

Agriculture

Ind AS 41

Agenda

Objective and Scope

Definitions

Recognition and Measurement

Presentation and Disclosure

Recognition and Measurement

Objective

- ▶ **Ind AS 41 prescribes the** accounting treatment and the presentation and disclosures related to agricultural activity.

Scope

▶ **Ind AS 41 applies to:**

- ▶ Biological assets
- ▶ Agricultural produce at the time of harvest
- ▶ Government grants as described in the standard

Except:

- ▶ Land related to agricultural activity (Ind AS 16)
- ▶ Intangible assets related to agricultural activity (Ind AS 38)
- ▶ Bearer plants
- ▶ Agricultural produce after harvest

Definitions

Biological
Assets

A living animal or plant For e.g. Cattle, vines, trees, sheep and other plants

Agricultural
produce

Harvested product of the enterprise's biological assets

Definitions

Biological transformation

The process of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Agricultural activity

The process of biological transformation of biological assets for:

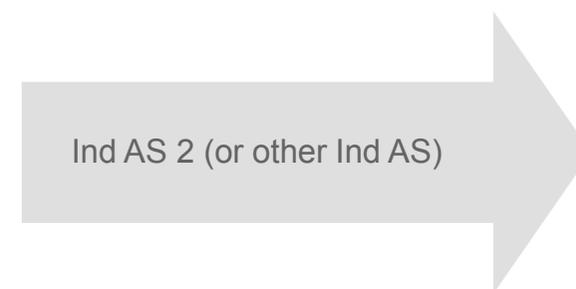
- Sale
- Conversion into agricultural produce
- Into additional biological assets
- E.g.: Forestry, Floriculture, Stud Farm

Examples

| Biological assets | Agricultural produce | Produce that are the result of processing after harvest |
|------------------------------|-------------------------|---|
| Sheep | Wool | Yarn, carpet |
| Trees in a plantation forest | Felled trees | Logs, Lumber |
| Plants | Cotton / Harvested cane | Thread, clothing / Sugar |

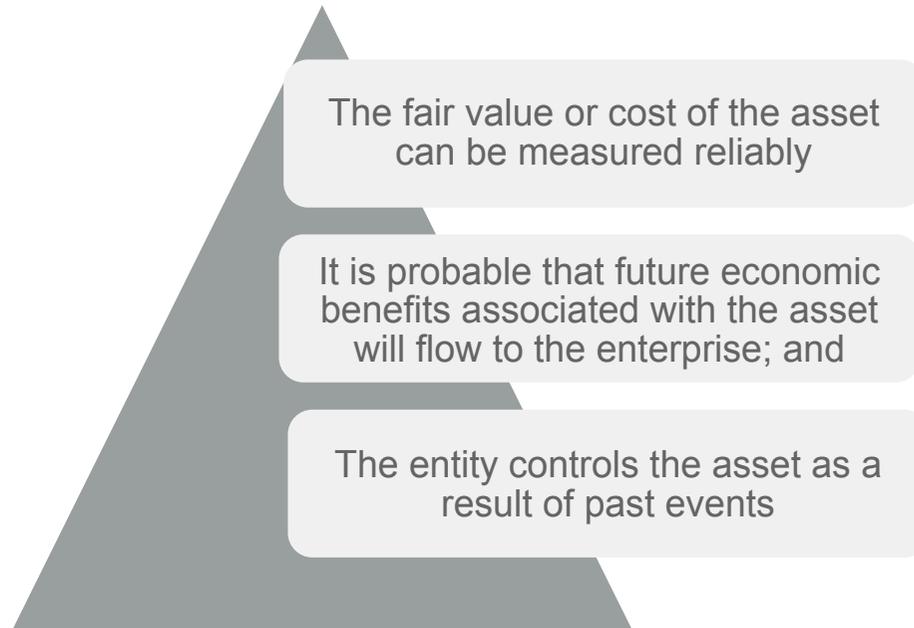


Harvest



Recognition

Biological asset should be recognized only when:



Measurement

Biological asset

- ▶ Initially and Subsequently:
 - ▶ At fair value less estimated point-of-sale costs (except where fair value cannot be estimated reliably)
 - ▶ If no reliable measurement of fair value, biological assets are stated at cost.
- ▶ Subsequently:
 - ▶ If no reliable measurement of fair value, biological assets are stated at cost *less* accumulated depreciation and accumulated impairment losses.

Example

As at 31 December 2015, a plantation consists of 100 Insignis Pine trees that were planted 10 years earlier. Insignis Pine takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The entity's weighted average cost of capital is 6% per annum.

Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 felled trees to market) for a mature tree of the same grade as in the plantation is:

As at 31 December 2015: \$171

As at 31 December 2016: \$165

Required:

- ▶ Assuming immaterial cash flow between now and the point of harvest, estimate the fair value of the plantation as at:
 - A. 31 December 2015; and
 - B. 31 December 2016.
- ▶ Analyze the gain between the ends of the two reporting periods into:
 - A. a price change; and
 - B. a physical change.

Solution

▶ Estimate of fair value

a) 31 December 2015

The mature plantation would have been valued at \$17,100:

$$(17,100 / 1.06^{20}) = \$5,332$$

b) 31 December 2016

The mature plantation would have been valued at \$16,500:

$$(16,500 / 1.06^{19}) = \$5,453$$

Solution

▶ Analysis of gain

The difference in fair value of the plantation between the two reporting periods is 121 (5,453 – 5,332) which will be recognised as a gain in the statement of profit or loss, analysed as follows:

▶ Price change

\$

Value at prices prevailing as at the end of the current reporting period

$$(16,500 / 1.06^{20}) = 5,145$$

Less

Value at prices prevailing as at the end of the previous reporting period

5,332

Loss (187)

Solution

▶ Physical change

\$

Value in its state as at the end of the current reporting period

5,453

Less

Value in its state as at the end of the previous reporting period (as in (i))

5,145

Gain

308

Measurement

Agricultural produce

- ▶ Produce harvested from biological assets is measured at fair value less costs to sell at the point of harvest
- ▶ Such measurement is the cost at the date when applying Ind AS 2 *Inventory* or another applicable Ind AS.

Bearer plants

Bearer plant is a living plant that:

- ▶ Is used in the production or supply of agricultural produce
- ▶ Is expected to bear produce for more than one period
- ▶ Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales

Examples:

- ▶ Sugar cane roots that produce standing sugar cane
- ▶ Rubber trees that provide latex, which is extracted from the tree

Biological assets such as fruit trees may be classified as bearer plants if there is not more than a remote chance that it will be sold as agricultural produce, e.g. for lumber.

Fair value measurement

- ▶ The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping them according to significant attributes.
- ▶ An entity may select the attributes corresponding to the attributes used in the market as a basis for pricing.
- ▶ Cost may sometimes approximate fair value, particularly when:
 - ▶ little biological transformation has taken place since initial cost incurrence; or
 - ▶ the impact of the biological transformation on price is not expected to be material

Measurement – cost to sell

- ▶ Incremental costs directly attributable to disposal of an asset
- ▶ Include:
 - ▶ Commission to brokers/dealers
 - ▶ Levies by regulatory agencies and commodity exchanges
 - ▶ Transfer taxes and duties
- ▶ Exclude
 - ▶ Transportation costs (since already included in fair value)
 - ▶ Finance costs
 - ▶ Income Taxes

Gains and losses

Biological assets

Gain or loss from initial recognition at fair value (less costs to sell) or from change in fair value (less costs to sell) is included in net profit or loss for the period in which it arises

Agricultural produce

Gain or loss from initial recognition at fair value (less costs to sell) is included in net profit or loss for the period in which it arises

Example

Clover Co purchased 200 cattle at an auction for \$200,000 on 30 June 2013. The auctioneer's fees amounted to 1% of sales price. The cattle's fair value increased from \$200,000 to \$220,000 on 31 December 2014.

- ▶ What would be the fair value of the cattle on the date of purchase?
- ▶ How the cattle would be measured at the year end date 31 December 2014?

Example – solution

- ▶ The fair value of the cattle on the date of purchase would be \$198,000 ($200,000 - 2,000$ auctioneer's fees) and an immediate expense of \$2,000 would be recognised in P&L.
- ▶ The cattle's fair value increased from \$200,000 to \$220,000 on 31 December 2014.
- ▶ At this stage the cattle would be measured at \$217,800 ($220,000 - 2,200$) and a gain of \$19,800 ($217,800 - 198,000$) would be recognised in P&L.

Government grants

Unconditional grant

Grants relating to biological assets recognised as income when, and only when, it becomes receivable

Conditional grant

Grants relating to biological assets recognised as income only when the conditions attaching to the grant are met

If government grant relates to a biological asset measured at cost less any accumulated depreciation and any accumulated impairment losses, apply Ind AS 20

Example – recognition of government grant

Scenario 1:

- ▶ A government grant requires an entity to farm in a particular location for five years and requires the entity to return the entire government grant if it farms for less than five years.
- ▶ When shall the entity recognize the grant?

The government grant shall not be recognized as income until five years have passed.

Example – recognition of government grant

Scenario 2:

- ▶ A government grant allows part of the government grant to be retained based on the passage of time.
- ▶ When shall the entity recognize the grant?

The government grant shall be recognized as income on a time proportion basis.

Presentation

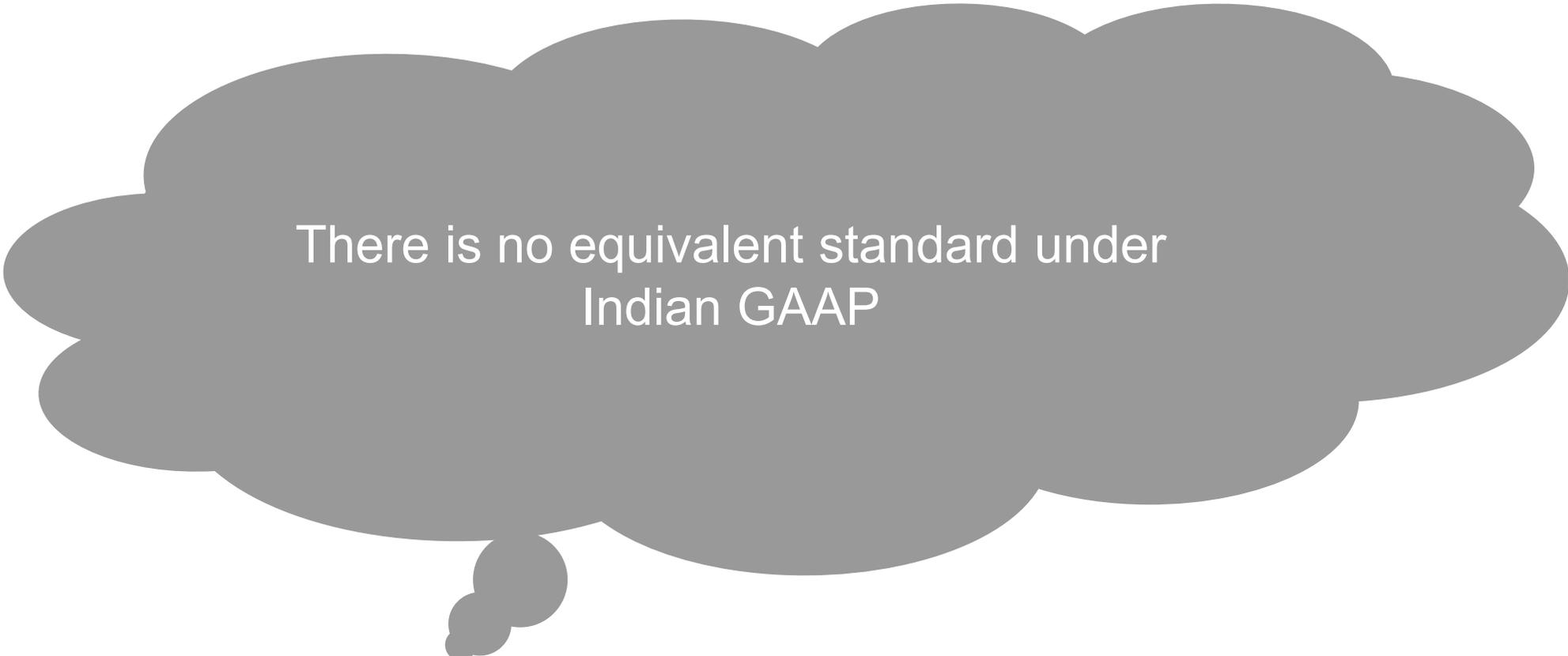
Presentation

Biological assets (other than bearer plants) should be presented separately on the face of the Balance sheet

Disclosure

- ▶ Description of each group of biological assets
- ▶ Aggregate gains and losses, nature of activities and reconciliation of changes in carrying amount (at beginning and end of current period)
- ▶ Nature of activities involving each group of biological assets
- ▶ Non-financial measures relating to biological assets and agricultural produce
- ▶ Existence and carrying amount of biological assets Whose title is restricted or pledged as security
- ▶ Amount of commitments for the development/ acquisition of biological assets
- ▶ Financial risk management strategies related to agricultural activity
- ▶ Additional disclosures for biological assets where fair value cannot be measured reliably
- ▶ Disclosures relating to government grant

Key differences between Ind AS and Indian GAAP



There is no equivalent standard under Indian GAAP

Thank You