Agenda Paper 15

asian-oceanian standard-setters group

THE SEVENTH ANNUAL AOSSG MEETING

Building the future of IFRS together

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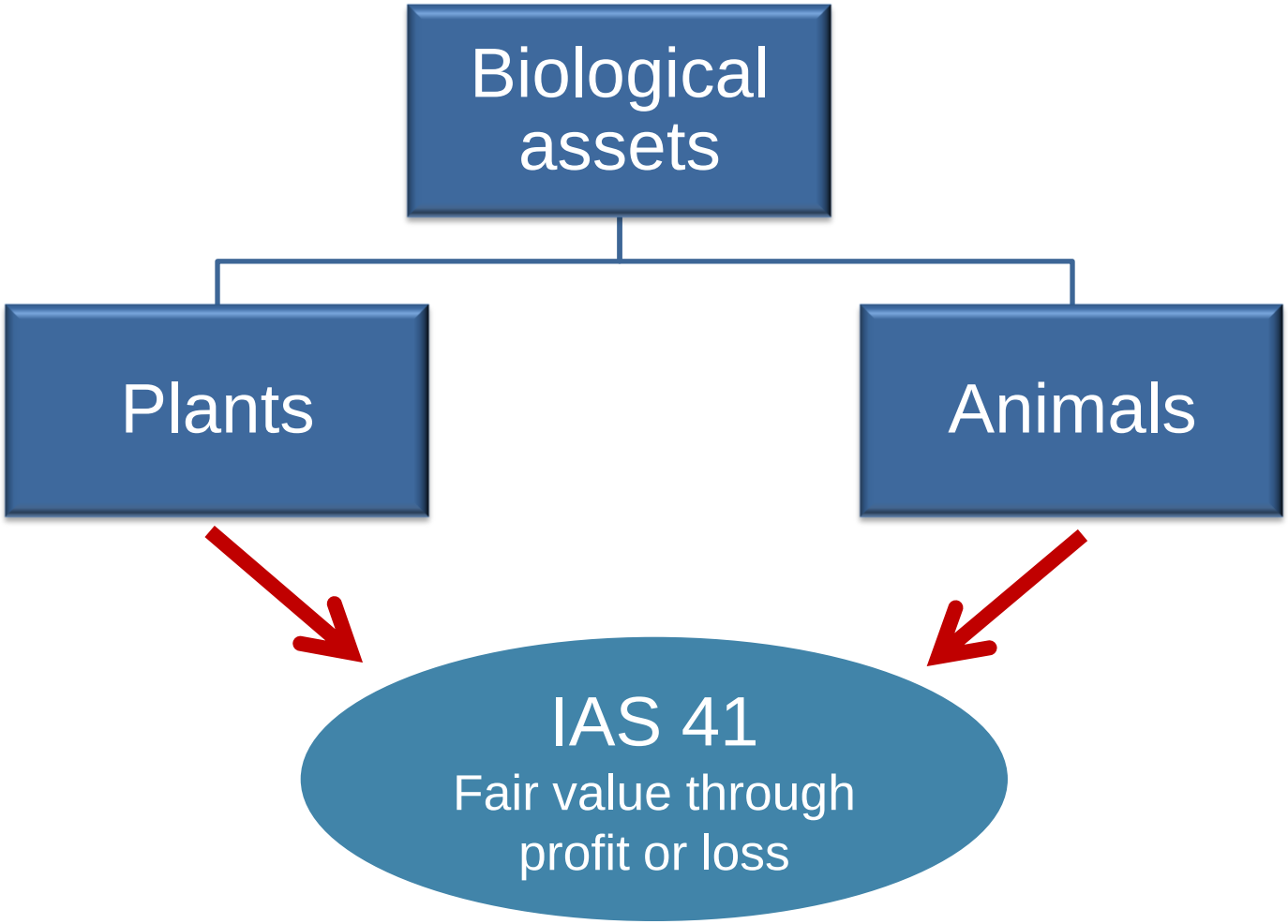
Agriculture: *Bearer Plants* (Amendments to IAS 16 and IAS 41)

Tan Bee Leng
Geetanshu Bansal

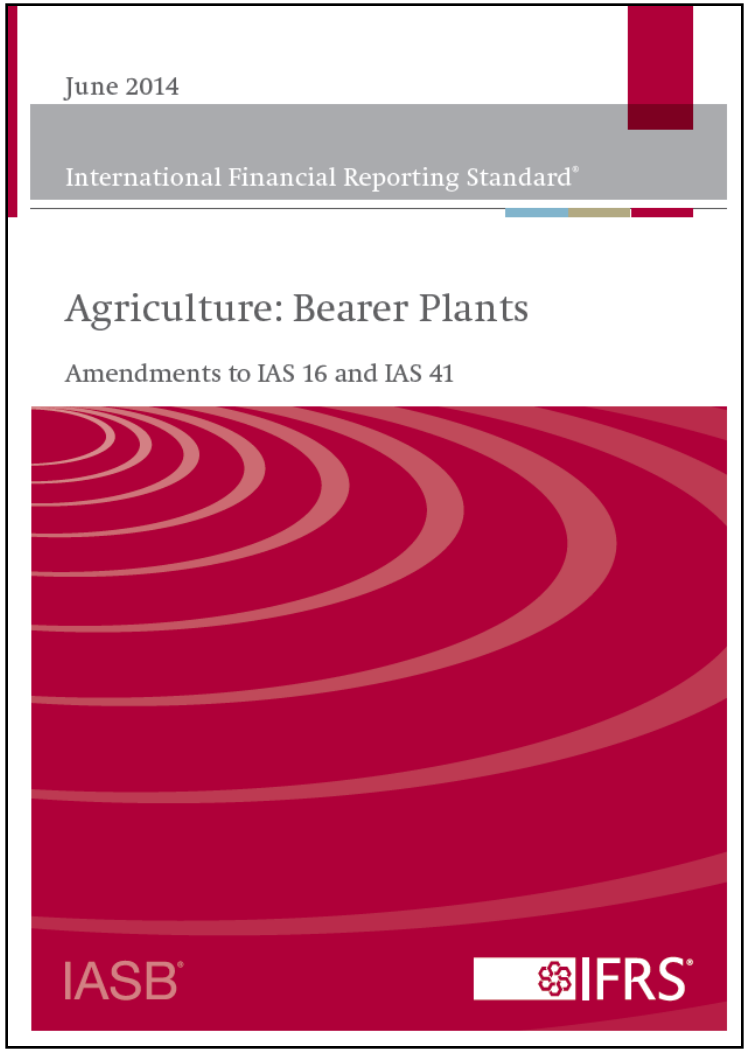
Objectives

- To provide an overview of the IASB's limited-scope project on bearer plants
- To provide updates since the issuance of the Amendments to IAS 41 Agriculture: *Bearer Plants*

Existing IAS 41 requirements

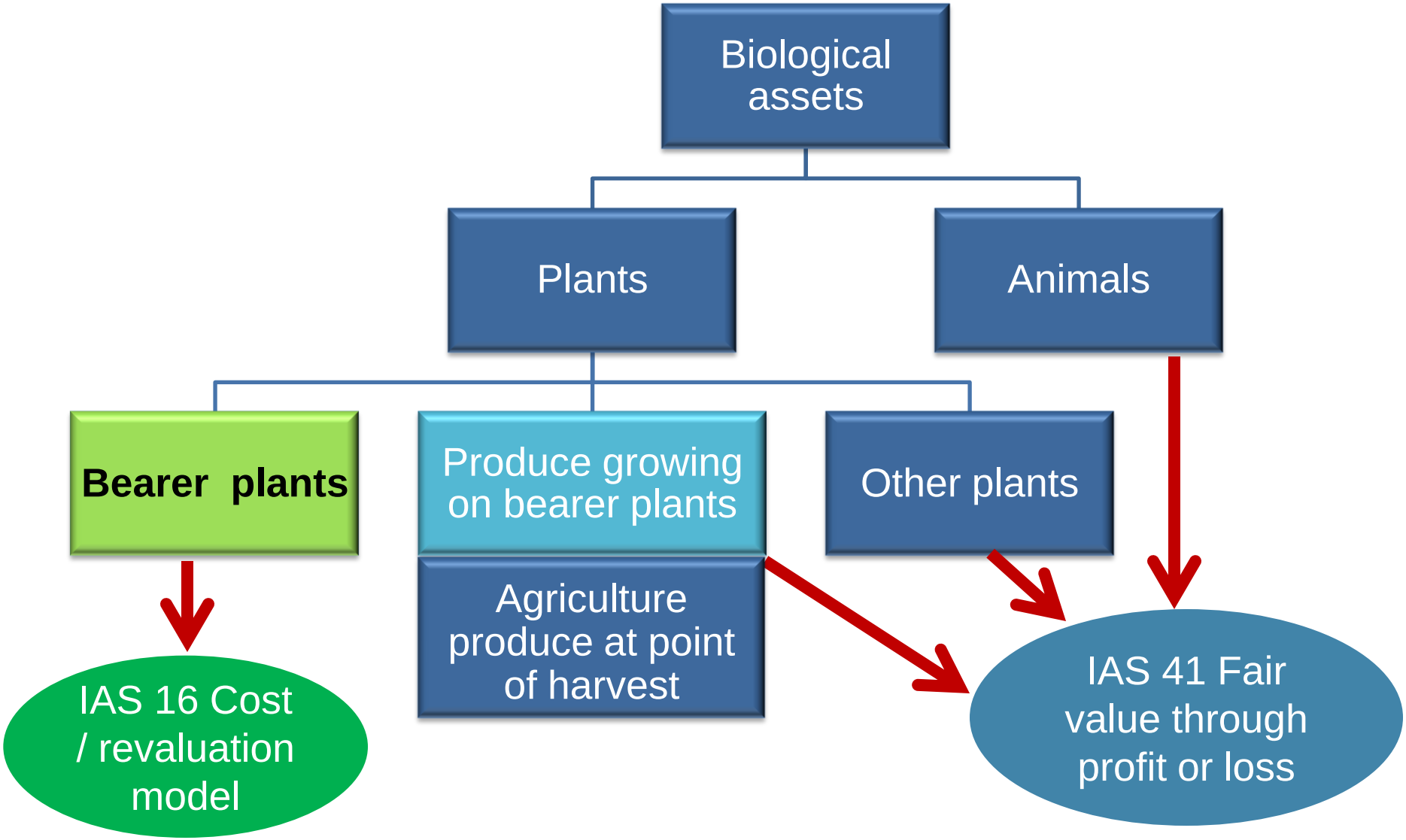


Agriculture: Bearer Plants



- Issued on 30 June 2014
- Effective on 1 January 2016

Overview of Amendments



Scope of the amendments – Bearer Plants only

- A **bearer plant** is plant that meets all of the following:
  - used in the production or supply of agricultural produce
  - expected to bear produce for more than one period
  - has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- **Examples:** Oil palms, grapevines, tea bushes

Scope of the amendments – Bearer Plants only

The following are not bearer plants:

- Plants to be harvested as agricultural produce
  - trees grown for lumber
- Plants held both to grow agricultural produce and to be harvested as agricultural produce (except scrap)
  - trees used for lumber and fruit
- Plants cultivated for sale only
  - potted plants
- Annual crops - maize, wheat

Accounting for produce growing on bearer plants

To remain in IAS 41

- Measure at *FV less costs to sell* with changes recognised in PL as the produce grows
- No specific guidance on FV measurement of the produce
- Basis for Conclusions explains that practical difficulties in FV measurement may lead preparers to consider:

- IAS 41.30: to rebut on initial recognition that FV cannot be measured reliably and measure the produce at cost until its FV becomes reliably measureable
- IAS 41.10(c): the recognition of produce fails the reliably measurable test. Produce is not recognised until either cost or FV can be measured reliably

Updates since the issuance of the Amendments

- Two different positions on the produce growing
- **View 1**: produce growing on bearer plants cannot be measured reliably
- **View 2**: measuring produce growing on bearer plants at fair value requires judgement

View 1 - *the produce growing on bearer plants cannot be measured reliably*

Source: http://www.mpevans.co.uk/mpevans/en/investors

5. BIOLOGICAL ASSETS

On 30 June 2014 IASB issued an amendment to its standard on biological assets, with consequential changes also made to its standard on property, plant and equipment. Adoption of the IASB amendments by the EU is timetabled for the fourth quarter of 2015 so, as permitted under the amendments, the Group intends to adopt their provisions with effect from 1 January 2015, accounting for its plantation assets at depreciated historical cost.

Since it began reporting under IFRS, and hence recognising biological assets in its financial statements, the Group has continuously published audited figures showing what its results would have been without the application of IAS 41 to its "bearer assets", mainly oil palms. These figures (the first column in the Group's three column presentation) showed what the Group's results would have been both prior to the application of IAS 41 and now what they would be after the adoption of the amendments to IAS 41. At 31 December 2014 the Group's net assets would have been US$310.7 million as against US$400.3 million and reported profit for the year then ended US$28.7 million rather than US$37.1 million.

IFRS allows preparers of accounts to recognise the value of growing crop prior to harvest "when, and only when, the fair value or cost of the asset can be measured reliably". It is the considered view of the board, supported by the opinion of the Tropical Growers' Association, that the stock of growing fresh fruit bunches cannot be measured reliably. Hence, crop growing on the Group's palms prior to harvest has not been recognised as an asset.

View 1 - *the produce growing on bearer plants cannot be measured reliably*

Source: http://www.mpevans.co.uk/mpevans/uploads/finreports/tga-opinion-2.pdf

Practical difficulties

2. The TGA has considered the practical difficulties of retaining 'growing produce' as a biological asset within the scope of IAS 41. For oil palms the principal difficulty is the large hectarage covered by the crop; for rubber the impossibility of measuring the volume of latex beneath its bark; for sisal, a variation on both.

3. In the case of oil palms, unlike a field of crop which is all at the same stage of development, growing bunches can only be ascertained accurately by conducting a census of each individual palm. Given the number of palms involved, this is manifestly not feasible.

Averaging could lead to very considerable errors. A system for measuring the amount of latex under a rubber tree's bark or sisal leaf has not been established. Furthermore, reflecting these practical difficulties, it is noted that no oil-palm or rubber producers currently measure or value growing crop. Banana growers do use flower counts to estimate crop, but bananas progress from flower to harvestable bunch in only three months; even so, crop estimates are susceptible to wide margins of error. Likewise, budgeted crops were in practice often materially different from actual crop. It is noted that where companies sell crop forward, they maintain a twenty *per cent* safety margin to allow for inaccuracy in their budgeted crop.

View 1 - *the produce growing on bearer plants cannot be measured reliably*

Source: http://www.mpevans.co.uk/mpevans/uploads/finreports/tga-opinion-2.pdf

4. For oil palms an alternative strategy to an *ex ante* census would be to measure, *ex post*, crop actually harvested after the cut-off date and use this data to infer growing crop at the cut-off date. Given a roughly nine-month period between pollination and harvest for oil palms, it would require at least nine months of actual data after the cut-off date, rendering this approach infeasible for producing estimates in time for legally-required public company reporting.

Market prices and fair value

5. It is noted there are no market prices for many unharvested crops including palm oil, rubber and sisal. Cost-based estimates would have to be apportioned between "repair and maintenance" of the bearer plant and that attributable to growing produce. Heroic assumptions could be made to produce an estimate but such a figure would be subject to such wide margins of error as to be inherently unreliable.

Conclusion

6. In the case of oil palms, sisal and rubber, the volume of growing produce cannot be reliably measured and, for this reason, is not used in internal or management reporting. Furthermore, in the absence of market prices for growing produce any cost allocation would inevitably be arbitrary. In its view this fatally undermines the usefulness of the reported figures to users. For these reasons, the TGA concludes the correct response to the IASB amendment is not to recognise or report the value of growing produce.

View 2 – *measuring produce growing on bearer plants at fair value requires judgement* *(September 2014 No. INT2014-07)*

https://inform.pwc.com/inform2/s/Agriculture_IAS_41/informContent/0936075103137352

PwC observation:

The fair value mechanism under the amendments is different from the old IAS 41. Under the old IAS 41, the bearer plant together with its un-harvested agricultural produce was accounted for and fair valued as one asset. With the amendments, the bearer plant and agricultural produce are accounted for and measured as two separate assets. Fair value, less costs to sell, is only required for the produce growing on the bearer plants.

Measuring produce growing on a bearer plant at fair value requires judgment and may well be a level 3 measurement under IFRS 13. This may impact comparability with other companies carrying on similar agricultural activities.

Determining the point at which to apply fair value will also require some judgment. The reporting entity should have a well-articulated accounting policy for both of these judgments and make clear disclosures to help users compare different companies.

Harvested produce

Harvested produce is measured at fair value less costs to sell at the point of harvest. IAS 41 provides that the fair value of produce at the point of harvest can always be measured reliably; hence there is no possibility of exemption from fair value measurement at the point of harvest. The fair value less costs to sell of the harvested produce is the deemed cost of the inventories on the date when IAS 2 is applied.

View 2 – *measuring produce growing on bearer plants at fair value requires judgement* *(September 2014 No. INT2014-07)*

https://inform.pwc.com/inform2/s/Agriculture_IAS_41/informContent/0936075103137352

PwC observation:

As mentioned above, an entity applying the exemption from fair value measurement at initial growth stages of the produce is required to measure the produce at fair value once it becomes reliably measurable. Judgment is required to decide at which point the fair value is reliably measureable. As IAS 41 provides that fair value of produce at the point of harvest can always be measured reliably, it would be unusual for an entity to state that fair value is not reliable in the period close to the harvest, but to record a fair value gain on the day of harvest.

Release Date: June 2015
No. 2015-15

Recognition Q&A

Q: At what point is bearer biological produce recognised in the financial statements?

A: IAS 41 provides no specific guidance for produce other than the general recognition criteria described above. Bearer produce is therefore likely to be recognised immediately after the preceding harvest. The entity controls the bearer produce as it controls the bearer plant. The previous harvest is evidence that there will be future economic benefit. The fair value can be measured reliably in most cases but could be close to zero. We would not expect a material gain on initial recognition of agricultural produce immediately after the last harvest. See section 3.

Views of The Institute of Chartered Accountants of India (ICAI)

- concur with the position taken under View 2, i.e., measuring produce growing on bearer plants at fair value requires judgement

- however,
  - the option of fair valuation of growing produce is fraught with sharp volatility and valuation differences
  - if agriculture produce at the point of harvest, is fair valued then the subsequent growing produce cannot be carried at nil value or at cost. If so, this will result in sharply impacting the quarterly/ periodic reporting of the profits.

- hence, the recommendations are
  - agriculture produce at the point of harvest should continue to be carried at cost/Net realisable value whichever is less and
  - the cost incurred in growing produce till harvest, to be accumulated under crop in progress and to be taken to finished goods at the point of harvest.

Discussion

THANK YOU!