. IAS 2 excludes from its scope the measurement of inventories held by “producers of agricultural and forest products, agricultural produce after harvest (staff emphasis) and mineral and mineral products, to the extent that they are measured at net realizable value in accordance with well established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in profit or loss in the period of the change.” This scope exclusion was adopted in IPSAS 12, “Inventories” with minor changes for standard IPSAS terminology. (see paragraph 3(a), IAS 2 *Inventories*; paragraph 7(a), IPSAS 12 *Inventories*; and paragraph 3, IAS 41 *Agriculture*). This paragraph scopes out only measurement and then only if agricultural products are measured at net realizable value—otherwise agricultural products are within the entire scope of IPSAS 12. Staff believes that in order to clarify the scope, commentary should be included in paragraph 3 of the ED that “Agricultural products that are the result of processing after harvest are within the scope of IPSAS 12, “Inventories.”

## **APPLYING THE RULES OF THE ROAD**

### **Step 1: Are there public sector issues that warrant departure?**

In applying the rules in Step 1, public sector issues are assessed to determine if they warrant a departure in recognition, measurement, presentation or disclosure.

In addressing Step 1, Staff has reviewed the public sector issues identified above and analyzed them in the context of the rules.

*Rule #1: Where applying the international accounting standards would mean the objectives of public sector financial reporting would not be met.*

IPSAS 1 notes that the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it (paragraph 15). For biological assets that may embody service potential, the objectives of public sector reporting may not be met if such assets are not separately identified and disclosed, and adequate information about the allocation and uses of such assets would not be provided for decision making.

Likewise, for measurement of biological assets acquired at no or nominal cost, the objectives of public sector reporting may not be met if such assets are not measured in an appropriate way, and adequate information about the allocation and uses of such assets and in evaluating the entity's performance would not be provided for decision making.

For accounting for Government Grants and clarification of scope, these objectives would be met by applying IPSAS 23 instead and therefore removal of these paragraphs of IAS 41 is appropriate.

*Rule #2: Where applying the international accounting standards/interpretations would result in a loss of accountability to stakeholders.*

Staff believes that the exclusion of biological assets that may embody service potential in an IPSAS primarily drawn from IAS 41 would cause a loss of accountability to public sector stakeholders. Staff also believes that excluding any assets generating "service potential" would cause a loss of accountability to stakeholders. In the public sector an asset provides a means for the entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying service potential and are common in the public sector. Service potential needs to be included in the public sector because of the unique aspects of governmental operations. This approach is also in accordance with the definition of "assets" in IPSAS 1 and is consistent with the approach adopted in other IPSASs.

*Rule #3: Where applying the international accounting standards/interpretations would mean the qualitative characteristics of public sector financial reporting would not be met.*

The IPSASB is addressing qualitative characteristics in its conceptual framework project. The existing IPSASB qualitative characteristics are Understandability, Relevance, Reliability and Comparability.

Staff is of the view that none of the public sector issues raised would have a significant impact on the qualitative characteristics.

*Rule #4: Where the cost of applying the international accounting standards/interpretations exceeds the benefit.*

In the preliminary research that has been completed on agriculture, there has been no indication that cost/benefit factors are a major concern. Staff will continue to monitor the existence of cost/benefit concerns.

**Summary of Step 1 – Analysis:**

<b>Areas of consideration</b>	<b>Issue Identified</b>	<b>Comments</b>
1) Cause objectives of financial reporting not to be met?	Scope and Classification of Biological Assets	Objectives not met
	Government Grants – definition and treatment and accounting of government grants	Objectives met with IPSAS 23
	Measurement for Acquisition of Biological Assets at No or Nominal Cost	Objectives not met
	Clarification of Measurement Scope	N/A
2) Affect the accountability to stakeholders?	Scope and Classification of Biological assets	Accountability could be compromised if not addressed.
3) Cause qualitative characteristics not to be met?	N/A	N/A
4) Where cost of applying exceeds the benefit.	N/A	To be monitored but no immediate indications of concern.

**Conclusion Step 1:** Staff concludes that there are four public sector issues that warrant some departure from IAS 41:

- The exclusion of biological assets for public welfare purposes from scope and disclosure requirements;
- The definition and treatment and accounting of government grants;
- The measurement for acquisition of biological assets at no or nominal cost; and
- Biological assets primarily providing service potential, rather than economic benefits.

Therefore in applying the guidelines we need to proceed to Step 2.

**Step 2: Are the departures so significant that a public sector specific project should be initiated?**

Four public sector issues warranting departures from IAS 41 have been identified in Step 1. The nature of the public sector issue and its significance are to be considered.

Staff is of the view that the issues identified above can be addressed by modifying the text of IAS 41. There is an existing model in previous IPSASs for dealing with “service potential” considerations. In reviewing the South African GRAP 101 this is the approach taken and staff agrees that it is appropriate.

**Conclusion Step 2:** Staff concludes that public sector issues that warrant departure can be addressed within a converged IASB document with some modification and development. Step three will consider the parameters for the extent of modification and development allowed.

**Step 3: Modify and develop IASB documents**

The rules of the road analysis is intended to identify public sector issues relating to agriculture. As noted, staff believes that the treatment and accounting of government grants, the definition and classification of biological assets in a broad sense and the considerations of service potential are unique to the public sector and require modification of IAS 41 under Step 3.

The first criteria in Step 3 of the guidelines indicates that recognition and measurement requirements in IAS 41 may be modified and developed, if doing so will result in the objectives of public sector financial reporting being better met. Staff believes that addressing the issues with respect to biological assets would enhance the usefulness of information for decision makers, as indicated in the current IPSAS objectives.

Step 3 also indicates that amendments may be made to the scope to be consistent with existing IPSASs. Staff believes that the modification to “future economic benefit” to be expanded to encompass “service potential” falls into this category and is consistent with the definition of an “asset” in the IPSASB literature.

In addition, the material on government grants may be deleted since IPSAS 23 deals with this.

<b>Modification and development considerations</b>	<b>Scope and Classification of Biological Assets</b>	<b>Measurement for Acquisition of Biological Assets at No or Nominal Cost</b>	<b>Government grants</b>
i) Result in objectives of public sector financial reporting being better met	Yes	Yes	N/A
ii) An alternative that better achieves the objective	N/A	N/A	Yes
iii) Eliminate options	N/A	N/A	N/A
iv) Guidance for public sector context	Yes	Yes	N/A
v) Modify disclosure	Yes	N/A	N/A
vi) Add public sector example	Yes	N/A	N/A
vii) Amendments to scope to be consistent with existing IPSAS	N/A	N/A	N/A

**Conclusion Step 3:** Staff concludes that the four identified issues can be addressed by modifying IASB documents.

**Step 4: Make IPSAS style and terminology changes to IASB documents**

The standard changes will be made to reflect IPSAS style and terminology.

**Qi Chang**

**TECHNICAL MANAGER**



## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

### PROJECT BRIEF AND OUTLINE

#### 1. Subject – Agriculture

The IPSASB has identified agriculture as a convergence project with IFRS. It has garnered some interest in certain regions and developing a standard could be a “quick win”.

##### a) Issues Identification

The principal issues in accounting for agriculture are the clarification of the scope, the definitions, recognition and measurement of biological assets and agricultural produce and disclosures.

##### b) Objectives to be achieved

The objective of this project is to prescribe the accounting treatment for the agricultural activities of public sector entities so that users of financial statements have useful and relevant information about such activities.

The objective is to improve public sector financial reporting by reducing inconsistencies in accounting for agriculture, and thereby to enhance comparability between the financial statements of public sector entities.

##### c) Link to IFAC/IPSASB Strategic Plans

###### *i. Link to IPSASB Strategy*

In the IPSASB Strategy and Operating Plan agriculture is listed as a priority project. The agriculture project is in furtherance of the IPSASB Strategic Theme “IFRS Convergence”. A standard on agriculture will enhance the quality, transparency and comparability of public sector financial reporting by providing better information for the users of general purpose financial statements and for public sector financial management and decision making.

###### *ii. Link to IFAC Strategic Plan*

The agriculture project is in accordance with the IFAC strategic theme of “Recognition as the International Standard Setter” and also has a direct impact on the “enhancement of collaborative efforts”, as it involves convergence with a current International Financial Reporting Standard.

## 2. Outline of the Project

### a) Project Scope

The project applies to all public sector entities (except Government Business Enterprises (GBEs)), in accounting for agriculture, under the accrual basis of accounting. GBEs are required to apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB).

The project will include an analysis of IAS 41, *Agriculture*. While there are some public sector issues, it is possible to develop an IPSAS on agriculture that is based on and substantially converged with IAS 41.

The items listed below are excluded from the scope because the accounting treatment is specified in another IPSASB standard.

- Land related to agriculture activity;
- Intangible assets related to agriculture activity;
- Processing of agriculture produce after harvest; and
- Government grants.

### b) Major Problems and Key Issues that Should be Addressed

#### *I Scope and Classification of Biological Assets*

In IAS 41, *biological assets* are classified as *consumable biological assets* and *bearer biological assets when they are disclosed*. This classification may not reflect all biological assets in the public sector, because some biological assets in the public sector may be cultivated, developed or nurtured for public welfare purposes. The project will examine whether such assets are biological assets related to agriculture activity and whether they should be within the scope of and ED of an IPSAS, primarily drawn from IAS 41.

#### *II Definition of and Accounting for Government Grants*

In IAS 41, the general definitions include *government grants* which are as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. There is no equivalent IPSAS of IAS 20 and the definition of government grants in IPSASs.

IAS 41 provides requirements and guidance on accounting for government grants. Staff believes that IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* addresses government grants related to biological assets and agricultural activity. It will therefore be considered whether paragraphs 34-38 of IAS 41 should be excluded from an IPSAS and that government grants and other non-exchange transfers related to biological assets measured at its point-of-sale costs should be recognized in accordance with IPSAS 23.

*III Measurement for Acquisition of Biological Assets at No or Nominal Cost*

IAS 41 does not clarify the measurement of biological assets acquired at no or nominal cost. Public sector entities may acquire such assets and so clarification of the measurement at acquisition of such assets may be appropriate.

*IV Clarification of Scope Relating to Measurement*

IAS 41 *Agriculture* applies to agricultural produce only at the point of harvest and excludes products that are the result of processing after harvest. IAS 2 *Inventories* excludes from its scope the measurement of inventories held by “producers of agricultural and forest products, agricultural produce after harvest and mineral and mineral products, to the extent that they are measured at net realizable value in accordance with well established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in profit or loss in the period of the change.” This scope exclusion was adopted in IPSAS 12 *Inventories*. IPSAS 12 scopes out only measurement and then only if agricultural products are measured at net realizable value—otherwise agricultural products are within the entire scope of IPSAS 12. In the ED for this project it is appropriate to stress that “Agricultural products that are the result of processing after harvest are within the scope of IPSAS 12, “Inventories”, in ED of Agriculture, to clarify and emphasize the scope of an ED of an IPSAS based on IAS 41.

*V Assets Generating Service Potential Rather than Economic Benefits*

In IAS 41, consistent with the approach in other IASs/IFRSs dealing with assets, the term “future economic benefits” is used. In other IPSASs that are converged with IFRSs this term has been consistently modified to be “future economic benefits or service potential.” This is in accordance with IPSAS 1. Paragraph 11 of IPSAS 1 uses the term “to encompass all the purposes to which assets may be put, this Standard uses the term ‘future economic benefits or service potential’ to describe the essential characteristics of assets.

### **3. Describe the Implications for any Specific Persons or Groups**

#### **a) Relationship to IASB**

The IASB has an existing standard IAS 41, “Agriculture.”

The IASB currently has a project on Fair Value Measurement with a project team and an informal valuation advisory group to provide practical input about measuring fair value and about valuation issues generally.

This project may have broader implications for fair value measurement and finalized guidance may affect agriculture, along with other assets measured at fair value. The IPSASB will continue to monitor the developments in Fair Value Measurement.

**b) Other**

This project has implications for the following:

- Assurance and verifiability (IAASB/INTOSAI); and
- Budget and statistical groups involved with public sector financial statements.

**4. Development Process, Project Timetable and Project Output**

**a) Development process**

The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

The next step is development of an ED of an IPSAS standard primarily drawn from IAS 41. The ED will have a consultation period of four months. Following analysis of submissions on the Exposure Draft, a full Standard will be developed.

**b) Project timetable**

The project timetable should identify the major project milestones and the expected timeline for achieving the objectives.

	<b>Expected Completion</b>
Issues Paper & Project Brief	October 2008
Initial Review of Exposure Draft and Directions	October 2008
Approve Exposure Draft	February 2009; Response date August 15, 2009
Review of responses	October 2009
Approve Final IPSAS	February 2010

**c) Project output**

The expected output will be an IPSAS converged with IAS 41.

**5. Resources Required**

**a) Task Force**

A Task Force is unlikely to be required. However, members may need to assist Staff by highlighting public sector standard setters that have developed pronouncements on agriculture as well as identifying current practices in both English and non-English speaking countries.

**b) Staff**

One staff member will be required on this project for the period of development of the ED. It is anticipated that approximately one-half of an FTE would be needed.

**c) Factors that might add to complexity or length**

- Nature of Product (converged or public sector specific);

**6. Important Sources of Information that Address the Matter being Proposed**

1. IASB 41 *Agriculture*
2. South Africa – Accounting Standards Board – GRAP 101 *Agriculture*

Prepared by Qi Chang Date

(Technical Manager IPSASB)

The following should be completed after board or committee approval and after revising the project proposal form to reflect any changes by the board or committee.

Approved by \_\_\_\_\_ Date

(Chair IPSASB)

## **COMMENTS BY TECHNICAL MANAGERS**

The comments of Technical Manager from each technical area are required before this Project Proposal is considered by the board or committee proposing to undertake the project.

### **Technical Manager to the Compliance Advisory Panel**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

### **Technical Manager to the DNC**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

### **Technical Manager to the SMPC**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

### **Technical Manager to the IESBA**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

**Technical Manager to the IAASB**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

**Technical Manager to the PAIB Committee**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

**Technical Manager to the IAESB**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

**Technical Manager to the Transnational Auditors Committee**

[Insert comments (prompts – views on importance of project, other matters wished to be communicated)]

Signed \_\_\_\_\_

Date \_\_\_\_\_

**Exposure Draft**

March 2009

Comments are requested by July 15, 2009

*Proposed International Public Sector Accounting  
Standard*

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# **Agriculture**



**International Federation  
of Accountants**

## REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, *Agriculture*, for publication in February 2009. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **July 15, 2009**. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto, Ontario M5V 3H2 CANADA

Email responses should be sent to: **publicsectorpubs@ifac.org**

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

## ACKNOWLEDGMENT

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard IAS 41, “Agriculture” published by the International Accounting Standards Board (IASB). Extracts from IAS 41 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

The approved text of the IFRSs is that published by the IASB in the English language, and copies may be obtained directly from IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

**E-mail: [publications@iasb.org](mailto:publications@iasb.org).**

**Internet: <http://www.iasb.org>.**

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**Objective**

The objective of this Exposure Draft is to propose requirements for accounting for agriculture that are harmonized with IAS 41.

**Presentation of the Proposed Amendments To IAS 38**

The Exposure Draft presents a marked-up copy of the full text of IAS 41. The proposed changes are identified in mark-up. Additional guidance relevant to the public sector is inserted following the appropriate IAS 41 paragraph.

**Request for Comments**

The IPSASB invites comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The IPSASB has identified the following Specific Matter for Comment that it is particularly interested in.

**Specific Matter for Comment**

The IPSASB would particularly value comments on the following question:

In IAS 41 biological assets include consumable biological assets and bearer biological assets. In the public sector some biological assets may be developed for public welfare purposes and embody service potential. Do you agree that these biological assets being cultivated, developed or nurtured for public welfare purposes should be within the scope of this Standard? Please state your reasons.

## International Public Sector Accounting Standard

### IPSAS xx--- AGRICULTURE

#### **International Accounting Standard 41**

#### **Agriculture**

*This version includes amendments resulting from IFRSs issued up to 17 January 2008.*

IAS 41 was issued by the International Accounting Standards Committee in February 2001.

In April 2001 the International Accounting Standards Board resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

IAS 41 and its accompanying guidance have been amended by the following IFRSs:

- ~~IAS 1 *Presentation of Financial Statements* (as revised in December 2003)~~
- ~~IAS 2 *Inventories* (as revised in December 2003)~~
- ~~IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in December 2003)~~
- ~~IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004)~~
- ~~IAS 1 *Presentation of Financial Statements* (as revised in September 2007).~~

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International Public Sector Accounting Standard xx, “~~41~~ Agriculture” (~~IAS 41~~) is set out in paragraphs 1-58. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IPSAS XX IAS 41 should be read in the context of its objective, and the Basis for Conclusions, and the Preface to International Public Sector Accounting Standards, ~~the Preface to International Financial Reporting Standards and the Framework for the Preparation and Presentation of Financial Statements~~. IPSAS 8-3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Introduction

- IN1 [IPSAS 41-xx](#) prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets.
- IN2 [IPSAS 41-xx](#) prescribes, among other things, 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. It requires measurement at fair value less estimated point-of-sale costs from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. However, [IPSAS 41-xx](#) does not deal with processing of agricultural produce after harvest; for example, processing grapes into wine and wool into yarn. [Biological assets include those developed for public welfare purposes](#)
- IN3 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, [IPSAS 41-xx](#) requires an entity to measure that biological asset at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity should measure it at its fair value less estimated point-of-sale costs. In all cases, an entity should measure agricultural produce at the point of harvest at its fair value less estimated point-of-sale costs. [Biological assets acquired at no or nominal cost will be measured at fair value less estimated point of sale of costs at the point of harvest, provided that a market-determined price or value is available.](#)
- IN4 [IPSAS 41-xx](#) requires that a change in fair value less estimated point-of-sale costs of a biological asset be included in [profit-surplus or deficit](#) or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity. Under a transaction-based, historical cost accounting model, a plantation forestry entity might report no income until first harvest and sale, perhaps 30 years after planting. On the other hand, an accounting model that recognizes and measures biological growth using current fair values reports changes in fair value throughout the period between planting and harvest.
- IN5 [IPSAS 41-xx](#) does not establish any new principles for land related to agricultural activity. Instead, an entity follows [IPSAS 16 Investment Property IAS 16 Property, Plant and Equipment](#) or [IPSAS 17 Property, Plant and Equipment IAS 40 Investment Property](#), depending on which [Standard](#) is appropriate in the circumstances. [IPSAS 16 requires land that is investment property to be measured](#)

- ~~at its fair value, or cost less any accumulated impairment losses. Biological assets that are physically attached to land (for example, trees in a plantation forest) are measured at their fair value less estimated point-of-sale costs separately from the land. IPSAS 16-17 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses. Biological assets that are physically attached to land (for example, trees in a plantation forest) are measured at their fair value less estimated point-of-sale costs separately from the land.~~
- IN6 ~~IPSAS 41-xx requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs be recognised as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied. ~~does not deal with accounting for non-exchange revenue from government grants related to a biological assets and agricultural produce. IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* provides requirements and guidance.~~~~
- IN7 ~~IAS 41 is effective for annual financial statements covering periods beginning on or after 1 January 2003. Earlier application is encouraged.~~
- IN8 ~~IAS 41 does not establish any specific transitional provisions. The adoption of IAS 41 is accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.~~
- IN9 ~~The Appendix provides illustrative examples of the application of IAS 41. The Basis for Conclusions summarises the Board's reasons for adopting the requirements set out in IAS 41.~~

## International Public Sector Accounting Standard ~~41~~ XX Agriculture

*The standards, which have been set in bold type, shall be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards (IPSASs) are not intended to apply to immaterial items.*

### Objective

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

### Scope

2. An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting ~~This Standard shall be applied to account~~ for the following when they relate to agricultural activity:
  - (a) B~~b~~iological assets;
  - (b) A~~a~~gricultural produce at the point of harvest; ~~and~~
  - (c) ~~government grants covered by paragraphs 34–35.~~
3. This Standard does not apply to:
  - (a) L~~l~~and related to agricultural activity (see IPSAS 16 Investment Property ~~IAS 16 Property, Plant and Equipment~~ and IAS 40 Investment Property ~~IPSAS 17 Property, Plant and Equipment~~); and
  - (b) I~~i~~ntangible assets related to agricultural activity (see IAS 38 Intangible Assets ~~the relevant international or national accounting standard dealing with intangible assets~~).
  - (c) N~~n~~on-exchange revenue from government grants related to biological assets and agricultural activity [see IPSAS 23 Revenue from Non-exchange Transactions (Taxes and Transfers)].
4. This Standard is applied to agricultural produce, which is the harvested product of the entity’s biological assets, only at the point of harvest. ~~Thereafter, IAS 2 Inventories or another applicable Standard is applied.~~ Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for

example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard. [Agricultural products that are the result of processing after harvest are within the scope of IPSAS 12, -“Inventories.”](#)

5. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Logs	Lumber
	<a href="#">Public welfare forest (including forest for sand shifting control and soil and water conservation)</a>	<a href="#">Sustained public welfare forest by pruning and deinfestation</a>
Plants	Cotton	Thread, clothing
	Harvested cane	Sugar
	<a href="#">Public garden plants for pruning and deinfestation</a>	<a href="#">Public garden plants</a>
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit
<a href="#">Horses</a>	<a href="#">Living Horses for training for policing purposes</a>	<a href="#">Horses for horseback police</a>
<a href="#">Dogs</a>	<a href="#">Living Dogs for training for policing purposes</a>	<a href="#">Police dogs</a>
<a href="#">Wildlife (game)</a>	<a href="#">Carcass</a>	<a href="#">Venison</a>

6. [This Standard applies to all public sector entities other than Government Business Enterprises \(GBEs\).](#)

7. [Government Business Enterprises \(GBEs\) apply International Financial Reporting Standards \(IFRSs\) which are issued by the International Accounting Standards Board \(IASB\). GBEs are defined in IPSAS 1, “Presentation of Financial Statements.](#)

## Definitions

### Agriculture-related definitions

**58.** The following terms are used in this Standard with the meanings specified:

**Agricultural activity** is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

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

A **biological asset** is 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.

A **group of biological assets** is an aggregation of similar living animals or plants.

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

**69.** Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:

- (a) *Capability to change.* Living animals and plants are capable of biological transformation;
- (b) *Management of change.* Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and
- (c) *Measurement of change.* The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation is measured and monitored as a routine management function.

**710.** Biological transformation results in the following types of outcomes:

- (a) asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
- (b) production of agricultural produce such as latex, tea leaf, wool, and milk.

11. Biological assets include assets that are cultivated, developed or nurtured for public welfare purposes. Examples of such assets include dogs and horses for policing, forest for land stabilization and water and soil conservation, and plants in parks for the appreciation of park users.

### General definitions

812. The following terms are used in this Standard with the meanings specified:

*An active market* is a market where all the following conditions exist:

- (a) The items traded within the market are homogeneous;
- (b) Willing buyers and sellers can normally be found at any time; and
- (c) Prices are available to the public.

*Carrying amount* is the amount at which an asset is recognized in the statement of financial position.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

~~11 Government grants are as defined in IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.~~

913. The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle to that market.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

### Recognition and measurement

~~1014.~~ An entity shall recognize a biological asset or agricultural produce when, and only when:

- (a) The entity controls the asset as a result of past events;

- (b) **Iit is probable that future economic benefits or service potential associated with the asset will flow to the entity; and**
  - (c) **The fair value or cost of the asset can be measured reliably.**
- ~~1415.~~ In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits or service potential are normally assessed by measuring the significant physical attributes.
- ~~14216.~~ **A biological asset shall be measured on initial recognition and at the end of each reporting period-date at its fair value less estimated point-of-sale costs, except for the case described in paragraph 34 where the fair value cannot be measured reliably.**
17. A biological asset acquired through a non-exchange transaction shall be measured initially and subsequently in accordance with paragraph 15.
- ~~14318.~~ **Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12, "Inventories" or another applicable Standard.**
- ~~14419.~~ Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.
- ~~14520.~~ The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.
- ~~14621.~~ Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce may be an onerous contract, as defined in IPSAS 37-19, "Provisions, Contingent Liabilities and Contingent Assets." -IPSAS 37-19 applies to onerous contracts.
- ~~14722.~~ If an active market exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most

relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.

1823. If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

(a) The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and ~~the end of~~ the reporting ~~period~~date;

(b) Market prices for similar assets with adjustment to reflect differences; and

(c) Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

1924. In some cases, the information sources listed in paragraph 1822 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.

2025. In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining fair value.

2126. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.

2227. An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

2328. In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used

in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.

- 2429.** Cost may sometimes approximate fair value, particularly when:
- (a) ~~L~~ittle biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to ~~the end of~~ a reporting ~~period~~~~date~~); or
  - (b) ~~T~~he impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).
- 2530.** Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to determine fair value for the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

#### Gains and losses

- 2631.** A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in ~~profit surplus~~ or ~~loss deficit~~ for the period in which it arises.
- 2732.** A loss may arise on initial recognition of a biological asset, because estimated point-of-sale costs are deducted in determining fair value less estimated point-of-sale costs of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.
- 2833.** A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in ~~profit surplus~~ or ~~loss deficit~~ for the period in which it arises.
- 2934.** A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

#### Inability to measure fair value reliably

- 3035.** There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall

be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less estimated point-of-sale costs. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with [the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations agriculture such as IFRS 5 Non-current Assets Held for Sale and Discontinued Operations](#), it is presumed that fair value can be measured reliably.

[3136](#). The presumption in paragraph [30-34](#) can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less estimated point-of-sale costs continues to measure the biological asset at its fair value less estimated point-of-sale costs until disposal.

[3237](#). In all cases, an entity measures agricultural produce at the point of harvest at its fair value less estimated point-of-sale costs. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

[3338](#). In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers [IPSAS 12, “Inventories”](#), [IPSAS 16-17, “Property, Plant and Equipment”](#) and [IPSAS 36-21, “Impairment of Non-Cash Generating Assets”](#) and [IPSAS 26, “Impairment of Cash-Generating Assets.”](#)

### **Government grants**

~~34 — An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs shall be recognised as income when, and only when, the government grant becomes receivable.~~

~~35 — If a government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.~~

~~36 — Terms and conditions of government grants vary. For example, a government grant may require an entity to farm in a particular location for five years and require the entity to return all of the government grant if it farms for less than five years. In this case, the government grant is not recognised as income until the five years have passed. However, if the government grant allows part of the government grant to be retained based on the passage of time, the entity recognises the government grant as income on a time proportion basis.~~

~~37 — If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), IAS 20 Accounting for Government Grants and Disclosure of Government Assistance is applied.~~

~~38 — This Standard requires a different treatment from IAS 20, if a government grant relates to a biological asset measured at its fair value less estimated point-of-sale costs or a government grant requires an entity not to engage in specified agricultural activity. IAS 20 is applied only to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses.~~

## Disclosure

~~39 — [Deleted]~~

## General

**4039.** 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 estimated point-of-sale costs of biological assets.

**4140.** An entity shall provide a description of each group of biological assets.

**4241.** The disclosure required by paragraph ~~41-39~~ may take the form of a narrative or quantified description.

**4342.** An entity is encouraged to provide a quantified description of each group of biological assets, distinguishing ~~between—among~~ consumable ~~and~~, bearer ~~and~~ biological assets developed for public welfare purposes, or between mature and immature biological assets, as appropriate. For example, an entity may disclose the carrying amounts of consumable biological assets ~~and~~, bearer biological assets and biological assets for public welfare purposes by group. An entity may further divide those carrying amounts between mature and immature assets. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.

**4443.** Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, and trees being grown for lumber. Bearer biological assets are those that are to be cultivated for harvesting agriculture produce, providing services or leasing as means of production, and able to embody future economic benefits based on sustaining consumption in a future period of time other than consumable biological assets; for example, livestock from which milk is produced, grape vines, fruit trees, and trees from which

firewood is harvested while the tree remains. Bearer biological assets are not agricultural produce but, rather, are self-regenerating.

44. Biological assets for the public welfare purposes are specially cultivated or developed for such purposes. Examples of these biological assets are dogs and horses for policing or transportation, public welfare forests for land stabilization and water and soil conservation, and plants in parks or game farms for appreciation or recreation.

45. An essential difference between biological assets for public welfare purposes and consumable biological assets and bearer biological assets is that consumable biological assets and bearer biological assets generate net cash inflows for an entity, while biological assets for public welfare purposes do not generate net cash inflows for an entity, but embody service potential. Biological assets can be transformed from one category into another under certain conditions.

46. An entity shall disclose biological assets for public welfare purposes at the point of harvest when they are :

(a) Controlled by the entity;

(b) Embody service potential;

(c) Cultivated, developed or nurtured before the point of harvest or maturity for public welfare purposes.

4547. Biological assets may be classified either as mature biological assets or immature biological assets. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets), ~~or~~ are able to sustain regular harvests (for bearer biological assets) or are able to be used for public welfare purposes.

**4648. If not disclosed elsewhere in information published with the financial statements, 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.**

**4749. An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.**

4850. An entity shall disclose the fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest.

4951. An entity shall disclose:

- (a) ~~T~~he existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
- (b) ~~T~~he amount of commitments for the development or acquisition of biological assets; and
- (c) ~~F~~inancial risk management strategies related to agricultural activity.

5052. 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. The reconciliation shall include:

- (a) ~~T~~he gain or loss arising from changes in fair value less estimated point-of-sale costs;
- (b) ~~I~~ncreases due to purchases;
- (c) ~~D~~ecreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations agriculture such as IFRS 5;
- (d) ~~D~~ecreases due to harvest;
- (e) ~~I~~ncreases resulting from business entity combinations;
- (f) ~~N~~et 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; and
- (g) ~~O~~ther changes.

5153. The fair value less estimated point-of-sale costs of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less estimated point-of-sale costs included in profit-surplus or loss-deficit due to physical changes and due to price changes.

This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

**5254.** Biological transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits or service potential. A change in fair value of a biological asset due to harvesting is also a physical change.

**5355.** Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income-revenue or expense, the nature and amount of that item are disclosed in accordance with IPSAS 1, “Presentation of Financial Statements.” Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

#### **Additional disclosures for biological assets where fair value cannot be measured reliably**

**5456.** If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 3034) at the end of the period, the entity shall disclose for such biological assets:

- (a) Aa description of the biological assets;
- (b) Aan explanation of why fair value cannot be measured reliably;
- (c) Iif possible, the range of estimates within which fair value is highly likely to lie;
- (d) The depreciation method used;
- (e) The useful lives or the depreciation rates used; and
- (f) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

**5557.** If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 3034), an entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation required by paragraph 50-51 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit-surplus or loss-deficit related to those biological assets:

- (a) Impairment losses;

- (b) ~~R~~ reversals of impairment losses; and
- (c) ~~D~~ depreciation.

**5658.** If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

- (a) ~~A~~ description of the biological assets;
- (b) ~~A~~ an explanation of why fair value has become reliably measurable; and
- (c) ~~T~~ the effect of the change.

#### **Government grants**

~~57~~ ~~An entity shall disclose the following related to agricultural activity covered by this Standard:~~

- ~~(a) the nature and extent of government grants recognised in the financial statements;~~
- ~~(b) unfulfilled conditions and other contingencies attaching to government grants; and~~
- ~~(c) significant decreases expected in the level of government grants.~~

#### **Transitional provisions**

59. An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards shall report the effect of the initial recognition of the agricultural activity as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted. If an entity is accounting for agricultural activity on a different basis, IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” applies to any change in accounting policies that occurs when an entity adopts this Standard for the first time.

#### **Effective date ~~and transition~~**

5860. This Standard becomes operative for annual financial statements covering periods beginning on or after ~~1 January 2003~~~~xx xx xx~~. Earlier application is encouraged. If an entity applies this Standard for an earlier period, periods beginning before 1 January 2003, it shall disclose that fact.

59 — ~~This Standard does not establish any specific transitional provisions. The adoption of this Standard is accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.~~

## Appendix

### Illustrative examples

*This appendix, which was prepared by the IASC staff but was not approved by the IASC Board, accompanies, but is not part of, IPSAS 41.xx. It has been updated to take account of the changes made by IAS 1 Presentation of Financial Statements (as revised in 2007).*

Extracts from statements of financial performance and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform to all the disclosure and presentation requirements of other Standards.

~~A1~~—Example 1 illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less estimated point-of-sale costs of an entity's biological assets into physical change and price change. That separation is reflected in Example 1. Example 2 illustrates how to separate physical change and price change.

~~A2~~—The financial statements in Example 1 do not conform to all of the disclosure and presentation requirements of other Standards. Other approaches to presentation and disclosure may also be appropriate.

**Example 1: Entity XYZ Dairy Ltd**

**Statement of ~~financial~~ Financial position ~~Position~~**

XYZ Dairy Ltd	Notes	31 December <del>20X1</del> <u>20X8</u>	31 December <del>20X0</del> <u>20X7</u>
<b>Statement of <del>financial</del> <u>Financial position</u> <del>Position</del></b>			
<b>ASSETS</b>			
<b><u>Current assets</u></b>			
Cash		10,000	10,000
Trade and other receivables		88,000	65,000
Inventories		82,950	70,650
<b>Total current assets</b>		<b>180,950</b>	<b>145,650</b>
<b>Non-current assets</b>			
Dairy livestock – immature <sup>a1</sup>		52,060	47,730
Dairy livestock – mature <sup>(1)</sup>		372,990	411,840
Subtotal – biological assets	3	425,050	459,570
Property, plant and equipment		1,462,650	1,409,800
<b>Total non-current assets</b>		<b>1,887,700</b>	<b>1,869,370</b>
<b><u>Current assets</u></b>			
Inventories		82,950	70,650
Trade and other receivables		88,000	65,000
Cash		10,000	10,000
<b>Total current assets</b>		<b>180,950</b>	<b>145,650</b>
<b>Total assets</b>		<b>2,068,650</b>	<b>2,015,020</b>
<b><u>EQUITY AND LIABILITIES</u></b>			
<b><u>Current liabilities</u></b>			
Trade and other payables		122,628	150,020
<b>Total current liabilities</b>		<b>122,628</b>	<b>150,020</b>
<b><u>Equity/Net assets</u></b>			
Issued/Contributed capital		1,000,000	1,000,000
Retained earnings/Accumulated surplus		902,828,946,022	865,000
<b>Total equity-net assets</b>		<b>1,902,828,946,022</b>	<b>1,865,000</b>
<b><u>Current liabilities</u></b>			
Trade and other payables		165,822	150,020
<b>Total current liabilities</b>		<b>165,822</b>	<b>150,020</b>
<b>Total equity and liabilities</b>		<b>2,068,650</b>	<b>2,015,020</b>

<sup>a1</sup> An entity is encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing ~~between-among~~ consumable ~~and~~, bearer ~~and commonweal~~ biological assets ~~for public welfare purposes~~ or between mature and immature biological assets, as appropriate. An entity discloses the basis for making any such distinctions.

Statement of ~~comprehensive income~~Financial Performance<sup>42</sup>

<u>Entity XYZ Dairy Ltd</u>	Notes	Year ended
<u>Statement of <del>comprehensive income</del><u>Financial Performance</u></u>		<u>31 December <del>20X1</del>20X8</u>
Fair value of milk produced		518,240
Gains arising from changes in fair value less estimated point-of-sale costs of dairy livestock	3	39,930
		<b>558,170</b>
Inventories used		(137,523)
Staff costs		(127,283)
Depreciation expense		(15,250)
Other operating expenses		(197,092)
		<b>(477,148)</b>
<u><del>Profit Surplus from operations for the period</del></u>		<b>81,022</b>
<u>Income tax expense</u>		<b>(43,194)</b>
<u>Profit for the period</u>		<b>37,828</b>

<sup>42</sup> This statement of ~~comprehensive income~~financial performance presents an analysis of expenses using a classification based on the nature of expenses. *IPSAS 1 Presentation of Financial Statements* requires that an entity present, either in the statement of ~~comprehensive income~~financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. *IPSAS 1* encourages presentation of an analysis of expenses in the statement of ~~comprehensive income~~financial performance.

Statement of ~~changes~~ Changes in ~~equity~~ Net Assets/Equity<sup>3</sup>

Entity XYZ Dairy Ltd

Year ended 31 December ~~20X1~~20X8

Statement of ~~changes~~ Changes in ~~equity~~ Net Assets/Equity

	<u>Share Contributed capital</u>	<u>Retained earnings Accumul ated Surplus</u>	Total
Balance at 1 January <del>20X1</del> <u>20X8</u>	1,000,000	865,000	1,865,000
<u>Profit Surplus</u> for the period		<u>37,82881,022</u>	<u>37,82881,022</u>
<b>Balance at 31 December <del>20X1</del><u>20X8</u></b>	<b>1,000,000</b>	<b><u>902,828946,022</u></b>	<b><u>1,902,8281,946.02</u></b> <u>2</u>

Cash Flow Statement of ~~cash flows~~<sup>24</sup>

Entity XYZ Dairy Ltd

Notes

Year ended

Cash Flow Statement of ~~cash flows~~

31 December ~~20X1~~20X8

<b>Cash flows from operating activities</b>		
Cash receipts from sales of milk		498,027
Cash receipts from sales of livestock		97,913
Cash paid for supplies and to employees		(460,834504,025)
Cash paid for purchases of livestock		(23,815)
		<u>111,294</u>
<u>Income taxes paid</u>		<u>(43,194)</u>
<b>Net cash <u>flows</u> from operating activities</b>		<b>68,100</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment		(68,100)
<b>Net cash <u>used in</u> flows from investing activities</b>		<b>(68,100)</b>
<b>Net increase in cash</b>		<b>0</b>
<b>Cash at beginning of period</b>		<b>10,000</b>
<b>Cash at end of period</b>		<b>10,000</b>

Notes

1 Operations and principal activities

Entity XYZ Dairy Ltd (‘the Company’ Entity) is engaged in milk production ~~for supply to various customers~~. At 31 December ~~20X1~~20X8, the Company Entity held 419 cows able to produce milk (mature assets) and 137 heifers being raised to

<sup>24</sup> This cash flow statement of ~~cash flows~~ reports cash flows from operating activities using the direct method. IPSAS 7-2 Cash Flow Statements of Cash Flows requires that an entity report cash flows from operating activities using either the direct method or the indirect method. IPSAS 7-2 encourages use of the direct method.

produce milk in the future (immature assets). The Company produced 157,584kg of milk with a fair value less estimated point-of-sale costs of 518,240 (that is determined at the time of milking) in the year ended 31 December ~~20X1~~20X8.

## 2 Accounting policies

### Livestock and milk

Livestock are measured at their fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

## 3 Biological assets

Reconciliation of carrying amounts of dairy livestock	<del>20X1</del> <u>20X8</u>
<b>Carrying amount at 1 January <del>20X1</del><u>20X8</u></b>	<b>459,570</b>
Increases due to purchases	26,250
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes <sup>a5</sup>	15,350
Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes <sup>a5</sup>	24,580
Decreases due to sales	(100,700)
<b>Carrying amount at 31 December <del>20X1</del><u>20X8</u></b>	<b><u>425,050</u></b>

<sup>a5</sup> Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

## 4 Financial risk management strategies

The ~~Company-Entity~~ is exposed to financial risks arising from changes in milk prices. The ~~Company-Entity~~ does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The ~~Company-Entity~~ reviews its outlook for milk prices regularly in considering the need for active financial risk management.

## Example 2: Physical change and price change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of 10 2 year old animals was held at 1 January 20X+20X8. One animal aged 2.5 years was purchased on 1 July 20X+20X8 for 108, and one animal was born on 1 July 20X+20X8. No animals were sold or disposed of during the period. Per-unit fair values less estimated point-of-sale costs were as follows:

2 year old animal at 1 January 20X+20X8	100	
Newborn animal at 1 July 20X+20X8	70	
2.5 year old animal at 1 July 20X+20X8	108	
Newborn animal at 31 December 20X+20X8	72	
0.5 year old animal at 31 December 20X+20X8	80	
2 year old animal at 31 December 20X+20X8	105	
2.5 year old animal at 31 December 20X+20X8	111	
3 year old animal at 31 December 20X+20X8	120	
Fair value less estimated point-of-sale costs of herd at 1 January 20X+20X8 (10 x 100)		1,000
Purchase on 1 July 20X+20X8 (1 x 108)		108
Increase in fair value less estimated point-of-sale costs due to price change:		
10 × (105 – 100)	50	
1 × (111 – 108)	3	
1 × (72 – 70)	2	55
Increase in fair value less estimated point-of-sale costs due to physical change:		
10 × (120 – 105)	150	
1 × (120 – 111)	9	
1 × (80 – 72)	8	
1 × 70	70	237
Fair value less estimated point-of-sale costs of herd at 31 December 20X+20X8		
11 × 120	1,320	
1 × 80	80	1,400

## Amendments to other IPSASs

*The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after xx xx, xx. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In IPSAS 12, “Inventories,” paragraph 2(c) is amended to read as follows:

- (c) **Biological assets related to agricultural activity and agricultural produce at the point of harvest (see ~~the relevant international or national accounting standard dealing with agriculture~~IPSAS xx, “Agriculture”); and**

A2~~1~~. In IPSAS 12, “Inventories,” paragraph 29 is amended to read as follows:

- 29. In accordance with ~~the relevant international or national accounting standard dealing with agriculture~~IPSAS xx, “Agriculture”, inventories comprising agricultural produce that an entity has harvested from its biological assets ~~may~~ shall be measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards. This Basis for Conclusions only notes the IPSASB's reasons for departing from the provisions of the related International Accounting Standard.*

### Introduction

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'comparison with IFRS' included in each IPSAS.

BC3. In the convergence process with IAS 41, "Agriculture" the IPSASB made some necessary revisions in according to the requirements of financial reporting for the public sector. The IPSASB's reasons for making these departures from the requirements of IAS 41 are explained in the paragraphs below.

### Clarification of Scope

BC4. IAS 41 applies to agricultural produce only at the point of harvest and excludes products that are the result of processing after harvest. IAS 2, "Inventories" excludes from its scope the measurement of inventories held by "producers of agricultural and forest products, agricultural produce after harvest and mineral and mineral products, to the extent that they are measured at net realizable value in accordance with well established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in profit or loss in the period of the change." This scope exclusion was adopted in IPSAS 12, "Inventories." The IPSASAB considered that it should emphasize that agricultural products that are the result of processing after harvest are within the scope of IPSAS 12. Therefore the IPSASB decided to adopt more emphatic wording in paragraph 3.

### Biological Assets for Public Welfare Purposes

BC5. In the public sector there are many biological assets for public welfare purposes which it is not appropriate to classify as consumable biological assets or bearer biological assets, categories used in IAS 41. “Biological assets for public welfare purposes are specially cultivated, nurtured or developed for such purposes. Examples of biological assets for public welfare purposes are dogs and horses for policing, public welfare forests for land stabilization and water and soil conservation, and plants in parks for appreciation. IAS 41 does not deal with such biological assets. The IPSASB considered that such biological assets may be significant for some public sector entities and that they are not currently addressed in another IPSAS during their cultivation, development or nurturing phase. Requirements for their recognition would enhance accountability. The IPSASB therefore concluded that such biological assets should be within the scope of this Standard.

### Government Grants

BC6. IAS 41 provides requirements and guidance for accounting for government grants related to biological assets measured at fair value less estimated point-of-sale costs and agricultural activity. IAS 41 relies on the definition of government grants in IAS 20, “Government Grants” The IPSASB does not have a Standard directly equivalent to IAS 20. IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” deals with accounting for government grants provide in non-exchange transactions. Since such grants are within the scope of IPSAS 23, the requirements in IAS 41 relating to government grants have not been incorporated in this Standard.

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## Basis for Conclusions on IAS 41 Agriculture

*This appendix, which was prepared by the IASC Staff but was not approved by the IASC Board, summarises the Board's reasons for:*

- (a) — initiating and proposing an International Accounting Standard on agriculture; and*
- (b) — accepting or rejecting certain alternative views.*

*Individual Board members gave greater weight to some factors than to others.*

### Background

B1 — In 1994, the IASC Board (the 'Board') decided to develop an International Accounting Standard on agriculture and appointed a Steering Committee to help define the issues and develop possible solutions. In 1996, the Steering Committee published a Draft Statement of Principles ('DSOP') setting out the issues, alternatives, and the Steering Committee's proposals for resolving the issues and inviting public comment. In response, 42 comment letters were received. The Steering Committee reviewed the comments, revised certain of its recommendations, and submitted them to the Board.

B2 — In July 1999, the Board approved Exposure Draft E65 *Agriculture* with a comment deadline of 31 January 2000. The Board received 62 comment letters on E65. They came from various international organisations, as well as from 28 individual countries. In April 2000, the IASC Staff sent a questionnaire to entities that undertake agricultural activity in an attempt to determine the reliability of the fair value measurement proposed in E65 and received 20 responses from 11 countries. In December 2000, after considering the comments on E65 and responses to the questionnaire, the Board approved IAS 41 *Agriculture* (the Standard). Paragraph B82 below summarises the changes that the Board made to E65 in finalising the Standard.

### The need for an International Accounting Standard on agriculture

B3 — A main objective of the IASC is to develop International Accounting Standards that are relevant in the general purpose financial statements of all businesses. While most International Accounting Standards apply to entities in all activities, some International Accounting Standards, for example IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*<sup>a</sup> and IAS 40 *Investment Property*, deal with issues that arise in particular activities. IASC has also undertaken industry specific projects on insurance and extractive industries.

B4 — Diversity in accounting for agricultural activity has occurred because:

- (a) — prior to the development of the Standard, assets related to agricultural activity and changes in those assets were excluded from the scope of International Accounting Standards:
  - (i) — IAS 2 *Inventories* excluded 'producers' inventories of livestock, agricultural and forest products... to the extent that they are measured at net realisable value in accordance with well established practices in certain industries';
  - (ii) — IAS 16 *Property, Plant and Equipment* did not apply to 'forests and similar regenerative natural resources';
  - (iii) — IAS 18 *Revenue* did not deal with revenue arising from 'natural increases in herds, and agricultural and forest products'; and
  - (iv) — IAS 40 *Investment Property* did not apply to 'forests and similar regenerative natural resources';

<sup>a</sup> — In August 2005, IFRS 7 *Financial Instruments: Disclosures* superseded IAS 30.

- (b) ~~accounting guidelines for agricultural activity developed by national standard setters have, in general, been piecemeal, developed to resolve a specific issue related to a form of agricultural activity of significance to that country; and~~
- (c) ~~the nature of agricultural activity creates uncertainty or conflicts when applying traditional accounting models, particularly because the critical events associated with biological transformation (growth, degeneration, production, and procreation) that alter the substance of biological assets are difficult to deal with in an accounting model based on historical cost and realisation.~~
- B5 ~~Most business organisations involved in agricultural activity are small, independent, cash and tax focused, family-operated business units, often perceived as not being required to produce general purpose financial statements. Some believe that because of this an International Accounting Standard on agriculture would not have widespread application. However, even small agricultural entities seek outside capital and subsidies, particularly from banks or government agencies, and these capital providers increasingly request financial statements. Moreover, an international trend towards deregulation, an increasing number of cross border listings and more investment have resulted in increasing scale, scope, and commercialism of agricultural activity. This has created a greater need for financial statements based on sound and generally accepted accounting principles. For the above reasons, in 1994 the Board added to its agenda a project on agriculture.~~
- B6 ~~The DSOP specifically asked for views on the feasibility of developing a comprehensive International Accounting Standard on agriculture. Some commentators felt that the diversity of agricultural activity prevents the development of a single International Accounting Standard on accounting for all agricultural activities. Others said that different principles should attach to agricultural activity with short and long production cycles. Some cited the need to develop International Accounting Standards that are simple to apply and broad in application. Commentators on the DSOP also noted that agriculture is a significant industry in many countries, particularly in developing and newly industrialised countries. In many such countries it is the most important industry.~~
- B7 ~~After considering the comments on the DSOP, the Board reaffirmed its conclusion that an International Accounting Standard is needed. The Board believes that the principles set forth in the Standard have wide application and provide a clear set of principles.~~

## Scope

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- B8 ~~The Standard prescribes, among other things, the accounting treatment for biological assets and for the initial measurement of agricultural produce harvested from an entity's biological assets at the point of harvest. However, the Standard does not deal with the processing of agricultural produce after harvest, since the Board did not consider it appropriate to undertake a partial revision of IAS 2 *Inventories* which deals with the accounting treatment for inventories under the historical cost system.<sup>a</sup> The processing after harvest is accounted for under IAS 2 or another applicable International Accounting Standard (for example, if an entity harvests logs and decides to use them for constructing its own building, IAS 16 *Property, Plant and Equipment* is applied in accounting for the logs).~~
- B9 ~~Some may think of such processing as agricultural activity, particularly if it is done by the same entity that developed the agricultural produce (for example, the processing of grapes into wine by a vintner who has grown the grapes). While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in the Standard.~~
- B10 ~~In particular, the Board considered whether to include circumstances where there is a long ageing or maturation process after harvest (for example, for wine production from grapes and cheese production from milk) in the scope of the Standard. Those who believe that the Standard should cover such processing argue that:~~
- (a) ~~such a long ageing or maturation process is similar to biological transformation and fundamental to assessing the performance of an entity; and~~

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<sup>a</sup> The term 'historical cost system' is no longer applicable owing to revisions made to IAS 2 in December 2003.

(b) — many agricultural entities are vertically integrated and involved in, for example, producing both grapes and wine.

B11 — The Board decided not to include such circumstances in the scope of the Standard because of concerns about difficulties in differentiating them from other manufacturing processes (such as conversion of raw materials into marketable inventories as defined in IAS 2). The Board concluded that the requirements in IAS 2 or another applicable International Accounting Standard would be suited to accounting for such processes.

B12 — The Board also considered whether to deal with contracts for the sale of a biological asset or agricultural produce and government grants related to agricultural activity in the Standard. These issues are discussed below (see paragraphs B47–54 and B63–73).

## Measurement

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### Biological assets

#### Fair value versus cost

B13 — The Standard requires an entity to use a fair value approach in measuring its biological assets related to agricultural activity as proposed in the DSOP and E65, except for cases where the fair value cannot be measured reliably on initial recognition.

B14 — Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity.

B15 — Those who support fair value measurement also note that the transactions entered into to effect biological transformation often have only a weak relationship with the biological transformation itself and, thus, a more distant relationship to expected future economic benefits. For example, patterns of growth in a plantation forest directly affect expectations of future economic benefits but differ markedly, in timing, from patterns of cost incurrence. No income might be reported until first harvest and sale (perhaps 30 years) in a plantation forestry entity using a transaction based, historical cost accounting model. On the other hand, income is measured and reported throughout the period until initial harvest if an accounting model is used that recognises and measures biological growth using current fair values.

B16 — Further, those who support fair value measurement cite reasons for concluding that fair value has greater relevance, reliability, comparability, and understandability as a measurement of future economic benefits expected from biological assets than historical cost, including:

(a) — many biological assets are traded in active markets with observable market prices. Active markets for these assets provide a reliable measure of market expectations of future economic benefits. The presence of such markets significantly increases the reliability of market value as an indicator of fair value;

(b) — measures of the cost of biological assets are sometimes less reliable than measures of fair value because joint products and joint costs can create situations in which the relationship between inputs and outputs is ill defined, leading to complex and arbitrary allocations of cost between the different outcomes of biological transformation. Such allocations become even more arbitrary if biological assets generate additional biological assets (offspring) and the additional biological assets are also used in the entity's own agricultural activity;

(c) — relatively long and continuous production cycles, with volatility in both the production and market environment, mean that the accounting period often does not depict a full cycle. Therefore, period end measurement (as opposed to time of transaction) assumes greater significance in deriving a measure of current period financial performance or position. The less significant current year harvest is in relation to total biological transformation, the greater the significance of period end measures of asset change (growth and degeneration).

~~In relatively high turnover, short production cycle, highly controlled agricultural systems (for example, broiler chicken or mushroom production) in which the majority of biological transformation and harvesting occurs within a year, the relationship between cost and future economic benefits appears more stable. This apparent stability does not alter the relationship between current market value and future economic benefits, but it makes the difference in measurement method less significant; and~~

- ~~(d) — different sources of replacement animals and plants (home grown or purchased) give rise to different costs in a historical cost approach. Similar assets should give rise to similar expectations with regard to future benefits. Considerably enhanced comparability and understandability result when similar assets are measured and reported using the same basis.~~

~~B17 — Those who oppose measuring biological assets at fair value believe there is superior reliability in cost measurement because historical cost is the result of arm's length transactions, and therefore provides evidence of an open market value at that point in time, and is independently verifiable. More importantly, they believe fair value is sometimes not reliably measurable and that users of financial statements may be misled by presentation of numbers that are indicated as being fair value but are based on subjective and unverifiable assumptions. Information regarding fair value can be provided other than in a single number in the financial statements. They believe the scope of the Standard is too broad. They also argue that:~~

- ~~(a) — market prices are often volatile and cyclical and not appropriate as a basis of measurement;~~
- ~~(b) — it may be onerous to require fair valuation at each balance sheet date, especially if interim reports are required;~~
- ~~(c) — the historical cost convention is well established and commonly used. The use of any other basis should be accompanied by a change in the IASC *Framework for the Preparation and Presentation of Financial Statements* (the '*Framework*'). For consistency with other International Accounting Standards and other activities, biological assets should be measured at their cost;~~
- ~~(d) — cost measurement provides more objective and consistent measurement;~~
- ~~(e) — active markets may not exist for some biological assets in some countries. In such cases, fair value cannot be measured reliably, especially during the period of growth in the case of a biological asset that has a long growth period (for example, trees in a plantation forest);~~
- ~~(f) — fair value measurement results in recognition of unrealised gains and losses and contradicts principles in International Accounting Standards on recognition of revenue; and~~
- ~~(g) — market prices at a balance sheet date may not bear a close relationship to the prices at which assets will be sold, and many biological assets are not held for sale.~~

~~B18 — The *Framework* is neutral with respect to the choice of measurement basis, identifying that a number of different bases are employed to different degrees and in varying combinations, though noting that historical cost is most commonly adopted. The alternatives specifically identified are historical cost, current cost, realisable value, and present value. Precedents for fair value measurement exist in other International Accounting Standards.~~

~~B19 — The Board concluded that the Standard should require a fair value model for biological assets related to agricultural activity because of the unique nature and characteristics of agricultural activity. However, the Board also concluded that, in some cases, fair value cannot be measured reliably. Some respondents to the questionnaire, as well as some commentators on E65, expressed significant concern about the reliability of fair value measurement for some biological assets, arguing that:~~

- ~~(a) — active markets do not exist for some biological assets, in particular for those with a long growth period;~~
- ~~(b) — present value of expected net cash flows is often an unreliable measure of fair value due to the need for, and use of, subjective assumptions (for example, about weather); and~~
- ~~(c) — fair value cannot be measured reliably prior to harvest.~~

~~Some commentators on E65 suggested that the Standard should include a reliability exception for cases where no active market exists.~~

~~B20 — The Board decided there was a need to include a reliability exception for cases where market determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable. In those cases, biological assets should be measured at their cost less any accumulated depreciation and any accumulated impairment losses. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of Assets*.~~

~~B21 — The Board rejected a benchmark treatment of fair value and an allowed alternative treatment of historical cost because of the greater comparability and understandability achieved by a mandatory fair value approach in the presence of active markets. The Board is also uncomfortable with options in International Accounting Standards.~~

#### ~~Treatment of point-of-sale costs~~

~~B22 — The Standard requires that a biological asset should be measured at its fair value less estimated point-of-sale costs. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market. Such transport and other costs are deducted in determining fair value (that is, fair value is a market price less transport and other costs necessary to get an asset to a market).~~

~~B23 — E65 proposed that pre-sale disposal costs that will be incurred to place an asset on the market (such as transport costs) should be deducted in determining fair value, if a biological asset will be sold in an active market in another location. However, E65 did not specify the treatment of point-of-sale costs. Some commentators suggested that the Standard should clarify the treatment of point-of-sale costs, as well as pre-sale disposal costs.~~

~~B24 — Some argue that point-of-sale costs should not be deducted in a fair value model. They argue that fair value less estimated point-of-sale costs would be a biased estimate of markets' estimate of future cash flows, because point-of-sale costs would in effect be recognised as an expense twice if the acquirer pays point-of-sale costs on acquisition; once related to the initial acquisition of biological assets and once related to the immediate measurement at fair value less estimated point-of-sale costs. This would occur even when point-of-sale costs would not be incurred until a future period or would not be paid at all for a bearer biological asset that will not be sold.~~

~~B25 — On the other hand, some believe that point-of-sale costs should be deducted in a fair value model. They believe that the carrying amount of an asset should represent the economic benefits that are expected to flow from the asset. They argue that fair value less estimated point-of-sale costs would represent the markets' estimate of the economic benefits that are expected to flow to the entity from that asset at the balance sheet date. They also argue that failure to deduct estimated point-of-sale costs could result in a loss being deferred until a sale occurs.~~

~~B26 — The Board concluded that fair value less estimated point-of-sale costs is a more relevant measurement of biological assets, acknowledging that, in particular, failure to deduct estimated point-of-sale costs could result in a loss being deferred.~~

#### ~~Hierarchy in fair value measurement~~

~~B27 — The Standard requires that, if an active market exists for a biological asset, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, an entity uses market determined prices or values (such as the most recent market transaction price) when available. However, in some circumstances, market determined prices or values may not be available for a biological asset in its present condition. In these circumstances, the Standard indicates that an entity uses the present value of expected net cash flows from the asset.~~

~~B28 — E65 proposed that, if an active market exists for a biological asset, an entity should use the market price in the active market. If an active market does not exist, E65 proposed that an entity should consider other measurement bases such as the price of the most recent transaction for the same type of asset, sector benchmarks, and present value of expected net cash flows. E65 did not set a hierarchy in cases where no active market exists; that is, E65 did not indicate which basis is preferable to the other bases.~~

~~B29 — The Board considered setting an explicit hierarchy in cases where no active market exists. Some believe that using market determined prices or values; for example, the most recent market transaction price, would always be preferable to present value of expected net cash flows. On the other hand, some believe that market determined prices or values would not necessarily be preferable to present value of expected net cash flows, especially when an entity uses market prices for similar assets with adjustment to reflect differences.~~

~~B30 — The Board concluded that a detailed hierarchy would not provide sufficient flexibility to appropriately deal with all the circumstances that may arise and decided not to set a detailed hierarchy in cases where no active market exists. However, the Board decided to indicate that an entity uses all available market determined prices or values since otherwise there is a possibility that entities may opt to use present value of expected net cash flows from the asset even when useful market determined prices or values are available. Of the 20 companies that responded to the questionnaire, six companies used present value of expected net cash flows as a basis of fair value measurement and, in addition, two companies indicated that it was impossible to measure their biological assets reliably since the present value of expected net cash flows would not be reliable (as they would need to use present value as a basis).~~

~~B31 — When an entity has access to different markets, the Standard indicates that the entity uses the most relevant one. For example, if an entity has access to two active markets, it uses the price existing in the market expected to be used. Some believe that the most advantageous price in the accessible markets should be used. The Standard reflects the view that the most relevant measurement results from using the market expected to be used.~~

#### ~~Frequency of fair value measurement~~

~~B32 — Some argue that less frequent measurement of fair value should be permitted because of concerns about burdens on entities. The Board rejected this approach because of the:~~

- ~~(a) — continuous nature of biological transformation;~~
- ~~(b) — lack of direct relationships between financial transactions and the outcomes of biological transformation; and~~
- ~~(c) — general availability of reliable measures of fair value at reasonable cost.~~

#### ~~Independent valuation~~

~~B33 — A significant number of commentators on the DSOP indicated that, if present value of expected net cash flows is used to determine fair value, an external independent valuation should be required. The Board rejected this proposal since it believes that external independent valuations are not commonly used for certain agricultural activity and it would be burdensome to require an external independent valuation. The Board believes that it is for entities to decide how to determine fair value reliably, including the extent to which independent valuers need to be involved.~~

#### ~~Inability to measure fair value reliably~~

~~B34 — As noted previously, the Board decided to include a reliability exception in the Standard for cases where fair value cannot be measured reliably on initial recognition. The Standard indicates a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, the Standard requires that an entity should start measuring the biological asset at its fair value less estimated point of sale costs.~~

~~B35 — Some believe that, if an entity was previously using the reliability exception, the entity should not be allowed to start fair value measurement (that is, an entity should continue to use a cost basis). They argue that it could be a subjective decision to determine when fair value has become reliably~~

~~measurable and that this subjectivity could lead to inconsistent application and, potentially, abuse. The Board noted, however, that in agricultural activity, it is likely that fair value becomes measurable more reliably as biological transformation occurs and that fair value measurement is preferable to cost in those cases. Thus, the Board decided to require fair value measurement once fair value becomes reliably measurable.~~

~~B36 — If an entity has previously measured a biological asset at its fair value less estimated point-of-sale costs, the Standard requires that the entity should continue to measure the biological asset at its fair value less estimated point of sale costs until disposal. Some argue that reliable estimates may cease to be available. The Board believed that this would rarely, if ever, occur. Accordingly, the Board decided to prohibit entities from changing their measurement basis from fair value to cost, because otherwise an entity might use a reliability exception as an excuse to discontinue fair value accounting in a falling market.~~

~~B37 — If an entity uses the reliability exception, the Standard requires additional disclosures. The additional disclosures include information on biological assets held at the end of the period such as a description of the assets and an explanation of why fair value cannot be measured reliably. The additional disclosures also include the gain or loss recognised for the period on disposal of biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses, even though those biological assets are not held at the end of the period.~~

### ~~Gains and losses~~

~~B38 — The Standard requires that a gain or loss arising on initial recognition of a biological asset and from a change in fair value less estimated point of sale costs of a biological asset should be included in net profit or loss<sup>a</sup> for the period in which it arises. Those who support this treatment argue that biological transformation is a significant event that should be included in net profit or loss because:~~

- ~~(a) — the event is fundamental to understanding an entity's performance; and~~
- ~~(b) — this is consistent with the accrual basis of accounting.~~

~~B39 — Some commentators on the DSOP and E65 argued that fair value changes should be included directly in equity, through the statement of changes in equity, until realised, arguing that:~~

- ~~(a) — the effects of biological transformation cannot be measured reliably and, therefore, should not be reported as income;~~
- ~~(b) — fair value changes should only be included in net profit or loss when the earnings process is complete;~~
- ~~(c) — recognition of unrealised gains and losses in net profit or loss increases volatility of earnings;~~
- ~~(d) — the results of biological transformation may never be realised, particularly given the risks to which biological assets are exposed; and~~
- ~~(e) — it is premature to require recognition of fair value changes in net profit or loss, until performance reporting issues are resolved.~~

~~B40 — The Board rejected requiring changes in fair value to be included directly in equity since it is difficult to find any conceptual basis for reporting any portion of the changes in fair value of biological assets related to agricultural activity directly in equity. No distinction is made in the *Framework* between recognition in the balance sheet and recognition in the income statement.~~

### ~~Agricultural produce~~

~~B41 — The Standard requires that agricultural produce harvested from an entity's biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest. Such measurement~~

<sup>a</sup> — IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term 'net profit or loss' with 'profit or loss'.

is the cost at that date when applying IAS 2 *Inventories* or another applicable International Accounting Standard.

- B42 — The Board noted that the same basis of measurement should generally be applied to agricultural produce on initial recognition and to the biological asset from which it is harvested. Because the fair value of a biological asset takes into account the condition of the agricultural produce that will be harvested from the biological asset, it would be illogical to measure the agricultural produce at cost when the biological asset is measured at fair value. For example, the fair value of a sheep with half fleece will differ from the fair value of a similar sheep with full fleece. It would be inconsistent and distort reporting of current period performance if, upon shearing, the shorn fleece is measured at its cost when the fair value of the sheep is reduced by the fair value of the fleece.
- B43 — As noted previously, certain biological assets are measured at their cost less any accumulated depreciation and any accumulated impairment losses, if the reliability exception is applied. Some argue that a reliability exception should exist for measurement of agricultural produce. The Board rejected this view because many of the arguments for a reliability exception do not apply to agricultural produce. For example, markets more often exist for agricultural produce than for biological assets. The Board also noted that it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets.
- B44 — With regard to measurement after harvest, some argue that agricultural produce should be measured at its fair value both at the point of harvest and at each balance sheet date until sold, consumed, or otherwise disposed of. They argue that this approach would ensure that all agricultural produce of a similar type is measured similarly irrespective of date of harvest, thus enhancing comparability and consistency.
- B45 — The Board concluded that fair value less estimated point of sale costs at the point of harvest should be the cost when applying IAS 2 or another applicable International Accounting Standard, since this is consistent with the historical cost accounting model applied to manufacturing processes in general and other types of inventory.
- B46 — In reaching the above conclusion, the Board noted that entities undertaking agricultural activity sometimes purchase agricultural produce for resale, and other entities often engage in processing purchased agricultural produce into consumable products. If agricultural produce would be measured at its fair value after harvest, a desire for consistency would suggest revaluing purchased inventories as well, and such a treatment would be inconsistent with IAS 2. The Board did not consider it appropriate to undertake a partial revision of IAS 2.

## Sales contracts

- B47 — Entities often enter into contracts to sell at a future date their biological assets or agricultural produce. The Standard indicates that contract prices are not necessarily relevant in determining fair value and that the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.
- B48 — E65 did not propose how to account for a contract for the sale of a biological asset or agricultural produce. Some commentators suggested prescribing the treatment of sales contracts since such sales contracts are common in certain agricultural activity. Some commentators also pointed out that certain sales contracts are not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* and that no other International Accounting Standards deal with those contracts.
- B49 — Some argue that contract prices should be used in measuring the related biological assets when an entity expects to settle the contract by delivery and believe this would result in the most relevant carrying amount for the biological asset. Others argue that contract prices are not necessarily relevant in measuring the biological assets at fair value since fair value reflects the current market in which a willing buyer and seller would enter into a transaction.
- B50 — The Board concluded that contract prices should not be used in measuring related biological assets, because contract prices do not necessarily reflect the current market in which a willing buyer and seller would enter into a transaction and therefore do not necessarily represent the fair value of assets. The Board wished to maintain a consistent approach to the measurement of assets. The Board instead considered whether it might require that sales contracts be measured at fair value. It is logical to

~~measure a sales contract at fair value to the extent that a related biological asset is also measured at fair value.~~

~~B51 — However, the Board noted that to achieve symmetry between the measurement of a biological asset and a related sales contract the Standard would have to carefully restrict the sales contracts to be measured at fair value. An entity may enter into a contract to sell agricultural produce to be harvested from the entity's biological assets. The Board concluded that it would not be appropriate to require fair value measurement for a contract to sell agricultural produce that does not yet exist (for example, milk to be harvested from a cow), since no related asset has yet been recognised or measured at fair value and to do so would be beyond the scope of the project on agriculture.~~

~~B52 — Thus, the Board considered restricting the sales contracts to be measured at fair value to those for the sale of an entity's existing biological assets and agricultural produce. However, the Board noted that it is difficult to differentiate existing agricultural produce from agricultural produce that does not exist. For example:~~

~~(a) — if an entity enters into a contract to sell fully grown wheat at a future date and has half grown wheat at a balance sheet date, it seems clear that the wheat to be delivered under the contract does not yet exist at the balance sheet date; but~~

~~(b) — on the other hand, if an entity enters into a contract to sell mature cattle at a future date and has mature cattle at a balance sheet date, it could be argued that the cattle exist in the form in which they will be sold at the balance sheet date. However, it could also be argued that the cattle do not yet exist in the form in which they will be sold at the balance sheet date since further biological transformation will occur between the balance sheet date and the date of delivery.~~

~~B53 — The Board also noted that the Standard would have to require an entity to stop fair value measurement for sales contracts once agricultural produce to be sold under the contract is harvested from an entity's biological assets, since accounting for agricultural produce is not dealt with in the Standard except for initial measurement and IAS 2 *Inventories* or another applicable International Accounting Standard applies after harvest. It would be illogical to continue fair value measurement when the agricultural produce is measured at historical cost. The Board noted that it would be anomalous to require an entity to start measuring a contract at fair value once the related asset exists and to stop doing that at a later date.~~

~~B54 — The Board concluded that no solution is practicable without a complete review of the accounting for commodity contracts that are not within the scope of IAS 39. Because of the above difficulties, the Board concluded that the Standard should not deal with the measurement of sales contracts that are not within the scope of IAS 39. Instead, the Board decided to include an observation that those sales contracts may be onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.~~

### ~~Land related to agricultural activity~~

~~B55 — The Standard does not establish any new principles for land related to agricultural activity. Rather, an entity follows IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property* depending on which standard is appropriate in the circumstances. IAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses.~~

~~B56 — Some argue that land attached to biological assets related to agricultural activity should also be measured at its fair value. They argue that fair value measurement of land results in consistency of measurement with the fair value measurement of biological assets. They also argue that it is sometimes difficult to measure the fair value of such biological assets separately from the land since an active market often exists for the combined assets (that is, land and biological assets; for example, trees in a plantation forest).~~

~~B57 — The Board rejected this approach, primarily because requiring the fair value measurement of land related to agricultural activity would be inconsistent with IAS 16.~~

## Intangible assets

- ~~B58 — The Standard does not establish any new principles for intangible assets related to agricultural activity. Rather, an entity follows IAS 38 *Intangible Assets*. IAS 38 requires an intangible asset, after initial recognition, to be measured at its cost less any accumulated amortisation and impairment losses, or at a revalued amount.~~
- ~~B59 — E65 proposed that an entity should be encouraged to follow the revaluation alternative in IAS 38 for intangible assets related to agricultural activity, to enhance consistency of measurement with the fair value measurement of biological assets. Some commentators on E65 disagreed with having the encouragement. They argued that a unique treatment for intangible assets related to agricultural activity is not warranted.~~
- ~~B60 — The Board did not include the encouragement in E65 in the Standard. The Board concluded that IAS 38 should be applied to intangible assets related to agricultural activity, as it is to intangible assets related to other activities.~~

## Subsequent expenditure

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- ~~B61 — The Standard does not explicitly prescribe how to account for subsequent expenditure related to biological assets. E65 proposed that costs of producing and harvesting biological assets should be charged to expense when incurred and that costs that increase the number of units of biological assets owned or controlled by the entity should be added to the carrying amount of the asset.~~
- ~~B62 — Some believe that there is no need to capitalise subsequent expenditure in a fair value model and that all subsequent expenditure should be recognised as an expense. Some also argue that it would sometimes be difficult to prescribe which costs should be recognised as expenses and which costs should be capitalised; for example, in the case of vet fees paid for delivering a calf. The Board decided not to explicitly prescribe the accounting for subsequent expenditure related to biological assets in the Standard, because it believes to do so is unnecessary with a fair value measurement approach.~~

## Government grants

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- ~~B63 — The Standard requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point of sale costs should be recognised as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.~~
- ~~B64 — The Standard requires a different treatment from IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in the circumstances described above. IAS 20 is to be applied only to government grants related to biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses.~~
- ~~B65 — IAS 20 requires that government grants should not be recognised until there is reasonable assurance that:~~
- ~~(a) — the entity will comply with the conditions attaching to them; and~~
  - ~~(b) — the grants will be received.~~
- ~~IAS 20 also requires that government grants should be recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. In relation to the presentation of government grants related to assets, IAS 20 permits two methods — setting up a government grant as deferred income or deducting the government grant from the carrying amount of the asset.~~
- ~~B66 — The latter method of presentation — deducting a government grant from the carrying amount of the related asset — is inconsistent with a fair value model in which an asset is measured and presented at its fair value. Using the deduction from carrying value approach, an entity would first deduct the~~

~~government grant from the carrying amount of the related asset and then measure that asset at its fair value. In effect, an entity would recognise a government grant as income immediately, even for a conditional government grant. This conflicts with the requirement in IAS 20 that government grants should not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them.~~

~~B67 — Because of the above, the Board concluded that there was a need to deal with government grants related to biological assets measured at their fair value. Some argued that IASB should begin a wider review of IAS 20 rather than provide special rules in individual International Accounting Standards. The Board acknowledged that this might be a more appropriate approach, but concluded that such a review would be beyond the scope of the project on agriculture. Instead, the Board decided to deal with government grants in the Standard, since the Board noted that government grants related to agricultural activity are common in some countries.~~

~~B68 — E65 proposed that, if an entity receives a government grant in respect of a biological asset that is measured at its fair value and the grant is unconditional, the entity should recognise the grant as income when the government grant becomes receivable. E65 also proposed that, if a government grant is conditional, the entity should recognise it as income when there is reasonable assurance that the conditions are met.~~

~~B69 — The Board noted that, if a government grant is conditional, an entity is likely to have costs and ongoing obligations associated with satisfying the conditions attaching to the government grant. It may be possible that the inflow of economic benefits is much less than the amount of the government grant. Given that possibility, the Board acknowledged that the criterion for recognising income from a conditional government grant in E65, when there is reasonable assurance that the conditions are met, may give rise to income recognition that is inconsistent with the *Framework*. The *Framework* indicates that income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably. The Board also noted that it would inevitably be a subjective decision as to when there is reasonable assurance that the conditions are met and that this subjectivity could lead to inconsistent income recognition.~~

~~B70 — The Board considered two alternative approaches:~~

~~(a) — an entity should recognise a conditional government grant as income when it is probable that the entity will meet the conditions attaching to the government grant; and~~

~~(b) — an entity should recognise a conditional government grant as income when the entity meets the conditions attaching to the government grant.~~

~~B71 — Proponents of approach (a) argue that this approach is generally consistent with the revenue recognition requirements in IAS 18 *Revenue*. IAS 18 requires that revenue should be recognised, among other things, when it is probable that the economic benefits associated with the transaction will flow to the entity.~~

~~B72 — Proponents of approach (b) believe that, until the conditions attaching to the government grant are met, a liability should be recognised under the *Framework* rather than income since an entity has a present obligation to satisfy the conditions arising from past events. They also argue that income recognition under approach (a) would still be subjective and inconsistent with the recognition criteria indicated in the *Framework*.~~

~~B73 — The Board concluded that approach (b) is more appropriate. The Board also decided that a government grant that requires an entity not to engage in specified agricultural activity should also be accounted for in the same way as a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs.~~

## Disclosure

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### Separate disclosure of physical and price changes

- B74 — The Standard encourages, but does not require, separate disclosure of the effects of the factors resulting in changes to the carrying amount of biological assets, physical change and price change, when there is a production cycle of more than one year. Physical change is attributable to changes in the assets themselves while price change is attributable to changes in unit fair values.
- B75 — Some argue that the separate disclosure should be required since it is useful in appraising current period performance and future prospects in relation to production from, and maintenance and renewal of, biological assets. Others argue that it may be impracticable to separate these elements and the two components cannot be separated reliably.
- B76 — The Board concluded that the separate disclosure should not be required because of practicability concerns. However, the Board decided to encourage the separate disclosure, given that such disclosure may be useful and practically determinable in some circumstances. The separate disclosure is not encouraged when the production cycle is less than one year (for example, when raising broiler chickens or growing cereal crops) since that information is less useful in that circumstance.
- B77 — Some argue that physical changes should be included in net profit or loss and that price changes should be included directly in equity, through the statement of changes in equity. The Board rejected this approach because both components are indicative of management's performance.

### Disaggregation of the gain or loss

- B78 — The Standard requires that an entity should 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 estimated point of sale costs of biological assets. The Standard does not require or encourage disaggregating the gain or loss, except that the Standard encourages separate disclosure of physical changes and price changes as discussed above.
- B79 — The Board considered requiring, or encouraging, disclosure of the gain or loss on a disaggregated basis; for example, requiring separate disclosure of the gain or loss related to biological assets and the gain or loss related to agricultural produce. Those who supported disaggregating the gain or loss believe that such information is useful in appraising current period performance in relation to biological transformation. Others argued that disaggregation would be impracticable and require a subjective procedure.

## Other disclosures

B80 — E65 proposed disclosing the:

- (a) — extent to which the carrying amount of biological assets reflects a valuation by an external independent valuer, or if there has been no valuation by an external independent valuer, that fact;
- (b) — activities that are unsustainable with an estimated date of cessation of the activities;
- (c) — aggregate carrying amount of an entity's agricultural land and the basis (cost or revalued amount) on which the carrying amount was determined under IAS 16 *Property, Plant and Equipment*; and
- (d) — carrying amount of agricultural produce either on the face of the balance sheet or in the notes.

B81 — The Board did not include the above disclosures in the Standard. The Board noted that requiring item (a) above would not be appropriate since external independent valuations are not commonly used for assets related to agricultural activity, unlike for certain other assets such as investment property. The Board also noted that item (b) is not required in other International Accounting Standards and a unique disclosure requirement is not warranted for agricultural activity. Items (c) and (d) would be outside the scope of the Standard and covered by other International Accounting Standards (IAS 16 or IAS 2 *Inventories*).

## Summary of changes to E65

B82 — The Standard made the following principal changes to the proposals in E65:

- (a) — The Standard includes a reliability exception for biological assets on initial recognition. If the exception is applied, the biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraph 30 of the Standard). As a consequence, the Standard includes disclosure requirements consistent with paragraph 170(b) of IAS 39 *Financial Instruments: Recognition and Measurement*<sup>‡</sup> and paragraph 68 of IAS 40 *Investment Property*<sup>‡</sup> (paragraphs 54(a)–(c) and 55 of the Standard), and consistent with paragraphs 60(b)–(d) and 60(e)(v)–(vii) of IAS 16 *Property, Plant and Equipment*<sup>‡</sup> (paragraphs 54(d)–(f) and 55).
- (b) — If the reliability exception is applied but fair value subsequently becomes reliably measurable and, therefore, an entity has started measuring the biological assets at their fair value less estimated point of sale costs, the Standard requires the entity to disclose a description of the biological assets, an explanation of why fair value has become reliably measurable, and the effect of the change (paragraph 56).
- (c) — E65 did not specify how to account for point of sale costs (such as commissions to brokers). The Standard requires that biological assets and agricultural produce should be measured at their fair value less estimated point of sale costs (paragraphs 12–13).
- (d) — E65 included net realisable value as one of the measurement bases in cases where no active market exists. Net realisable value was deleted from the bases since it is not a market determined value.
- (e) — The Standard indicates that market determined prices or values are used when available. The Standard also indicates that, in some circumstances, market determined prices or values may

<sup>‡</sup> Paragraph 170(b) of IAS 39 was replaced by paragraph 90 of IAS 32 *Financial Instruments: Disclosure and Presentation* when the IASB revised those standards in 2003. In 2005, the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures*.

<sup>‡</sup> Paragraph 68 of IAS 40 was replaced by paragraph 78 when the IASB revised IAS 40 in 2003.

<sup>‡</sup> Paragraph 60 of IAS 16 was replaced by paragraph 73 when IAS 16 was revised in 2003.

~~not be available for an asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows (paragraphs 18–20).~~

- ~~(f) — Guidance on the performance of present value calculations was added (paragraphs 21–23).~~
- ~~(g) — E65 did not specify how to account for contracts for the sale of a biological asset or agricultural produce. The Standard indicates that the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a sales contract (paragraph 16).~~
- ~~(h) — E65 did not explicitly indicate that a gain or loss may arise on initial recognition of agricultural produce. The Standard clarifies that a gain or loss may arise on initial recognition of agricultural produce; for example, as a result of harvesting and that such a gain or loss should be included in net profit or loss<sup>a</sup> for the period in which it arises (paragraphs 28–29).~~
- ~~(i) — E65 proposed that costs of producing and harvesting biological assets should be charged to expense when incurred, and that costs that increase the number of units of biological assets owned or controlled by the entity should be added to the carrying amount of the asset. The Standard does not explicitly prescribe how to account for subsequent expenditure related to biological assets.~~
- ~~(j) — E65 proposed that an entity should recognise a conditional government grant as income when there is reasonable assurance that the conditions are met. The Standard requires that a conditional government grant related to a biological asset measured at its fair value less estimated point of sale costs, including where a government grant requires an entity not to engage in specified agricultural activity, should be recognised as income when, and only when, the conditions attaching to the government grant are met. The Standard also indicates that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraphs 34–35 and 37).~~
- ~~(k) — E65 provided the following encouragements specific to agricultural activity with regard to alternative treatments allowed in other International Accounting Standards, to achieve consistency with the accounting treatment of activities covered by E65:
  - ~~(i) — analysing expenses by nature, as set out in IAS 1 *Presentation of Financial Statements*; and~~
  - ~~(ii) — revaluing certain intangible assets used in agricultural activity if an active market exists, as set out in IAS 38 *Intangible Assets*.~~~~

~~The Board did not include these encouragements in the Standard. The Board noted that IAS 1 and IAS 38 apply to entities that undertake agricultural activity, as well as to those in other activities.~~

- ~~(l) — New disclosure requirements include disclosing the:
  - ~~(i) — basis for making distinctions between consumable and bearer biological assets or between mature and immature biological assets, when an entity provides a quantified description of each group of biological assets (paragraph 43);~~
  - ~~(ii) — methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest (paragraph 47);~~
  - ~~(iii) — fair value less estimated point of sale costs of agricultural produce harvested during the period, determined at the point of harvest (paragraph 48);~~
  - ~~(iv) — increases resulting from business combinations in the reconciliation of the carrying amount of biological assets (paragraph 50(e)); and~~~~

<sup>a</sup> — IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term ‘net profit or loss’ with ‘profit or loss’.

- ~~(v) significant decreases expected in the level of government grants related to agricultural activity covered by the Standard (paragraph 57(e)).~~
- ~~(m) E65 proposed disclosing the:~~
  - ~~(i) extent to which the carrying amount of biological assets reflects a valuation by an external independent valuer or, if there has been no valuation by an external independent valuer, that fact;~~
  - ~~(ii) activities that are unsustainable with an estimated date of cessation of the activities;~~
  - ~~(iii) aggregate carrying amount of an entity's agricultural land and the basis (cost or revalued amount) on which the carrying amount was determined under IAS 16; and~~
  - ~~(iv) carrying amount of agricultural produce either on the face of the balance sheet or in the notes.~~

~~The Standard does not include the above disclosures.~~

- ~~(n) The amendment to IAS 17 *Leases* now clarifies that IAS 17 should not be applied to the measurement by:~~
  - ~~(i) lessees of biological assets held under finance leases; and~~
  - ~~(ii) lessors of biological assets leased out under operating leases.~~

~~Biological assets held under finance leases and those leased out under operating leases are measured under the Standard rather than IAS 17. A lease of a biological asset is classified as a finance lease or operating lease under IAS 17. If a lease is classified as a finance lease, the lessee recognises the leased biological asset under IAS 17 and thereafter measures and presents it under the Standard. In that case, the lessee makes disclosures both under the Standard and IAS 17. A lessor of a biological asset under an operating lease measures and presents the biological asset under the Standard, and makes disclosures both under the Standard and IAS 17.~~

### Comparison with IAS 41

IPSAS xx, "Agriculture" is drawn primarily from IAS 41, "Agriculture" (2001). The main differences between IPSAS xx and IAS 41 are as follows:

- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less estimated point-of-sale costs and agricultural activity. IPSAS xx does not include requirements and guidance for government grants, because IPSAS 23, "Revenue from Non-Exchange Transactions" provides requirements and guidance related to government grants provided in non-exchange transactions.
- IPSAS xx includes biological assets cultivated, developed or nurtured for public welfare purposes. IAS 41 does not address biological assets related to public welfare purposes.
- IPSAS xx clarifies the initial and subsequent measurement requirements for biological assets acquired at no or nominal cost. IAS 41 does not include requirements or guidance for biological assets acquired at no or nominal cost.
- IPSAS xx contains detailed transitional provisions. IAS 41 does not establish any specific transitional provisions.
- IPSAS xx uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms entity, future economic benefits and service potential, surplus or deficit, statement of financial performance in IPSAS xx. The equivalent terms in IAS 41 are enterprise, future economic benefits, profit or loss, income statement.

## **International Accounting Standard 41**

# Agriculture

*This version includes amendments resulting from IFRSs issued up to 17 January 2008.*

IAS 41 was issued by the International Accounting Standards Committee in February 2001.

In April 2001 the International Accounting Standards Board resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

IAS 41 and its accompanying guidance have been amended by the following IFRSs:

- IAS 1 *Presentation of Financial Statements* (as revised in December 2003)
- IAS 2 *Inventories* (as revised in December 2003)
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in December 2003)
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007).

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International Accounting Standard 41 *Agriculture* (IAS 41) is set out in paragraphs 1–59. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 41 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Introduction

- IN1 IAS 41 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity, a matter not covered in other Standards. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets.
- IN2 IAS 41 prescribes, among other things, 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. It requires measurement at fair value less estimated point-of-sale costs from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. However, IAS 41 does not deal with processing of agricultural produce after harvest; for example, processing grapes into wine and wool into yarn.
- IN3 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, IAS 41 requires an entity to measure that biological asset at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity should measure it at its fair value less estimated point-of-sale costs. In all cases, an entity should measure agricultural produce at the point of harvest at its fair value less estimated point-of-sale costs.
- IN4 IAS 41 requires that a change in fair value less estimated point-of-sale costs of a biological asset be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity. Under a transaction-based, historical cost accounting model, a plantation forestry entity might report no income until first harvest and sale, perhaps 30 years after planting. On the other hand, an accounting model that recognises and measures biological growth using current fair values reports changes in fair value throughout the period between planting and harvest.
- IN5 IAS 41 does not establish any new principles for land related to agricultural activity. Instead, an entity follows IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property*, depending on which standard is appropriate in the circumstances. IAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses. Biological assets that are physically attached to land (for example, trees in a plantation forest) are measured at their fair value less estimated point-of-sale costs separately from the land.
- IN6 IAS 41 requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs be recognised as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied.
- IN7 IAS 41 is effective for annual financial statements covering periods beginning on or after 1 January 2003. Earlier application is encouraged.
- IN8 IAS 41 does not establish any specific transitional provisions. The adoption of IAS 41 is accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- IN9 The Appendix provides illustrative examples of the application of IAS 41. The Basis for Conclusions summarises the Board's reasons for adopting the requirements set out in IAS 41.

# International Accounting Standard 41 *Agriculture*

## Objective

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

## Scope

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- 1 **This Standard shall be applied to account for the following when they relate to agricultural activity:**
  - (a) **biological assets;**
  - (b) **agricultural produce at the point of harvest; and**
  - (c) **government grants covered by paragraphs 34–35.**
- 2 This Standard does not apply to:
  - (a) land related to agricultural activity (see IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*); and
  - (b) intangible assets related to agricultural activity (see IAS 38 *Intangible Assets*).
- 3 This Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, IAS 2 *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.
- 4 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

<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 plantation forest	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

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Fruit trees	Picked fruit	Processed fruit

## Definitions

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### Agriculture-related definitions

- 5 The following terms are used in this Standard with the meanings specified:
- Agricultural activity* is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.
- Agricultural produce* is the harvested product of the entity's biological assets.
- A biological asset* is 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.
- A group of biological assets* is an aggregation of similar living animals or plants.
- Harvest* is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.
- 6 Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:
- Capability to change.* Living animals and plants are capable of biological transformation;
  - Management of change.* Management facilitates biological transformation by enhancing, or at least stabilising, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and
  - Measurement of change.* The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation is measured and monitored as a routine management function.
- 7 Biological transformation results in the following types of outcomes:
- asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
  - production of agricultural produce such as latex, tea leaf, wool, and milk.

### General definitions

- 8 The following terms are used in this Standard with the meanings specified:
- An active market* is a market where all the following conditions exist:
- the items traded within the market are homogeneous;
  - willing buyers and sellers can normally be found at any time; and
  - prices are available to the public.

*Carrying amount* is the amount at which an asset is recognised in the statement of financial position.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

*Government grants* are as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

- 9 The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle to that market.

## **Recognition and measurement**

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- 10 **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.**
- 11 In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes.
- 12 **A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less estimated point-of-sale costs, except for the case described in paragraph 30 where the fair value cannot be measured reliably.**
- 13 **Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest. Such measurement is the cost at that date when applying IAS 2 *Inventories* or another applicable Standard.**
- 14 Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.
- 15 The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.
- 16 Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce may be an onerous contract, as defined in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IAS 37 applies to onerous contracts.
- 17 If an active market exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.
- 18 If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:
- (a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
  - (b) market prices for similar assets with adjustment to reflect differences; and

- (c) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.
- 19 In some cases, the information sources listed in paragraph 18 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- 20 In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining fair value.
- 21 The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.
- 22 An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).
- 23 In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.
- 24 Cost may sometimes approximate fair value, particularly when:
- (a) little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to the end of a reporting period); or
  - (b) the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).
- 25 Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to determine fair value for the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

## **Gains and losses**

- 26 **A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises.**
- 27 A loss may arise on initial recognition of a biological asset, because estimated point-of-sale costs are deducted in determining fair value less estimated point-of-sale costs of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.
- 28 **A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in profit or loss for the period in which it arises.**
- 29 A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

## **Inability to measure fair value reliably**

- 30 **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which**

market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less estimated point-of-sale costs. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

- 31 The presumption in paragraph 30 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less estimated point-of-sale costs continues to measure the biological asset at its fair value less estimated point-of-sale costs until disposal.
- 32 In all cases, an entity measures agricultural produce at the point of harvest at its fair value less estimated point-of-sale costs. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.
- 33 In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of Assets*.

## **Government grants**

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- 34 **An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs shall be recognised as income when, and only when, the government grant becomes receivable.**
- 35 **If a government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.**
- 36 Terms and conditions of government grants vary. For example, a government grant may require an entity to farm in a particular location for five years and require the entity to return all of the government grant if it farms for less than five years. In this case, the government grant is not recognised as income until the five years have passed. However, if the government grant allows part of the government grant to be retained based on the passage of time, the entity recognises the government grant as income on a time proportion basis.
- 37 If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied.
- 38 This Standard requires a different treatment from IAS 20, if a government grant relates to a biological asset measured at its fair value less estimated point-of-sale costs or a government grant requires an entity not to engage in specified agricultural activity. IAS 20 is applied only to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses.

## **Disclosure**

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- 39 [Deleted]

### **General**

- 40 **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 estimated point-of-sale costs of biological assets.**
- 41 **An entity shall provide a description of each group of biological assets.**

- 42 The disclosure required by paragraph 41 may take the form of a narrative or quantified description.
- 43 An entity is encouraged to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate. For example, an entity may disclose the carrying amounts of consumable biological assets and bearer biological assets by group. An entity may further divide those carrying amounts between mature and immature assets. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.
- 44 Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced, grape vines, fruit trees, and trees from which firewood is harvested while the tree remains. Bearer biological assets are not agricultural produce but, rather, are self-regenerating.
- 45 Biological assets may be classified either as mature biological assets or immature biological assets. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).
- 46 **If not disclosed elsewhere in information published with the financial statements, 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.**
- 47 **An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.**
- 48 **An entity shall disclose the fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest.**
- 49 **An entity shall disclose:**
- (a) **the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;**
  - (b) **the amount of commitments for the development or acquisition of biological assets; and**
  - (c) **financial risk management strategies related to agricultural activity.**
- 50 **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. The reconciliation shall include:**
- (a) **the gain or loss arising from changes in fair value less estimated point-of-sale costs;**
  - (b) **increases due to purchases;**
  - (c) **decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5;**
  - (d) **decreases due to harvest;**
  - (e) **increases resulting from business combinations;**
  - (f) **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; and**
  - (g) **other changes.**

- 51 The fair value less estimated point-of-sale costs of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less estimated point-of-sale costs included in profit or loss due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).
- 52 Biological transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits. A change in fair value of a biological asset due to harvesting is also a physical change.
- 53 Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with IAS 1 *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

### **Additional disclosures for biological assets where fair value cannot be measured reliably**

- 54 **If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30) at the end of the period, the entity shall disclose for such biological assets:**
- (a) a description of the biological assets;
  - (b) an explanation of why fair value cannot be measured reliably;
  - (c) if possible, the range of estimates within which fair value is highly likely to lie;
  - (d) the depreciation method used;
  - (e) the useful lives or the depreciation rates used; and
  - (f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- 55 **If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:**
- (a) impairment losses;
  - (b) reversals of impairment losses; and
  - (c) depreciation.
- 56 **If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:**
- (a) a description of the biological assets;
  - (b) an explanation of why fair value has become reliably measurable; and
  - (c) the effect of the change.

### **Government grants**

- 57 **An entity shall disclose the following related to agricultural activity covered by this Standard:**
- (a) the nature and extent of government grants recognised in the financial statements;

- (b) **unfulfilled conditions and other contingencies attaching to government grants; and**
- (c) **significant decreases expected in the level of government grants.**

### **Effective date and transition**

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- 58 This Standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2003. Earlier application is encouraged. If an entity applies this Standard for periods beginning before 1 January 2003, it shall disclose that fact.
- 59 This Standard does not establish any specific transitional provisions. The adoption of this Standard is accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Appendix Illustrative examples

*This appendix, which was prepared by the IASC staff but was not approved by the IASC Board, accompanies, but is not part of, IAS 41. It has been updated to take account of the changes made by IAS 1 Presentation of Financial Statements (as revised in 2007).*

- A1 Example 1 illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less estimated point-of-sale costs of an entity's biological assets into physical change and price change. That separation is reflected in Example 1. Example 2 illustrates how to separate physical change and price change.
- A2 The financial statements in Example 1 do not conform to all of the disclosure and presentation requirements of other Standards. Other approaches to presentation and disclosure may also be appropriate.

### Example 1 XYZ Dairy Ltd

#### Statement of financial position

XYZ Dairy Ltd	Notes	31 December 20X1	31 December 20X0
<b>Statement of financial position</b>			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Dairy livestock – immature <sup>a</sup>		52,060	47,730
Dairy livestock – mature <sup>(1)</sup>		372,990	411,840
Subtotal – biological assets	3	425,050	459,570
Property, plant and equipment		1,462,650	1,409,800
<b>Total non-current assets</b>		<b>1,887,700</b>	<b>1,869,370</b>
<b>Current assets</b>			
Inventories		82,950	70,650
Trade and other receivables		88,000	65,000
Cash		10,000	10,000
<b>Total current assets</b>		<b>180,950</b>	<b>145,650</b>
<b>Total assets</b>		<b>2,068,650</b>	<b>2,015,020</b>

XYZ Dairy Ltd

Notes 31 December 20X1

31 December 20X0

**Statement of financial position**

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**EQUITY AND LIABILITIES**

**Equity**

Issued capital	1,000,000	1,000,000
Retained earnings	902,828	865,000
<b>Total equity</b>	<b>1,902,828</b>	<b>1,865,000</b>

**Current liabilities**

Trade and other payables	165,822	150,020
<b>Total current liabilities</b>	<b>165,822</b>	<b>150,020</b>

<b>Total equity and liabilities</b>	<b>2,068,650</b>	<b>2,015,020</b>
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- a An entity is encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate. An entity discloses the basis for making any such distinctions.

**Statement of comprehensive income<sup>1</sup>**

XYZ Dairy Ltd	Notes	Year ended
<b>Statement of comprehensive income</b>		<b>31 December 20X1</b>
Fair value of milk produced		518,240
Gains arising from changes in fair value less estimated point-of-sale costs of dairy livestock	3	39,930
		<b>558,170</b>
Inventories used		(137,523)
Staff costs		(127,283)
Depreciation expense		(15,250)
Other operating expenses		(197,092)
		<b>(477,148)</b>
<b>Profit from operations</b>		<b>81,022</b>
Income tax expense		(43,194)
<b>Profit for the period</b>		<b>37,828</b>

<sup>1</sup> This statement of comprehensive income presents an analysis of expenses using a classification based on the nature of expenses. IAS 1 *Presentation of Financial Statements* requires that an entity present, either in the statement of comprehensive income or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. IAS 1 encourages presentation of an analysis of expenses in the statement of comprehensive income.

## Statement of changes in equity

XYZ Dairy Ltd

Year ended 31 December 20X1

### Statement of changes in equity

	Share capital	Retained earnings	Total
Balance at 1 January 20X1	1,000,000	865,000	1,865,000
Profit for the period		37,828	37,828
<b>Balance at 31 December 20X1</b>	<b>1,000,000</b>	<b>902,828</b>	<b>1,902,828</b>

## Statement of cash flows<sup>2</sup>

XYZ Dairy Ltd

Notes

Year ended

### Statement of cash flows

31 December 20X1

#### Cash flows from operating activities

Cash receipts from sales of milk	498,027
Cash receipts from sales of livestock	97,913
Cash paid for supplies and to employees	(460,831)
Cash paid for purchases of livestock	(23,815)
	<b>111,294</b>
Income taxes paid	(43,194)
<b>Net cash from operating activities</b>	<b>68,100</b>

#### Cash flows from investing activities

Purchase of property, plant and equipment	(68,100)
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<sup>2</sup> This statement of cash flows reports cash flows from operating activities using the direct method. IAS 7 *Statement of Cash Flows* requires that an entity report cash flows from operating activities using either the direct method or the indirect method. IAS 7 encourages use of the direct method.

XYZ Dairy Ltd	Notes	Year ended
<b>Statement of cash flows</b>		<b>31 December 20X1</b>
<b>Net cash used in investing activities</b>		<b>(68,100)</b>
<b>Net increase in cash</b>		<b>0</b>
<b>Cash at beginning of period</b>		<b>10,000</b>
<b>Cash at end of period</b>		<b>10,000</b>

## Notes

### 1 Operations and principal activities

XYZ Dairy Ltd ('the Company') is engaged in milk production for supply to various customers. At 31 December 20X1, the Company held 419 cows able to produce milk (mature assets) and 137 heifers being raised to produce milk in the future (immature assets). The Company produced 157,584kg of milk with a fair value less estimated point-of-sale costs of 518,240 (that is determined at the time of milking) in the year ended 31 December 20X1.

### 2 Accounting policies

#### Livestock and milk

Livestock are measured at their fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

### 3 Biological assets

<b>Reconciliation of carrying amounts of dairy livestock</b>	<b>20X1</b>
<b>Carrying amount at 1 January 20X1</b>	<b>459,570</b>
Increases due to purchases	26,250
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes <sup>a</sup>	15,350
Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes <sup>*</sup>	24,580
Decreases due to sales	(100,700)
<b>Carrying amount at 31 December 20X1</b>	<b>425,050</b>

a Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

### 4 Financial risk management strategies

The Company is exposed to financial risks arising from changes in milk prices. The Company does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Company reviews its outlook for milk prices regularly in considering the need for active financial risk management.

## **Example 2 Physical change and price change**

The following example illustrates how to separate physical change and price change. Separating the change in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of 10 2 year old animals was held at 1 January 20X1. One animal aged 2.5 years was purchased on 1 July 20X1 for 108, and one animal was born on 1 July 20X1. No animals were sold or disposed of during the period. Per-unit fair values less estimated point-of-sale costs were as follows:

2 year old animal at 1 January 20X1	100	
Newborn animal at 1 July 20X1	70	
2.5 year old animal at 1 July 20X1	108	
Newborn animal at 31 December 20X1	72	
0.5 year old animal at 31 December 20X1	80	
2 year old animal at 31 December 20X1	105	
2.5 year old animal at 31 December 20X1	111	
3 year old animal at 31 December 20X1	120	
Fair value less estimated point-of-sale costs of herd at 1 January 20X1 (10 x 100)		1,000
Purchase on 1 July 20X1 (1 x 108)		108
Increase in fair value less estimated point-of-sale costs due to price change:		
10 x (105 – 100)	50	
1 x (111 – 108)	3	
1 x (72 – 70)	2	55

Increase in fair value less estimated point-of-sale costs due to physical change:			
	10 × (120 – 105)	150	
	1 × (120 – 111)	9	
	1 × (80 – 72)	8	
	1 × 70	70	237
Fair value less estimated point-of-sale costs of herd at 31 December 20X1			
	11 × 120	1,320	
	1 × 80	80	1,400

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*paragraphs*

**BASIS FOR CONCLUSIONS ON IAS 41 AGRICULTURE**

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## Basis for Conclusions on IAS 41 *Agriculture*

*This appendix, which was prepared by the IASC Staff but was not approved by the IASC Board, summarises the Board's reasons for:*

- (a) *initiating and proposing an International Accounting Standard on agriculture; and*
- (b) *accepting or rejecting certain alternative views.*

*Individual Board members gave greater weight to some factors than to others.*

### Background

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- B1 In 1994, the IASC Board (the 'Board') decided to develop an International Accounting Standard on agriculture and appointed a Steering Committee to help define the issues and develop possible solutions. In 1996, the Steering Committee published a Draft Statement of Principles ('DSOP') setting out the issues, alternatives, and the Steering Committee's proposals for resolving the issues and inviting public comment. In response, 42 comment letters were received. The Steering Committee reviewed the comments, revised certain of its recommendations, and submitted them to the Board.
- B2 In July 1999, the Board approved Exposure Draft E65 *Agriculture* with a comment deadline of 31 January 2000. The Board received 62 comment letters on E65. They came from various international organisations, as well as from 28 individual countries. In April 2000, the IASC Staff sent a questionnaire to entities that undertake agricultural activity in an attempt to determine the reliability of the fair value measurement proposed in E65 and received 20 responses from 11 countries. In December 2000, after considering the comments on E65 and responses to the questionnaire, the Board approved IAS 41 *Agriculture* (the Standard). Paragraph B82 below summarises the changes that the Board made to E65 in finalising the Standard.

### The need for an International Accounting Standard on agriculture

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- B3 A main objective of the IASC is to develop International Accounting Standards that are relevant in the general purpose financial statements of all businesses. While most International Accounting Standards apply to entities in all activities, some International Accounting Standards, for example IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*<sup>3</sup> and IAS 40 *Investment Property*, deal with issues that arise in particular activities. IASC has also undertaken industry-specific projects on insurance and extractive industries.
- B4 Diversity in accounting for agricultural activity has occurred because:
- (a) prior to the development of the Standard, assets related to agricultural activity and changes in those assets were excluded from the scope of International Accounting Standards:
    - (i) IAS 2 *Inventories* excluded 'producers' inventories of livestock, agricultural and forest products... to the extent that they are measured at net realisable value in accordance with well established practices in certain industries';
    - (ii) IAS 16 *Property, Plant and Equipment* did not apply to 'forests and similar regenerative natural resources';
    - (iii) IAS 18 *Revenue* did not deal with revenue arising from 'natural increases in herds, and agricultural and forest products'; and
    - (iv) IAS 40 *Investment Property* did not apply to 'forests and similar regenerative natural resources';

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<sup>3</sup> In August 2005, IFRS 7 *Financial Instruments: Disclosures* superseded IAS 30.

- (b) accounting guidelines for agricultural activity developed by national standard setters have, in general, been piecemeal, developed to resolve a specific issue related to a form of agricultural activity of significance to that country; and
  - (c) the nature of agricultural activity creates uncertainty or conflicts when applying traditional accounting models, particularly because the critical events associated with biological transformation (growth, degeneration, production, and procreation) that alter the substance of biological assets are difficult to deal with in an accounting model based on historical cost and realisation.
- B5 Most business organisations involved in agricultural activity are small, independent, cash and tax focused, family-operated business units, often perceived as not being required to produce general purpose financial statements. Some believe that because of this an International Accounting Standard on agriculture would not have widespread application. However, even small agricultural entities seek outside capital and subsidies, particularly from banks or government agencies, and these capital providers increasingly request financial statements. Moreover, an international trend towards deregulation, an increasing number of cross-border listings and more investment have resulted in increasing scale, scope, and commercialism of agricultural activity. This has created a greater need for financial statements based on sound and generally accepted accounting principles. For the above reasons, in 1994 the Board added to its agenda a project on agriculture.
- B6 The DSOP specifically asked for views on the feasibility of developing a comprehensive International Accounting Standard on agriculture. Some commentators felt that the diversity of agricultural activity prevents the development of a single International Accounting Standard on accounting for all agricultural activities. Others said that different principles should attach to agricultural activity with short and long production cycles. Some cited the need to develop International Accounting Standards that are simple to apply and broad in application. Commentators on the DSOP also noted that agriculture is a significant industry in many countries, particularly in developing and newly industrialised countries. In many such countries it is the most important industry.
- B7 After considering the comments on the DSOP, the Board reaffirmed its conclusion that an International Accounting Standard is needed. The Board believes that the principles set forth in the Standard have wide application and provide a clear set of principles.

## **Scope**

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- B8 The Standard prescribes, among other things, the accounting treatment for biological assets and for the initial measurement of agricultural produce harvested from an entity's biological assets at the point of harvest. However, the Standard does not deal with the processing of agricultural produce after harvest, since the Board did not consider it appropriate to undertake a partial revision of IAS 2 *Inventories* which deals with the accounting treatment for inventories under the historical cost system.<sup>4</sup> The processing after harvest is accounted for under IAS 2 or another applicable International Accounting Standard (for example, if an entity harvests logs and decides to use them for constructing its own building, IAS 16 *Property, Plant and Equipment* is applied in accounting for the logs).
- B9 Some may think of such processing as agricultural activity, particularly if it is done by the same entity that developed the agricultural produce (for example, the processing of grapes into wine by a vintner who has grown the grapes). While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in the Standard.
- B10 In particular, the Board considered whether to include circumstances where there is a long ageing or maturation process after harvest (for example, for wine production from grapes and cheese production from milk) in the scope of the Standard. Those who believe that the Standard should cover such processing argue that:
- (a) such a long ageing or maturation process is similar to biological transformation and fundamental to assessing the performance of an entity; and

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<sup>4</sup> The term 'historical cost system' is no longer applicable owing to revisions made to IAS 2 in December 2003.

- (b) many agricultural entities are vertically integrated and involved in, for example, producing both grapes and wine.
- B11 The Board decided not to include such circumstances in the scope of the Standard because of concerns about difficulties in differentiating them from other manufacturing processes (such as conversion of raw materials into marketable inventories as defined in IAS 2). The Board concluded that the requirements in IAS 2 or another applicable International Accounting Standard would be suited to accounting for such processes.
- B12 The Board also considered whether to deal with contracts for the sale of a biological asset or agricultural produce and government grants related to agricultural activity in the Standard. These issues are discussed below (see paragraphs B47–54 and B63–73).

## **Measurement**

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### **Biological assets**

#### **Fair value versus cost**

- B13 The Standard requires an entity to use a fair value approach in measuring its biological assets related to agricultural activity as proposed in the DSOP and E65, except for cases where the fair value cannot be measured reliably on initial recognition.
- B14 Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity.
- B15 Those who support fair value measurement also note that the transactions entered into to effect biological transformation often have only a weak relationship with the biological transformation itself and, thus, a more distant relationship to expected future economic benefits. For example, patterns of growth in a plantation forest directly affect expectations of future economic benefits but differ markedly, in timing, from patterns of cost incurrence. No income might be reported until first harvest and sale (perhaps 30 years) in a plantation forestry entity using a transaction-based, historical cost accounting model. On the other hand, income is measured and reported throughout the period until initial harvest if an accounting model is used that recognises and measures biological growth using current fair values.
- B16 Further, those who support fair value measurement cite reasons for concluding that fair value has greater relevance, reliability, comparability, and understandability as a measurement of future economic benefits expected from biological assets than historical cost, including:
  - (a) many biological assets are traded in active markets with observable market prices. Active markets for these assets provide a reliable measure of market expectations of future economic benefits. The presence of such markets significantly increases the reliability of market value as an indicator of fair value;
  - (b) measures of the cost of biological assets are sometimes less reliable than measures of fair value because joint products and joint costs can create situations in which the relationship between inputs and outputs is ill-defined, leading to complex and arbitrary allocations of cost between the different outcomes of biological transformation. Such allocations become even more arbitrary if biological assets generate additional biological assets (offspring) and the additional biological assets are also used in the entity's own agricultural activity;
  - (c) relatively long and continuous production cycles, with volatility in both the production and market environment, mean that the accounting period often does not depict a full cycle. Therefore, period-end measurement (as opposed to time of transaction) assumes greater significance in deriving a measure of current period financial performance or position. The less significant current year harvest is in relation to total biological transformation, the greater the significance of period-end measures of asset change (growth and degeneration).

In relatively high turnover, short production cycle, highly controlled agricultural systems (for example, broiler chicken or mushroom production) in which the majority of biological transformation and harvesting occurs within a year, the relationship between cost and future economic benefits appears more stable. This apparent stability does not alter the relationship between current market value and future economic benefits, but it makes the difference in measurement method less significant; and

- (d) different sources of replacement animals and plants (home-grown or purchased) give rise to different costs in a historical cost approach. Similar assets should give rise to similar expectations with regard to future benefits. Considerably enhanced comparability and understandability result when similar assets are measured and reported using the same basis.

B17 Those who oppose measuring biological assets at fair value believe there is superior reliability in cost measurement because historical cost is the result of arm's length transactions, and therefore provides evidence of an open-market value at that point in time, and is independently verifiable. More importantly, they believe fair value is sometimes not reliably measurable and that users of financial statements may be misled by presentation of numbers that are indicated as being fair value but are based on subjective and unverifiable assumptions. Information regarding fair value can be provided other than in a single number in the financial statements. They believe the scope of the Standard is too broad. They also argue that:

- (a) market prices are often volatile and cyclical and not appropriate as a basis of measurement;
- (b) it may be onerous to require fair valuation at each balance sheet date, especially if interim reports are required;
- (c) the historical cost convention is well established and commonly used. The use of any other basis should be accompanied by a change in the IASC *Framework for the Preparation and Presentation of Financial Statements* (the '*Framework*'). For consistency with other International Accounting Standards and other activities, biological assets should be measured at their cost;
- (d) cost measurement provides more objective and consistent measurement;
- (e) active markets may not exist for some biological assets in some countries. In such cases, fair value cannot be measured reliably, especially during the period of growth in the case of a biological asset that has a long growth period (for example, trees in a plantation forest);
- (f) fair value measurement results in recognition of unrealised gains and losses and contradicts principles in International Accounting Standards on recognition of revenue; and
- (g) market prices at a balance sheet date may not bear a close relationship to the prices at which assets will be sold, and many biological assets are not held for sale.

B18 The *Framework* is neutral with respect to the choice of measurement basis, identifying that a number of different bases are employed to different degrees and in varying combinations, though noting that historical cost is most commonly adopted. The alternatives specifically identified are historical cost, current cost, realisable value, and present value. Precedents for fair value measurement exist in other International Accounting Standards.

B19 The Board concluded that the Standard should require a fair value model for biological assets related to agricultural activity because of the unique nature and characteristics of agricultural activity. However, the Board also concluded that, in some cases, fair value cannot be measured reliably. Some respondents to the questionnaire, as well as some commentators on E65, expressed significant concern about the reliability of fair value measurement for some biological assets, arguing that:

- (a) active markets do not exist for some biological assets, in particular for those with a long growth period;
- (b) present value of expected net cash flows is often an unreliable measure of fair value due to the need for, and use of, subjective assumptions (for example, about weather); and
- (c) fair value cannot be measured reliably prior to harvest.

Some commentators on E65 suggested that the Standard should include a reliability exception for cases where no active market exists.

- B20 The Board decided there was a need to include a reliability exception for cases where market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable. In those cases, biological assets should be measured at their cost less any accumulated depreciation and any accumulated impairment losses. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of Assets*.
- B21 The Board rejected a benchmark treatment of fair value and an allowed alternative treatment of historical cost because of the greater comparability and understandability achieved by a mandatory fair value approach in the presence of active markets. The Board is also uncomfortable with options in International Accounting Standards.

### **Treatment of point-of-sale costs**

- B22 The Standard requires that a biological asset should be measured at its fair value less estimated point-of-sale costs. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market. Such transport and other costs are deducted in determining fair value (that is, fair value is a market price less transport and other costs necessary to get an asset to a market).
- B23 E65 proposed that pre-sale disposal costs that will be incurred to place an asset on the market (such as transport costs) should be deducted in determining fair value, if a biological asset will be sold in an active market in another location. However, E65 did not specify the treatment of point-of-sale costs. Some commentators suggested that the Standard should clarify the treatment of point-of-sale costs, as well as pre-sale disposal costs.
- B24 Some argue that point-of-sale costs should not be deducted in a fair value model. They argue that fair value less estimated point-of-sale costs would be a biased estimate of markets' estimate of future cash flows, because point-of-sale costs would in effect be recognised as an expense twice if the acquirer pays point-of-sale costs on acquisition; once related to the initial acquisition of biological assets and once related to the immediate measurement at fair value less estimated point-of-sale costs. This would occur even when point-of-sale costs would not be incurred until a future period or would not be paid at all for a bearer biological asset that will not be sold.
- B25 On the other hand, some believe that point-of-sale costs should be deducted in a fair value model. They believe that the carrying amount of an asset should represent the economic benefits that are expected to flow from the asset. They argue that fair value less estimated point-of-sale costs would represent the markets' estimate of the economic benefits that are expected to flow to the entity from that asset at the balance sheet date. They also argue that failure to deduct estimated point-of-sale costs could result in a loss being deferred until a sale occurs.
- B26 The Board concluded that fair value less estimated point-of-sale costs is a more relevant measurement of biological assets, acknowledging that, in particular, failure to deduct estimated point-of-sale costs could result in a loss being deferred.

### **Hierarchy in fair value measurement**

- B27 The Standard requires that, if an active market exists for a biological asset, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, an entity uses market-determined prices or values (such as the most recent market transaction price) when available. However, in some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, the Standard indicates that an entity uses the present value of expected net cash flows from the asset.
- B28 E65 proposed that, if an active market exists for a biological asset, an entity should use the market price in the active market. If an active market does not exist, E65 proposed that an entity should consider other measurement bases such as the price of the most recent transaction for the same type of asset, sector benchmarks, and present value of expected net cash flows. E65 did not set a hierarchy in cases where no active market exists; that is, E65 did not indicate which basis is preferable to the other bases.

- B29 The Board considered setting an explicit hierarchy in cases where no active market exists. Some believe that using market-determined prices or values; for example, the most recent market transaction price, would always be preferable to present value of expected net cash flows. On the other hand, some believe that market-determined prices or values would not necessarily be preferable to present value of expected net cash flows, especially when an entity uses market prices for similar assets with adjustment to reflect differences.
- B30 The Board concluded that a detailed hierarchy would not provide sufficient flexibility to appropriately deal with all the circumstances that may arise and decided not to set a detailed hierarchy in cases where no active market exists. However, the Board decided to indicate that an entity uses all available market-determined prices or values since otherwise there is a possibility that entities may opt to use present value of expected net cash flows from the asset even when useful market-determined prices or values are available. Of the 20 companies that responded to the questionnaire, six companies used present value of expected net cash flows as a basis of fair value measurement and, in addition, two companies indicated that it was impossible to measure their biological assets reliably since the present value of expected net cash flows would not be reliable (as they would need to use present value as a basis).
- B31 When an entity has access to different markets, the Standard indicates that the entity uses the most relevant one. For example, if an entity has access to two active markets, it uses the price existing in the market expected to be used. Some believe that the most advantageous price in the accessible markets should be used. The Standard reflects the view that the most relevant measurement results from using the market expected to be used.

### **Frequency of fair value measurement**

- B32 Some argue that less frequent measurement of fair value should be permitted because of concerns about burdens on entities. The Board rejected this approach because of the:
- (a) continuous nature of biological transformation;
  - (b) lack of direct relationships between financial transactions and the outcomes of biological transformation; and
  - (c) general availability of reliable measures of fair value at reasonable cost.

### **Independent valuation**

- B33 A significant number of commentators on the DSOP indicated that, if present value of expected net cash flows is used to determine fair value, an external independent valuation should be required. The Board rejected this proposal since it believes that external independent valuations are not commonly used for certain agricultural activity and it would be burdensome to require an external independent valuation. The Board believes that it is for entities to decide how to determine fair value reliably, including the extent to which independent valuers need to be involved.

### **Inability to measure fair value reliably**

- B34 As noted previously, the Board decided to include a reliability exception in the Standard for cases where fair value cannot be measured reliably on initial recognition. The Standard indicates a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, the Standard requires that an entity should start measuring the biological asset at its fair value less estimated point-of-sale costs.
- B35 Some believe that, if an entity was previously using the reliability exception, the entity should not be allowed to start fair value measurement (that is, an entity should continue to use a cost basis). They argue that it could be a subjective decision to determine when fair value has become reliably

measurable and that this subjectivity could lead to inconsistent application and, potentially, abuse. The Board noted, however, that in agricultural activity, it is likely that fair value becomes measurable more reliably as biological transformation occurs and that fair value measurement is preferable to cost in those cases. Thus, the Board decided to require fair value measurement once fair value becomes reliably measurable.

- B36 If an entity has previously measured a biological asset at its fair value less estimated point-of-sale costs, the Standard requires that the entity should continue to measure the biological asset at its fair value less estimated point-of-sale costs until disposal. Some argue that reliable estimates may cease to be available. The Board believed that this would rarely, if ever, occur. Accordingly, the Board decided to prohibit entities from changing their measurement basis from fair value to cost, because otherwise an entity might use a reliability exception as an excuse to discontinue fair value accounting in a falling market.
- B37 If an entity uses the reliability exception, the Standard requires additional disclosures. The additional disclosures include information on biological assets held at the end of the period such as a description of the assets and an explanation of why fair value cannot be measured reliably. The additional disclosures also include the gain or loss recognised for the period on disposal of biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses, even though those biological assets are not held at the end of the period.

### **Gains and losses**

- B38 The Standard requires that a gain or loss arising on initial recognition of a biological asset and from a change in fair value less estimated point-of-sale costs of a biological asset should be included in net profit or loss<sup>5</sup> for the period in which it arises. Those who support this treatment argue that biological transformation is a significant event that should be included in net profit or loss because:
- (a) the event is fundamental to understanding an entity's performance; and
  - (b) this is consistent with the accrual basis of accounting.
- B39 Some commentators on the DSOP and E65 argued that fair value changes should be included directly in equity, through the statement of changes in equity, until realised, arguing that:
- (a) the effects of biological transformation cannot be measured reliably and, therefore, should not be reported as income;
  - (b) fair value changes should only be included in net profit or loss when the earnings process is complete;
  - (c) recognition of unrealised gains and losses in net profit or loss increases volatility of earnings;
  - (d) the results of biological transformation may never be realised, particularly given the risks to which biological assets are exposed; and
  - (e) it is premature to require recognition of fair value changes in net profit or loss, until performance reporting issues are resolved.
- B40 The Board rejected requiring changes in fair value to be included directly in equity since it is difficult to find any conceptual basis for reporting any portion of the changes in fair value of biological assets related to agricultural activity directly in equity. No distinction is made in the *Framework* between recognition in the balance sheet and recognition in the income statement.

### **Agricultural produce**

- B41 The Standard requires that agricultural produce harvested from an entity's biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest. Such measurement

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<sup>5</sup> IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term 'net profit or loss' with 'profit or loss'.

is the cost at that date when applying IAS 2 *Inventories* or another applicable International Accounting Standard.

- B42 The Board noted that the same basis of measurement should generally be applied to agricultural produce on initial recognition and to the biological asset from which it is harvested. Because the fair value of a biological asset takes into account the condition of the agricultural produce that will be harvested from the biological asset, it would be illogical to measure the agricultural produce at cost when the biological asset is measured at fair value. For example, the fair value of a sheep with half fleece will differ from the fair value of a similar sheep with full fleece. It would be inconsistent and distort reporting of current period performance if, upon shearing, the shorn fleece is measured at its cost when the fair value of the sheep is reduced by the fair value of the fleece.
- B43 As noted previously, certain biological assets are measured at their cost less any accumulated depreciation and any accumulated impairment losses, if the reliability exception is applied. Some argue that a reliability exception should exist for measurement of agricultural produce. The Board rejected this view because many of the arguments for a reliability exception do not apply to agricultural produce. For example, markets more often exist for agricultural produce than for biological assets. The Board also noted that it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets.
- B44 With regard to measurement after harvest, some argue that agricultural produce should be measured at its fair value both at the point of harvest and at each balance sheet date until sold, consumed, or otherwise disposed of. They argue that this approach would ensure that all agricultural produce of a similar type is measured similarly irrespective of date of harvest, thus enhancing comparability and consistency.
- B45 The Board concluded that fair value less estimated point-of-sale costs at the point of harvest should be the cost when applying IAS 2 or another applicable International Accounting Standard, since this is consistent with the historical cost accounting model applied to manufacturing processes in general and other types of inventory.
- B46 In reaching the above conclusion, the Board noted that entities undertaking agricultural activity sometimes purchase agricultural produce for resale, and other entities often engage in processing purchased agricultural produce into consumable products. If agricultural produce would be measured at its fair value after harvest, a desire for consistency would suggest revaluing purchased inventories as well, and such a treatment would be inconsistent with IAS 2. The Board did not consider it appropriate to undertake a partial revision of IAS 2.

## **Sales contracts**

- B47 Entities often enter into contracts to sell at a future date their biological assets or agricultural produce. The Standard indicates that contract prices are not necessarily relevant in determining fair value and that the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.
- B48 E65 did not propose how to account for a contract for the sale of a biological asset or agricultural produce. Some commentators suggested prescribing the treatment of sales contracts since such sales contracts are common in certain agricultural activity. Some commentators also pointed out that certain sales contracts are not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* and that no other International Accounting Standards deal with those contracts.
- B49 Some argue that contract prices should be used in measuring the related biological assets when an entity expects to settle the contract by delivery and believe this would result in the most relevant carrying amount for the biological asset. Others argue that contract prices are not necessarily relevant in measuring the biological assets at fair value since fair value reflects the current market in which a willing buyer and seller would enter into a transaction.
- B50 The Board concluded that contract prices should not be used in measuring related biological assets, because contract prices do not necessarily reflect the current market in which a willing buyer and seller would enter into a transaction and therefore do not necessarily represent the fair value of assets. The Board wished to maintain a consistent approach to the measurement of assets. The Board instead considered whether it might require that sales contracts be measured at fair value. It is logical to

measure a sales contract at fair value to the extent that a related biological asset is also measured at fair value.

- B51 However, the Board noted that to achieve symmetry between the measurement of a biological asset and a related sales contract the Standard would have to carefully restrict the sales contracts to be measured at fair value. An entity may enter into a contract to sell agricultural produce to be harvested from the entity's biological assets. The Board concluded that it would not be appropriate to require fair value measurement for a contract to sell agricultural produce that does not yet exist (for example, milk to be harvested from a cow), since no related asset has yet been recognised or measured at fair value and to do so would be beyond the scope of the project on agriculture.
- B52 Thus, the Board considered restricting the sales contracts to be measured at fair value to those for the sale of an entity's existing biological assets and agricultural produce. However, the Board noted that it is difficult to differentiate existing agricultural produce from agricultural produce that does not exist. For example:
- (a) if an entity enters into a contract to sell fully-grown wheat at a future date and has half-grown wheat at a balance sheet date, it seems clear that the wheat to be delivered under the contract does not yet exist at the balance sheet date; but
  - (b) on the other hand, if an entity enters into a contract to sell mature cattle at a future date and has mature cattle at a balance sheet date, it could be argued that the cattle exist in the form in which they will be sold at the balance sheet date. However, it could also be argued that the cattle do not yet exist in the form in which they will be sold at the balance sheet date since further biological transformation will occur between the balance sheet date and the date of delivery.
- B53 The Board also noted that the Standard would have to require an entity to stop fair value measurement for sales contracts once agricultural produce to be sold under the contract is harvested from an entity's biological assets, since accounting for agricultural produce is not dealt with in the Standard except for initial measurement and IAS 2 *Inventories* or another applicable International Accounting Standard applies after harvest. It would be illogical to continue fair value measurement when the agricultural produce is measured at historical cost. The Board noted that it would be anomalous to require an entity to start measuring a contract at fair value once the related asset exists and to stop doing that at a later date.
- B54 The Board concluded that no solution is practicable without a complete review of the accounting for commodity contracts that are not within the scope of IAS 39. Because of the above difficulties, the Board concluded that the Standard should not deal with the measurement of sales contracts that are not within the scope of IAS 39. Instead, the Board decided to include an observation that those sales contracts may be onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

### **Land related to agricultural activity**

- B55 The Standard does not establish any new principles for land related to agricultural activity. Rather, an entity follows IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property* depending on which standard is appropriate in the circumstances. IAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses.
- B56 Some argue that land attached to biological assets related to agricultural activity should also be measured at its fair value. They argue that fair value measurement of land results in consistency of measurement with the fair value measurement of biological assets. They also argue that it is sometimes difficult to measure the fair value of such biological assets separately from the land since an active market often exists for the combined assets (that is, land and biological assets; for example, trees in a plantation forest).
- B57 The Board rejected this approach, primarily because requiring the fair value measurement of land related to agricultural activity would be inconsistent with IAS 16.

## **Intangible assets**

- B58 The Standard does not establish any new principles for intangible assets related to agricultural activity. Rather, an entity follows IAS 38 *Intangible Assets*. IAS 38 requires an intangible asset, after initial recognition, to be measured at its cost less any accumulated amortisation and impairment losses, or at a revalued amount.
- B59 E65 proposed that an entity should be encouraged to follow the revaluation alternative in IAS 38 for intangible assets related to agricultural activity, to enhance consistency of measurement with the fair value measurement of biological assets. Some commentators on E65 disagreed with having the encouragement. They argued that a unique treatment for intangible assets related to agricultural activity is not warranted.
- B60 The Board did not include the encouragement in E65 in the Standard. The Board concluded that IAS 38 should be applied to intangible assets related to agricultural activity, as it is to intangible assets related to other activities.

## **Subsequent expenditure**

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- B61 The Standard does not explicitly prescribe how to account for subsequent expenditure related to biological assets. E65 proposed that costs of producing and harvesting biological assets should be charged to expense when incurred and that costs that increase the number of units of biological assets owned or controlled by the entity should be added to the carrying amount of the asset.
- B62 Some believe that there is no need to capitalise subsequent expenditure in a fair value model and that all subsequent expenditure should be recognised as an expense. Some also argue that it would sometimes be difficult to prescribe which costs should be recognised as expenses and which costs should be capitalised; for example, in the case of vet fees paid for delivering a calf. The Board decided not to explicitly prescribe the accounting for subsequent expenditure related to biological assets in the Standard, because it believes to do so is unnecessary with a fair value measurement approach.

## **Government grants**

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- B63 The Standard requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs should be recognised as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.
- B64 The Standard requires a different treatment from IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in the circumstances described above. IAS 20 is to be applied only to government grants related to biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses.
- B65 IAS 20 requires that government grants should not be recognised until there is reasonable assurance that:
- (a) the entity will comply with the conditions attaching to them; and
  - (b) the grants will be received.
- IAS 20 also requires that government grants should be recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. In relation to the presentation of government grants related to assets, IAS 20 permits two methods—setting up a government grant as deferred income or deducting the government grant from the carrying amount of the asset.
- B66 The latter method of presentation—deducting a government grant from the carrying amount of the related asset—is inconsistent with a fair value model in which an asset is measured and presented at its fair value. Using the deduction from carrying value approach, an entity would first deduct the

government grant from the carrying amount of the related asset and then measure that asset at its fair value. In effect, an entity would recognise a government grant as income immediately, even for a conditional government grant. This conflicts with the requirement in IAS 20 that government grants should not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them.

- B67 Because of the above, the Board concluded that there was a need to deal with government grants related to biological assets measured at their fair value. Some argued that IASC should begin a wider review of IAS 20 rather than provide special rules in individual International Accounting Standards. The Board acknowledged that this might be a more appropriate approach, but concluded that such a review would be beyond the scope of the project on agriculture. Instead, the Board decided to deal with government grants in the Standard, since the Board noted that government grants related to agricultural activity are common in some countries.
- B68 E65 proposed that, if an entity receives a government grant in respect of a biological asset that is measured at its fair value and the grant is unconditional, the entity should recognise the grant as income when the government grant becomes receivable. E65 also proposed that, if a government grant is conditional, the entity should recognise it as income when there is reasonable assurance that the conditions are met.
- B69 The Board noted that, if a government grant is conditional, an entity is likely to have costs and ongoing obligations associated with satisfying the conditions attaching to the government grant. It may be possible that the inflow of economic benefits is much less than the amount of the government grant. Given that possibility, the Board acknowledged that the criterion for recognising income from a conditional government grant in E65, when there is reasonable assurance that the conditions are met, may give rise to income recognition that is inconsistent with the *Framework*. The *Framework* indicates that income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably. The Board also noted that it would inevitably be a subjective decision as to when there is reasonable assurance that the conditions are met and that this subjectivity could lead to inconsistent income recognition.
- B70 The Board considered two alternative approaches:
- (a) an entity should recognise a conditional government grant as income when it is probable that the entity will meet the conditions attaching to the government grant; and
  - (b) an entity should recognise a conditional government grant as income when the entity meets the conditions attaching to the government grant.
- B71 Proponents of approach (a) argue that this approach is generally consistent with the revenue recognition requirements in IAS 18 *Revenue*. IAS 18 requires that revenue should be recognised, among other things, when it is probable that the economic benefits associated with the transaction will flow to the entity.
- B72 Proponents of approach (b) believe that, until the conditions attaching to the government grant are met, a liability should be recognised under the *Framework* rather than income since an entity has a present obligation to satisfy the conditions arising from past events. They also argue that income recognition under approach (a) would still be subjective and inconsistent with the recognition criteria indicated in the *Framework*.
- B73 The Board concluded that approach (b) is more appropriate. The Board also decided that a government grant that requires an entity not to engage in specified agricultural activity should also be accounted for in the same way as a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs.

## **Disclosure**

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### **Separate disclosure of physical and price changes**

- B74 The Standard encourages, but does not require, separate disclosure of the effects of the factors resulting in changes to the carrying amount of biological assets, physical change and price change, when there is a production cycle of more than one year. Physical change is attributable to changes in the assets themselves while price change is attributable to changes in unit fair values.
- B75 Some argue that the separate disclosure should be required since it is useful in appraising current period performance and future prospects in relation to production from, and maintenance and renewal of, biological assets. Others argue that it may be impracticable to separate these elements and the two components cannot be separated reliably.
- B76 The Board concluded that the separate disclosure should not be required because of practicability concerns. However, the Board decided to encourage the separate disclosure, given that such disclosure may be useful and practically determinable in some circumstances. The separate disclosure is not encouraged when the production cycle is less than one year (for example, when raising broiler chickens or growing cereal crops) since that information is less useful in that circumstance.
- B77 Some argue that physical changes should be included in net profit or loss and that price changes should be included directly in equity, through the statement of changes in equity. The Board rejected this approach because both components are indicative of management's performance.

### **Disaggregation of the gain or loss**

- B78 The Standard requires that an entity should 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 estimated point-of-sale costs of biological assets. The Standard does not require or encourage disaggregating the gain or loss, except that the Standard encourages separate disclosure of physical changes and price changes as discussed above.
- B79 The Board considered requiring, or encouraging, disclosure of the gain or loss on a disaggregated basis; for example, requiring separate disclosure of the gain or loss related to biological assets and the gain or loss related to agricultural produce. Those who supported disaggregating the gain or loss believe that such information is useful in appraising current period performance in relation to biological transformation. Others argued that disaggregation would be impracticable and require a subjective procedure.

## Other disclosures

- B80 E65 proposed disclosing the:
- (a) extent to which the carrying amount of biological assets reflects a valuation by an external independent valuer, or if there has been no valuation by an external independent valuer, that fact;
  - (b) activities that are unsustainable with an estimated date of cessation of the activities;
  - (c) aggregate carrying amount of an entity's agricultural land and the basis (cost or revalued amount) on which the carrying amount was determined under IAS 16 *Property, Plant and Equipment*; and
  - (d) carrying amount of agricultural produce either on the face of the balance sheet or in the notes.
- B81 The Board did not include the above disclosures in the Standard. The Board noted that requiring item (a) above would not be appropriate since external independent valuations are not commonly used for assets related to agricultural activity, unlike for certain other assets such as investment property. The Board also noted that item (b) is not required in other International Accounting Standards and a unique disclosure requirement is not warranted for agricultural activity. Items (c) and (d) would be outside the scope of the Standard and covered by other International Accounting Standards (IAS 16 or IAS 2 *Inventories*).

## Summary of changes to E65

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- B82 The Standard made the following principal changes to the proposals in E65:
- (a) The Standard includes a reliability exception for biological assets on initial recognition. If the exception is applied, the biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraph 30 of the Standard). As a consequence, the Standard includes disclosure requirements consistent with paragraph 170(b) of IAS 39 *Financial Instruments: Recognition and Measurement*<sup>6</sup> and paragraph 68 of IAS 40 *Investment Property*<sup>7</sup> (paragraphs 54(a)–(c) and 55 of the Standard), and consistent with paragraphs 60(b)–(d) and 60(e)(v)–(vii) of IAS 16 *Property, Plant and Equipment*<sup>8</sup> (paragraphs 54(d)–(f) and 55).
  - (b) If the reliability exception is applied but fair value subsequently becomes reliably measurable and, therefore, an entity has started measuring the biological assets at their fair value less estimated point-of-sale costs, the Standard requires the entity to disclose a description of the biological assets, an explanation of why fair value has become reliably measurable, and the effect of the change (paragraph 56).
  - (c) E65 did not specify how to account for point-of-sale costs (such as commissions to brokers). The Standard requires that biological assets and agricultural produce should be measured at their fair value less estimated point-of-sale costs (paragraphs 12–13).
  - (d) E65 included net realisable value as one of the measurement bases in cases where no active market exists. Net realisable value was deleted from the bases since it is not a market-determined value.
  - (e) The Standard indicates that market-determined prices or values are used when available. The Standard also indicates that, in some circumstances, market-determined prices or values may

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<sup>6</sup> Paragraph 170(b) of IAS 39 was replaced by paragraph 90 of IAS 32 *Financial Instruments: Disclosure and Presentation* when the IASB revised those standards in 2003. In 2005, the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures*.

<sup>7</sup> Paragraph 68 of IAS 40 was replaced by paragraph 78 when the IASB revised IAS 40 in 2003.

<sup>8</sup> Paragraph 60 of IAS 16 was replaced by paragraph 73 when IAS 16 was revised in 2003.

not be available for an asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows (paragraphs 18–20).

- (f) Guidance on the performance of present value calculations was added (paragraphs 21–23).
- (g) E65 did not specify how to account for contracts for the sale of a biological asset or agricultural produce. The Standard indicates that the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a sales contract (paragraph 16).
- (h) E65 did not explicitly indicate that a gain or loss may arise on initial recognition of agricultural produce. The Standard clarifies that a gain or loss may arise on initial recognition of agricultural produce; for example, as a result of harvesting and that such a gain or loss should be included in net profit or loss<sup>9</sup> for the period in which it arises (paragraphs 28–29).
- (i) E65 proposed that costs of producing and harvesting biological assets should be charged to expense when incurred, and that costs that increase the number of units of biological assets owned or controlled by the entity should be added to the carrying amount of the asset. The Standard does not explicitly prescribe how to account for subsequent expenditure related to biological assets.
- (j) E65 proposed that an entity should recognise a conditional government grant as income when there is reasonable assurance that the conditions are met. The Standard requires that a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs, including where a government grant requires an entity not to engage in specified agricultural activity, should be recognised as income when, and only when, the conditions attaching to the government grant are met. The Standard also indicates that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraphs 34–35 and 37).
- (k) E65 provided the following encouragements specific to agricultural activity with regard to alternative treatments allowed in other International Accounting Standards, to achieve consistency with the accounting treatment of activities covered by E65:
  - (i) analysing expenses by nature, as set out in IAS 1 *Presentation of Financial Statements*; and
  - (ii) revaluing certain intangible assets used in agricultural activity if an active market exists, as set out in IAS 38 *Intangible Assets*.

The Board did not include these encouragements in the Standard. The Board noted that IAS 1 and IAS 38 apply to entities that undertake agricultural activity, as well as to those in other activities.

- (l) New disclosure requirements include disclosing the:
  - (i) basis for making distinctions between consumable and bearer biological assets or between mature and immature biological assets, when an entity provides a quantified description of each group of biological assets (paragraph 43);
  - (ii) methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest (paragraph 47);
  - (iii) fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest (paragraph 48);
  - (iv) increases resulting from business combinations in the reconciliation of the carrying amount of biological assets (paragraph 50(e)); and

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<sup>9</sup> IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term ‘net profit or loss’ with ‘profit or loss’.

- (v) significant decreases expected in the level of government grants related to agricultural activity covered by the Standard (paragraph 57(c)).
  - (m) E65 proposed disclosing the:
    - (i) extent to which the carrying amount of biological assets reflects a valuation by an external independent valuer or, if there has been no valuation by an external independent valuer, that fact;
    - (ii) activities that are unsustainable with an estimated date of cessation of the activities;
    - (iii) aggregate carrying amount of an entity's agricultural land and the basis (cost or revalued amount) on which the carrying amount was determined under IAS 16; and
    - (iv) carrying amount of agricultural produce either on the face of the balance sheet or in the notes.
- The Standard does not include the above disclosures.
- (n) The amendment to IAS 17 *Leases* now clarifies that IAS 17 should not be applied to the measurement by:
    - (i) lessees of biological assets held under finance leases; and
    - (ii) lessors of biological assets leased out under operating leases.

Biological assets held under finance leases and those leased out under operating leases are measured under the Standard rather than IAS 17. A lease of a biological asset is classified as a finance lease or operating lease under IAS 17. If a lease is classified as a finance lease, the lessee recognises the leased biological asset under IAS 17 and thereafter measures and presents it under the Standard. In that case, the lessee makes disclosures both under the Standard and IAS 17. A lessor of a biological asset under an operating lease measures and presents the biological asset under the Standard, and makes disclosures both under the Standard and IAS 17.