

HKFRS / IFRS UPDATE 2013/14

AGRICULTURE: BEARER PLANTS



Background

In response to feedback received from constituents in response to the International Accounting Standard Boards (IASB) *Agenda Consultation* in 2011, a limited scope project to address issues related to bearer biological assets (BBA) was added to the IASB agenda in September 2012. BBA are those biological assets that bear produce that is ultimately sold or harvested (eg apple trees that bear apples are a type of BBA).

Currently, IAS 41 requires biological assets (including BBA) to be measured at fair value less cost to sell. Various constituents raised concerns regarding the relevance and usefulness to users of financial statements in respect of fair value information provided in relation to BBA, especially from those constituents involved in the plantation industry.

In addition, constituents believed that once BBA reach maturity (ie once they begin to bear produce), these assets experience no further biological transformation, and therefore appear more similar to items of property, plant and equipment.

Considering the above and other arguments, the following issues were highlighted by the IASB to be addressed by the limited scope project:

- Which BBA assets should be within the scope of any amendment?
- Which standard should any guidance ultimately be incorporated within?
- What should the measurement base be of these BBA be prior to "production" (ie prior to bearing produce)?

HKICPA issued invitation to comment on this exposure draft with comment period ending on 30 September 2013.

Summary

On 26 June 2013, the IASB published Exposure Draft *ED/2013/8 Agriculture: Bearer Plants (Proposed amendments to IAS 16 and IAS 41)*.

The ED proposes that bearer plants (as defined) would be accounted for within the scope of IAS 16 *Property, Plant and Equipment* rather than under IAS 41.

This would allow entities to measure bearer plants at accumulated cost up until the point production (ie prior to produce being obtained), and then subsequently apply either the cost model or revaluation model.

Currently under IAS 41, bearer plants are required to be measured at fair value less cost to sell during their entire life (unless fair value cannot be measured reliably).

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Limited to entities with bearer plants currently being measured at fair value less cost to sell in accordance with IAS 41 *Agriculture*

Definition – Bearer Plants

Under the proposed amendments, bearer plants are defined in IAS 41 as a plant that meets all the following criteria:

- a) It is used in the production or supply of agricultural produce
- b) It is expected to bear produce for more than one period
- c) It is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales (ie for firewood at the end of the plants productive life).

The biological assets in the table below are specifically identified in IAS 41 as not being bearer plants:

Biological asset	Example
Plants cultivated to be harvested as agricultural produce	Trees grown for use as lumber
Plants held for use in the production or supply of agricultural produce that are also intended to be harvested as agricultural produce or sold as living plants other than as incidental scrap sales	Trees that are cultivated both for their lumber and their fruit
Plants cultivated for sale only	Plants sold in a garden centre
Annual crops	Maize and wheat
The produce that grows on a bearer plant	Grapes (fruit) growing on a vine (tree)

Figure 1 – Table of biological assets that are specifically identified as not being bearer plants

Scope

Bearer plants (as defined above) are:

- Specifically scoped out of IAS 41
- Specifically scoped into IAS 16.

Paragraph 4 of IAS 41 contains a table that details examples of biological assets, their agricultural produce, and products that are a result of processing after harvest. This table is proposed to be amended clearly to identify biological assets that are *bearer plants* and therefore outside the scope of IAS 41, while stating that the produce of these scoped-out bearer plants remains within the scope of IAS 41.

Proposed treatment of bearer plants under IAS 16

I. Prior to “production” (ie prior to maturity and bearing produce)

The amendment proposes that before bearer plants are in the location and condition necessary to bear produce they are accounted for in the same way as self-constructed items of property, plant and equipment, ie at accumulated cost.

Accordingly, any references to “construction” within IAS 16 are to be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to bear produce.

II. During “production” (ie while the bearer plant is bearing produce)

Bearer plants are accounted for in accordance with the existing requirements of IAS 16, being either under the:

- Cost model
- Revaluation model.

Disclosures

The ED does not propose any additional specific disclosures in relation to bearer plants.

Effective date and transition

The effective date for the amendments, if finalised, is to be confirmed. The ED proposes retrospective application in accordance with of IAS 8 *Accounting Policies and Changes in Accounting Estimates and Errors*, with early application permitted.

In addition, an entity may elect to use fair value as deemed cost for items of bearer plants at the beginning of the earliest period presented.

Comment period

The ED has been published with a 120-day consultation period, with comments to IASB due by 28 October 2013.

Alternate views

Two members of the IASB have voted against the publication of the ED.

The two Board members are of the opinion that the proposed amendments are not an improvement to IFRS, and will result in essential fair value information being omitted from the financial statements of entities with bearer plants (including the movement in fair value as well as the underlying assumptions used to estimate fair value).

The two Board members argue that fair value information in relation to bearer plants is essential to users of financial statements in terms of:

- Managing agricultural activities
- Investing in entities engaged in activities involving bearer plants.

In addition, the outreach performed by IASB staff indicated that users of financial statements believed that fair value information regarding bearer plants was of limited use in the absence of corresponding fair value information regarding land, and agricultural machinery etc. By eliminating fair value information altogether, the two Board members believe that the proposed amendments are moving in the opposite direction to the needs of users of financial statements (ie the disclosure of more fair value information).

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