

CA FINAL

40th Edition

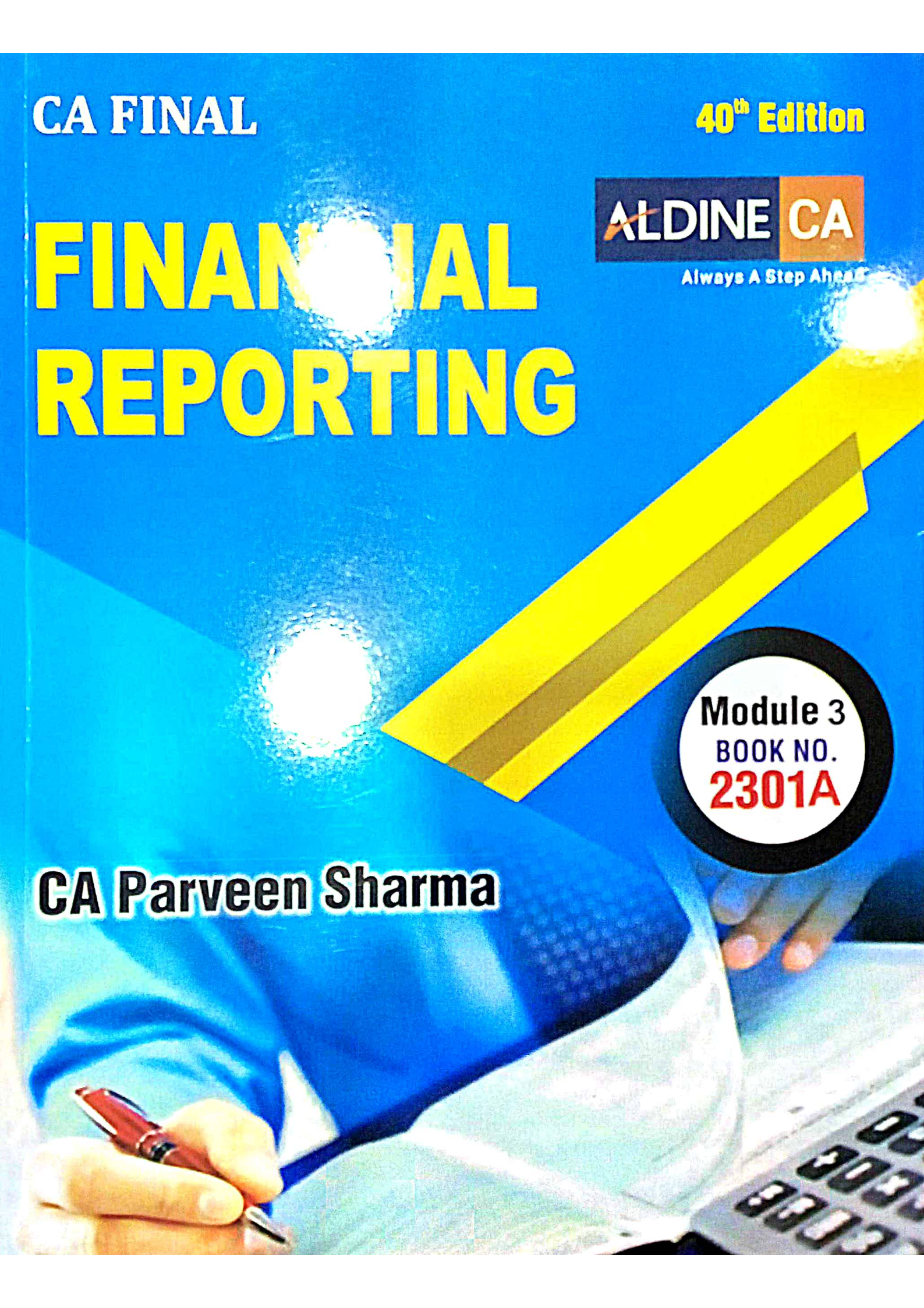
ALDINE CA

Always A Step Ahead

FINANCIAL REPORTING

Module 3
BOOK NO.
2301A

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IND AS 41: AGRICULTURE

Question 1

ABC Ltd grows vines, harvests the grapes and produces wine. Which of these activities are in the scope of Ind AS 41?

(Study Material)

Answer

The grape vines are bearer plants that continually generate crops of grapes which are covered by Ind AS 16, Property, Plant and Equipment.

When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce covered by Ind AS 41, Agriculture.

Wine involves a lengthy maturation period. This process is similar to the conversion of raw materials to a finished product rather than biological transformation hence treated as inventory in accordance with Ind AS 2, Inventories.

Question 2

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

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

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

(Study Material)

Answer

Particulars	Amount (₹)
Fair value as at 1st April, 20X1	13,750
Increase due to Price change [250 x {60 - (13,750/250)}]	1,250
Increase due to Physical change [250 x {75-60}]	<u>3,750</u>
Fair value as at 31st March, 20X2	<u>18,750</u>

Question 3

XYZ Ltd., on 1st December, 20X3, purchased 100 sheep from a market for ₹ 5,00,000. The transaction cost of 2% on the market price of the sheep was incurred which was paid by the seller. Sheep's fair value increased from ₹ 500,000 to ₹ 600,000 on 31st March, 20X4. Transaction cost of 2% would have to be incurred by the seller to get the sheep to the relevant market.

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

(Study Material)

Answer

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

On date of Purchase

Biological Asset	Dr.	4,90,000	
Loss on initial recognition	Dr.	10,000	5,00,000
To Bank			

(Being biological asset purchased)

On 31st March, 20X4 sheep would be measured at ₹ 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)

Question 4

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

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

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

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

On 1st October, 20X1, 100 calves were born. There were no other changes in the number of animals during the year ended 31st 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		
	1st April, 20X1	1st October, 20X1	31st March, 20X2
	₹	₹	₹
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.

(Study Material)

Answer

Extract from the Statement of Profit & Loss

	WN	Amount
Income		
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	<u>72,000</u>
Total Income		<u>13,02,000</u>
Expenses		
Maintenance Costs	WN 2	6,00,000
Breeding Fees	WN 2	<u>4,00,000</u>
Total Expense		<u>(10,00,000)</u>
Net Income		<u>3,02,000</u>

Extracts from Balance Sheet

Property, Plant and Equipment:		
Land	WN 1	50,00,000
Biological assets other than bearer plants:		
Dairy Cow	WN 2	11,00,000
Calves	WN 4	<u>1,30,000</u>
		<u>62,30,000</u>
Inventory:		
Milk	WN 5	<u>72,000</u>
		<u>72,000</u>

Working Notes:

- 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.
- Dairy Cows:** Under the 'fair value model' laid down in Ind AS 41 the mature cows would be recognised in the Balance Sheet at 31st March, 20X2 at the fair value of $200 \times ₹ 5,500 = ₹ 11,00,000$.
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 ($₹ 11,00,000 - ₹ 10,00,000 =$ a gain of ₹ 1,00,000) would be recognised in the profit and loss along with the maintenance costs and breeding fee of ₹ 6,00,000 and ₹ 4,00,000 respectively.
- 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, ₹ 10,00,000 would be credited to income of the company.
- Calves:** They are a biological asset and the fair value model is applied. The breeding fees are charged to income and an asset of $100 \times ₹ 1,300 = ₹ 1,30,000$ recognised in the Balance sheet and credited to Profit and loss.
- Milk:** This is agricultural produce and initially recognised on the same basis as biological assets. Thus the milk would be valued at $3,000 \times ₹ 24 = ₹ 72,000$. This is regarded as 'cost' for the future application of Ind AS 2 to the unsold milk.

TEST YOUR KNOWLEDGE

Question 5

As at 31st March, 20X1, a plantation consists of 100 Pinus Radiata trees that were planted 10 years earlier. The tree takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The enterprise's weighted average cost of capital is 6% p.a.

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 logs to market) for a mature tree of the same grade as in the plantation is:

As at 31st March, 20X1: 171

As at 31st March, 20X2: 165

Assume that there would be immaterial cash flow between now and point of harvest. The present value factor of ₹ 1 @ 6% for 19th year = 0.331 20th year = 0.312

State the value of such plantation as on 31st March, 20X1 and 20X2 and the gain or loss to be recognised as per Ind AS.

(Study Material)

Answer

As at 31st March, 20X1, the mature plantation would have been valued at 17,100 (171 x 100).

As at 31st March, 20X2, the mature plantation would have been valued at 16,500 (165 x 100).

Assuming immaterial cash flow between now and the point of harvest, the fair value (and therefore the amount reported as an asset on the statement of financial position) of the plantation is estimated as follows:

As at 31st March, 20X1: 17,100 x 0.312 = 5,335.20. As at 31st March, 20X2: 16,500 x 0.331 = 5,461.50.

Gain or loss

The difference in fair value of the plantation between the two year end dates is 126.30 (5,461.50 – 5,335.20), which will be reported as a gain in the statement of profit or loss (regardless of the fact that it has not yet been realised).

Question 6

XY Ltd. is a farming entity where cows are milked on a daily basis. Milk is kept in cold storage immediately after milking and sold to retail distributors on a weekly basis. On 1 April 20X1, XY Ltd. had a herd of 500 cows which were all three years old.

During the year, some of the cows became sick and on 30 September 20X1, 20 cows died. On 1 October 20X1, XY Ltd. purchased 20 replacement cows at the market for ₹ 21,000 each. These 20 cows were all one year old when they were purchased.

On 31 March 20X2, XY Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk at 31 March 20X2 was ₹ 20 per litre. When selling the milk to distributors, XY Ltd. incurs selling costs of ₹ 1 per litre. These amounts did not change during March 20X2 and are not expected to change during April 20X2.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow (aged)				Costs to sell a cow
	1 year	1.5 years	3 years	4 years	
1st April 20X1	20,000	22,000	27,000	25,000	1,000
1st October 20X1	21,000	23,000	28,000	26,000	1,000
31st March 20X2	21,500	23,500	29,000	26,500	1,100

You can assume that fair value of a 3.5 years old cow on 1st October 20X1 is ₹ 27,000.

Pass necessary journal entries of above transactions with respect to cows in the financial statements of XY Ltd. for the year ended 31st March, 20X2? Also show the amount lying in inventory if any.

(Study Material)

Answer

Journal Entries on 1st October, 20X1

(All figures in ₹)

Loss (on death of 20 cows) (Refer W.N.) To Biological asset (Loss booked on death of 20 cows)	Dr.	5,20,000	5,20,000
Biological Asset (purchase of 20 new cows) (Refer W.N.) To Bank (Initial recognition of 20 new purchased cows at fair value less costs to sell)	Dr.	4,00,000	4,00,000

Journal Entries on 31st March, 20X2

Loss on remeasurement of old cows To Biological asset [(1,30,00,000 – 5,20,000) – 1,21,92,000] (Subsequent measurement of cows at fair value less costs to sell)	Dr.	2,88,000	2,88,000
Biological Asset (4,48,000 – 4,00,000) To Gain on remeasurement of new cows (Subsequent measurement of cows at fair value less costs to sell)	Dr.	48,000	48,000

Inventory (Milk) as at 31st March, 20X2 = ₹ 19,000 (1,000 x (20 – 1))

Working Note:**Calculation of Biological asset at various dates**

Date	Number	Age	Fair Value (₹)	Cost to Sell (₹)	Net (₹)	Biological asset (₹)
1st April 20X1	500	3 years	27,000	1,000	26,000	1,30,00,000
1st October 20X1	(20)	3.5 years	27,000	1,000	26,000	(5,20,000)
1st October 20X1	20	1 year	21,000	1,000	20,000	<u>4,00,000</u>
						<u>1,28,80,000</u>
31st March 20X2	480	4 years	26,500	1,100	25,400	1,21,92,000
	20	1.5 years	23,500	1,100	22,400	<u>4,48,000</u>
						<u>1,26,40,000</u>

Question 7

Company X purchased 100 goat at an auction for ₹ 1,00,000 on 30 September 20X1. Subsequent transportation costs were ₹ 1,000 that is similar to the cost X would have to incur to sell the goat at the auction. Additionally, there would be a 2% selling fee on the market price of the goat to be incurred by the seller.

On 31 March 20X2, the market value of the goat in the most relevant market increases to ₹ 1,10,000. Transportation costs of ₹ 1,000 would have to be incurred by the seller to get the goat to the relevant market. An auctioneer's fee of 2% on the market price of the goat would be payable by the seller.

On 1 June 20X2, X sold 18 goat for ₹ 20,000 and incurred transportation charges of ₹ 150. In addition, there was a 2% auctioneer's fee on the market price of the goat paid by the seller.

On 15 September 20X2, the fair value of the remaining goat was ₹ 82,820. 42 goat were slaughtered on that day, with a total slaughter cost of ₹ 4,200. The total market price of the carcasses on that day was ₹ 48,300, and the expected transportation cost to sell the carcasses is ₹ 420. No other costs are expected.

On 30 September 20X2, the market price of the remaining 40 goat was ₹ 44,800. The expected transportation cost is ₹ 400. Also, there would be a 2% auctioneer's fee on the market price of the goat payable by the seller.

Pass Journal entries so as to provide the initial and subsequent measurement for all above transactions. Interim reporting periods are of 30 September and 31 March and the company determines the fair values on these dates for reporting.

(Study Material)

Answer**Value of goat at initial recognition (30 September 20X1)**

(All figures are in ₹)

Biological asset (goat)	Dr.	97,000*	
Loss on initial recognition	Dr.	4,000	
To Bank (Purchase and cost of transportation)			1,01,000
(Initial recognition of goat at fair value less costs to sell)			

*Fair value of goat = 1,00,000 – 1,000 – 2,000 (2% of 1,00,000) = 97,000

Subsequent measurement at 31 March 20X2

(All figures are in ₹)

Biological Assets (Goat)	Dr.	9,800	
To Gain on Sale (Profit & Loss)			9,800
(Subsequent measurement of Goat at fair value less costs to sell (1,06,800** – 97,000))			

** Fair value of goat = 1,10,000 – 1,000 – 2,200 (2% of 1,10,000) = 1,06,800

Sale of goat on 1 June 20X2

(All figures are in ₹)

Biological Assets (Goat)	Dr.	226	
To Gain on Sale (Profit & Loss)			226
(Subsequent re-measurement of 18 Goat at fair value less costs to sell just prior to the point at which they are sold [19,450 - {(1,06,800/100) x 18}])			

Chap. 8 • Ind AS-41: Agriculture

Cost to Sales To Biological Assets (Goat) (Recording a cost of sales figure separately with a corresponding reduction in the value of the biological assets)	Dr.	19,450	19,450
Bank Selling expenses (150 + 400) To Revenue (Recognition of revenue from sale of goat)	Dr. Dr.	19,450 550	20,000

Transfer of Goat to Inventory on 15 September 20X2

(All figures are in ₹)

Inventory (48,300 - 420)	Dr.	47,880	
Loss on remeasurement To Biological Asset (Goat) To Bank (Slaughtering cost) (Transfer of goat to inventory)	Dr.	1,176	44,856# 4,200

#Note: 44,856 is calculated as the proportion of goat sold using the fair value $(1,06,800 + 226 - 19,450) \times 42/82$

Subsequent measurement of goat at 30 September 20X2

(All figures are in ₹)

Loss on remeasurement To Biological Asset (Goat) (Subsequent measurement of Goat at fair value less costs to sell $[43,504## - \{(1,06,800 + 226 - 19,450) - 44,856\}]$)	Dr.	784	784
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##Fair value of goat = $44,800 - 400 - 896$ (2% of 44,800) = 43,504

QUESTIONS BANK

Question 8

As at 31st March, 2017, a plantation consists of 100 Pinus Radiata trees that were planted 10 years earlier. The tree takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The enterprise's weighted average cost of capital is 6% p.a.

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 logs to market) for a mature tree of the same grade as in the plantation is:

As at 31st March, 2017: ₹171

As at 31st March, 2018: ₹165

Assume that there would be immaterial cash flow between now and point of harvest.

The present value factor of ₹ 1 @ 6% for

19th year = 0.331

20th year = 0.312

Determine the value of such plantation as on 31st March, 2017 and 2018 and the gain or loss to be recognised as per Ind AS.

(RTP November 2018)

Answer

As at 31st March, 2017, the mature plantation would have been valued at ₹17,100 (₹171 × 100).

As at 31st March, 2018, the mature plantation would have been valued at ₹16,500 (₹165 × 100).

Assuming immaterial cash flow between now and the point of harvest, the fair value (and therefore the amount reported as an asset on the statement of financial position) of the plantation is estimated as follows:

As at 31st March, 2017: ₹17,100 × 0.312 = ₹5,335.20.

As at 31st March, 2018: ₹16,500 × 0.331 = ₹5,461.50.

Gain or loss

The difference in fair value of the plantation between the two year end dates is ₹126.30 (₹5,461.50 – ₹5,335.20), which will be reported as a gain in the statement of profit or loss (regardless of the fact that it has not yet been realised).

Question 9

Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1st April, 2018, the company has received a government grant for ₹20 lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus tree for specified period of five years and accordingly it recognizes proportionate grant for ₹4 lakhs in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance..

Required:

Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

(November 2019)

Answer

Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that "Arun Ltd measures its Biological Asset at fair value less cost to sell":