

IAS 41 – Agriculture (March 2013)

Valuation of biological assets using a residual method

The Interpretations Committee received a request seeking clarification on paragraph 25 of IAS 41. This paragraph refers to the use of a residual method as an example of a possible valuation technique to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market exists for the combined assets. The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13) in applying the residual method might result in a minimal or nil fair value for the biological assets when the highest and best use of the land is different from its current use. The Interpretations Committee observed that, in the development of IFRS 13, the IASB considered the situation where the highest and best use of an asset in a group of assets is different from its current use. The Interpretations Committee noted, however, that IFRS 13 does not explicitly address the accounting implications if those circumstances arise and the fair value measurement of the asset based on its highest and best use assumes that other assets in the group need to be converted or destroyed. The Interpretations Committee also noted that this issue might not only affect the accounting for assets within the scope of IAS 41 but it could also affect the accounting for assets in the scope of other Standards.

In the light of the analysis above, the Interpretations Committee observed that this issue is too broad for it to address and, accordingly, the Interpretations Committee decided not to take this issue onto its agenda. The Interpretations Committee directed the staff to ask the IASB to provide clarification of the accounting requirements for the issues considered by the Interpretations Committee.