



asian-oceanian  
standard-setters group

**Supplement Paper**  
**to**  
**Issues Paper on IAS 41 *Agriculture***

## WORKING GROUP ON AGRICULTURE

*This Supplement Paper presents discussions by the working group members up to XX month 2012. The discussions may not be exhaustive, and may not have taken into account developments since XX month 2012.*

*The AOSSG Working Group on Agriculture consists of the following standards setters.*

### LEAD MEMBER

The Institute of Chartered Accountants of India (ICAI)

### CO-LEAD MEMBER

Malaysian Accounting Standards Board (MASB)

### MEMBERS

Accounting Standards Board of Japan (ASBJ)

China Accounting Standards Committee (CASC)

Indonesian Institute of Accountants (IAI)

Korea Accounting Standards Board (KASB)

Hong Kong Institute of Certified Public Accountants (HKICPA)

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## Objective of this Paper

1. The objective of this Paper is to reiterate the basis of the Asian-Oceanian Standard Setters Group (AOSSG) Working Group (WG) Issues Paper on IAS41 *Agriculture* that was submitted to the International Accounting Standards Board(IASB) in November 2011. The Issues Paper, which focused its proposal based on the nature of asset, recommended the IASB to distinguish the accounting treatment for bearer biological assets (BBA) and consumable biological assets (CBA) and to require BBA to be accounted for consistently with property, plant, and equipment (PPE) prescribed in IAS 16 *Property, Plant and Equipment*.
2. The Issues Paper proposal was made with the view that the nature of BBA makes them analogous to plant and equipment and that they should be measured using the measurement model consistent with those prescribed in IAS 16. This is because the manner in which an entity derives economic benefits from BBA and PPE are very similar and that manner differs considerably from CBA. When an entity is engaged in the operation of BBA, those assets are the means for the production of agricultural produce to be harvested for sale and, hence, operating BBA is very similar to operating PPE for a manufacturer. Therefore, the principle enshrined in IAS 41 which focuses on accounting for biological transformation is inappropriate for BBA.
3. The IASB at its September 2012 meeting considered the AOSSG's proposal and had agreed to add a limited-scope project on bearer biological assets to its agenda. However some of the IASB members had reservations on the proposed measurement basis for immature BBA -- these members are of the view that a basis other than fair value will not provide relevant information to users of financial statements.
4. The WG appreciates the concern raised but believe it is superfluous to single out the measurement basis for immature BBA which is a form of PPE. The succeeding paragraphs explain the WG point of view as to why it believes the IFRSs should prescribe immature BBA the same measurement basis as mature BBA-- that is, immature BBA should be accorded the measurement basis as prescribed in IAS 16.

## Measurement basis for immature BBA

5. The WG observes that IFRSs require or allow a cost measurement basis, instead of the fair value model, for other assets during the course of construction or development phase of those assets notwithstanding its fair value may change during this period.
6. A typical example is the work-in-progress of a PPE of a manufacturing operation that takes more than one reporting period to complete. As the work-in-progress of a PPE advances, fair value changes will likely follow through. Nevertheless, IAS 16 does not require the work-in-progress of PPE to be measured at fair value. The WG agrees with this requirement as in our view it is not appropriate to fair value the work-in-progress because the management of the manufacturing operation does not seek profit from increases in prices of the work-in-progress. Consequently, as immature BBA are analogous to the work-in-progress of a PPE, the WG believes the same requirement should be accorded to immature BBA.
7. Another example is that expenditure which satisfies the intangible asset recognition criteria of IAS 38 *Intangible Assets* are not required to be measured at fair value during the development phase even though it transforms significantly from only a "concept" to a valuable asset that generates high returns in the future. For instance, the development costs of software products in many circumstances are low when compared to the future economic benefits to be generated from the product which

usually are very high. Likewise BBA planting costs and further costs to maturity are typically insignificant (though the planting costs on its own are significant) when compared to the revenue to be generated from its harvests. Accordingly, given the similarities with intangible assets, the WG believes immature BBA should not be required to be measured at fair value.

8. Moreover IAS38 prohibits the revaluation model unless there is an active market for the intangible asset. This is because the IASB believes it is highly unlikely that an active market will exist for an asset that arises from development expenditure. On the contrary, IAS 41 requires biological assets to be measured at fair value regardless of whether an active market exists. It is therefore all the more contradictory to require fair value measurement for immature BBA as they do not have separate active market, in addition to the fact that their fair value is highly unreliable as the immature BBA are exposed to significant uncertainties that are beyond the management's control (e.g. pest, disease, adverse weather).

### Conclusion

9. Having considered the existing guidance in IFRSs for PPE, intangible assets and investments in subsidiary or associate and their similarities with immature BBA, the WG believes there is no persuasive reason to single out immature BBA to be measured at fair value while these other assets that are subject to price and economic value changes are required or allowed the option to be measured at cost.
10. In reality, there may be no market-based evidence fair value for certain types of immature BBA because there is no active market for them. In such a situation, the WG understands that entities which have adopted IAS 41 will usually estimate the fair value of immature BBA using either a "cost plus" approach (i.e. cost to date for planting the immature BBA) or "ascertain value on maturity less cost to maturity" approach, as these are the only surrogates for fair value likely to be available. Therefore the WG believes it will be futile to mandate a fair value measurement basis for such immature BBA.

For those immature BBA that have market-based evidence fair value, the revaluation model in IAS 16 would cater to entities that elect to measure them at revalued amount.

11. A copy of the marked-up version of IAS 41 based on the proposals contained in the Issues Paper is attached in **Appendix A**. The WG hopes the IASB will find it useful for its deliberations. For a complete copy of the Issues Paper, please visit [AOSSG website www.aossq.org](http://www.aossq.org).