# Chapter 29

# AGRICULTURE

- Agriculture standardises the accounting for agricultural activity
  - that is:–
    - the conversion of biological assets
    - into agricultural produce
  - as a generalisation, the standard requires biological assets to be
  - measured at "fair value less costs to sell"

- **definitions**
  - biological assets – living plants and animals
  - agricultural produce – the produce harvested from the biological assets
  - costs to sell – incremental costs directly attributable to the disposal of an asset excluding finance costs and taxation

- **initial recognition**
  - an entity should recognise a biological asset or agricultural produce only when the entity:
    - controls the asset
    - as a result of past events
    - it is probable that future economic inflows will result
    - the asset and inflows are capable of reliable measurement

- **measurement**
  - on initial recognition and on subsequent reporting dates, **biological assets** should be measured at fair value less estimated costs to sell, unless….
  - ….. fair value cannot be reliably measured (see below!)
  - **agricultural produce** should be measured at fair value less estimated costs to sell at the point of harvest
  - because harvested produce is a marketable commodity, there is no exception for measurement unreliability
  - any gain on initial recognition of biological assets at fair value less costs to sell, and any changes during a period in fair value less costs to sell of biological assets are reported in the statement of profit or loss
  - similarly, any gain on initial recognition of agricultural produce at fair value less costs to sell should be included in the statement of profit or loss for the period in which it arises
  - all costs related to biological assets measured at fair value are recognised as expenses in the period in which they are incurred with the exception of the purchase cost of those assets

- **from above**, there remains a problem with measurement of a biological asset for which fair value cannot be reliably measured
  - it is conceivable that, at initial measurement, there is no quoted price in an active market for the biological asset ….
  - …. and no alternative appropriate and workable method exists

- in this case, the asset should be measured at cost less accumulated depreciation and impairment losses
- but the entity must still measure all of its other biological assets at fair value less costs to sell
- and if circumstances change and fair value becomes reliably measurable, a switch to fair value less costs to sell is required

- **guidance on the measurement of fair value**
  - best measure is "quoted market price in an active market"
  - if no active market, a market–based price such as the most recent market price for that type (or similar) asset
  - if market–based prices not available, the net present value of related cash flows from that asset, discounted at the entity's current cost of capital
  - in rare circumstances, cost may be taken as fair value where there has been little or no change to the biological asset since acquisition or where such change is not likely to have a material affect on value
  - the fair value of a biological asset is based on current prices and is not reflective of actual prices agreed in binding sales contracts requiring delivery at some time in the future

- **sundry points**
  - change in fair value of biological assets is part due to physical change
  - (asset is one year older) and part due to market price change
  - separate disclosure of the two elements is encouraged but not required
  - fair value measurement stops at harvest. After that, IAS on inventory applies
  - agricultural land is accounted for under IAS on PPE
  - but agricultural assets attached to the land (for example fruit trees) are measured separately from the land
  - intangible agricultural assets (for example milk quotas) are accounted for under IAS intangible assets
  - government grants unconditionally received in respect of biological assets measured at fair value less costs to sell are accounted for as income in the period when the grant is receivable
  - but if the grant is conditional, it shall be recognised as income only when the conditions have been met
  - this includes grants receivable where an entity is required NOT to engage in agricultural activities

## Example 1

Numbers prepares financial statements to 30 September each year. On 1 October, 2012 Numbers carried out the following transactions:

- Purchased a large piece of land for $47 million
- Purchased 10,000 dairy cows (average age at 1 October, 2012 two years) for $2.35 million
- Received a grant of $940,000 towards the acquisition of the cows. This grant was non–returnable

During the year ending 30 September, 2013 Numbers incurred the following costs:

- $1,175,000 to maintain the condition of the animals (food and protection).
- $705,000 in breeding fees to a local farmer

On 1 April, 2013 5,000 calves were born. There were no other changes in the number of animals during the year ended 30 September, 2013

At 30 September, 2013 Numbers had 10,000 litres of unsold milk in inventory

The milk was sold shortly after the year end at market prices

Information regarding fair values is as follows:

| Item | Fair value less point of sale costs | | |
|---|---|---|---|
| | 1 October 2012 | 1 April 2013 | 30 September 2013 |
| | $ | $ | $ |
| Land ($million) | 47 | 51.7 | 55.4 |
| New born calves (per calf) | 47 | 49.35 | 51.7 |
| Six month old calves (per calf) | 54.05 | 56.4 | 58.15 |
| Two year old cows (per cow) | 211.5 | 216.2 | 220.9 |
| Three year old cows (per cow) | 218.55 | 223.25 | 227.95 |
| Milk (per litre) | 1.41 | 1.29 | 1.29 |

**Required:**

**(a) Discuss how the IAS 41 requirements regarding the recognition and measurement of biological assets and agricultural produce are consistent with the IASC Framework for the Preparation and Presentation of Financial Statements. (8 marks)**

**(b) Prepare extracts from the statement of profit or loss and the statement of financial position that show how the transactions entered into by Numbers in respect of the purchase and maintenance of the dairy herd would be reflected in the financial statements of the entity for the year ended 30 September, 2013. You do not need to prepare a reconciliation of changes in the carrying amount of biological assets. (17 marks)**