Tuesday 24 September 2013
The Grange City Hotel (London)

Meeting documentation

World Standard-setters Meeting

Smaller group of Small to Medium-sized Agriculture
World Standard-setters Meeting
Monday 23 and Tuesday 24 September 2013
The Grange City Hotel (London)

Smaller group discussion
Agriculture

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

**International Financial Reporting Standards**

**Agriculture**

**Bearer Plants** (Proposed amendments to IAS 16 and IAS 41)

Overview

- **Biological assets**
  - Plants
  - Animals

- **Current requirements for agricultural activity**
  - IAS 41: Fair value through profit or loss

Background

**IAS 41 principle**

- Biological transformation is best reflected by fair value measurement
- IAS 41 defines ‘biological transformation’ as follows: comprises processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset
- IAS 41 only distinguishes between bearer and consumable biological assets for disclosure purposes

**Consumable biological assets (CBAs)**—harvested as agricultural produce or sold as biological assets
- livestock used for production of meat
- livestock held for sale
- crops such as maize and wheat
- trees grown for lumber

**Bearer biological assets (BBAs)**—other than CBAs
- livestock from which milk is produced
- grape vines, apple trees, oil palms, rubber trees
- trees from which firewood is harvested while tree remains

Concerns about IAS 41

- Class of biological assets (BBAs) held solely to grow produce over productive life
  - on maturity no longer undergo significant biological transformation
  - operation similar to manufacturing
Background
Limited-scope project (started September 2012)
• Considers whether to account for BBAs like PPE ✓ thereby permitting use of a cost model
External input
• Builds on work by Asian-Oceanian Standard-Setters Group (AOSSG) and Malaysian Accounting Standards Board (MASB)
• Strong support by national standard-setters (IFASS), IASB’s Emerging Economies Group (EEG) and IFRS Advisory Council
• Addresses main concerns about IAS 41 raised by respondents to IASB’s 2011 Agenda Consultation

Three main issues
• How to define BBAs for the scope of the amendments?
• How to account for BBAs before they reach maturity?
• How to account for the produce growing on BBAs?

Scope of the amendments
Option 1: no-alternative-use model
• Only used in production of agricultural produce (ie only used as BBAs)
Option 2: predominant-use model
• Used predominantly in production of agricultural produce (ie used primarily as BBAs)
Option 3: no-alternative-use—plants only
Option 4: predominant-use—plants only
IASB decision was Option 3
• Title of Exposure Draft is Bearer Plants, rather than BBAs, to better describe the scope
• A bearer plant is plant that meets all of the following:
  • used in production or supply of agricultural produce
  • expected to bear produce for more than one period
  • not intended to be sold as a living plant or harvested as agricultural produce
  • except incidental scrap sales

Scope of the amendments
The following are not bearer plants:
• Plants to be harvested as agricultural produce ✓ trees grown for lumber
• Plants both to produce agricultural produce and to be harvested as agricultural produce or sold (other than as scrap) ✓ trees used for lumber and fruit
• Plants cultivated for sale only ✓ plants in a garden centre
• Annual crops

Accounting for bearer plants before maturity
Fair value approach
✓ Biological transformation distinguishes bearer plants from self-constructed PPE
✓ Biological transformation is not reflected by a cost accumulation approach
✓ Consistent with IAS 41 principle

Cost accumulation approach
✓ IAS 16 does not incorporate internal profit in measurement of a self-constructed PPE
✓ Users in outreach sample said fair value information about bearer plants is of limited use
✓ Consistent with IAS 16 approach (by analogy)
Accounting for bearer plants before maturity

**IASB decision**
- IAS 16 cost accumulation approach like self-constructed items of machinery
  - unit of account
  - initial recognition and measurement
- Question in Exposure Draft to see if further guidance is required

**Accounting for the produce**

- Fair value at harvest
  - Avoids significant practical difficulties, but...
- Fair value during growth (IASB decision)
  - Consistent treatment for produce growing in the ground and produce growing on bearer plants
  - Provides useful information about future economic benefits from sale
  - Consistent with IAS 41 principle—essentially a CBA growing on a bearer plant

**Summary of proposals**

**IASB’s principal decision underlying proposals:**
- Bearer plants are similar to PPE, for which the accounting is prescribed in IAS 16

**Summary of proposals**

**Bearer plants to be included in IAS 16**
- Requirements of IAS 16 would be applied to bearer plants without modification, including:
  - revaluation model permitted
  - no additional disclosures for bearer plants
- Bearer plants would be PPE so other Standards apply as normal:
  - IAS 17 Leases
  - IAS 23 Borrowing costs
  - IAS 36 Impairment of Assets
  - etc

**Other decisions**

**Produce to remain under IAS 41**
- Requirements of IAS 41 would continue to apply to produce without modification:
  - Fair value through profit or loss
  - IAS 41 disclosures for the produce
  - Presumption fair value can be measured reliably can be rebutted on initial recognition if:
    - quoted market prices are not available
    - alternative fair value measurements are clearly unreliable
Transition

Current adopters
• Apply amendments to IAS 16 and IAS 41 retrospectively
  • but can elect to measure an item of bearer plants at fair value at beginning of earliest period presented
  • and use as deemed cost at that date
  • item by item election

First-time adopters
• Deemed cost exemptions in IFRS 1 for PPE

Timetable

• Exposure Draft was issued in June 2013
• Comments to be received by 28 October 2013
• Final amendments expected first half 2014
• Early application permitted

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NOTES