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Agriculture: Bearer Plants

Proposed amendments to IAS 16 and IAS 41

Interim AOSSG Meeting
22 September 2013, London
Agenda paper 3.1

Background

- To address the concerns for measuring biological assets:
 - ❖ IASB has issued an Exposure Draft (ED)
 - ❖ ED proposes to account for bearer plants as per IAS 16 *Property, Plant & Equipment* rather than in accordance with IAS 41.
- Plants other than Bearer Plants (consumable plants and animals) would continue to be accounted for under IAS 41 at fair value.

Accounting for Bearer Plants as per ED

- IAS 16, *Property, Plant and Equipment*, becomes applicable. Accordingly
 - ❖ Initial measurement at cost
 - ❖ Subsequent measurement at cost or revaluation model
- Bearer plants before reaching production stage i.e. before maturity
 - ❖ Would be treated as a self-constructed property i.e. cost accumulated at ongoing basis until the plant reaches maturity

Working Group Comments

- Working Group on *Agriculture* generally supports permitting cost model for Bearer Plants.
- This presentation is based on draft preliminary comments received from few members countries.
- Final comments after due consideration would be circulated separately.

Issues for deliberation

Question 1- Scope of the amendments

The scope of the amendment is limited to bearer plants.

Bearer plant is a plant that is used in the production or supply of agriculture produce, that is expected to bear produce for more than one period and that is not intended to be sold as a living plant or harvested as agriculture produce

Comments:

- Agreed. However, one member country suggests that scope of the amendments to be determined according to the 'Business Model' (the main purpose of use).

Issues for deliberation (continued)

Question 2- Accounting for Bearer Plants before maturity

Bearer plants should be measured at accumulated cost before being placed into production.

Such bearer plants are accounted for in the same way as self-constructed items of machinery.

Comments:

- Agreed in principle. However, one member country feels that
 - ❖ Guidance is required for income from produce earned before such plants reach maturity, viz.,

Whether income should be reduced from the cost of development (construction) of the bearer plants or the same should be recognised in profit or loss.

Issues for deliberation (continued)

Question 3- Accounting for Bearer Plants before maturity

- Crops, such as sugar cane, are perennial plants since their roots remain in the ground to sprout for the next period's crop.
- If an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant.

Comment:

- Agreed. However, one member country feels that additional guidance may be provided for such inclusion by way of examples of such plants.

Issues for deliberation (continued)

Question 4- Accounting for Bearer Plants after maturity

- Mature bearer plants would be permitted to be accounted either as per cost model or revaluation model.
- Other biological assets related to agricultural activity will remain under the fair value model in IAS 41.

Comment:

- Agreed because bearer plants bear agricultural produce in similar way as the products generated by plant and equipment.

Issues for deliberation (continued)

Question 5- Additional guidance

- Recognition and measurement requirements of IAS 16 can be applied to bearer plants without modification.

Comments:

- Additional guidance may required on the following
 - ❖ Maturity stage of Bearer Plants
 - ❖ Accounting for Shade Trees
 - ❖ Re-classification of Bearer Plants

Issues for deliberation (continued)

Question 6- Fair value disclosures for bearer plants

- (a) disclosure of the total fair value of the bearer plants, including information about the valuation techniques and the key inputs/assumptions used; or
- (b) disclosure of the significant inputs that would be required to determine the fair value of bearer plants, but without the need to measure or disclose the fair value of them?

Comments:

- Disclosure requirements that exist in IAS 16 should be applicable for bearer plants
- Additional fair value information is less relevant for understanding of the financial performance of the reporting entities
- If imposed, it would result in undue cost on the preparers.
- Accordingly, no other disclosures required.

Issues for deliberation (continued)

Question 7- Additional Disclosures

- Disclosures about productivity, including age profiles, estimates of the physical quantities of bearer plants and output of agricultural produce.

Comments:

- No such disclosure is required.
- One member country feels that the disclosure about productivity of the bearer plants is useful information. However, it is proposed that
 - ❖ disclosures should not be mandated because this information is non- financial in nature;
 - ❖ an option, similar to that provided in the current IAS 41 paragraph 46, may be given to disclose the productivity information in the annual report

Issues for deliberation (continued)

Question 8- Transition provisions

- In the first financial statements to which the amendments to IAS 16 apply, ED proposes to permit fair value of bearer plants as deemed cost.

Comments:

- In many countries, IAS 41 is not presently followed.

Accordingly, the transitional provisions would not be applicable.

- Issues for first time adopters are discussed in next slide.

Issues for deliberation (continued)

Question 9- First-time adopters

- Deemed cost exemption provided for an item of property, plant and equipment in IFRS 1 First-time Adoption of International Financial Reporting Standards should also be available for an item of bearer plants.

Comments:

- In few countries, plantation companies follow cost model. However, this is different from that prescribed in IAS 16.
- Example:
 - ❖ IAS 16 requires cost of land to be segregated from other property, plant and equipment.
 - ❖ Tea plantations in India consider entire tea estate including the land and tea bushes as an item of property, plant and equipment.
 - ❖ Not depreciated since tea bushes are integral to land.

Issues for deliberation (continued)

Question 9- First-time adopters (contd...)

Comments:

- ❖ Accordingly, cost of land and tea bushes is not separately available.
- ❖ To comply with the requirement of IFRS 1 such plantation companies will have to follow the other option, namely, fair valuation on the date of transition which would be treated as deemed cost

Guidance may thus be required since fair value of land used for plantations is not available as the regulators prohibit use of land for any alternative use.

Issues for deliberation (continued)

Question 10- Other comments

Comments:

- ED proposes measurement of produce growing on bearer plants at fair value less costs to sell as the produce grows with changes recognised in profit or loss

Practical issues

- ❖ How to ascertain different stages of maturity of the produce growing on the BBAs in a plantation containing thousands or millions of plants?
- ❖ How to identify the quantity of produce growing on BBAs in a plantation containing thousands or millions of plants ?
- ❖ How to account for the probability of crop failure ?
- ❖ What would be the appropriate point for initial recognition of the produce growing on the BBAs? *Whether it is at pollination/fertilisation stage; or floral/bud initiation stage; or some other stages.*

Issues for deliberation (continued)

Question 10- Other comments (contd...)

Suggestions

- ❖ IASB may consider providing exemption to fair value produce growing on bearer plants for those crops that are harvested continuously throughout the year.
- ❖ However, if the IASB decides to proceed with the requirements:
 - Guidance may be provided on the aspects stated in previous slide particularly on the point of initial recognition of such produce.

Issues for deliberation (continued)

Question 10- Other comments (contd...)

Comments:

- Should IAS 16 require the accounting for bearer plants or IAS 41 cover the accounting for bearer plants including the option to allow the cost model?
- Inclusion of definition of 'produce' in order to clearly distinguish between 'agricultural produce' and 'produce'



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THANK YOU