IAS 41 *Agriculture* is issued by the International Accounting Standards Board (the Board).

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IFRS Foundation Publications Department
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

Approval by the Board of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) issued in June 2014

Agriculture: Bearer Plants was approved for issue by fourteen of the sixteen members of the International Accounting Standards Board. Mr Finnegan and Ms McConnell voted against its publication. Their dissenting opinions are set out after the Basis for Conclusions.

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Basis for Conclusions on IAS 41 *Agriculture*

This Basis for Conclusions accompanies, but is not part of, IAS 41.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on amending IAS 41 *Agriculture*, including, by issuing *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41)[1] in June 2014. Individual Board members gave greater weight to some factors than to others.

BC2 Because the Board's intention was not to reconsider the fundamental approach to the accounting for agriculture established by IAS 41, this Basis for Conclusions does not discuss requirements in IAS 41 that the Board has not reconsidered. The IASC Basis for Conclusions on IAS 41 follows this Basis.

Scope (2008 and 2014 amendments)

Costs to sell (paragraph 5) – 2008 amendments

BC3 Before the *Improvements to IFRSs* issued in May 2008, IAS 41 used the term 'point-of-sale costs'. This term was not used elsewhere in IFRSs. The term 'costs to sell' is used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*. The Board decided that 'point-of-sale costs' and 'costs to sell' meant the same thing in the context of IAS 41. The word 'incremental' in the definition of 'costs to sell' excludes costs that are included in the fair value measurement of a biological asset, such as transport costs. It includes costs that are necessary for a sale to occur but that would not otherwise arise, such as commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Both terms relate to transaction costs arising at the point of sale.

BC4 Therefore, the Board decided to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' with 'costs to sell' to make IAS 41 consistent with IFRS 5 and IAS 36.

Produce growing on bearer plants – 2014 amendments

BC4A Before *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) was issued in June 2014, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell. However, the Board observed that there is a class of biological assets, bearer plants, that are held by an entity solely to grow produce over their productive life. The Board's principal decision underlying the 2014 amendments is that bearer plants should be treated as property, plant and equipment. Accordingly, the Board decided to account for bearer plants as property, plant and equipment in accordance with the requirements in IAS 16 *Property, Plant and Equipment*.

BC4B Nevertheless the Board noted that the same argument is not true for the produce growing on the bearer plants that is undergoing biological transformation until it is harvested (for example, grapes growing on a grape vine). The Board observed that the 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, fair value measurement of the growing produce provides useful information to users of financial statements about future cash flows that an entity is expected to realise. In contrast the bearer plants themselves are not sold and the changes in the fair value of the bearer plants do not directly influence the entity's future cash flows. The Board also observed that produce will ultimately be detached from the bearer plants and is normally sold separately, meaning it has a market value on its own. This is in contrast to many bearer plants that are unlikely to have an observable market value on their own because they can only be sold while attached to the land.

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1 *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), issued in June 2014, introduced a definition of a bearer plant. The amendments require biological assets meeting the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* and as such the amendments are more comprehensively discussed in paragraphs BC38–BC117 of IAS 16. The produce growing on the bearer plants is within the scope of IAS 41. A summary of the specific changes to IAS 41 are discussed in paragraphs BC4A–BC4E of this Standard.

BC4C The Board acknowledged that measuring produce growing on bearer plants at fair value less costs to sell sometimes might be difficult to apply in practice. However, it was noted that similar difficulties are encountered when measuring the fair value less costs to sell of the produce growing in the ground. Consequently, the Board 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. The Board observed that 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.

BC4D Consequently, the Board decided to reaffirm that produce is a biological asset within the scope of IAS 41 and should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This would maintain consistency of accounting for produce growing in the ground and produce growing on a bearer plant. Consequently, the Board decided to keep the produce within the scope of IAS 41.

BC4E The Board noted that most of the areas for which respondents asked for additional guidance were specific to a particular type of bearer plant or produce. The Board decided that because of the specialised nature and diversity of bearer plants and produce it would be too difficult for the Board to develop additional guidance on measuring the fair value of produce.

Recognition and measurement

Discount rate (paragraph 20) – 2008 amendments

BC5 As part of the annual improvements project begun in 2007, the Board reconsidered whether it is appropriate to require a pre-tax discount rate in paragraph 20 when measuring fair value.[2] The Board noted that a fair value measurement should take into account the attributes, including tax attributes, that a market participant would consider when pricing an asset or liability.

BC6 The Board noted that a willing buyer would factor into the amount that it would be willing to pay the seller to acquire an asset (or would receive to assume a liability) all incremental cash flows that would benefit that buyer. Those incremental cash flows would be reduced by expected income tax payments using appropriate tax rates (ie the tax rate of a market participant buyer). Accordingly, fair value takes into account future income taxes that a market participant purchasing the asset (or assuming the liability) would be expected to pay (or to receive), without regard to an entity's specific tax situation.[3]

BC7 Therefore, the Board decided to keep the requirement to use a current market-based discount rate but in *Improvements to IFRSs* issued in May 2008 removed the reference to a pre-tax discount rate in paragraph 20.

Additional biological transformation (paragraph 21) – 2008 amendments

BC8 Sometimes the fair value of an asset in its current location and condition is estimated using discounted cash flows. Paragraph 21 could be read to exclude from such calculations increases in cash flows arising from 'additional biological transformation'. Diversity in practice had developed from different interpretations of this requirement. The Board decided that not including these cash flows resulted in a carrying amount that is not representative of the asset's fair value. The Board noted that an entity should consider the risks associated with cash flows from 'additional biological transformation' in determining the expected cash flows, the discount rate, or some combination of the two. Therefore, the Board decided to amend IAS 1 to remove the prohibition on an entity taking into account the cash flows resulting from 'additional biological transformation' when estimating the fair value of a biological asset.[4]

BC9 In its exposure draft of proposed *Improvements to International Financial Reporting Standards* published in 2007, the Board proposed changing the definition of biological transformation to include harvest. This was because the Board wished to make clear that harvest altered the condition of a biological asset. Some commentators objected to this change on the basis that harvest is a human activity rather than a biological transformation. The Board agreed with this argument and decided not to include the harvest in the definition

[2] IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

[3] IFRS 13, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

[4] IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence, paragraph 21 of IAS 41 has been deleted.

of biological transformation. Instead, the Board amended the Standard to refer to biological transformation or harvest when applicable to make clear that harvest changes the condition of an asset.

BC10 Because applying the changes discussed in paragraphs BC8 and BC9 retrospectively might require some entities to remeasure the fair value of biological assets at a past date, the Board decided that these amendments should be applied prospectively.

Taxation in Fair Value Measurements – 2008 amendment

BC11 The 2008 amendments removed the requirement for entities to use a pre-tax discount rate to discount cash flows when measuring fair value (see paragraphs BC5–BC7). At that time the Board did not amend paragraph 22 of IAS 41 to delete the reference to cash flows for taxation. Consequently, before *Annual Improvements to IFRS Standards 2018–2020*, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

BC12 In 2020, the Board amended paragraph 22 to remove the requirement to exclude cash flows for taxation when measuring fair value because:

(a) doing so aligns the requirements in IAS 41 on fair value measurement with those in IFRS 13 *Fair Value Measurement*. When measuring fair value, IFRS 13 neither prescribes the use of a single present value technique nor limits the use of present value techniques to only those discussed in that Standard. However, when using a present value technique, paragraph B14 of IFRS 13 requires assumptions about cash flows and discount rates to be internally consistent. Depending on the particular facts and circumstances, an entity applying a present value technique might measure fair value by discounting after-tax cash flows using an after-tax discount rate or pre-tax cash flows at a rate consistent with those cash flows.

(b) it would appear the Board's intention in amending IAS 41 in 2008 was to permit entities to include tax cash flows in measuring fair value (see paragraph BC6). Removing 'taxation' from paragraph 22 is consistent with that intent.

CONTENTS

BASIS FOR CONCLUSIONS ON IAS 41 *AGRICULTURE*

Basis for IASC's Conclusions on IAS 41 *Agriculture*

This Basis for Conclusions accompanies, but is not part of IAS 41. It was prepared by the IASC Staff in 2000 but was not approved by the IASC Board. It summarises the Board's reasons for:

(a) initiating and proposing an International Accounting Standard on agriculture; and

(b) accepting or rejecting certain alternative views.

Individual Board members gave greater weight to some factors than to others.

This Basis has not been revised by the IASB and the terminology has not been amended to reflect the changes made by Improvements to IFRSs *issued in May 2008.*

Background

B1 In 1994, the IASC Board (the 'Board') decided to develop an International Accounting Standard on agriculture and appointed a Steering Committee to help define the issues and develop possible solutions. In 1996, the Steering Committee published a Draft Statement of Principles ('DSOP') setting out the issues, alternatives, and the Steering Committee's proposals for resolving the issues and inviting public comment. In response, 42 comment letters were received. The Steering Committee reviewed the comments, revised certain of its recommendations, and submitted them to the Board.

B2 In July 1999, the Board approved Exposure Draft E65 *Agriculture* with a comment deadline of 31 January 2000. The Board received 62 comment letters on E65. They came from various international organisations, as well as from 28 individual countries. In April 2000, the IASC Staff sent a questionnaire to entities that undertake agricultural activity in an attempt to determine the reliability of the fair value measurement proposed in E65 and received 20 responses from 11 countries. In \ December 2000, after considering the comments on E65 and responses to the questionnaire, the Board approved IAS 41 *Agriculture* (the Standard). Paragraph B82 below summarises the changes that the Board made to E65 in finalising the Standard.

The need for an International Accounting Standard on agriculture

B3 A main objective of the IASC is to develop International Accounting Standards that are relevant in the general purpose financial statements of all businesses. While most International Accounting Standards apply to entities in all activities, some International Accounting Standards, for example IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*[5] and IAS 40 *Investment Property*, deal with issues that arise in particular activities. IASC has also undertaken industry-specific projects on insurance and extractive industries.

B4 Diversity in accounting for agricultural activity has occurred because:

(a) prior to the development of the Standard, assets related to agricultural activity and changes in those assets were excluded from the scope of International Accounting Standards:

(i) IAS 2 *Inventories* excluded 'producers' inventories of livestock, agricultural and forest products... to the extent that they are measured at net realisable value in accordance with well established practices in certain industries';

(ii) IAS 16 *Property, Plant and Equipment* did not apply to 'forests and similar regenerative natural resources';

(iii) IAS 18 *Revenue*[6] did not deal with revenue arising from 'natural increases in herds, and agricultural and forest products'; and

(iv) IAS 40 *Investment Property* did not apply to 'forests and similar regenerative natural resources';

(b) accounting guidelines for agricultural activity developed by national standard setters have, in general, been piecemeal, developed to resolve a specific issue related to a form of agricultural activity of significance to that country; and

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5 In August 2005, IFRS 7 *Financial Instruments: Disclosures* superseded IAS 30.

6 IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, replaced IAS 18 *Revenue*. IFRS 15 also does not address revenue arising from 'natural increases in herds, and agricultural and forest products'.

(c) the nature of agricultural activity creates uncertainty or conflicts when applying traditional accounting models, particularly because the critical events associated with biological transformation (growth, degeneration, production, and procreation) that alter the substance of biological assets are difficult to deal with in an accounting model based on historical cost and realisation.

B5 Most business organisations involved in agricultural activity are small, independent, cash and tax focused, family-operated business units, often perceived as not being required to produce general purpose financial statements. Some believe that because of this an International Accounting Standard on agriculture would not have widespread application. However, even small agricultural entities seek outside capital and subsidies, particularly from banks or government agencies, and these capital providers increasingly request financial statements. Moreover, an international trend towards deregulation, an increasing number of cross-border listings and more investment have resulted in increasing scale, scope, and commercialism of agricultural activity. This has created a greater need for financial statements based on sound and generally accepted accounting principles. For the above reasons, in 1994 the Board added to its agenda a project on agriculture.

B6 The DSOP specifically asked for views on the feasibility of developing a comprehensive International Accounting Standard on agriculture. Some commentators felt that the diversity of agricultural activity prevents the development of a single International Accounting Standard on accounting for all agricultural activities. Others said that different principles should attach to agricultural activity with short and long production cycles. Some cited the need to develop International Accounting Standards that are simple to apply and broad in application. Commentators on the DSOP also noted that agriculture is a significant industry in many countries, particularly in developing and newly industrialised countries. In many such countries it is the most important industry.

B7 After considering the comments on the DSOP, the Board reaffirmed its conclusion that an International Accounting Standard is needed. The Board believes that the principles set forth in the Standard have wide application and provide a clear set of principles.

Scope

B8 The Standard prescribes, among other things, the accounting treatment for biological assets and for the initial measurement of agricultural produce harvested from an entity's biological assets at the point of harvest. However, the Standard does not deal with the processing of agricultural produce after harvest, since the Board did not consider it appropriate to undertake a partial revision of IAS 2 *Inventories* which deals with the accounting treatment for inventories under the historical cost system.[7] The processing after harvest is accounted for under IAS 2 or another applicable International Accounting Standard (for example, if an entity harvests logs[8] and decides to use them for constructing its own building, IAS 16 *Property, Plant and Equipment* is applied in accounting for the logs).

B9 Some may think of such processing as agricultural activity, particularly if it is done by the same entity that developed the agricultural produce (for example, the processing of grapes into wine by a vintner who has grown the grapes). While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in the Standard.

(a) such a long ageing or maturation process is similar to biological transformation and fundamental to assessing the performance of an entity; and

(b) many agricultural entities are vertically integrated and involved in, for example, producing both grapes and wine.

B11 The Board decided not to include such circumstances in the scope of the Standard because of concerns about difficulties in differentiating them from other manufacturing processes (such as conversion of raw materials into marketable inventories as defined in IAS 2). The Board concluded that the requirements in IAS 2 or another applicable International Accounting Standard would be suited to accounting for such processes.

B12 The Board also considered whether to deal with contracts for the sale of a biological asset or agricultural produce and government grants related to agricultural activity in the Standard. These issues are discussed below (see paragraphs B47–54 and B63–73).

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[7] The term 'historical cost system' is no longer applicable owing to revisions made to IAS 2 in December 2003.

[8] As the result of an amendment by the IASB, contained in *Improvements to IFRSs* issued in May 2008, 'logs' is an example of produce that has been processed rather than an example of unprocessed produce.

Measurement

Biological assets

Fair value versus cost

B13 The Standard requires an entity to use a fair value approach in measuring its biological assets related to agricultural activity as proposed in the DSOP and E65, except for cases where the fair value cannot be measured reliably on initial recognition.

B14 Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity.

B15 Those who support fair value measurement also note that the transactions entered into to effect biological transformation often have only a weak relationship with the biological transformation itself and, thus, a more distant relationship to expected future economic benefits. For example, patterns of growth in a plantation forest directly affect expectations of future economic benefits but differ markedly, in timing, from patterns of cost incurrence. No income might be reported until first harvest and sale (perhaps 30 years) in a plantation forestry entity using a transaction-based, historical cost accounting model. On the other hand, income is measured and reported throughout the period until initial harvest if an accounting model is used that recognises and measures biological growth using current fair values.

B16 Further, those who support fair value measurement cite reasons for concluding that fair value has greater relevance, reliability, comparability, and understandability as a measurement of future economic benefits expected from biological assets than historical cost, including:

(a) many biological assets are traded in active markets with observable market prices. Active markets for these assets provide a reliable measure of market expectations of future economic benefits. The presence of such markets significantly increases the reliability of market value as an indicator of fair value;

(b) measures of the cost of biological assets are sometimes less reliable than measures of fair value because joint products and joint costs can create situations in which the relationship between inputs and outputs is ill-defined, leading to complex and arbitrary allocations of cost between the different outcomes of biological transformation. Such allocations become even more arbitrary if biological assets generate additional biological assets (offspring) and the additional biological assets are also used in the entity's own agricultural activity;

(c) relatively long and continuous production cycles, with volatility in both the production and market environment, mean that the accounting period often does not depict a full cycle. Therefore, period-end measurement (as opposed to time of transaction) assumes greater significance in deriving a measure of current period financial performance or position. The less significant current year harvest is in relation to total biological transformation, the greater the significance of period-end measures of asset change (growth and degeneration). In relatively high turnover, short production cycle, highly controlled agricultural systems (for example, broiler chicken or mushroom production) in which the majority of biological transformation and harvesting occurs within a year, the relationship between cost and future economic benefits appears more stable. This apparent stability does not alter the relationship between current market value and future economic benefits, but it makes the difference in measurement method less significant; and

(d) different sources of replacement animals and plants (home-grown or purchased) give rise to different costs in a historical cost approach. Similar assets should give rise to similar expectations with regard to future benefits. Considerably enhanced comparability and understandability result when similar assets are measured and reported using the same basis.

B17 Those who oppose measuring biological assets at fair value believe there is superior reliability in cost measurement because historical cost is the result of arm's length transactions, and therefore provides evidence of an open-market value at that point in time, and is independently verifiable. More importantly, they believe fair value is sometimes not reliably measurable and that users of financial statements may be misled by presentation of numbers that are indicated as being fair value but are based on subjective and unverifiable assumptions. Information regarding fair value can be provided other than in a single number in the financial statements. They believe the scope of the Standard is too broad. They also argue that:

(a) market prices are often volatile and cyclical and not appropriate as a basis of measurement;

(b) it may be onerous to require fair valuation at each balance sheet date, especially if interim reports are required;

(c) the historical cost convention is well established and commonly used. The use of any other basis should be accompanied by a change in the IASC *Framework for the Preparation and Presentation of Financial Statements*[9] (the '*Framework*'). For consistency with other International Accounting Standards and other activities, biological assets should be measured at their cost;

(d) cost measurement provides more objective and consistent measurement;

(e) active markets may not exist for some biological assets in some countries. In such cases, fair value cannot be measured reliably, especially during the period of growth in the case of a biological asset that has a long growth period (for example, trees in a plantation forest);

(f) fair value measurement results in recognition of unrealised gains and losses and contradicts principles in International Accounting Standards on recognition of revenue; and

(g) market prices at a balance sheet date may not bear a close relationship to the prices at which assets will be sold, and many biological assets are not held for sale.

B18 The *Framework* is neutral with respect to the choice of measurement basis, identifying that a number of different bases are employed to different degrees and in varying combinations, though noting that historical cost is most commonly adopted. The alternatives specifically identified are historical cost, current cost, realisable value, and present value. Precedents for fair value measurement exist in other International Accounting Standards.

B19 The Board concluded that the Standard should require a fair value model for biological assets related to agricultural activity because of the unique nature and characteristics of agricultural activity. However, the Board also concluded that, in some cases, fair value cannot be measured reliably. Some respondents to the questionnaire, as well as some commentators on E65, expressed significant concern about the reliability of fair value measurement for some biological assets, arguing that:

(a) active markets do not exist for some biological assets, in particular for those with a long growth period;

(b) present value of expected net cash flows is often an unreliable measure of fair value due to the need for, and use of, subjective assumptions (for example, about weather); and

(c) fair value cannot be measured reliably prior to harvest.

Some commentators on E65 suggested that the Standard should include a reliability exception for cases where no active market exists.

B20 The Board decided there was a need to include a reliability exception for cases where market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable. In those cases, biological assets should be measured at their cost less any accumulated depreciation and any accumulated impairment losses. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of Assets*.

B21 The Board rejected a benchmark treatment of fair value and an allowed alternative treatment of historical cost because of the greater comparability and understandability achieved by a mandatory fair value approach in the presence of active markets. The Board is also uncomfortable with options in International Accounting Standards.

Treatment of point-of-sale costs

B22 The Standard requires that a biological asset should be measured at its fair value less estimated point-of-sale costs. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market. Such transport and other costs are deducted in determining fair value (that is, fair value is a market price less transport and other costs necessary to get an asset to a market).[10]

B23 E65 proposed that pre-sale disposal costs that will be incurred to place an asset on the market (such as transport costs) should be deducted in determining fair value, if a biological asset will be sold in an active market in another location. However, E65 did not specify the treatment of point-of-sale costs. Some commentators

[9] References to the *Framework* in this Basis for Conclusions are to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Standard was developed.

[10] IFRS 13, issued in May 2011, describes how transport costs are factored into a fair value measurement.

suggested that the Standard should clarify the treatment of point-of-sale costs, as well as pre-sale disposal costs.

B24 Some argue that point-of-sale costs should not be deducted in a fair value model. They argue that fair value less estimated point-of-sale costs would be a biased estimate of markets' estimate of future cash flows, because point-of-sale costs would in effect be recognised as an expense twice if the acquirer pays point-of-sale costs on acquisition; once related to the initial acquisition of biological assets and once related to the immediate measurement at fair value less estimated point-of-sale costs. This would occur even when point-of-sale costs would not be incurred until a future period or would not be paid at all for a bearer biological asset that will not be sold.

B25 On the other hand, some believe that point-of-sale costs should be deducted in a fair value model. They believe that the carrying amount of an asset should represent the economic benefits that are expected to flow from the asset. They argue that fair value less estimated point-of-sale costs would represent the markets' estimate of the economic benefits that are expected to flow to the entity from that asset at the balance sheet date. They also argue that failure to deduct estimated point-of-sale costs could result in a loss being deferred until a sale occurs.

B26 The Board concluded that fair value less estimated point-of-sale costs is a more relevant measurement of biological assets, acknowledging that, in particular, failure to deduct estimated point-of-sale costs could result in a loss being deferred.

Hierarchy in fair value measurement[11]

B27 The Standard requires that, if an active market exists for a biological asset, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, an entity uses market-determined prices or values (such as the most recent market transaction price) when available. However, in some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, the Standard indicates that an entity uses the present value of expected net cash flows[12] from the asset.

B28 E65 proposed that, if an active market exists for a biological asset, an entity should use the market price in the active market. If an active market does not exist, E65 proposed that an entity should consider other measurement bases such as the price of the most recent transaction for the same type of asset, sector benchmarks, and present value of expected net cash flows. E65 did not set a hierarchy in cases where no active market exists; that is, E65 did not indicate which basis is preferable to the other bases.

B29 The Board considered setting an explicit hierarchy in cases where no active market exists. Some believe that using market-determined prices or values; for example, the most recent market transaction price, would always be preferable to present value of expected net cash flows. On the other hand, some believe that market-determined prices or values would not necessarily be preferable to present value of expected net cash flows, especially when an entity uses market prices for similar assets with adjustment to reflect differences.

B30 The Board concluded that a detailed hierarchy would not provide sufficient flexibility to appropriately deal with all the circumstances that may arise and decided not to set a detailed hierarchy in cases where no active market exists. However, the Board decided to indicate that an entity uses all available market-determined prices or values since otherwise there is a possibility that entities may opt to use present value of expected net cash flows from the asset even when useful market-determined prices or values are available. Of the 20 companies that responded to the questionnaire, six companies used present value of expected net cash flows as a basis of fair value measurement and, in addition, two companies indicated that it was impossible to measure their biological assets reliably since the present value of expected net cash flows would not be reliable (as they would need to use present value as a basis).

B31 When an entity has access to different markets, the Standard indicates that the entity uses the most relevant one. For example, if an entity has access to two active markets, it uses the price existing in the market expected to be used. Some believe that the most advantageous price in the accessible markets should be used. The Standard reflects the view that the most relevant measurement results from using the market expected to be used.

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[11] IFRS 13, issued in May 2011, defines an active market and contains a three-level fair value hierarchy for the inputs used in the valuation techniques used to measure fair value.

[12] Paragraph 20 of the previous version of IAS 41 required entities to use a pre-tax discount rate when measuring fair value. The IASB decided to maintain the requirement to use a current market-based discount rate but removed the reference to a pre-tax discount rate by *Improvements to IFRSs* issued in May 2008.

Frequency of fair value measurement

B32 Some argue that less frequent measurement of fair value should be permitted because of concerns about burdens on entities. The Board rejected this approach because of the:

(a) continuous nature of biological transformation;

(b) lack of direct relationships between financial transactions and the outcomes of biological transformation; and

(c) general availability of reliable measures of fair value at reasonable cost.

Independent valuation

B33 A significant number of commentators on the DSOP indicated that, if present value of expected net cash flows is used to determine fair value, an external independent valuation should be required. The Board rejected this proposal since it believes that external independent valuations are not commonly used for certain agricultural activity and it would be burdensome to require an external independent valuation. The Board believes that it is for entities to decide how to determine fair value reliably, including the extent to which independent valuers need to be involved.

Inability to measure fair value reliably

B34 As noted previously, the Board decided to include a reliability exception in the Standard for cases where fair value cannot be measured reliably on initial recognition. The Standard indicates 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 market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset should 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, the Standard requires that an entity should start measuring the biological asset at its fair value less estimated point-of-sale costs.

B35 Some believe that, if an entity was previously using the reliability exception, the entity should not be allowed to start fair value measurement (that is, an entity should continue to use a cost basis). They argue that it could be a subjective decision to determine when fair value has become reliably measurable and that this subjectivity could lead to inconsistent application and, potentially, abuse. The Board noted, however, that in agricultural activity, it is likely that fair value becomes measurable more reliably as biological transformation occurs and that fair value measurement is preferable to cost in those cases. Thus, the Board decided to require fair value measurement once fair value becomes reliably measurable.

B36 If an entity has previously measured a biological asset at its fair value less estimated point-of-sale costs, the Standard requires that the entity should continue to measure the biological asset at its fair value less estimated point-of-sale costs until disposal. Some argue that reliable estimates may cease to be available. The Board believed that this would rarely, if ever, occur. Accordingly, the Board decided to prohibit entities from changing their measurement basis from fair value to cost, because otherwise an entity might use a reliability exception as an excuse to discontinue fair value accounting in a falling market.

B37 If an entity uses the reliability exception, the Standard requires additional disclosures. The additional disclosures include information on biological assets held at the end of the period such as a description of the assets and an explanation of why fair value cannot be measured reliably. The additional disclosures also include the gain or loss recognised for the period on disposal of biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses, even though those biological assets are not held at the end of the period.

Gains and losses

B38 The Standard requires that a gain or loss arising on initial recognition of a biological asset and from a change in fair value less estimated point-of-sale costs of a biological asset should be included in net profit or loss[13] for the period in which it arises. Those who support this treatment argue that biological transformation is a significant event that should be included in net profit or loss because:

(a) the event is fundamental to understanding an entity's performance; and

(b) this is consistent with the accrual basis of accounting.

[13] IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term 'net profit or loss' with 'profit or loss'.

B39 Some commentators on the DSOP and E65 argued that fair value changes should be included directly in equity, through the statement of changes in equity, until realised, arguing that:

(a) the effects of biological transformation cannot be measured reliably and, therefore, should not be reported as income;

(b) fair value changes should only be included in net profit or loss when the earnings process is complete;

(c) recognition of unrealised gains and losses in net profit or loss increases volatility of earnings;

(d) the results of biological transformation may never be realised, particularly given the risks to which biological assets are exposed; and

(e) it is premature to require recognition of fair value changes in net profit or loss, until performance reporting issues are resolved.

B40 The Board rejected requiring changes in fair value to be included directly in equity since it is difficult to find any conceptual basis for reporting any portion of the changes in fair value of biological assets related to agricultural activity directly in equity. No distinction is made in the *Framework* between recognition in the balance sheet and recognition in the income statement.

Agricultural produce

B41 The Standard requires that agricultural produce harvested from an entity's biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest. Such measurement is the cost at that date when applying IAS 2 *Inventories* or another applicable International Accounting Standard.

B42 The Board noted that the same basis of measurement should generally be applied to agricultural produce on initial recognition and to the biological asset from which it is harvested. Because the fair value of a biological asset takes into account the condition of the agricultural produce that will be harvested from the biological asset, it would be illogical to measure the agricultural produce at cost when the biological asset is measured at fair value. For example, the fair value of a sheep with half fleece will differ from the fair value of a similar sheep with full fleece. It would be inconsistent and distort reporting of current period performance if, upon shearing, the shorn fleece is measured at its cost when the fair value of the sheep is reduced by the fair value of the fleece.

B43 As noted previously, certain biological assets are measured at their cost less any accumulated depreciation and any accumulated impairment losses, if the reliability exception is applied. Some argue that a reliability exception should exist for measurement of agricultural produce. The Board rejected this view because many of the arguments for a reliability exception do not apply to agricultural produce. For example, markets more often exist for agricultural produce than for biological assets. The Board also noted that it is generally not practicable to reliably determine the cost of agricultural produce harvested from biological assets.

B44 With regard to measurement after harvest, some argue that agricultural produce should be measured at its fair value both at the point of harvest and at each balance sheet date until sold, consumed, or otherwise disposed of. They argue that this approach would ensure that all agricultural produce of a similar type is measured similarly irrespective of date of harvest, thus enhancing comparability and consistency.

B45 The Board concluded that fair value less estimated point-of-sale costs at the point of harvest should be the cost when applying IAS 2 or another applicable International Accounting Standard, since this is consistent with the historical cost accounting model applied to manufacturing processes in general and other types of inventory.

B46 In reaching the above conclusion, the Board noted that entities undertaking agricultural activity sometimes purchase agricultural produce for resale, and other entities often engage in processing purchased agricultural produce into consumable products. If agricultural produce would be measured at its fair value after harvest, a desire for consistency would suggest revaluing purchased inventories as well, and such a treatment would be inconsistent with IAS 2. The Board did not consider it appropriate to undertake a partial revision of IAS 2.

Sales contracts

B47 Entities often enter into contracts to sell at a future date their biological assets or agricultural produce. The Standard indicates that contract prices are not necessarily relevant in determining fair value and that the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.

B48 E65 did not propose how to account for a contract for the sale of a biological asset or agricultural produce. Some commentators suggested prescribing the treatment of sales contracts since such sales contracts are common in certain agricultural activity. Some commentators also pointed out that certain sales contracts are

not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*[14] and that no other International Accounting Standards deal with those contracts.

B49 Some argue that contract prices should be used in measuring the related biological assets when an entity expects to settle the contract by delivery and believe this would result in the most relevant carrying amount for the biological asset. Others argue that contract prices are not necessarily relevant in measuring the biological assets at fair value since fair value reflects the current market in which a willing buyer and seller would enter into a transaction.[15]

B50 The Board concluded that contract prices should not be used in measuring related biological assets, because contract prices do not necessarily reflect the current market in which a willing buyer and seller would enter into a transaction and therefore do not necessarily represent the fair value of assets. The Board wished to maintain a consistent approach to the measurement of assets. The Board instead considered whether it might require that sales contracts be measured at fair value. It is logical to measure a sales contract at fair value to the extent that a related biological asset is also measured at fair value.

B51 However, the Board noted that to achieve symmetry between the measurement of a biological asset and a related sales contract the Standard would have to carefully restrict the sales contracts to be measured at fair value. An entity may enter into a contract to sell agricultural produce to be harvested from the entity's biological assets. The Board concluded that it would not be appropriate to require fair value measurement for a contract to sell agricultural produce that does not yet exist (for example, milk to be harvested from a cow), since no related asset has yet been recognised or measured at fair value and to do so would be beyond the scope of the project on agriculture.

B52 Thus, the Board considered restricting the sales contracts to be measured at fair value to those for the sale of an entity's existing biological assets and agricultural produce. However, the Board noted that it is difficult to differentiate existing agricultural produce from agricultural produce that does not exist. For example:

(a) if an entity enters into a contract to sell fully-grown wheat at a future date and has half-grown wheat at a balance sheet date, it seems clear that the wheat to be delivered under the contract does not yet exist at the balance sheet date; but

(b) on the other hand, if an entity enters into a contract to sell mature cattle at a future date and has mature cattle at a balance sheet date, it could be argued that the cattle exist in the form in which they will be sold at the balance sheet date. However, it could also be argued that the cattle do not yet exist in the form in which they will be sold at the balance sheet date since further biological transformation will occur between the balance sheet date and the date of delivery.

B53 The Board also noted that the Standard would have to require an entity to stop fair value measurement for sales contracts once agricultural produce to be sold under the contract is harvested from an entity's biological assets, since accounting for agricultural produce is not dealt with in the Standard except for initial measurement and IAS 2 *Inventories* or another applicable International Accounting Standard applies after harvest. It would be illogical to continue fair value measurement when the agricultural produce is measured at historical cost. The Board noted that it would be anomalous to require an entity to start measuring a contract at fair value once the related asset exists and to stop doing that at a later date.

B54 The Board concluded that no solution is practicable without a complete review of the accounting for commodity contracts that are not within the scope of IAS 39.[16] Because of the above difficulties, the Board concluded that the Standard should not deal with the measurement of sales contracts that are not within the scope of IAS 39. Instead, the Board decided to include an observation that those sales contracts may be onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Land related to agricultural activity

B55 The Standard does not establish any new principles for land related to agricultural activity. Rather, an entity follows IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property* depending on which standard is appropriate in the circumstances. IAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. IAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses.

B56 Some argue that land attached to biological assets related to agricultural activity should also be measured at its fair value. They argue that fair value measurement of land results in consistency of measurement with the fair value measurement of biological assets. They also argue that it is sometimes difficult to measure the fair

[14] IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

[15] IFRS 13, issued in May 2011, contains the requirements for measuring fair value.

[16] IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

value of such biological assets separately from the land since an active market often exists for the combined assets (that is, land and biological assets; for example, trees in a plantation forest).

B57 The Board rejected this approach, primarily because requiring the fair value measurement of land related to agricultural activity would be inconsistent with IAS 16.

Intangible assets

B58 The Standard does not establish any new principles for intangible assets related to agricultural activity. Rather, an entity follows IAS 38 *Intangible Assets*. IAS 38 requires an intangible asset, after initial recognition, to be measured at its cost less any accumulated amortisation and impairment losses, or at a revalued amount.

B59 E65 proposed that an entity should be encouraged to follow the revaluation alternative in IAS 38 for intangible assets related to agricultural activity, to enhance consistency of measurement with the fair value measurement of biological assets. Some commentators on E65 disagreed with having the encouragement. They argued that a unique treatment for intangible assets related to agricultural activity is not warranted.

B60 The Board did not include the encouragement in E65 in the Standard. The Board concluded that IAS 38 should be applied to intangible assets related to agricultural activity, as it is to intangible assets related to other activities.

Subsequent expenditure

B61 The Standard does not explicitly prescribe how to account for subsequent expenditure related to biological assets. E65 proposed that costs of producing and harvesting biological assets should be charged to expense when incurred and that costs that increase the number of units of biological assets owned or controlled by the entity should be added to the carrying amount of the asset.

B62 Some believe that there is no need to capitalise subsequent expenditure in a fair value model and that all subsequent expenditure should be recognised as an expense. Some also argue that it would sometimes be difficult to prescribe which costs should be recognised as expenses and which costs should be capitalised; for example, in the case of vet fees paid for delivering a calf. The Board decided not to explicitly prescribe the accounting for subsequent expenditure related to biological assets in the Standard, because it believes to do so is unnecessary with a fair value measurement approach.

Government grants

B63 The Standard requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs should be recognised as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.

B64 The Standard requires a different treatment from IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in the circumstances described above. IAS 20 is to be applied only to government grants related to biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses.

B65 IAS 20 requires that government grants should not be recognised until there is reasonable assurance that:

(a) the entity will comply with the conditions attaching to them; and

(b) the grants will be received.

IAS 20 also requires that government grants should be recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. In relation to the presentation of government grants related to assets, IAS 20 permits two methods—setting up a government grant as deferred income or deducting the government grant from the carrying amount of the asset.

B66 The latter method of presentation—deducting a government grant from the carrying amount of the related asset—is inconsistent with a fair value model in which an asset is measured and presented at its fair value. Using the deduction from carrying value approach, an entity would first deduct the government grant from the carrying amount of the related asset and then measure that asset at its fair value. In effect, an entity would recognise a government grant as income immediately, even for a conditional government grant. This conflicts with the requirement in IAS 20 that government grants should not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them.

B67 Because of the above, the Board concluded that there was a need to deal with government grants related to biological assets measured at their fair value. Some argued that IASC should begin a wider review of IAS 20 rather than provide special rules in individual International Accounting Standards. The Board acknowledged that this might be a more appropriate approach, but concluded that such a review would be beyond the scope of the project on agriculture. Instead, the Board decided to deal with government grants in the Standard, since the Board noted that government grants related to agricultural activity are common in some countries.

B68 E65 proposed that, if an entity receives a government grant in respect of a biological asset that is measured at its fair value and the grant is unconditional, the entity should recognise the grant as income when the government grant becomes receivable. E65 also proposed that, if a government grant is conditional, the entity should recognise it as income when there is reasonable assurance that the conditions are met.

B69 The Board noted that, if a government grant is conditional, an entity is likely to have costs and ongoing obligations associated with satisfying the conditions attaching to the government grant. It may be possible that the inflow of economic benefits is much less than the amount of the government grant. Given that possibility, the Board acknowledged that the criterion for recognising income from a conditional government grant in E65, when there is reasonable assurance that the conditions are met, may give rise to income recognition that is inconsistent with the *Framework*. The *Framework* indicates that income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably. The Board also noted that it would inevitably be a subjective decision as to when there is reasonable assurance that the conditions are met and that this subjectivity could lead to inconsistent income recognition.

B70 The Board considered two alternative approaches:

(a) an entity should recognise a conditional government grant as income when it is probable that the entity will meet the conditions attaching to the government grant; and

(b) an entity should recognise a conditional government grant as income when the entity meets the conditions attaching to the government grant.

B71 Proponents of approach (a) argue that this approach is generally consistent with the revenue recognition requirements in IAS 18 *Revenue*.[17] IAS 18 requires that revenue should be recognised, among other things, when it is probable that the economic benefits associated with the transaction will flow to the entity.

B72 Proponents of approach (b) believe that, until the conditions attaching to the government grant are met, a liability should be recognised under the *Framework* rather than income since an entity has a present obligation to satisfy the conditions arising from past events. They also argue that income recognition under approach (a) would still be subjective and inconsistent with the recognition criteria indicated in the *Framework*.

B73 The Board concluded that approach (b) is more appropriate. The Board also decided that a government grant that requires an entity not to engage in specified agricultural activity should also be accounted for in the same way as a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs.

Disclosure

Separate disclosure of physical and price changes

B74 The Standard encourages, but does not require, separate disclosure of the effects of the factors resulting in changes to the carrying amount of biological assets, physical change and price change, when there is a production cycle of more than one year. Physical change is attributable to changes in the assets themselves while price change is attributable to changes in unit fair values.

B75 Some argue that the separate disclosure should be required since it is useful in appraising current period performance and future prospects in relation to production from, and maintenance and renewal of, biological assets. Others argue that it may be impracticable to separate these elements and the two components cannot be separated reliably.

B76 The Board concluded that the separate disclosure should not be required because of practicability concerns. However, the Board decided to encourage the separate disclosure, given that such disclosure may be useful and practically determinable in some circumstances. The separate disclosure is not encouraged when the production cycle is less than one year (for example, when raising broiler chickens or growing cereal crops) since that information is less useful in that circumstance.

[17] IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, replaced IAS 18 *Revenue*.

B77 Some argue that physical changes should be included in net profit or loss and that price changes should be included directly in equity, through the statement of changes in equity. The Board rejected this approach because both components are indicative of management's performance.

Disaggregation of the gain or loss

B78 The Standard requires that an entity should disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less estimated point-of-sale costs of biological assets. The Standard does not require or encourage disaggregating the gain or loss, except that the Standard encourages separate disclosure of physical changes and price changes as discussed above.

B79 The Board considered requiring, or encouraging, disclosure of the gain or loss on a disaggregated basis; for example, requiring separate disclosure of the gain or loss related to biological assets and the gain or loss related to agricultural produce. Those who supported disaggregating the gain or loss believe that such information is useful in appraising current period performance in relation to biological transformation. Others argued that disaggregation would be impracticable and require a subjective procedure.

Other disclosures

B80 E65 proposed disclosing the:

(a) extent to which the carrying amount of biological assets reflects a valuation by an external independent valuer, or if there has been no valuation by an external independent valuer, that fact;

(b) activities that are unsustainable with an estimated date of cessation of the activities;

(c) aggregate carrying amount of an entity's agricultural land and the basis (cost or revalued amount) on which the carrying amount was determined under IAS 16 *Property, Plant and Equipment*; and

(d) carrying amount of agricultural produce either on the face of the balance sheet or in the notes.

B81 The Board did not include the above disclosures in the Standard. The Board noted that requiring item (a) above would not be appropriate since external independent valuations are not commonly used for assets related to agricultural activity, unlike for certain other assets such as investment property. The Board also noted that item (b) is not required in other International Accounting Standards and a unique disclosure requirement is not warranted for agricultural activity. Items (c) and (d) would be outside the scope of the Standard and covered by other International Accounting Standards (IAS 16 or IAS 2 *Inventories*).

Summary of changes to E65

B82 The Standard made the following principal changes to the proposals in E65:

(a) The Standard includes a reliability exception for biological assets on initial recognition. If the exception is applied, the biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraph 30 of the Standard). As a consequence, the Standard includes disclosure requirements consistent with paragraph 170(b) of IAS 39 *Financial Instruments: Recognition and Measurement*[18] and paragraph 68 of IAS 40 *Investment Property*[19] (paragraphs 54(a)–(c) and 55 of the Standard), and consistent with paragraphs 60(b)–(d) and 60(e)(v)–(vii) of IAS 16 *Property, Plant and Equipment*[20] (paragraphs 54(d)–(f) and 55).

(b) If the reliability exception is applied but fair value subsequently becomes reliably measurable and, therefore, an entity has started measuring the biological assets at their fair value less estimated point-of-sale costs, the Standard requires the entity to disclose a description of the biological assets, an explanation of why fair value has become reliably measurable, and the effect of the change (paragraph 56).

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[18] Paragraph 170(b) of IAS 39 was replaced by paragraph 90 of IAS 32 *Financial Instruments: Disclosure and Presentation* when the IASB revised those standards in 2003. In 2005, the IASB relocated all disclosures relating to financial instruments to IFRS 7 *Financial Instruments: Disclosures*.

[19] Paragraph 68 of IAS 40 was replaced by paragraph 78 when the IASB revised IAS 40 in 2003.

[20] Paragraph 60 of IAS 16 was replaced by paragraph 73 when IAS 16 was revised in 2003.

(c) E65 did not specify how to account for point-of-sale costs (such as commissions to brokers). The Standard requires that biological assets and agricultural produce should be measured at their fair value less estimated point-of-sale costs (paragraphs 12–13).

(d) E65 included net realisable value as one of the measurement bases in cases where no active market exists. Net realisable value was deleted from the bases since it is not a market-determined value.

(e) The Standard indicates that market-determined prices or values are used when available. The Standard also indicates that, in some circumstances, market-determined prices or values may not be available for an asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows (paragraphs 18–20).

(f) Guidance on the performance of present value calculations was added (paragraphs 21–23).

(g) E65 did not specify how to account for contracts for the sale of a biological asset or agricultural produce. The Standard indicates that the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a sales contract (paragraph 16).

(h) E65 did not explicitly indicate that a gain or loss may arise on initial recognition of agricultural produce. The Standard clarifies that a gain or loss may arise on initial recognition of agricultural produce; for example, as a result of harvesting and that such a gain or loss should be included in net profit or loss[21] for the period in which it arises (paragraphs 28–29).

(i) E65 proposed that costs of producing and harvesting biological assets should be charged to expense when incurred, and that costs that increase the number of units of biological assets owned or controlled by the entity should be added to the carrying amount of the asset. The Standard does not explicitly prescribe how to account for subsequent expenditure related to biological assets.

(j) E65 proposed that an entity should recognise a conditional government grant as income when there is reasonable assurance that the conditions are met. The Standard requires that a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs, including where a government grant requires an entity not to engage in specified agricultural activity, should be recognised as income when, and only when, the conditions attaching to the government grant are met. The Standard also indicates that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraphs 34–35 and 37).

(k) E65 provided the following encouragements specific to agricultural activity with regard to alternative treatments allowed in other International Accounting Standards, to achieve consistency with the accounting treatment of activities covered by E65:

(i) analysing expenses by nature, as set out in IAS 1 *Presentation of Financial Statements*; and

(ii) revaluing certain intangible assets used in agricultural activity if an active market exists, as set out in IAS 38 *Intangible Assets*.

The Board did not include these encouragements in the Standard. The Board noted that IAS 1 and IAS 38 apply to entities that undertake agricultural activity, as well as to those in other activities.

(l) New disclosure requirements include disclosing the:

(i) basis for making distinctions between consumable and bearer biological assets or between mature and immature biological assets, when an entity provides a quantified description of each group of biological assets (paragraph 43);

(ii) methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest (paragraph 47);

(iii) fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest (paragraph 48);

(iv) increases resulting from business combinations in the reconciliation of the carrying amount of biological assets (paragraph 50(e)); and

(v) significant decreases expected in the level of government grants related to agricultural activity covered by the Standard (paragraph 57(c)).

[21] IAS 1 *Presentation of Financial Statements* (revised in 2003) replaced the term 'net profit or loss' with 'profit or loss'.

(m) E65 proposed disclosing the:

(i) extent to which the carrying amount of biological assets reflects a valuation by an external independent valuer or, if there has been no valuation by an external independent valuer, that fact;

(ii) activities that are unsustainable with an estimated date of cessation of the activities;

(iii) aggregate carrying amount of an entity's agricultural land and the basis (cost or revalued amount) on which the carrying amount was determined under IAS 16; and

(iv) carrying amount of agricultural produce either on the face of the balance sheet or in the notes.

The Standard does not include the above disclosures.

(n) The amendment to IAS 17 *Leases* now clarifies that IAS 17 should not be applied to the measurement by:

(i) lessees of biological assets held under finance leases; and

(ii) lessors of biological assets leased out under operating leases.

Biological assets held under finance leases and those leased out under operating leases are measured under the Standard rather than IAS 17. A lease of a biological asset is classified as a finance lease or operating lease under IAS 17. If a lease is classified as a finance lease, the lessee recognises the leased biological asset under IAS 17 and thereafter measures and presents it under the Standard. In that case, the lessee makes disclosures both under the Standard and IAS 17. A lessor of a biological asset under an operating lease measures and presents the biological asset under the Standard, and makes disclosures both under the Standard and IAS 17.

Dissenting Opinions

Dissent of Patrick Finnegan and Patricia McConnell

DO1 Mr Finnegan and Ms McConnell voted against the publication of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) issued in June 2014 (the 'June 2014 Amendment') because they believe that including bearer plants within the scope of IAS 16 *Property, Plant and Equipment* instead of IAS 41 *Agriculture* will eliminate information about the fair value changes in bearer plants and the underlying assumptions used to estimate those changes. Information about the fair values of all biological assets including bearer plants is critical both to managing agricultural activities and to investing in entities that engage in those activities. Without such information, investors are unable to assess changes in expectations of future net cash inflows for an entity engaged in agricultural activity. The fact that published price quotations have developed throughout the world for orchards and plantations that include bearer plants demonstrates the importance of fair value information to those who invest in agricultural activities.

DO2 IAS 41 prescribes the accounting for agricultural activity, that is, the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce or into additional biological assets. The underlying principle of IAS 41 is that fair value measurement best reflects the biological transformation of biological assets. It requires measurement at fair value less costs to sell (referred to hereafter as fair value) from initial recognition of biological assets up to and including the point of harvest, other than when fair value cannot be measured reliably on initial recognition.

DO3 The June 2014 Amendment changes the measurement for one subset of biological assets, bearer plants, from fair value to a cost-based measure. Bearer plants are plants that are used only in the production or supply of agricultural produce and are expected to bear produce for more than one period. The June 2014 Amendment includes bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for bearer plants. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41, including bearer animals.

The importance of fair value information for biological assets

DO4 Fundamentally, IAS 41 is a Standard on accounting for biological transformation. Biological transformation of bearer assets occurs both prior to maturity and after maturity. A cost model ignores biological transformation when it occurs. That is why IAS 41 requires fair value measurement. The Basis for Conclusions of IAS 41 states:

> "Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity."

Mr Finnegan and Ms McConnell see no reason to abandon that principle with respect to bearer plants. Consequently, they do not agree that prior to maturity, bearer plants should be measured at accumulated cost. They do not believe that accounting for bearer plants in the same way as for self-constructed items of property, plant and equipment will provide users of financial statements with information that is useful to an understanding of the agricultural entity's performance for the period or of its productive capacity at a point in time.

DO5 While maturing, bearer plants are undergoing biological transformation. Mr Finnegan and Ms McConnell continue to believe that fair value measurement for the biological transformation process provides the best information about bearer assets' quality and quantitative changes during their growth period. They also believe that the fair value of bearer plants at maturity provides the best measure of an entity's resources being placed into the production of produce at maturity. Investors need that information to assess management's stewardship of the resources invested in the production process and the performance of the entity using those resources. Consequently, they believe that bearer plants must be measured at fair value while maturing because fair value provides users of financial statements with the best information about an important aspect of an agricultural entity's performance and management stewardship.

DO6 They also reject the view that biological transformation of bearer assets is no longer a key element for understanding the future net cash flows to an entity once such assets reach maturity. By definition, biological transformation is not limited to merely the growth process to maturity, but also includes the cycles of production and degeneration, which are critical phases in the life cycle of bearer assets. Fair value measurements of bearer assets throughout their lives provide information about the effectiveness and efficiency of the production process, and about the capability of such assets to generate net cash inflows into the future. In contrast, depreciation of the cost of a mature bearer asset only approximates the biological

transformation of a bearer asset throughout its productive life and has only an indirect relationship, at best, to changes in future net cash inflows.

Effects of the use of fair value measurement

DO7 Mr Finnegan and Ms McConnell acknowledge that measuring bearer plants at fair value may sometimes be difficult. In particular, the Board has been told that the fair value of bearer plants is particularly subjective during the early years of their life cycle. However, Mr Finnegan and Ms McConnell note that IAS 41 contains an exception from fair value for biological assets for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable on initial recognition. They believe that this exception is sufficient to deal with the concerns about the reliability of fair value measures of bearer plants during the early years of their life cycle. They also note that entities throughout the world have been applying IAS 41 in a wide variety of agricultural activities since 2003. In fact, some national accounting standards required or recommended measurement of bearer assets at fair values even before IAS 41 was issued. They do not believe that measuring fair value of bearer plants, in general, is any more difficult than measuring fair value for other biological assets such as bearer animals. Furthermore, they believe that applying a cost measure to bearer plants may be equally as difficult in some situations. Fair value measurements are required in assessing bearer plants for impairment, and surely those who are urging a reversion to a cost model for bearer assets would not suggest that impairment should be ignored because fair value measurement may sometimes be difficult. Moreover, the June 2014 Amendment would permit fair value measurements as a pure accounting policy choice. Mr Finnegan and Ms McConnell believe that accounting should reflect underlying economic circumstances and should not merely be left to choice. The existing fair value exception in IAS 41 is based on circumstances (measurement reliability), and is not an accounting policy choice.

DO8 In addition to concerns about the reliability of fair value measures, entities with bearer assets expressed concern about the volatility that arises from recognising changes in the fair value of the bearer plants in profit or loss and said that users of financial statements adjust reported profit or loss to eliminate the effects of changes in fair values of bearer biological assets. Mr Finnegan and Ms McConnell accept the view that the use of fair value for bearer assets makes the analysis of profit or loss and financial position more difficult. At the same time, they note that price volatility is an indicator of risk, and risk assessment is part of an analyst's job. Mr Finnegan and Ms McConnell note that sound financial statement analysis will always adjust reported profit or loss and financial position for the effects of unusual or non-recurring changes in reported information. However, if critical information about changes in the economic benefits arising in an agricultural operation is not reported, such analysis is impaired or not possible at all.

DO9 Mr Finnegan and Ms McConnell believe that instead of ignoring the fair value volatility, which a cost model does, volatility should be addressed as a matter of financial statement presentation—such as by putting the fair value changes in other comprehensive income. They note that under the June 2014 Amendment, the bearer assets will be within the scope of IAS 16 and revaluation will be permitted. If an entity were to choose revaluation, the change in the revaluation amount (which approximates fair value) would be reported in other comprehensive income. Consequently, they believe that requiring fair value measurement during the entirety of the bearer plant's life cycle with the fair value changes reported in other comprehensive income would be consistent with permitting revaluation of the bearer asset. Furthermore, Mr Finnegan and Ms McConnell believe that such a change would preserve relevant information for investors through prominent display in the primary financial statements, while addressing the concerns of those who believe that fair value changes distort profit or loss.

Current proposals are not improvements to IFRS

DO10 Mr Finnegan and Ms McConnell believe that if bearer assets are measured at accumulated cost, then at a minimum, the fair value of the bearer plants should be a required disclosure, including information about the valuation techniques and key inputs/assumptions used. However, the 2014 Amendment is not requiring disclosure of fair value. Consequently, critical information is being eliminated from the financial statements of entities engaged in agricultural activities using bearer assets. Mr Finnegan and Ms McConnell do not believe that this is an improvement to financial reporting. In January 2013, the Trustees of the IFRS Foundation approved a new *Due Process Handbook* that specifies, among other things, the criteria for new Standards or major improvements. The main criteria (in addition to pervasiveness of the issue) are (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports, and (b) the importance of the matter to those who use financial reports. Mr Finnegan and Ms McConnell believe that, from a user perspective, there is no deficiency in the accounting for, and disclosures about, bearer assets in IAS 41 and that fair value information is important (indeed essential) to those who use the financial reports of entities engaged in agricultural activity.

DO11 In the user outreach performed by the staff, most investors and analysts said that fair value information about bearer plants is of either limited or no use to them *without* fair value information about the related land,

agricultural machinery, etc. Instead of meeting the needs of users by providing this additional fair value information to make the fair value of bearer plants more useful, the Board has chosen to withdraw the requirement to provide the fair value of bearer plants. In the view of Mr Finnegan and Ms McConnell this solution does not adequately address the needs of users of financial statements.

DO12 A better solution would have been for the Board to require the fair value of bearer plants in combination with the fair value of the land to which such plants are attached. One of the weaknesses in IAS 41 is that it does not require the use of fair value to measure land to which bearer plants are attached. This is a weakness because the value of bearer plants is inextricably tied to the value of the land. By understanding the value of the bearer plants and the land, investors know the true potential of an entity's future net cash inflows. A historical cost model for either or both is incapable of providing such information.

DO13 As just discussed, Mr Finnegan and Ms McConnell do not believe the June 2014 Amendment represents an improvement to IFRS and, in fact, represents a step towards lowering the quality of the information available in the financial statements of entities engaged in agricultural activities. The June 2014 Amendment therefore fails to meet the Board's own criteria for a new or amended Standard.

Illustrative examples

These examples, which were prepared by the IASC staff but were not approved by the IASC Board, accompany, but are not part of, IAS 41. They have been updated to take account of the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007) and* Improvements to IFRSs *issued in 2008.*

A1 Example 1 illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less estimated costs to sell of an entity's biological assets into physical change and price change. That separation is reflected in Example 1. Example 2 illustrates how to separate physical change and price change.

A2 The financial statements in Example 1 do not conform to all of the disclosure and presentation requirements of other Standards. Other approaches to presentation and disclosure may also be appropriate.

Example 1 XYZ Dairy Ltd

Statement of financial position

XYZ Dairy Ltd **Statement of financial position**	**Notes**	**31 December 20X1**	**31 December 20X0**
ASSETS			
Non-current assets			
Dairy livestock – immature[(a)]		52,060	47,730
Dairy livestock – mature[(a)]		372,990	411,840
Subtotal – biological assets	3	425,050	459,570
Property, plant and equipment		1,462,650	1,409,800
Total non-current assets		**1,887,700**	**1,869,370**
Current assets			
Inventories		82,950	70,650
Trade and other receivables		88,000	65,000
Cash		10,000	10,000
Total current assets		**180,950**	**145,650**
Total assets		**2,068,650**	**2,015,020**
EQUITY AND LIABILITIES			
Equity			
Issued capital		1,000,000	1,000,000
Retained earnings		902,828	865,000
Total equity		**1,902,828**	**1,865,000**
Current liabilities			
Trade and other payables		165,822	150,020
Total current liabilities		**165,822**	**150,020**
Total equity and liabilities		**2,068,650**	**2,015,020**

(a) An entity is encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate. An entity discloses the basis for making any such distinctions.

Statement of comprehensive income[22]

XYZ Dairy Ltd Statement of comprehensive income	Notes	Year ended 31 December 20X1
Fair value of milk produced		518,240
Gains arising from changes in fair value less estimated costs to sell of dairy livestock	3	39,930
		558,170
Inventories used		(137,523)
Staff costs		(127,283)
Depreciation expense		(15,250)
Other operating expenses		(197,092)
		(477,148)
Profit from operations		**81,022**
Income tax expense		(43,194)
Profit/comprehensive income for the year		**37,828**

Statement of changes in equity

XYZ Dairy Ltd Statement of changes in equity			Year ended 31 December 20X1
	Share capital	Retained earnings	Total
Balance at 1 January 20X1	1,000,000	865,000	**1,865,000**
Profit/comprehensive income for the year		37,828	**37,828**
Balance at 31 December 20X1	**1,000,000**	**902,828**	**1,902,828**

[22] This statement of comprehensive income presents an analysis of expenses using a classification based on the nature of expenses. IAS 1 *Presentation of Financial Statements* requires that an entity present, either in the statement of comprehensive income or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. IAS 1 encourages presentation of an analysis of expenses in the statement of comprehensive income.

Statement of cash flows[23]

XYZ Dairy Ltd Statement of cash flows	Notes	Year ended 31 December 20X1
Cash flows from operating activities		
Cash receipts from sales of milk		498,027
Cash receipts from sales of livestock		97,913
Cash paid for supplies and to employees		(460,831)
Cash paid for purchases of livestock		(23,815)
		111,294
Income taxes paid		(43,194)
Net cash from operating activities		**68,100**
Cash flows from investing activities		
Purchase of property, plant and equipment		(68,100)
Net cash used in investing activities		**(68,100)**
Net increase in cash		**0**
Cash at beginning of the year		**10,000**
Cash at end of the year		**10,000**

Notes

1 Operations and principal activities

XYZ Dairy Ltd ('the Company') is engaged in milk production for supply to various customers. At 31 December 20X1, the Company held 419 cows able to produce milk (mature assets) and 137 heifers being raised to produce milk in the future (immature assets). The Company produced 157,584kg of milk with a fair value less estimated costs to sell of 518,240 (at the time of milking) in the year ended 31 December 20X1.

2 Accounting policies

Livestock and milk

Livestock are measured at their fair value less estimated costs to sell. The fair value of livestock is based on quoted prices of livestock of similar age, breed, and genetic merit in the principal (or most advantageous) market for the livestock. Milk is initially measured at its fair value less estimated costs to sell at the time of milking. The fair value of milk is based on quoted prices in the local area in the principal (or most advantageous) market for milk.

[23] This statement of cash flows reports cash flows from operating activities using the direct method. IAS 7 *Statement of Cash Flows* requires that an entity report cash flows from operating activities using either the direct method or the indirect method. IAS 7 encourages use of the direct method.

3 Biological assets

Reconciliation of carrying amounts of dairy livestock	**20X1**
Carrying amount at 1 January 20X1	**459,570**
Increases due to purchases	26,250
Gain arising from changes in fair value less estimated costs to sell attributable to physical changes[(a)]	15,350
Gain arising from changes in fair value less estimated costs to sell attributable to price changes[(a)]	24,580
Decreases due to sales	(100,700)
Carrying amount at 31 December 20X1	**425,050**

(a) Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

4 Financial risk management strategies

The Company is exposed to financial risks arising from changes in milk prices. The Company does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Company reviews its outlook for milk prices regularly in considering the need for active financial risk management.

Example 2 Physical change and price change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less estimated costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of 10 2 year old animals was held at 1 January 20X1. One animal aged 2.5 years was purchased on 1 July 20X1 for 108, and one animal was born on 1 July 20X1. No animals were sold or disposed of during the period. Per-unit fair values less estimated point-of-sale costs were as follows:

2 year old animal at 1 January 20X1	100	
Newborn animal at 1 July 20X1	70	
2.5 year old animal at 1 July 20X1	108	
Newborn animal at 31 December 20X1	72	
0.5 year old animal at 31 December 20X1	80	
2 year old animal at 31 December 20X1	105	
2.5 year old animal at 31 December 20X1	111	
3 year old animal at 31 December 20X1	120	
Fair value less estimated costs to sell of herd at 1 January 20X1 (10 x 100)		1,000
Purchase on 1 July 20X1 (1 x 108)		108
Increase in fair value less estimated costs to sell due to price change:		
10 × (105 – 100)	50	
1 × (111 – 108)	3	
1 × (72 – 70)	2	55
Increase in fair value less estimated costs to sell due to physical change:		
10 × (120 – 105)	150	
1 × (120 – 111)	9	
1 × (80 – 72)	8	
1 × 70	70	237
Fair value less estimated costs to sell of herd at 31 December 20X1		
11 × 120	1,320	
1 × 80	80	1,400