

June 2014

Project Summary and Feedback Statement

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

At a glance

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) was issued in June 2014. The amendments change the financial reporting for bearer plants such as grape vines, rubber trees and oil palms. The new requirements are effective from 1 January 2016, with earlier application permitted.

Prior to these amendments, IAS 41 *Agriculture* required all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Why change requirements for accounting for bearer plants?

Most respondents who cited agriculture in their responses to the IASB's 2011 Agenda Consultation said that the use of mature bearer biological assets,¹ such as oil palms and rubber trees, is similar to that of manufacturing and thus a cost model should be permitted, because it is permitted for property, plant and equipment.

Many of these respondents also expressed concerns about the cost, complexity and practical difficulties of fair value measurements of bearer biological assets in the absence of markets for these assets, and about the volatility that arises from recognising changes in the fair value less costs to sell in profit or loss. Furthermore, some respondents asserted that investors, analysts and other users of financial statements adjust the reported profit or loss to eliminate the effects of changes in the fair values of these bearer biological assets.

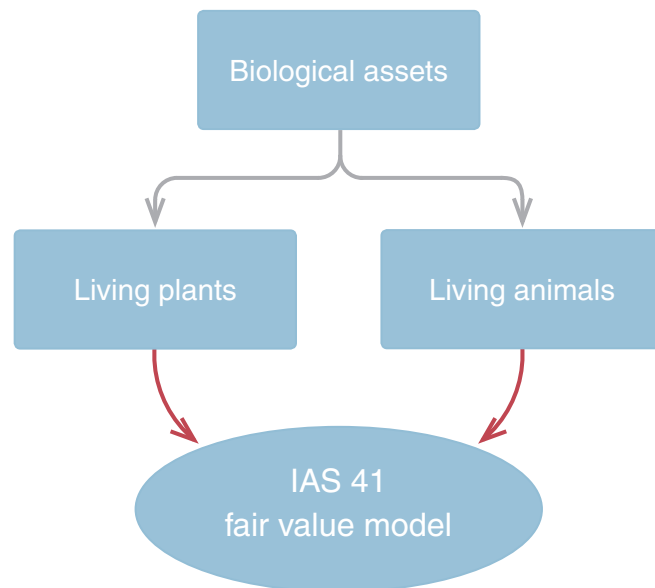
Before a limited-scope project for bearer biological assets was added to its work programme, the IASB was monitoring work undertaken by the Asian-Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal to remove some bearer biological assets from the scope of IAS 41 and to account for them in accordance with IAS 16. Those proposals were discussed several times by national standard-setters, the IASB's Emerging Economies Group (EEG) and the IFRS Advisory Council. Feedback from these meetings indicated strong support for the AOSSG/MASB proposals and for the IASB to start a limited-scope project for bearer biological assets.

Consequently, in September 2012, the IASB added a limited-scope project for bearer biological assets to its agenda, with the aim of considering whether to account for some or all of them as property, plant and equipment, thereby permitting the use of a cost model.

¹ Bearer biological assets are biological assets that are not agricultural produce but are held to bear produce. Paragraphs 43–44 of IAS 41 distinguish between bearer and consumable biological assets for disclosure purposes.

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

Previous requirements



Scope of the amendments

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) adds a definition of a bearer plant and includes bearer plants within the scope of IAS 16 instead of IAS 41.

A bearer plant is defined as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

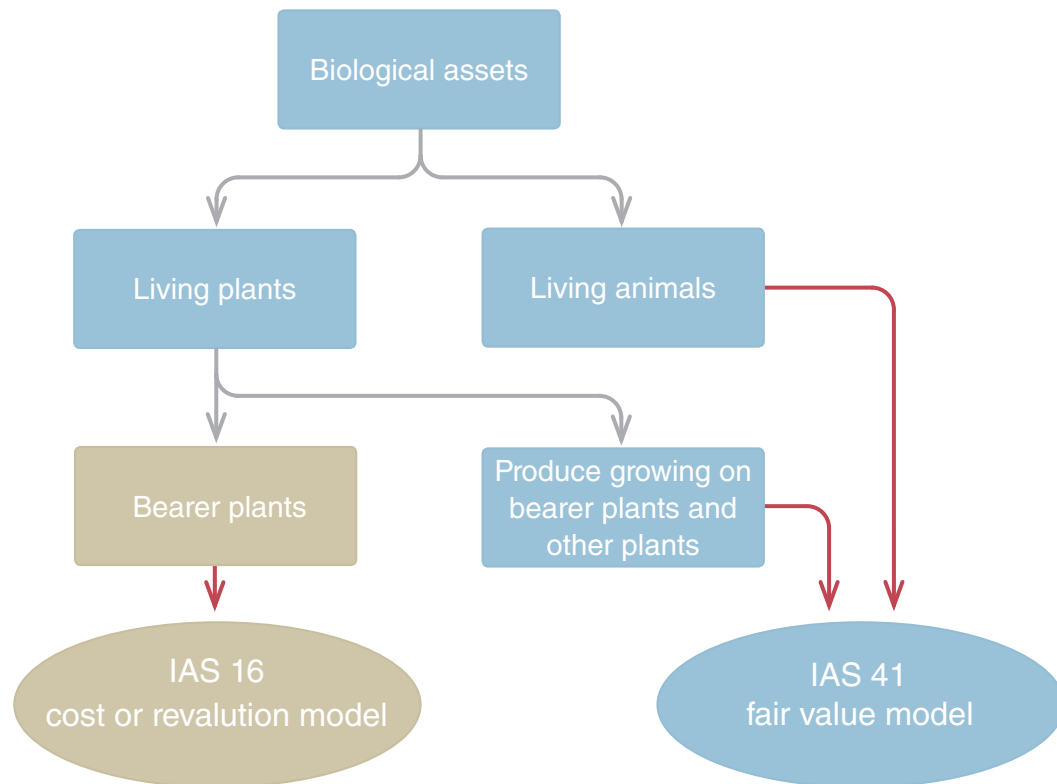
Plants such as tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and so are within the scope of IAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, remains within the scope of IAS 41.

Main requirements

IAS 16 permits the use of either a cost model or a revaluation model for property, plant and equipment, including bearer plants. The recognition, measurement and disclosure requirements in IAS 16 have not been modified for bearer plants. However, the amendments clarify that before bearer plants are in the location and condition necessary to be capable of operating in the manner intended by management, ie before they mature, they are accounted for as self-constructed items of property, plant and equipment.

The produce growing on bearer plants is measured at its fair value less costs to sell in accordance with IAS 41. Changes in its fair value less costs to sell are included in profit or loss in the period in which they arise.

Revised requirements



Transition requirements

Current IFRS preparers

When an entity first applies the amendments, it can elect to use the fair value of the bearer plants at the beginning of the earliest period presented in those financial statements as the deemed cost at that date.

First-time adoption of IFRS

Bearer plants are items of property, plant and equipment. Consequently, the deemed cost exemptions provided for property, plant and equipment in IFRS 1 *First-time Adoption of International Financial Reporting Standards* are available for bearer plants.

User outreach and observations

During the project the staff performed outreach to seek the views of users of financial statements of entities with bearer plants. The main aim of the outreach was to see whether information about the fair values of bearer plants or the assumptions used to determine those fair value measurements was considered decision-useful information by those users.

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 limited use to them. The main reasons given by the investors and analysts in the staff outreach were:

- information about operating performance and cash flows is more relevant to their forecasting and analysis. Consequently, they eliminate changes in the fair value less costs to sell of bearer plants from the figures used for their analysis.
- there are concerns about relying on the fair value measurements because valuations involve significant management judgement, have the potential for manipulation and assumptions vary significantly between companies.
- fair value information about bearer plants is not very useful without fair value information about the related land, land improvements, agricultural machinery, etc.

The feedback was consistent with the results of a survey of analysts specialising in plantation companies that was performed by the MASB in 2010.

The IASB agreed that there is no clear basis for requiring disclosure of fair value information for bearer plants under IAS 16 when such disclosures are not required for the rest of the property, plant and machinery involved in the process of growing the produce. The IASB also agreed that there is no clear basis for requiring entities with bearer plants to provide fair value disclosures for their land when these disclosures are not required for land that is used for other purposes.

The limited-scope project was not intended to address fair value disclosure requirements for other assets in IAS 16. Consequently, the IASB decided not to require fair value disclosures for entities with bearer plants.

Feedback Statement

The IASB published the Exposure Draft (ED) *Agriculture: Bearer Plants* in June 2013 with a four-month comment period and received 72 comment letters. Most respondents supported the proposal in the ED to account for bearer plants in accordance with IAS 16.

As a result of the IASB's redeliberations of the responses received on the ED, three changes were made to the proposals, other than drafting changes.

Those three changes were:

- modifying one of the criteria in the definition of a bearer plant from “not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales” to “has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales”. This modification was intended to ensure that the amendments capture only those plants used solely in the production or supply of agricultural produce.

- clarifying that differences between fair value and the carrying amount determined in accordance with IAS 41 (fair value less costs to sell) are recognised in opening retained earnings when an entity first applies the amendments.
- in the period when the amendments are first applied, exempting entities from the requirement in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose the amount of any adjustment for the current period for each financial statement line item affected. This is intended to relieve entities from the need to maintain dual accounting systems in the year of initial application. Entities would still be required to provide those disclosures for each prior period presented in the financial statements.

There were three main issues raised by respondents for which the IASB did not make changes.

These were:

- extend the scope of the amendments to other biological assets, such as bearer livestock and plants predominantly used to produce agricultural produce;
- do not require fair value measurement of growing produce; and
- 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 paragraph 16(b) of IAS 16—ie when it reaches maturity.

In the following pages the IASB's reasoning for not making changes for these issues is explained.

Restricting the scope to bearer plants

The ED proposed to restrict the scope of the amendments to bearer plants. The ED defined a bearer plant as a plant that is used in the production or supply of agricultural produce; expected to bear produce for more than one period; and not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Respondents' comments

Some respondents to the ED said that there was no conceptual basis for singling out bearer plants and that all biological assets used in the production or supply of agricultural produce should be accounted for in the same way. Most of these respondents said that bearer livestock, for example, dairy cows and animals held for breeding, should be included within the scope. Some others said that plants predominantly used to produce agricultural produce should also be included, for example, fruit trees used predominately to grow fruit but also sold as timber.

Our response

The limited-scope project was added to the IASB's agenda to respond to concerns raised by respondents to the 2011 Agenda Consultation primarily about plants used solely to bear agricultural produce, for example, oil palms and rubber trees.

Before and during development of the amendments, the IASB received significant information from interested parties about the consequences of including bearer plants in IAS 16. However, it only received limited information about these issues within the context of other biological assets. Furthermore, the IASB had noted that plants used solely to bear agricultural produce differ from most other biological assets because they are never sold and so changes in the fair value of the bearer plants do not directly influence the entity's future cash flows.

The IASB decided that it should not consider whether the scope of the project should be expanded without understanding whether IAS 16 is appropriate and can be applied consistently to other biological assets. Obtaining this understanding would take time and

delay completion of the proposals. Furthermore, requests for an expanded scope would increase the complexity of the project and raise conceptual issues that did not belong in a limited-scope project but instead in a comprehensive review of IAS 41.

The IASB agreed that the amendments address an immediate need for entities with bearer plants and are generally perceived by respondents to result in a significant improvement in financial reporting. Consequently, the IASB decided not to expand the limited scope of the amendments, with the aim of finalising the amendments quickly.

Measuring produce at fair value

The ED proposed to keep the produce growing on bearer plants in IAS 41, for example, the grapes growing on a grape vine. Consequently, produce would be measured at fair value less costs to sell.

Respondents comments

Many respondents to the ED acknowledged the conceptual reasons for accounting for produce at fair value less costs to sell, but expressed concern with the likely practical challenges, for example, estimating the quantity, quality and stage of growth of the produce while it is attached to the bearer plant.

Our response

The IASB noted that produce is a consumable biological asset growing on the bearer plant and the growth of the produce directly increases the expected revenue from the sale of the produce. Consequently, the IASB noted that fair value measurement of the growing produce provides useful information to users of financial statements about future cash flows that an entity will realise.

The IASB acknowledged that measuring produce growing on bearer plants at fair value less costs to sell might sometimes be difficult to apply in practice. However, similar difficulties are encountered when measuring the fair value less costs to sell of produce growing in the ground. The IASB decided that it would be inconsistent 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.

If preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemptions in paragraphs 10(c) and 30 of IAS 41. Paragraph 10(c) of IAS 41 states that an entity shall recognise a biological asset only when the fair value or cost of the asset can be measured reliably. Paragraph 30 of IAS 41 requires a biological asset to be measured using a cost model if fair value measurement is determined to be clearly unreliable.

This limited-scope project was not intended to address the fair value model in IAS 41. Consequently, the IASB did not further discuss the exemptions in IAS 41 as part of this project.

No specific guidance on when a bearer plant reaches maturity

The ED proposed that the recognition and measurement principles in IAS 16 are sufficient to cater for bearer plants without modification or supplementation.

Respondents' comments

Many respondents to the ED requested additional 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 paragraph 16(b) of IAS 16—ie when it is deemed to have reached maturity. For example, an oil palm may start to grow produce after two years, but only reach its maximum yield after seven years.

Some respondents suggested either defining the date of maturity to be 'the date of the first harvest of commercial value' or 'the date commercial quantities of produce are produced'.

Our response

The IASB was of the view that without further clarification 'first harvest of commercial value' and 'commercial quantities' would not assist entities in applying judgement in this area and would be likely to lead to interpretation requests in the future.

The IASB also noted that a similar scenario arises for a factory or retail outlet that is not yet capable of operating at full capacity and did not think that this was a major issue in practice.

Consequently, the IASB decided not to add guidance in this area.

Notes

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30 Cannon Street | London EC4M 6XH | United Kingdom

Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411

Email: info@ifrs.org | Web: www.ifrs.org

Publications Department

Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 2749

Email: publications@ifrs.org

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