

AGRICULTURE: BEARER PLANTS (AMENDMENTS TO IAS 16 AND IAS 41)

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/11



Summary

The International Accounting Standards Board (IASB) issued *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) on 30 June 2014.

The amendments extend the scope of IAS 16 *Property, Plant and Equipment* to include bearer plants and define a bearer plant as a living plant that:

- Is used in the production process of agricultural produce,
- Is expected to bear produce for more than one period; and
- Has a remote likelihood of being sold (except incidental scrap sales).

The changes made result in bearer plants being accounted for in accordance with IAS 16 using either:

- The cost model, or
- The revaluation model.

The agricultural produce of bearer plants remains within the scope of IAS 41 *Agriculture*.

The amendments include the following transitional reliefs for the purposes of their first time application:

- **Deemed cost exemption** – Entities are allowed to use the fair value of the bearer plants at the beginning of the earliest period presented as the deemed cost.
- **Disclosures** – Quantitative information describing the effect of the first time application as required by IAS 8.28(f) is not required for the current reporting period, but is required for each prior period presented.

STATUS

Final

EFFECTIVE DATE

1 January 2016. Earlier application permitted

ACCOUNTING IMPACT

Plants that meet the definition of a bearer plant are accounted for as property, plant and equipment according to IAS 16.

Background

Prior to the amendments the accounting for bearer plants was within the scope of IAS 41, which requires all biological assets to be measured at fair value less costs to sell (except for rare cases in which the presumption that fair value can be measured reliably is rebutted). The measurement principle of fair value for biological assets is based on the premise that the transformation of biological assets is best reflected by fair value measurement.

As part of the IASB's 2011 Agenda Consultation, stakeholders raised doubts as to whether fair value measurement is appropriate for mature bearer biological assets. Many respondents instead viewed the use of biological assets in the production process as being similar to the use of property, plant and equipment in a production process, and thus it would be appropriate for a depreciated cost model similar to that set out in IAS 16 to be followed.

In addition, fair value measurement of biological assets was viewed by some respondents as being complex, expensive and difficult to apply. As no active markets exist for these types of biological assets, many investors adjusted the reported profit or loss numbers to exclude the effects of the fair value measurement requirements of IAS 41.

To address these issues, the IASB used the work of the Asian-Oceania Standard-Setters Group (AOSSG), in particular the Malaysian Accounting Standards Board (MASB), that already included the proposal to exclude bearer plants from the scope of IAS 41.

In December 2012 the IASB decided to add a limited scope project for bearer biological assets to its work plan, and released an Exposure Draft (the ED) in June 2013. The IASB deliberated the comments received from constituents and released the final amendments to IAS 16 and IAS 41 on 30 June 2014.

Amendments to IAS 16 and IAS 41

(i) Scope

The amendments extend the scope of IAS 16 to include bearer plants, and explicitly exclude bearer plants from the scope of IAS 41. The produce on bearer plants remains within the scope of IAS 41.

As the scope amendments require entities to differentiate between bearer plants and other biological assets, a definition of bearer plants was added to both standards.

(ii) Definitions

The amendments to IAS 16 address the fact that mature bearer plants are fully grown and the biological transformation is no longer significant in generating future profits. The sole economic purpose of the plant is to bear agricultural produce for several years. After this period the plant is usually scrapped. A bearer plant is therefore defined as a living plant that:

- Is used in the production process of agricultural produce,
- Is expected to bear produce for more than one period; and
- Has a remote likelihood of being sold (except as part of incidental scrap sales).

The same definition was added to IAS 41, accompanied by a list of plants that do not qualify as bearer plants, being:

- Plants cultivated to be harvested as agricultural produce (e.g. trees grown for lumber)
- Plants cultivated to grow agricultural produce, when there is more than a remote likelihood that the entity will also harvest and sell the plant (other than as part of incidental scrap sales)
- Annual crops (e.g. maize and wheat).

Furthermore, the list of biological assets in IAS 41.4 was amended and includes a note of biological assets that do meet the definition of a bearer plant, being:

- Tea bushes
- Grape vines
- Oil palms
- Rubber trees.

(iii) Measurement

Prior to the amendments bearer plants were not defined and fell within the scope of IAS 41, and were therefore accounted for at fair value less costs to sell. The amendments enable entities to account for bearer plants in accordance with IAS 16, using either:

- The cost model, or
- The revaluation model.

Before bearer plants are able to bear agricultural produce (i.e. before maturity), they are accounted for as self-constructed items of property, plant and equipment. The agricultural produce of the bearer plant remains within the scope of IAS 41 and is therefore accounted for at fair value.

Effective date and transition

The effective date for the amendments is for annual periods beginning on or after 1 January 2016, and is to be applied retrospectively. Hence, entities affected have to adjust their prior periods for the effects of remeasurement. The amendments provide the following transitional reliefs for the purposes of their initial application:

- **Deemed cost exemption** – Entities are allowed to use the fair value of the bearer plant as at the beginning of the earliest period presented as the deemed cost at that date.
- **Disclosures required by IAS 8.28(f)** – The transition requirements for the amendments to IAS 16 and IAS 41 provide a relief from the requirement to provide quantitative information as required by IAS 8.28(f) for the current reporting period. However, entities are required to disclose the amount of the adjustment for each financial statement line item, and the related effect on earnings per share, for each prior period presented.

The deemed cost exemption of IFRS 1 *First-time Adoption of International Financial Reporting Standards* also applies to bearer plants as they are items of property, plant and equipment as defined in IAS 16.



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