

## STAFF PAPER

February 2014

## IASB Meeting

Project	Agriculture: Bearer Plants		
Paper topic	The three main issues raised by respondents to the Exposure Draft		
CONTACT(S)	Michelle Fisher	<a href="mailto:mfisher@ifrs.org">mfisher@ifrs.org</a>	+44 (0)20 7246 6918

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose of this paper**

1. This Agenda Paper 13A asks the IASB to discuss the three main issues raised by respondents to Exposure Draft ED/2013/8 *Agriculture: Bearer Plants* (Proposed amendments to IAS 16 and IAS 41).

**Structure of this paper**

2. This Agenda Paper 13A is set out as follows:
  - (a) Introduction
  - (b) Issue (1) Scope of the amendments
  - (c) Issue (2) Accounting for produce growing on bearer plants
  - (d) Issue (3) Guidance on applying IAS 16 *Property, Plant and Equipment* to bearer plants
  - (e) Remaining issues to be discussed at future meetings
  - (f) Appendix A: Other issues raised by respondents

## Introduction

3. The vast majority of respondents to the Exposure Draft (the ED) support the proposal to account for bearer plants in accordance with IAS 16, thereby permitting a cost model. The following were the three main issues raised (each raised by approximately half of respondents):
  - (a) Extend the scope of the amendments to other biological assets. Most of these respondents suggested extending the scope to livestock. Many of these respondents also suggested extending the scope to cover all biological assets predominantly used to produce agricultural produce. The ED currently follows a no-alternative-use model for plants only, ie plants that are only used to produce agricultural produce. (See paragraphs 6-19 below)
  - (b) Do not require fair value measurement of growing produce. Most of these respondents suggested only requiring fair value less costs to sell to be measured at the point of harvest, or providing additional relief from fair value measurement on the basis of cost-benefits. Some respondents suggested accounting for produce under a cost model before harvest, like inventories/work in progress. (See paragraphs 20-35 below)
  - (c) Provide guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with IAS 16.16(b)—ie when it reaches maturity. (See paragraphs 36-46 below)
4. The staff propose that the IASB discuss the three issues in paragraph 3 at this meeting. The staff also propose the IASB considers other requests for guidance on application of IAS 16 at this meeting.
5. Appendix A lists the other issues raised by respondents and highlights those that the staff think should be addressed at a future meeting. Each of these issues was raised by only a small number of respondents.

## Issue 1: Scope of the amendments

### *Introduction*

6. The ED proposes to restrict the scope of the amendments to bearer plants. A bearer plant has been defined in the ED as a plant that is:
- (a) used in the production or supply of agricultural produce,
  - (b) expected to bear produce for more than one period; and
  - (c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

### *Responses from comment letters about the scope of the amendments*

(Paragraphs 7-10 below are identical to paragraphs 14-17 in Agenda Paper 14A for the January IASB meeting)

7. Approximately half of respondents supported restricting the scope to bearer plants, this included all plantation companies. Nearly all other respondents supported extending the scope to bearer livestock, for example dairy cows and animals held for breeding. Support came from many jurisdictions, and particularly from standard setters in those jurisdictions, global accounting firms and preparers/representative bodies in the bearer livestock industry. However, some of these respondents suggested, to avoid delaying this limited scope project, livestock should be dealt with as a second phase project. The following points summarise the main reasons given in support of extending the scope to livestock:
- (a) There is no conceptual basis for singling out bearer plants and the approach is contrary to principles-based Standards. The reasoning for accounting for bearer plants in accordance with IAS 16 in paragraphs BC16-BC21 of the ED applies equally to bearer livestock. Excluding livestock would result in a different accounting treatment for economically similar biological assets, reducing consistency and comparability of financial information.

- (b) Entities with bearer livestock and users of their financial statements share the same concerns about IAS 41 fair value information as entities with bearer plants and users of their financial statements (ie relating to complexity, reliability and profit volatility—see paragraph BC5 of the ED).
  - (c) A cost model is not too complex to implement for bearer livestock (observed by the IASB in paragraph BC14 of the ED). Many entities across the world have established practices of applying the cost model for internal reporting purposes or under national GAAP/for tax reporting. Many of the complexities of applying the cost model to livestock, for example cost allocations, also apply to some bearer plants.
  - (d) The existence of an active market for many types of livestock or the fact that the cost model is more difficult to apply to livestock does not alter their nature. Bearer livestock should be accounted for in the same way as bearer plants.
  - (e) Entities generally can distinguish between those species of livestock used as bearer biological assets (BBAs) and those used as consumable biological assets (CBAs). Plus, if any bearer livestock is sold for its meat this generally takes place at the end of its life, and the revenue on sale (after estimating costs of disposal such as transport costs to abattoir) is insignificant in comparison to the revenue from bearing produce.
8. Approximately half of the respondents that supported extending the scope to livestock (see paragraph 7) supported a no-alternative-use model for both plants and livestock (biological assets that are only used as BBAs) for the same reasons given by the IASB in paragraphs BC11-BC13 of the ED. However, the other half supported a predominant-use/business model approach (ie biological assets that are primarily used as BBAs). The following points summarise the main reasons given in support of a predominant-use model:

- (a) It is not difficult to apply. The need for additional judgement and reclassifications between IAS 16 and IAS 41 (observed by the IASB in paragraph BC12 of the ED) is not a persuasive reason to reject the predominant-use model. Such judgement and reclassifications are no more difficult than currently required by other IFRS, for example reclassification between investment property and property held for own use, or between items held for rental purposes and inventory. Plus, under the no-alternative-use model, similar judgement and reclassifications would still be required, for example determining if scrap sales are no longer expected to be incidental.
- (b) It would better reflect the manner in which future cash flows are expected to be derived from biological assets. This would improve financial reporting and is consistent with classification and measurement of financial assets in IFRS 9 *Financial Instruments*. If an entity's business model is to hold biological assets for productive use over more than one period and they are not managed on a fair value basis, it does not seem appropriate to make fair value measurement mandatory.
- (c) Limiting the scope to BBAs with no alternative use could introduce an arbitrary division in accounting for BBAs. This would reduce comparability. It may also result in situations where the accounting treatment does not reflect the underlying substance of the biological asset or the company's business model.

9. Some respondents observed that IAS 16 does not restrict the definition of property, plant and equipment (PPE) to items that are not intended to be sold, except as scrap and so, for consistency, such a restriction should not be in the definition of a bearer plant. A few respondents thought that the terminology 'scrap' is inappropriate because it would contradict an entity's objective to maximize the sale value from the bearer plant at the end of its producing life. One suggestion made was to refer to 'insignificant residual value' rather than 'incidental scrap sales'.

10. The following points summarise other suggestions for expanding the scope of the ED made by a few respondents:
- (a) Include CBAs used as inputs into the production process in the scope (vertically integrated operations). For example where an entity uses CBAs as raw materials to produce other products, for example fruit used to make fruit juice or timber used to make paper (raised by two respondents in Brazil).
  - (b) Consider an exemption from IAS 41 for:
    - (i) agricultural activity with an operating cycle of less than one year, for example annual crops. One respondent noted similar practical expedients were included in the recent exposure drafts for leases (short term lease) and revenue recognition (short term financing component).
    - (ii) produce growing on the bearer plants (addressed separately under Issue 2).

### ***IASB reasoning***

11. The following paragraphs in the Basis for Conclusions accompanying the ED summarise the considerations of the IASB when restricting the scope of the amendments to bearer plants:

- BC11 The IASB's first consideration when setting the scope of the amendments to IAS 41 was whether to follow a 'no-alternative-use' model or a 'predominant-use' model. The IASB observed that many types of livestock that are used as bearer biological assets by an entity also have a common alternative use as a consumable biological asset. For example, an entity may choose to rear a sheep for its wool (bearer attribute) and/or for its meat (consumable attribute). It was also observed that some trees are cultivated both for their lumber, for example, for furniture production (consumable attribute) and for their fruit (bearer attribute).
- BC12 The IASB observed that a predominant-use model would be more difficult to apply than a no-alternative-use model because it requires additional judgement to be applied in order to determine the predominant use, and would need to address the consequences of reclassifications between IAS 16 and IAS 41 if the predominant use changes. It also observed that, if the scope is restricted to biological assets that are only used as bearer plants, the need to apply this additional judgement and make reclassifications would be expected to be rare.
- BC13 The IASB further noted that, if a biological asset is intended to be sold as a living plant or harvested as agricultural produce after it has been used as a bearer biological asset for a period of time, apart from incidental scrap sales (for example if a plant is sold as firewood at the end of its productive life), fair value measurement would provide useful

information about the future economic benefits from the future sale of the asset. Furthermore, if a biological asset is commonly sold, there will often be an active market for that asset meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement. The IASB also noted that the concerns raised by respondents to the IASB's 2011 Agenda Consultation generally relate to plants that do not have an alternative use to the entity. For these reasons, the IASB decided to limit the scope to biological assets that are only used as bearer biological assets.

BC14 The IASB's second consideration when setting the scope was whether livestock should be included within the scope of the amendments to IAS 41. The IASB observed that if so, the use of a cost model becomes more complex. Furthermore, there is usually an active market for livestock, meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement. The IASB noted that concerns raised by respondents to the IASB's 2011 Agenda Consultation mainly relate to plants, not livestock. Consequently, it decided to restrict the scope to plants.

## **Staff analysis**

### *The scope of the amendments*

12. The staff support the IASB reasoning in paragraphs BC11-BC14. The aim of this project is consideration of a limited-scope carve out for bearer biological assets in response to concerns raised by respondents to the IASB's 2011 Agenda Consultation. Those concerns were primarily about plants used solely to bear agricultural produce (ie bearer plants as defined in the ED), for example oil palm and rubber tree plantations and vineyards. The limited-scope project was added to the IASB agenda in September 2012. At this time the IASB noted that it currently did not have the resources to perform a comprehensive review of IAS 41. However, the IASB observed that this limited-scope project would only need a small amount of IASB time because the IASB could utilise the research and work already performed by the Malaysian Accounting Standards Board (MASB). The MASB research and work also primarily focussed on bearer plants.
13. IAS 41 measures biological assets related to agricultural activity at fair value less costs to sell, based on the principle that biological transformation is best reflected by fair value measurement. The staff think an exception for bearer plants is supported by the following reasons:
  - (a) The use of mature bearer plants to produce agricultural produce is similar to the use of machinery to manufacture goods which is accounted for under IAS 16.

- (b) Bearer plants are part of an integrated production facility together with the land they are attached to, soil, land improvements/structures, agricultural machinery etc. The IASB decided applying fair value to part of an integrated production facility would produce information that was less decision useful than measuring all the assets in the production process using the same attribute.
- (c) Nearly all investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants has either limited or no use to them without fair value information of the land that they're attached to. Others noted that the inputs into the fair value measurement of bearer plants are very subjective, particularly for those with long life cycles, meaning they are unable to rely on those inputs and fair value measurements. Some noted that they focus on cash flows in their analysis and since bearer plants are held for the whole of their useful life and then scrapped changes in fair value will never be realised as cash flows (except for the fair value of the produce growing on the bearer plants). For these reasons users eliminate the changes in the fair value of bearer plants from profit or loss for their analysis. Furthermore, many plantation companies prepare financial statements showing both pre- and post-IAS 41 amounts for this purpose.
- (d) Based on a consideration of the issues in the context of oil palms, rubber trees, and vineyards, the IASB decided the IAS 16 cost model can be applied to bearer plants.

Even though parts of the reasoning in (a) to (d) may apply to other biological assets, the full reasoning is specific to bearer plants.

14. The IASB has received significant information about the issues from measuring bearer plants at fair value, has spent time discussing the main issues and has considered how IAS 16 could be applied to bearer plants. The IASB has only received limited information about these issues in the context of other biological assets, for example livestock, plants with an alternative use as consumable



biological assets, annual crops and seeds. The staff do not think that the scope of the ED should be expanded to other biological assets without understanding whether IAS 16 is appropriate and can be applied consistently to those biological assets.

15. Most respondents who suggested expanding the scope to livestock did not acknowledge that a key reason the IASB limited the scope to bearer plants was the complexities of measuring the initial cost of bearer livestock. A few respondents said a cost model would not be too complex to implement for bearer livestock and noted that cost based models are used for livestock in some jurisdictions. However, they did not provide any further information on how a cost model like the one in IAS 16 can be applied to livestock. One farming company said that it has developed its own livestock costing system for management reporting and livestock costs are modelled off readily available market cost data. Use of market cost data implies that the approach is based on fair value information, for example fair value at birth followed by accumulated subsequent costs.
16. For the IASB to obtain a sufficient understanding of the issues relating to other biological assets, and whether the cost model in IAS 16 can be applied to those assets, would take time and delay completion of the ED. Such requests for an expanded scope point to the need for a comprehensive review of IAS 41 and the staff think that an expansion of the scope should not be considered without it.

*Applying the definition of bearer plants*

17. Paragraph 9 outlines concerns that some respondents had with the third criterion in the definition of a bearer plant—‘not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales’ (see paragraph 6(c)). The staff think that this criterion is important to ensure the scope is restricted to plants supported by the reasoning in paragraphs 13(a)-(d). Furthermore, the staff think that the criterion is unlikely to cause significant practical application issues because sales, other than scrap sales, are unlikely to occur for plants such as oil palms, rubber trees and grape vines. However, the staff note the IASB could strengthen the criterion by replacing ‘not intended’ by ‘likelihood...remote’. Therefore the third criterion could be modified as

follows—‘the likelihood of selling it as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, is remote’.

### **Staff recommendation**

18. The staff recommend that no change is made to the scope of the ED except to revise part (c) of the definition of a bearer plant to state ‘the likelihood of selling it as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, is remote’. The staff recommend no further guidance should be added on interpretation of the definition of a bearer plant.
19. In general the ED seems to be perceived by respondents as a significant improvement in financial reporting for businesses that operate plantations and vineyards. The staff do not think the IASB has sufficient information with which to expand the scope to other biological assets and recommend that other biological assets should only be considered when the IASB performs a comprehensive review of IAS 41.

#### **Questions for the IASB**

1. Does the IASB agree that the scope of the ED should remain unchanged except to modify part (c) of the definition of a bearer plant as follows—‘the likelihood of selling it as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, is remote’?

## **Issue 2: Accounting for produce growing on bearer plants**

### **Introduction**

20. The ED proposes that the produce growing on bearer plants should remain in IAS 41 and be measured at fair value through profit or loss during growth.
21. IAS 41 includes a presumption that fair value can be measured reliably for a biological asset. Therefore, this presumption would apply to produce growing on a bearer plant. This presumption can be rebutted on initial recognition if quoted market prices are not available and alternative fair value measurements are

determined to be clearly unreliable. If the presumption is rebutted, IAS 41 requires entities to measure biological assets at cost less any accumulated depreciation and any accumulated impairment losses. In determining cost, accumulated depreciation and accumulated impairment losses, an entity is required to consider IAS 2 *Inventories*, IAS 16 and IAS 36 *Impairment of Assets* (see IAS 41.30).

### ***Responses from comment letters on accounting for the produce***

(Paragraphs 22-26 below are identical to paragraphs 51-55 in Agenda Paper 14A for the January IASB meeting)

22. The Invitation to Comment in the ED did not include a specific question about accounting for produce growing on bearer plants. However almost half of respondents, including all plantation companies, commented that they did not support the proposals in this area. Some of these respondents acknowledged they understood the conceptual reasons for accounting for produce at fair value less costs to sell, but expressed concern with the likely practical challenges.
23. The following points summarise the main suggestions for how to account for produce growing on bearer plants provided by respondents:
  - (a) Produce should be measured at fair value less costs to sell only at the point of harvest because of the practical difficulties of measuring fair value during growth (see paragraph 24 below).
  - (b) Produce that is harvested continuously should be measured at fair value less cost to sell only at the point of harvest, rather than during growth, for cost-benefit considerations. The practical challenges are greater for produce harvested continuously than for other CBAs, for example produce harvested periodically or annual crops. A few respondents said produce harvested continuously typically has a short growth period, meaning the time lag between period end and harvest of any item of fruit is short. For example, tea leaves typically take a few days to mature and oil palm fruit a few months. Hence, these respondents think measuring the produce at fair value less costs to sell at the point of

harvest would be unlikely to have a significant impact on the decision usefulness of financial information.

- (c) Produce should be accounted for in the same way as inventory/work in progress and measured at the lower of cost or net realisable value in accordance with IAS 2. This treatment would be consistent with the proposal to account for bearer plants like machinery. Some respondents disagreed with the observation in IAS41.B43 by the IASC Board that 'it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets'. These respondents noted several national GAAPs previously/currently account for produce at cost.
- (d) A bearer plant and its produce should be treated as one asset (one unit of account) prior to harvest because they usually undergo biological transformation simultaneously and are economically linked prior to harvest.

24. The following points summarise the main reasons given in opposition to measuring produce at fair value through profit or loss during growth:

- (a) Allocation of cultivation costs between the bearer plants and produce, and measuring the fair value of the produce on its own, would be costly, complex and subjective.
- (b) Fair value information about the produce would not be useful to users of financial statements because it is highly judgemental and very sensitive to changes in assumptions. Requiring changes in the fair value less cost to sell to be recognised in profit or loss would distort profits and create profit volatility.
- (c) Although active markets may exist for some livestock before maturity, for example calves and lambs, active markets do not typically exist for other produce before maturity. This makes determination of fair value difficult and unreliable.

- (d) It is impracticable to estimate growing produce by physical inspection, particularly in large plantations containing millions of trees which are not homogeneous in terms of age, effects of land topography, soil condition, exposure to rainfall, etc.
- (e) Timing of ripening, the ultimate quality/size of the produce, and crop failure are highly variable and would be difficult to estimate because they depend on factors like weather, diseases, natural disasters, etc.
- (f) Fair value measurement and separate accounting for produce are not used in internal reporting.
- (g) Specific examples of problems from fair value measurement given by respondents:
  - (i) Rubber trees. Estimating the volume of latex sap underneath the bark of a rubber tree is impracticable.
  - (ii) Oil palms: Each tree holds a mix of unpollinated and pollinated flowers, and ripening fresh fruit bunches at varying stages of growth. The quantity of produce at each stage of growth can vary significantly amongst trees and between specific points throughout the continuous harvest cycle.
  - (iii) Tea plantations. Depending on the colour, texture and size of the tea leaves, only some of them will be plucked, with some tea leaves remaining on the tree to be plucked later. Depending on subsequent development, some may not be plucked at all. The price of tea leaves is not readily available from the market and depends on the quality of the tea leaves. For example, older tea leaves may be worth more.
  - (iv) Sisal plants: Virtually all leaves that will eventually be harvested from a given plant are already in formation when the plant is first harvested, ie all leaves are under development/in existence at any point in time. Therefore, under the proposals, the same IAS 41 adjustments would be made but the values and movements previously

assigned to the plants in their entirety would be assigned in full to the growing produce.

25. The following points summarise the main comments given by respondents about the exception from fair value measurement in IAS 41.30 (this exception is described in paragraph 21 above):
- (a) The final amendment should emphasise that the practical difficulties in measurement could lead preparers to apply IAS 41.10(c) and IAS 41.30 until the produce is harvested.
  - (b) As noted in Agenda Paper 4A of the IASB February 2013 meeting, the exception in IAS 41.30 is stricter than exceptions from fair value measurement in other IFRSs covering non-financial assets. The terminology used in IAS 41, 'fair value measurements are determined to be clearly unreliable', implies a higher hurdle than the language used in IAS 16/IAS 41, 'whose fair value can be measured reliably'. This higher hurdle is not justified.
  - (c) Consider requiring growing produce to be measured at fair value only when it can be measured by reference to an active market for the produce in its current state of development at the reporting date and/or permitting an accounting policy choice for growing produce to be measured at cost or fair value by class of biological asset.
26. Several respondents said further guidance would be required on how to measure the produce at fair value because the requirements in IFRS 13/IAS 41 are not sufficient. Other respondents said guidance would be required to help assess when produce starts to grow. For example, would an entity wait for physical evidence like blossom on a tree? If so, how would this be done when produce is not visible, for example latex inside the bark of a rubber tree?

### ***IASB reasoning***

27. The following paragraphs in the Basis for Conclusions accompanying the ED summarise the considerations of the IASB when deciding to account for produce under the IAS 41 fair value model:

- BC27 The IASB observed that the produce is a consumable biological asset growing on the bearer plant. The growth of the produce directly increases the expected revenue from the sale of the produce. Consequently, fair value measurement of the growing produce provides useful information to users of financial statements about future economic benefits.
- BC28 The IASB acknowledged that measuring the produce growing on the bearer plants at fair value less costs to sell sometimes may be difficult to apply in practice. However it was noted that similar difficulties are encountered when measuring produce growing in the ground. Consequently, the IASB decided that it would be inappropriate to provide additional relief from fair value measurement for produce growing on a bearer plant and not also for other biological assets within the scope of IAS 41. The IASB noted that the limited-scope project was added to its agenda with the narrow objective of considering a scope amendment for bearer plants and is therefore not intended to address the fair value model in IAS 41. Consequently, the IASB agreed not to discuss the current exemption from fair value measurement under IAS 41 as part of this project.
- BC29 On the basis of the considerations above, the IASB decided that the produce should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This method would ensure that produce growing in the ground and produce growing on a bearer plant would be accounted for consistently.

### **Staff analysis**

28. The staff support the IASB reasoning in paragraphs BC27-BC29 for measuring the produce at fair value less costs to sell during growth. However, the staff acknowledge that there are practical difficulties in measuring the fair value of the produce growing on bearer plants, particularly in determining the quantity of the produce and its stage of ripeness—for example measuring the amount of latex sap underneath the bark of a rubber tree.

#### *Exemptions in IAS 41*

29. The staff think that there are two key paragraphs in IAS 41 that should be considered if those practical difficulties result in significant problems in measuring the fair value of the produce (the staff also highlighted these at the February 2013 IASB meeting):
- (a) IAS 41.30 contains a reliability exception for cases where the fair value of biological assets is clearly unreliable on initial recognition:

**IAS 41.30** There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably

measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

- (b) IAS 41.10 contains the overall recognition criteria for biological assets:

**IAS 41.10** An entity shall recognise a biological asset or agricultural produce when, and only when:

- (a) the entity controls the asset as a result of past events;
- (b) it is probable that future economic benefits associated with the asset will flow to the entity; and
- (c) the fair value or cost of the asset can be measured reliably.

30. The staff note that some respondents said the final amendment should emphasise that the practical difficulties in measurement could lead preparers to apply IAS 41.10(c) and IAS 41.30 before the produce is harvested (see paragraph 25(a)). The staff think the significance of including such an emphasis in the body of the final Standard could encourage inappropriate use of the exceptions in those paragraphs. Instead the staff think the IASB should include a note to improve awareness of these paragraphs in the Basis for Conclusions accompanying the final amendment, including an explanation that they have been considered by the IASB when determining the appropriate accounting treatment for the produce.
31. The staff think a case for rebutting the presumption under IAS 41.30 may be supportable if it is both impracticable to quantify the amount and ripeness of the produce growing on the bearer plants, and estimating them by other methods would be clearly unreliable. Examples of other methods of estimating the quantity/ripeness may include using historical data at prior reporting dates, extrapolating a representative portion of the plantation over the whole, or using the amount and timing of the produce harvested post year end as a guide to determining the amount/ripeness of the produce growing at the year-end.
32. The staff also think in some cases it may be more difficult to measure the cost of the produce than the fair value of the produce. This is because the costs of growing the produce are also the costs of the day-to-day servicing of the bearer plants. The day-to-day servicing costs, together with the depreciation charge on the bearer plants, would need to be allocated to the produce on an inherently



arbitrary basis. IAS 41.B43 states “The Board also noted that it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets”. If this is true for agricultural produce, it will be true for the produce growing on the bearer plants. In this case, application of IAS 41.10(c) may lead to a scenario where the produce is not recognised until either cost or fair value can be measured reliably. “Reliably measurable” is a lower hurdle than “clearly unreliable” in IAS 41.30. However, IAS 41.10 requires both cost and fair value measurement to be considered.

*Additional guidance on fair value measurement of produce*

33. Several respondents said additional guidance would be required on how to measure the produce at fair value in accordance with IFRS 13 *Fair Value Measurement*. The staff do not think it is appropriate for the IASB to try to develop guidance to supplement IFRS 13 for produce because measurement issues will be specific to the particular type of plant/produce—examples of these are highlighted by respondents in paragraph 24(g).

**Staff recommendation**

34. The staff recommend that the produce growing on bearer plants should remain in the scope of IAS 41 and be measured at fair value through profit or loss during growth. The staff also recommend that no additional guidance should be provided on measurement of the fair value of the produce.
35. The staff recommend that the Basis for Conclusions accompanying the final amendment should affirm that practical difficulties in measurement of the produce may lead preparers to consider IAS 41.30 and IAS 41.10(c). It should also explain that those paragraphs were considered by the IASB when determining the appropriate accounting treatment for the produce.

**Questions for the IASB**

2. Does the IASB agree that produce growing on bearer plants should be accounted for at fair value through profit or loss in accordance with IAS 41 (unchanged from the ED)?

- |   |
|---|
| <p>3. Does the IASB agree no additional guidance should be added for measurement of the fair value of the produce (unchanged from the ED)?</p> <p>4. Does the IASB agree that the Basis for Conclusions accompanying the final amendment should:</p> <ul style="list-style-type: none"><li>• affirm that practical difficulties in measurement of the produce may lead preparers to consider IAS 41.30 and IAS 41.10(c)?</li><li>• explain that those paragraphs were considered by the IASB when determining the appropriate accounting treatment for the produce?</li></ul> |
|---|

### **Issue 3: Guidance on applying IAS 16 to bearer plants**

#### ***Introduction***

36. The ED proposes that the recognition, measurement and derecognition requirements of IAS 16 should be applied to bearer plants without modification or supplementation.

#### ***Responses from comment letters on the need for additional guidance in IAS 16***

(Paragraphs 37-42 below are identical to paragraphs 28-33 in Agenda Paper 14A for the January IASB meeting)

37. More than half of respondents thought that additional guidance was required. However, this only included one of the ten plantation companies.
38. Nearly all those who requested additional guidance asked for guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with IAS 16.16(b)—ie when it is deemed to have reached maturity. A few respondents suggested as a practical expedient the maturity date should be defined as the date of the first harvest of commercial value. The following points summarise the main reasons given for requiring guidance on when a bearer plant reaches maturity:
- (a) Determining when a bearer plant is in the location and condition to be capable of operating in the manner intended by management is likely to

be more complex than for self-constructed PPE. For example, for PPE this point in time can be verified by test-runs and approval by management. However, bearer plants reach maturity gradually and the timing of maturity will depend on many factors, for example the weather and other environmental conditions.

- (b) Without guidance there will be significant diversity in practice. Some bearer plants bear produce several years before they reach a commercial level of produce. Plus they may not reach their maximum output until much later in their life and until this point are undergoing biological transformation. An example provided by one respondent was oil palms can bear commercially viable produce after approximately four years but at this time the yield may only be 25% of the full potential yield. The yield may reach 100% only in year seven. In years four to seven the yield improves as the oil palms undergo biological transformation. The respondent noted that it is unclear whether the tree reaches maturity in year four or seven, or sometime between these two years.

39. A significant number of respondents requested additional guidance in three further areas:

- (a) The nature of costs that can be capitalised before maturity. Some respondents noted IAS 16.16-22 are written for traditional PPE and additional examples more relevant for bearer plants should be included.
- (b) Allocation of costs post maturity between the growing fruit and the bearer plant. Also how to determine what type of subsequent costs should be capitalised as bearer plants after maturity, for example if the expenditure increases the yield of the bearer plants.
- (c) Transfers between IAS 16 and IAS 41 if the entity changes its intention for a bearer plant or if scrap sales are no longer considered incidental.

40. The following points summarise other suggestions for guidance made by a few respondents:

- (a) Guidance on a normal level of wastage. Address the issue that many bearer plants will die before maturity, for example from the implementation of a planned thinning programme.
- (b) Establishment of the unit of account for bearer plants, including consideration of infilling (ie the addition of plants within vacant areas in the plantation—which could be an ongoing activity) and accounting for shade trees (trees grown purely to provide shade for the bearer plants and that may have a different useful life from the bearer plants).
- (c) Application of the revaluation model, for example how to determine the fair value of the bearer plant separately from the fair value of the produce. This is also necessary in order to determine which fair value gains go in other comprehensive income (OCI) and which go in profit or loss.
- (d) Methods of depreciating bearing plants. One respondent noted bearer plants share similarities with the assets under consideration in the IASB's project *Clarification of Acceptable Methods of Depreciation and Amortisation* and the IASB should ensure that project also provides a clear methodology for bearer plants.
- (e) Scope issues. Deciding if the plant is in scope of IAS 16 or IAS 41 may be challenging in some instances:
  - (i) Plants with short lifecycles, ie less than one year, that bear produce either continuously or have several harvests. An example provided was a cucumber vine.
  - (ii) Plants whose future use is dependent on a future event. For example depending on the quality of the produce after the first harvest a plant may be kept for a second (or third) harvest. Examples provided were gum trees or banana trees.
  - (iii) Determining if scrap sales are incidental.

41. A few respondents said that it would be useful for the IASB to conduct outreach to identify the issues that have arisen in jurisdictions where the cost model is/was

used under national GAAPs. Such outreach would enable the IASB to see where additional guidance is necessary and assess whether any existing guidance in those jurisdictions can be used.

42. A few respondents expressed concern about including additional guidance in IAS 16 for bearer plants to the extent it entails an interpretation of IAS 16, which might affect its application to PPE more generally. Some respondents noted such concerns would not arise if bearer plants remained in the scope of IAS 41 with reference made to the relevant requirements in IAS 16.

### ***IASB reasoning***

43. The following paragraphs in the Basis for Conclusions accompanying the ED summarise the considerations of the IASB when deciding whether to modify or supplement the recognition and measurement requirements of IAS 16 for bearer plants:

#### **Unit of account**

- BC30 Agricultural activity is often a continuous process, meaning that older plants are continuously removed from service and replaced. The IASB noted that, if bearer plants are accounted for under a cost model, this continuous process needs to be made discrete. Consequently, the question arises as to what the unit of measure is—for example, is it the individual plant or some larger aggregation, such as a field or a planting cycle?
- BC31 The IASB noted that IAS 16 does not prescribe the unit of measure, or the extent to which such items can be aggregated and treated as a single item of property, plant and equipment. Consequently, applying the recognition criteria in IAS 16 to bearer plants would require judgement. This would give an entity flexibility, depending on its own circumstance, to decide how to aggregate individual plants for the purpose of determining a measureable unit of bearer plants. The IASB noted that accounting for an aggregation of plants would be similar to accounting for a large quantity of equipment that is acquired or constructed in batches. A specific example would be when a company constructs a large number of moulds for use within its business. Some aggregation of the moulds would usually be necessary for determining an item of property, plant and equipment. Consequently, the IASB decided that the requirements for the unit of account in IAS 16 would provide sufficient guidance for bearer plants without modification.

#### **Other recognition and measurement requirements under the cost model**

- BC32 The IASB considered whether the other recognition and measurement requirements under the cost model in IAS 16 were sufficient to cater for the unique costs of growing and caring for the bearer plants both before and after they reach maturity. The IASB discussed two areas where additional clarification might be useful:
- (a) how to assess what is an abnormal amounts of wastage/mortality during the growth phase of the bearer plants; and
  - (b) how to determine when bearer plants are in the condition necessary for them to be capable of operating in the manner intended by management.

- BC33 The IASB noted that the clarification required by paragraph BC32(a) would be similar for a scenario in which the entity constructs a large number of fragile items of machinery for use within the business. The IASB also noted that the clarification required by paragraph BC32(b) would be similar for a factory requiring an initial run-in period. Consequently, the IASB concluded that the current requirements of IAS 16 are sufficient to address these issues for bearer plants without further guidance.
- BC34 To better assess whether there are any other circumstances unique to plants that may require further clarification, the IASB decided to ask a question in this Exposure Draft seeking feedback on whether there are any requirements in IAS 16 that require additional guidance.

### Staff analysis

44. The staff have considered the requests for guidance made by more than two comment letters in the table below:

Areas where guidance was requested	Staff recommendation
<p>When a bearer plant is in the ‘location and condition necessary for it to be capable of operating in the manner intended by management’ in accordance with IAS 16.16(b)—ie when it is deemed to have reached maturity. A few respondents suggested as a practical expedient the maturity date should be defined as the date of the first harvest of commercial value.</p>	<p>Add guidance.</p> <p>Approximately half of all respondents asked for guidance. Many said this was the area with the greatest risk of causing diversity in practice. Therefore, the staff think, as a practical expedient, IAS 16 should state it is when the bearer plant starts to grow produce of commercial value. In the example in paragraph 38(b) the staff think this would be in year four.</p>
<p>The nature of costs that can be capitalised before maturity. Some respondents noted IAS 16.16-22 are written for traditional property, plant and equipment (PPE) and additional examples more relevant for bearer plants should be included.</p>	<p>Do not add guidance.</p> <p>Although the examples in IAS 16.17 and IAS 16.19 are tailored towards non-living items, the staff think IAS 16.17(a),(b),(e) adequately covers the types of costs incurred to cultivate and grow bearer plants. Plus, the staff think that IAS 16.16(c)(d) can be interpreted to mean planting/replanting (handling and</p>

	<p>installation) and protecting/nursing (assembly costs). Although it would be possible to add examples of the specific costs of growing bearer plants, this is also true for different kinds of self-constructed PPE. For example, for construction of a road “installation and assembly” would be better described as levelling, smoothing and laying of the road surface.</p>
<p>Allocation of costs post maturity between the growing fruit and the bearer plant. Also how to determine what type of subsequent costs should be capitalised as bearer plants after maturity, for example if the expenditure increases the yield of the bearer plants.</p>	<p>Do not add guidance.</p> <p>The staff do not think the costs need to be allocated between the growing produce and the bearer plant. This is because under the proposals in the ED all costs after maturity could be expensed unless they meet the criteria for capitalisation as part of bearer plants in accordance with IAS 16.7.</p>
<p>Transfers between IAS 16 and IAS 41 if the entity changes its intention for a bearer plant or if scrap sales are no longer considered incidental.</p>	<p>Do not add guidance.</p> <p>The staff think it will be rare for transfers to take place between IAS 16 and IAS 41 for plants. For example, if the timber of a tree is valuable (such as for use in furniture) the staff think expected sales after the tree is used to bear fruit will usually be more than scrap sales. Similarly, if the timber is not valuable, expected sales after the tree is used to bear fruit will usually be incidental scrap sales.</p> <p>In Issue (1) the staff recommend changing part (c) of the definition of a bearer plant to ‘the likelihood of selling it as a living plant or</p>

	<p>harvesting it as agricultural produce, except for incidental scrap sales, is remote' (see paragraphs 17-18). Using this stricter wording would further reduce the possibility of transfers between IAS 16 and IAS 41.</p> <p>The staff notes in the rare cases plants need to be reclassified an entity could refer to the guidance on transfers to and from investment property in IAS 41.60-61 by analogy.</p>
<p>Guidance on a normal level of wastage. Address the issue that many bearer plants will die before maturity, for example from the implementation of a planned thinning programme</p>	<p>Do not add guidance.</p> <p>The staff think a similar scenario arises when an entity constructs a large number of fragile items of machinery for use within the business (as noted in paragraph BC33—see paragraph 43).</p>
<p>Application of the revaluation model, for example how to determine the fair value of the bearer plant separately from the fair value of the produce. This is also necessary in order to determine which fair value gains go in OCI and which go in profit or loss</p>	<p>To be considered at a future meeting together with the other issues relating to the revaluation model.</p>

### **Staff recommendation**

45. The staff recommend that the only additional guidance that should be added on applying the recognition, measurement and derecognition requirements of IAS 16 to bearer plants is the following sentence:



“As a practical expedient an entity may assume a bearer plant is in the location and condition necessary for it to be capable of operating in the manner intended by management when it starts to grow produce of commercial value”.

46. The staff do not think the addition of the above sentence will affect the application of IAS 16 to property, plant and equipment more generally. Therefore the staff recommend that bearer plants should be included in the scope of IAS 16.

**Questions for the IASB**

5. Does the IASB agree that the only guidance that should be added to IAS 16 is the sentence “As a practical expedient an entity may assume a bearer plant is in the location and condition necessary for it to be capable of operating in the manner intended by management when it starts to grow produce of commercial value”?
6. Does the IASB agree that bearer plants should be in the scope of IAS 16 (unchanged from the ED)?

**Remaining issues to be discussed at future meetings**

***Introduction***

47. Appendix A lists the other issues raised by respondents and highlights those that the staff think should be addressed at a future meeting. Each of these issues was raised by only a small number of respondents.

***Staff recommendation***

48. The staff recommend only the issues in paragraph A1 are discussed at a future IASB meeting.

**Questions for the IASB**

7. Does the IASB agree that all of the issues in paragraph A1 should be discussed at a future meeting?
8. Do any IASB members have any additional issues they think should be discussed at a future meeting?

## Appendix A: Other issues raised by respondents

### *Issues proposed for consideration at future meetings*

A1. The staff think the following four issues raised by a small number of respondents to the ED should be discussed at a future IASB meeting. The staff recommendations for some of these issues will depend on the tentative decisions made by the IASB at this meeting:

- (a) Issues relating to applying the revaluation model to bearer plants:
  - (i) How the IAS 16 revaluation model differs from the IAS 41 fair value model.
  - (ii) Whether additional guidance is required.
- (b) Guidance on accounting for government grants related to bearer plants:
  - (i) Whether these grants would be covered by IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* or IAS 41.
  - (ii) Whether additional guidance is required.
- (c) Additional disclosures about productivity of bearer plants:
  - (i) Whether the disclosure requirements in IAS 41.46 should continue to be required for bearer plants.
  - (ii) Whether further disclosures should be encouraged/permitted.
- (d) Clarification of the transition provisions:
  - (i) Whether to use fair value or fair value less costs to sell as deemed cost.
  - (ii) Whether to permit an item by item election.
  - (iii) Whether additional guidance is required.

***Issues that are not proposed for consideration at future meetings***

A2. The staff think the following issues do not need to be discussed at a future IASB meeting because virtually all respondents support the proposals in the ED without amendment:

- (a) Accounting for root crops (Question 3 in the Invitation for Comment in the ED).
- (b) Option to use the cost model or revaluation model (Question 4 in the Invitation for Comment in the ED).
- (c) Fair value disclosures, including disclosure of the significant inputs that would be required to determine fair value (Question 6 in the Invitation to Comment in the ED).
- (d) Transition provisions for first-time adopters (Question 9 in the Invitation to Comment in the ED).

A3. A small number of respondents said the IASB should consider whether the requirements in IAS 17 *Leases*, IAS 23 *Borrowing Costs* and IAS 36 *Impairment of Assets* are appropriate for bearer plants and/or whether additional guidance on their application to bearer plants is required. However, no respondents identified any specific requirements/topics in these standards where they had concerns. These standards were considered by the staff during drafting of the ED and the staff have not identified any areas that they think the IASB needs to discuss further.