

IFRS in Focus

IASB amends IAS 16 and IAS 41 to include bearer plants within the scope of IAS 16 instead of IAS 41

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The Bottom Line

- The amendments require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.
- Bearer plants are defined as living plants that are used in the production or supply of agricultural produce and for which there is only a remote likelihood that the plant will also be sold as agricultural produce (other than as incidental scrap sales at the end of the plant's productive life).
- For cost-benefit reasons, the amendments permit the use of fair value as deemed cost for bearer plants on transition.
- The amendments apply retrospectively to annual periods beginning on or after 1 January 2016, with earlier application permitted.

This edition of IFRS in Focus outlines the recent amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* to include bearer plants within the scope of IAS 16. Such assets previously fell within the scope of IAS 41.

Why have these amendments been issued?

Prior to these amendments, IAS 41 required all biological assets to be measured at fair value less costs to sell, based on the principle that fair value measurement best reflects the biological transformation of such assets.

The IASB received feedback from stakeholders who argued that fair value measurement was not appropriate for mature bearer biological assets as these assets were no longer undergoing biological transformation. Once these assets are mature, they become productive assets and are similar in nature to machinery used to manufacture goods and should, therefore, be accounted for under IAS 16.

The IASB acknowledged these concerns and, in June 2013, published exposure draft ED/2013/8 *Agriculture: Bearer Plants* proposing that biological assets that meet the definition of a bearer plant are accounted for under IAS 16. These amendments have now been finalised.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

When do the new requirements apply?

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. If an entity applies the amendments earlier, it shall disclose that fact. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the amendments are to be applied retrospectively.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented.

Entities are exempt from disclosing for the current period the quantitative information required by paragraph 28(f) of IAS 8, which requires disclosure of the amount of any adjustment for each financial statement line item affected. However, entities are required to provide these disclosures for each prior period presented.

Observation

This exemption eliminates the need for entities to maintain dual systems in the year of initial application.

What are the changes introduced by the amendments?

The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16. Accordingly, an entity could elect to measure bearer plants at cost subsequent to initial recognition or at revaluation.

A bearer plant is defined as “a living plant that:

- a) is used in the production or supply of agricultural produce;
- b) is expected to bear produce for more than one period; and
- c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.”

However, the produce growing on bearer plants is a biological asset that should be measured at fair value less costs to sell in accordance with IAS 41.

The amendments also result in government grants related to bearer plants no longer falling within the scope of IAS 41. Such grants should now be accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

Observation

Some biological assets have both bearer and consumable attributes, for example, trees that are cultivated both for their fruit (bearer attribute) and their lumber (consumable attribute). The IASB decided to restrict the scope of the amendments to biological assets that are only used as bearer biological assets.

The IASB also excluded livestock from the scope of the amendments on the basis that use of a cost model would be more complex for livestock and that an active market would usually exist for livestock, resulting in fair value information being readily available and easier to apply than cost measurement.

Except for the amendments to the scope of IAS 16 as set out above, the IASB made no other significant amendments on the basis that the general principles of IAS 16 can be readily applied to bearer plants.

Observation

Although entities will have the option under IAS 16 to measure bearer plants using either the cost model or the revaluation model subsequent to initial recognition, the IASB expects most entities to apply the cost model.

Additional resources

See www.iasplus.com for further insights.

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