

TOPIC 10

INDAS – 41 AGRICULTURE

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Quote:

Definiteness of purpose is the starting point of all achievement.

W. Clement Stone



Agriculture is one of the most important industries in the world especially in India. It is so important and so different from other industries that it has its own standard – INDAS 41 Agriculture.

In many developing countries, agricultural activities represent one of the most important sources of income.

Unlike other industries, agriculture works with living animals and plants. By definition, living animals and plants **are born, grow and die.**

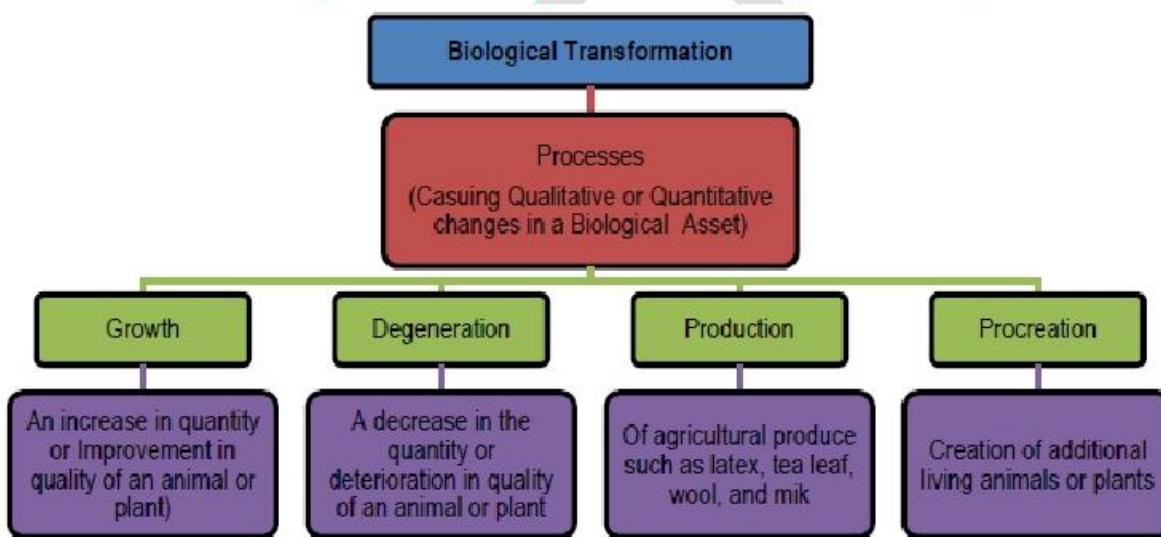
General Rule is Biological Assets and Agriculture Produce at the point of harvest are measured at Fair Value.

DEFINITIONS

Biological Asset is defined as a living animal or plant.

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

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



WHAT IS AGRICULTURE ACTIVITY?

It is the management of the biological transformation (e.g. growth) of biological assets:

- For Sale, or
- For Conversion into agricultural produce, or
- into additional biological assets.

We have to make our best effort to answer that question correctly, because the accounting and reporting depends on it.

Why?

Imagine we have a dog.

Logically, it is a living animal, and therefore it is a biological asset. You might think: "well, biological assets are governed by INDAS 41, so we need to measure the dog at **fair value at the end of each year**".

Not so fast.

Why do we have that dog?

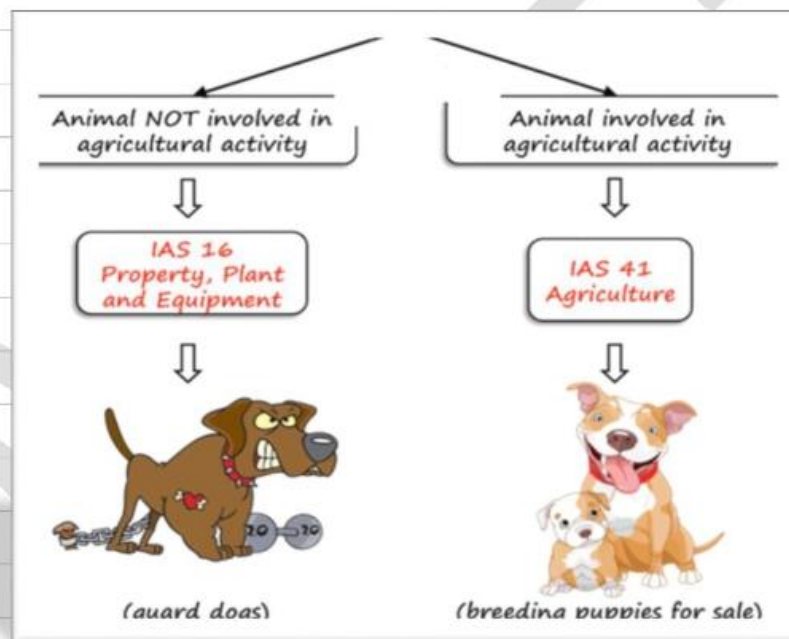
Is it a guard dog, protecting our property and barking at everyone passing by?

If yes, then we should NOT apply INDAS 41, but INDAS 16 Property, plant and equipment and measure the dog at cost less accumulated depreciation.

The reason is that protecting the property is NOT an agricultural activity and INDAS 41 does NOT apply.

Or, do we have that dog in **order to produce and raise puppies and sell the puppies?**

In this case, INDAS 41 applies, because breeding and selling puppies is an agricultural activity.



So, if you think that OK, I'm not a farmer, so I don't need to bother with INDAS 41, you might be surprised where the agriculture can hide.

Just a few examples:

- **Pharmaceutical companies**

Some pharma companies grow their own plants in order to produce drugs. Yes, this is an agricultural activity and INDAS 41 applies.

- **Diary producers**

If a company maintains Cows and Produces Milk then - this is an agricultural activity and INDAS 41 applies. (Example - AMUL)

Again, few examples:

- **ZOO**

The main purpose of the ZOO (and safari, recreational park, riding hall, etc.) is to make money **from showing the animals off to the public** - this is NOT an agricultural activity and INDAS 41 does NOT apply (INDAS 16 does).

Yes, animals living in the ZOO sometimes pair and produce a baby - but if it's a natural process, not managed by the ZOO, it is NOT an agricultural activity.

The situation would be different when the ZOO would implement **an active program of reproduction and managed that program**. In this case, **breeding animals** would NOT be an incidental and ZOO would have to apply INDAS 41.

- **"Working animals"**

When we hold an animal primarily to do some work, such as cart-horses, guard dogs, elephant taxis, etc., then we should NOT apply INDAS 41, because all these activities do NOT represent biological transformation. Instead, INDAS 16 is the right way to go.

Ok so now let us discuss some more important definitions:

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

BEARER PLANT may be defined as a living plant that:

- i. is used in the production or supply of agricultural produce;
- ii. is expected to bear produce for more than one period; and
- iii. has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

For example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are outside the scope of Ind AS 41 and covered under Ind AS 16.

However, produces growing on bearer plant is a biological asset.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.



APPLICABILITY & NON - APPLICABILITY

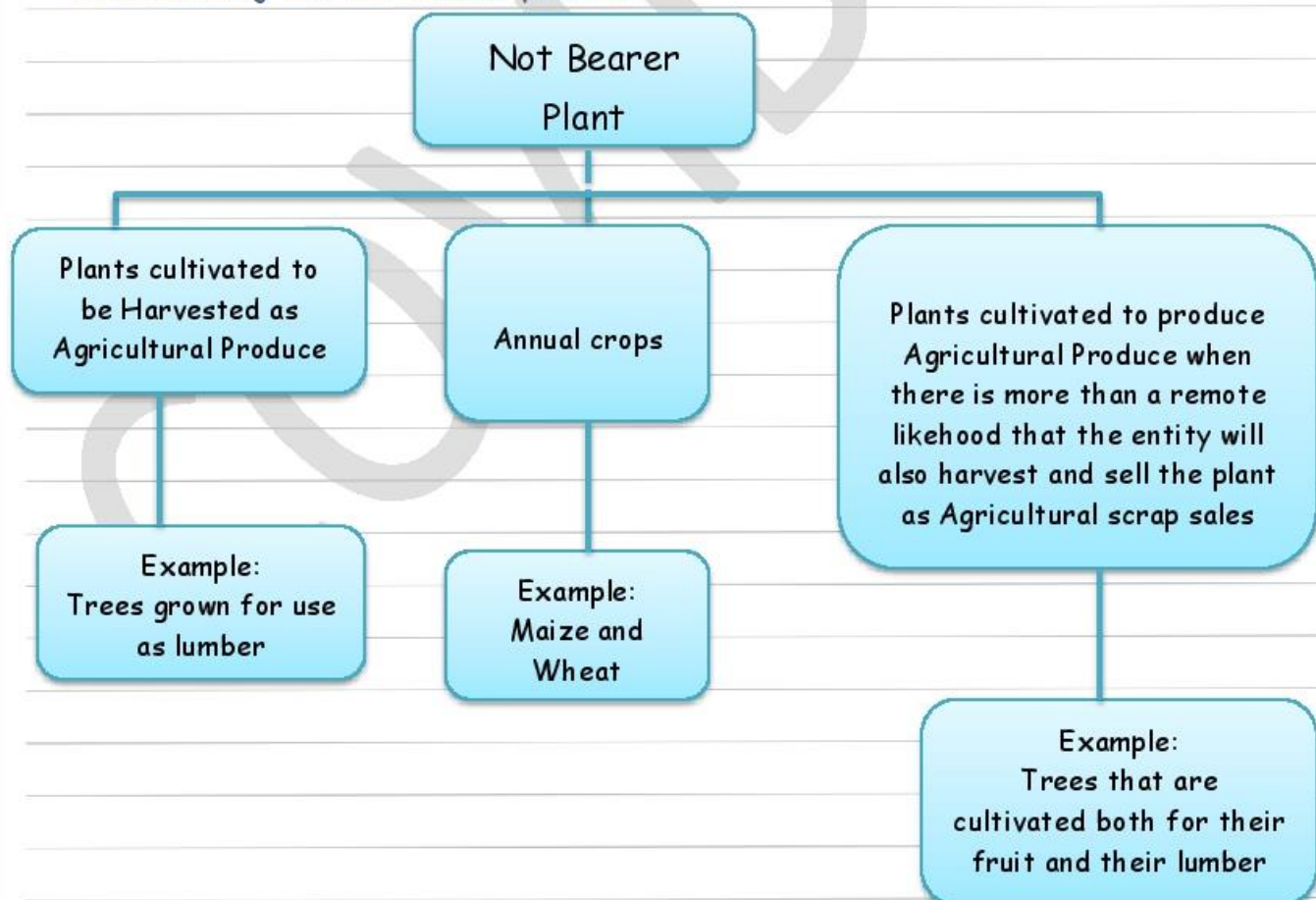
IndAS 41 applies to the following:

- Biological Assets relating to Agriculture activity
- Agricultural Produce at the point of harvest relating to agriculture activity
- Government Grants relating to agriculture activity

IndAS 41 does not apply to the following:

- Land** related to agricultural activity: for example, the land on which the biological assets grow, regenerate and/or degenerate (Ind AS 16 Property, Plant and Equipment and Ind AS 40 Investment Property);
- Bearer plants** related to agricultural activity. Such bearer plants covered within the scope of Ind AS 16, Property, plant and Equipment as accounted as per the provisions of that standard. However, this Standard applies to the produce on those bearer plants.
- Government grants related to bearer plants** (Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance).
- Intangible assets associated with the agricultural activity**, for example licenses and rights are covered under Ind AS 38 Intangible Assets and provisions of this standard will be applicable.

The following are NOT bearer plants:



IMPORTANT NOTE:

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, Ind AS 2 or another applicable Standard is applied.

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 timber	Felled Trees	Logs, lumber
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Rubber trees	Harvested latex	Rubber products

Is the natural breeding of animal in zoos and game parks agricultural activity?

1. The natural breeding that takes place in animals used in recreational activities is not a managed activity and is incidental to the main activity of providing a recreational facility.
2. A managed breeding programme carried out to produce animals for sale would be considered agricultural activity.

RECOGNITION OF ASSETS

Entities are required to recognise a biological asset or agricultural produce when, and only when, ALL of the following conditions are met:

(i) The entity **CONTROLS** the asset as a result of past events;

(Control over biological assets or agricultural produce may be evidenced by **legal ownership or rights to control**, for example legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.)

(ii) It is probable that **FUTURE ECONOMIC BENEFITS** associated with the asset will flow to the entity;

(Future economic benefits are expected to flow to the enterprise from its ownership or control of the asset. The future benefits are normally assessed by measuring the significant physical attributes.) and

(iii) The **FAIR VALUE OR COST** of the asset can be measured reliably.

MEASUREMENT

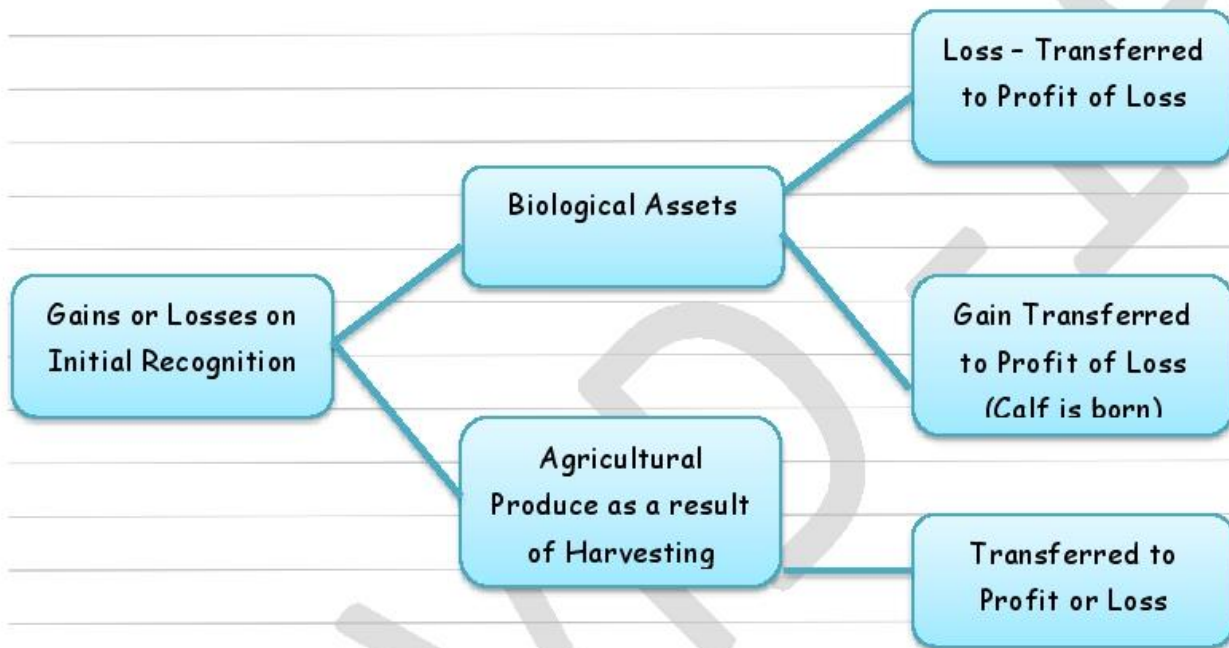
BIOLOGICAL ASSETS	AGRICULTURAL PRODUCE HARVESTED
On Initial Recognition – At Fair Value less costs to sell. At the end of each reporting period – at Fair Value less costs to sell. There is a presumption that fair value can be measured reliably for a biological asset.	At Fair Value less costs to sell at the point of harvest. This measurement is the Cost at that date when applying INDAS 2 or another standard.
The fair value less cost to sell of a biological asset can change due to both physical changes and price changes in the market. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers 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.	
Gain or loss arising on initial recognition of Biological Asset and Agriculture Produce at Fair Value less costs to sell shall be included in Profit & Loss for the period in which it arises.	

A loss may arise on initial recognition of a biological asset, because cost to sell are deducted in determining fair value less cost to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.

Example:

During the reporting period 2017-2018, an entity is having a cow which has given birth to a calf. The fair value less estimated cost to sell for a calf is Rs. 5,000. The amount of Rs. 5,000 is, therefore, immediately recognised in Statement of Profit or Loss.

Summarises the concepts as under:



Q82:

A farmer owned a dairy herd, of three years old cattle as at April 1, 20X1 with a fair value of Rs.13,750 and the number of cattle in the herd was 250.

The fair value of three year cattle as at March 31, 20X2 was Rs.60 per cattle. The fair value of four year cattle as at March 31, 20X2 is Rs. 75 per cattle.

Calculate the measurement of group of cattle as at March 31, 20X2 stating price and physical change separately.

Solution

Particulars	Amount (Rs)
Fair value as at April 1, 20X1	13,750
Increase due to Price change $[250 \times \{60 - (13,750/250)\}]$	1,250
Increase due to Physical change $[250 \times \{75-60\}]$	3,750
Fair value as at March 31, 20X2	18,750

Q83:

XYZ Ltd, on 1 December 20X3, purchased 100 sheeps from a market for Rs. 500,000 with a transaction cost of 2%. Sheep's fair value increased from Rs 500,000 to Rs 600,000 on 31 March 20X4.

Determine the fair value on the date of purchase and pass necessary journal entries.

Solution

The fair value less cost to sell of sheep's on the date of purchase would be Rs 4,90,000 (5,00,000-10,000). Expense of Rs 10,000 would be recognised in profit and loss.

On date of Purchases:

Biological Asset	Dr.	4,90,000
Expense on Purchase	Dr.	10,000
	To Bank	5,00,000

(Being biological asset purchased)

On 31 March 20X4 sheep's would be measured at Rs. 5,88,000 as Biological Asset (6,00,000-12,000) and gain of ₹ 98,000 (5,88,000-4,90,000) would be recognised in profit or loss.

At the end of reporting period

Biological Asset	Dr.	98,000
	To Gain - Change in fair value	98,000

(Being change in fair value recognised at the end of reporting period)

Are biological assets always measured at fair value less costs to sell?

No, they are not.

It is true that the general rule in INDAS 41 Agriculture is to measure all biological assets at **fair value less costs to sell**.

However, there are few exceptions:

1. The biological asset is **NOT a part of agricultural activity**.

I've explained it above - guard dogs, fish caught in the ocean, Zoo etc.

2. The biological asset is **a bearer plant**.

A bearer plant is a living plant used in production or supply of agricultural produce that is expected to produce for more than 1 period.

The examples are fruit trees, oil palms, vines etc.

As it was difficult and impractical to set the fair value of these assets at the end of each reporting period, they were taken out of INDAS 41's scope.

So, we can keep these assets at cost less accumulated depreciation under INDAS 16.

Careful – this is only about plants, not animals. So, if you own expensive dogs and use them to breed new dogs, then sorry, it's NOT a bearer plant.

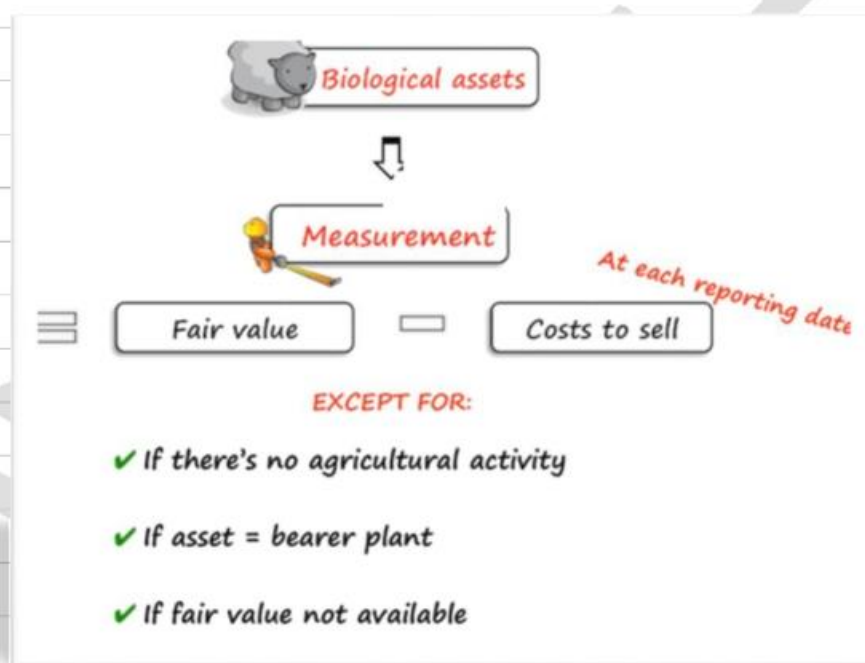
3. The fair value is not reliably measurable

When the fair value cannot be measurable, you can measure the asset at its **cost less accumulated depreciation**.

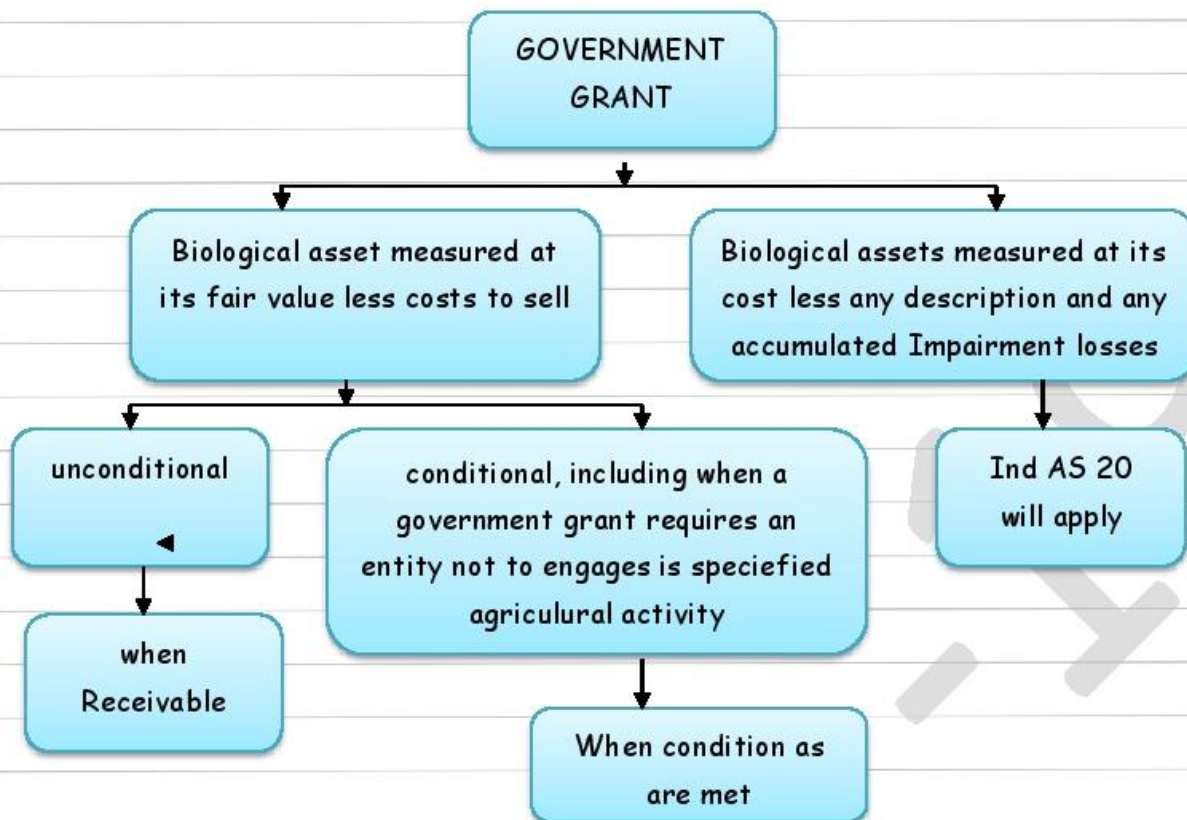
However, this is almost never relevant and INDAS 41 says that the fair value CAN be measured reliably for biological assets (Rebuttable Presumption)

Also, this exemption is available ONLY at initial recognition, never later. So, if you received the biological asset as a gift and market prices are not available, you would be able to use cost model.

Other situations are highly unlikely.



GOVERNMENT GRANTS



Example:

Sun Ltd cultivated a huge plot of land. The government offers a grant of 10 crore under the condition that the land is being cultivated for 5 years. If the land will be cultivated for a shorter period, the entity is required to return the entire grant.

Therefore, the government grant will be recognised **as income only after 5 years** of cultivation. The situation would be different if the returning obligation referred to the years of not cultivating the land is with respect to retention of grant for the period till which the entity has cultivated the land. In this case, the amount of ₹ 10 crore would be recognised as income, proportionately with the time period, meaning ₹ 2 crore per annum.

MISCONCEPTION

Very common misconception in the agriculture accounting is the belief that everything coming out of agriculture is a biological asset.

Not true.

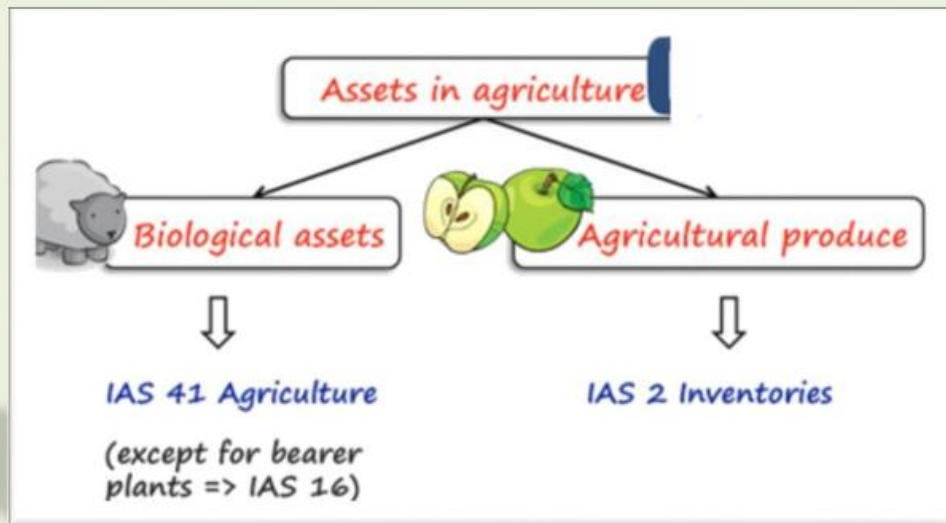
Biological assets are only living plants and animals.

The harvested products of biological assets are agricultural produce.

Apples, palm oil, pearls, milk, coffee beans, tea leaves – all these are agricultural produce.

Why do we bother?

Well, once we detach the agricultural produce from a biological asset, in other words – once we harvest the produce, it becomes our inventories and we should apply INDAS 2 Inventories.



At the moment of harvest, we should measure our new inventories at their fair value less costs to sell and subsequently, we measure them under INDAS 2 at lower of cost and net realizable value.

We do NOT re-measure agricultural produce to fair value less cost to sell.

Q84:

Moon Ltd prepares financial statements to 31st March each year. On 1 April 20X1 the company carried out the following transactions:

- Purchased a land for Rs.50 Lakhs.
- Purchased 200 dairy cows (average age at 1 April 20X1 two years) for Rs.10 Lakhs.
- Received a grant of Rs.1 million towards the acquisition of the cows. This grant was non-refundable.

For the year ending 31 March 20X2, the company has incurred following costs:

- Rs.6 Lakh to maintain the condition of the animals (food and protection).
- Rs.4 Lakh as breeding fee to a local farmer.

On 1 October 20X1, 100 calves were born. There were no other changes in the number of animals during the year ended 31 March 20X2. As of 31st March 20X2, Moon Ltd had 3,000 litres of unsold milk in inventory. The milk was sold shortly after the year end at market prices.

Information regarding fair values is as follows:

Item	Fair Value less cost to sell		
	1 April 20X1	1 October 20X1	31 March 20X2
	Rs.	Rs.	Rs.
Land	50 Lakhs	60 Lakhs	70 Lakhs
New born calves (per calf)	1,000	1,100	1,200
Six month old calves (per calf)	1,100	1,200	1,300
Two year old cows (per cow)	5,000	5,100	5,200
Three year old cows (per cow)	5,200	5,300	5,500
Milk (per litre)	20	22	24

Prepare extracts from the Balance Sheet and Statement of Profit & Loss that would be reflected in the financial statements of the entity for the year ended 31st March 20X2.

Solution

Extract from the Statement of Profit & Loss

Income	WN	Amount
Change in fair value of purchased dairy cow	WN 2	1,00,000
Government Grant	WN 3	10,00,000
Change in the fair value of newly born calves	WN 4	1,30,000
Fair Value of Milk	WN 5	72,000
Total Income		13,02,000
Less: Expenses		
Maintenance Costs	WN 2	6,00,000
Breeding Fees	WN 2	4,00,000
Total Expense		(10,00,000)
Net Income		3,02,000

Extracts from Balance Sheet

Property, Plant and Equipment:		
Land	WN 1	50,00,000
Dairy Cow	WN 2	11,00,000
Calves	WN 4	1,30,000
		62,30,000
Inventory		
Milk	WN 5	72,000
		72,000

Working Notes:

1. **Land:** The purchase of the land is not covered by Ind AS 41. The relevant standard which would apply to this transaction is Ind AS 16. Under this standard the land would initially be recorded at cost and depreciated over its useful economic life. This would usually be considered to be infinite in the case of land and so no depreciation would be appropriate. Under Cost Model no recognition would be made for post-acquisition changes in the value of land. The allowed alternative treatment under Revaluation Model would permit the land to be revalued to market value with the revaluation surplus taken to the other comprehensive income. We have followed the Cost Model.

2. **Dairy Cows:** Under the 'fair value model' laid down in Ind AS 41 the mature cows would be recognised in the Balance Sheet at 31 March 20X2 at the fair value of $200 \times \text{Rs. } 5,500 = \text{Rs. } 11,00,000$.

Increase in price change $200 \times (5,200 - 5,000) = 40,000$

Increase in physical change $200 \times (5,500 - 5,200) = 60,000$

The total difference between the fair value of matured herd and its initial cost ($\text{₹ } 11,00,000 - \text{₹ } 10,00,000 = \text{a gain of ₹ } 1,00,000$) would be recognised in the profit and loss along with the maintenance costs and breeding fee of $\text{₹ } 6,00,000$ and $\text{₹ } 4,00,000$ respectively.

3. **Grant:** Grant relating to agricultural activity is not subject to the normal requirement of Ind AS 20. Under Ind AS 41 such grants are credited to income as soon as they are unconditionally receivable rather than being recognised over the useful economic life of the herd. Therefore, $\text{₹ } 10,00,000$ would be credited to income of the company.

4. **Calves:** They are a biological asset and the fair value model is applied. The breeding fees are charged to income and an asset of $100 \times \text{₹ } 1,300 = \text{₹ } 1,30,000$ recognised in the Balance sheet and credited to Profit and loss.

5. **Milk:** This is agricultural produce and initially recognised on the same basis as biological assets. Thus the milk would be valued at $3,000 \times \text{₹ } 24 = \text{₹ } 72,000$. This is regarded as 'cost' for the future application of Ind AS 2 to the unsold milk



Student Notes:-



COVID-19





Student Notes:-

COVID-19

