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Chapter 14 Agriculture

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IAS 41 Agriculture

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IAS 41 Agriculture



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Scope

The standard applies to the three elements that form part of, or result from, agricultural activity.

- Biological assets
- Agricultural produce at the point of harvest
- Government grants

The standard does not apply to agricultural land or intangible assets related to agricultural activity (IAS 38). After harvest, IAS 2 is applied.



IAS 41 Agriculture

Biological transformation leads to various different outcomes:

Asset changes:

- Growth: increase in quantity and or quality
- Degeneration: decrease in quantity and/or quality

Creation of new assets:

- Production: producing separable non-living products
- Procreation: producing separable living animals



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The IAS distinguishes therefore between two broad categories of agricultural production system.

- (a) **Consumable**: animals/plants themselves are harvested.
- (b) **Bearer**: animals/plants bear produce for harvest.



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Bearer biological assets

An amendment has been issued to IAS 41 regarding **plant-based bearer biological assets**, which would include trees grown in plantations, such as grape vines, rubber trees and oil palms.

These plants are used solely to grow produce crops over several periods and are not in themselves consumed. When no longer productive they are usually scrapped.



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Recognition of biological assets

- (a) The entity **controls** the asset as a result of past events.
- (b) It is probable that the **future economic benefits** associated with the asset will flow to the entity.
- (c) The fair value or cost of the asset to the entity can be **measured reliably**.



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Measurement of biological assets

The IAS requires that at each year end all biological assets within the scope should be **measured at fair value less estimated point-of-sale costs.**

If a fair value cannot be determined because marketdetermined prices or values are not available. Then the biological asset can be measured at cost less accumulated depreciation and impairment losses.



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Government grants

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 grant becomes receivable.

If a government grant requires an entity not to engage in specified agricultural activity (eg the EU's set aside grant), an entity should only recognise the grant as income when, and only when, the conditions are met.



Example



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At what amount is a biological asset measured on initial recognition in accordance with IAS 41 *Agriculture*?

- A Production cost
- B Fair value
- C Cost less estimated costs to sell
- D Fair value less estimated costs to sell



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How is a gain or loss arising on a biological asset recognised in accordance with IAS 41?

- A Included in profit or loss for the year
- B Adjusted in retained earnings
- C Shown under 'other comprehensive income'
- D Deferred and recognised over the life of the biological asset

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