

Changes proposed to the requirements for bearer plants

What you need to know

- ▶ The IASB issued an exposure draft on 26 June 2013 that proposes changes to the accounting requirements for biological assets that are bearer plants.
- ▶ Bearer plants would be scoped out of IAS 41 and into IAS 16.
- ▶ IAS 41 would still apply to any agricultural produce growing on the bearer plant.
- ▶ Government grants related to bearer plants would be in the scope of IAS 20.
- ▶ Comments are due by 28 October 2013.

Highlights

The International Accounting Standards Board (IASB) has proposed changes to the accounting requirements for biological assets that meet the definition of bearer plants (e.g., fruit trees).

Bearer plants would be treated as property, plant and equipment in the scope of IAS 16 *Property, Plant and Equipment* and would be subject to all of that standard's requirements. This would include the ability to choose between the cost model or revaluation model for subsequent measurement.

Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) would remain in the scope of IAS 41 *Agriculture*. Government grants related to bearer plants would be accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, instead of IAS 41.

Proposed amendments

Scope of proposed amendments and a definition of bearer plants

Only those biological assets that meet the definition of bearer plants would be in the scope of the proposed amendments. All other assets that are currently within the scope of IAS 41 would be unaffected.

Bearer plants would be defined as plants that are:

- ▶ Used in the production or supply of agricultural produce
- ▶ Expected to bear produce for more than one period
- ▶ Not intended to be sold as a plant or harvested as agricultural produce, except for incidental scrap sales

All of the above criteria would need to be met for a plant to be considered a bearer plant.

The IASB has proposed a new definition for bearer plants

Bearer plants would be treated as property, plant and equipment, separate from their agricultural produce

Identifying a bearer plant may be obvious in many cases, for instance, grape vines, if the sole purpose is to grow grapes. The definition would also capture plants that are considered to be consumable today, such as the root systems of perennial plants (e.g., sugar cane or bamboo). However, the IASB is specifically seeking comments on the inclusion of such root systems.

Plants that are held solely for sale (e.g., trees grown for lumber) would not be bearer plants. In addition, plants that have a dual use, bearing produce and being sold as either living plants or agricultural produce (beyond incidental scrap sales), would not meet the definition of bearer plants. This may be the case when an entity holds rubber trees to sell both the rubber milk and the trees as lumber.

Bearer animals, like plants, may be held solely for the purpose of growing produce. However, they have been explicitly excluded from the scope of the proposed amendments because the IASB believes that the proposed measurement model would become more complex if applied to these assets.

How we see it

The proposed definition is intended to capture plants that are used in a manner that is consistent with property, plant and equipment. The IASB believes that bearer plants, once mature, are those held by entities solely for the purpose of growing produce over their productive lives. However, it is not clear why certain plants have been excluded from the definition, e.g., a plant that yields more than one crop but has a productive life that is less than one period.

Separating bearer plants from their agricultural produce

Under current standards, prior to harvest, bearer plants and their agricultural produce are considered one asset (i.e., one unit of account) and presented as non-current based on the asset's useful life. The proposed requirements would split them into two assets (i.e., two units of account), with different accounting requirements. Bearer plants would likely still be presented as non-current. However, depending on how long it takes to mature, agricultural produce may be a current asset.

Proposed requirements for bearer plants

Under current standards, bearer plants are measured at fair value less costs to sell both at initial recognition and subsequently (unless the measurement exception applies because fair value cannot be reliably measured¹). Under the proposed amendments, bearer plants would be subject to all of the recognition and measurement requirements in IAS 16, including the following:

- ▶ Before maturity, bearer plants would be measured at their accumulated cost, similar to the accounting treatment for a self-constructed item of plant and equipment before it is 'available for use'.
- ▶ Entities would have a policy choice to measure their bearer plants, after they are mature, using either the cost model or the revaluation model.
 - ▶ If the revaluation model is selected, revaluations would need to take place with sufficient regularity to ensure the carrying amount does not differ materially from the asset's fair value had it been measured at the end of the reporting period.
 - ▶ Entities would need to determine the useful life of the bearer plant in order to depreciate it and re-evaluate the useful life each year.
 - ▶ Entities would need to assess, at the end of each reporting period, whether there are indicators that a bearer plant is impaired. If indicators exist, an impairment loss would be recognised if the carrying value is lower than the bearer asset's recoverable amount (being the higher of the asset's fair value less costs of disposal and its value in use).

¹ If the presumption that fair value can be reliably measured is rebutted on initial recognition, paragraph 30 of IAS 41 permits an entity to measure a biological asset at its cost less any accumulated depreciation until fair value becomes reliably measurable.

Entities would have the option to apply IAS 16's cost model or revaluation model to subsequently measure bearer plants

While the proposed requirements would reduce the volatility in profit or loss for bearer plants, entities would still need to recognise any changes in the fair value of agricultural produce growing on the bearer plant, as discussed below.

Table 1: Comparison of measurement requirements for bearer plants (assuming fair value can be reliably measured)

	Current requirements	Proposed requirements
At initial recognition	<ul style="list-style-type: none"> ▶ Measured <i>together</i> with any agricultural produce attached (i.e., one unit of account) ▶ Measured at fair value less costs to sell 	<ul style="list-style-type: none"> ▶ Would be measured <i>separately</i> from any related agricultural produce (i.e., two units of account) ▶ Would be measured at cost, accumulated until maturity
Subsequent measurement requirements	<ul style="list-style-type: none"> ▶ Measured <i>together</i> with the agricultural produce until the point of harvest (see Table 2) (i.e., one unit of account until the point of harvest) ▶ Measured at the end of each reporting period at fair value less costs to sell ▶ Changes are recognised in profit or loss 	<ul style="list-style-type: none"> ▶ Would be measured <i>separately</i> from any related agricultural produce (i.e., two units of account) ▶ Would be measured at either: <ul style="list-style-type: none"> ▶ Cost, less any subsequent accumulated depreciation and impairment ▶ Changes would be recognised in profit or loss Or ▶ Fair value at each revaluation date, less any subsequent accumulated depreciation and impairment ▶ Revaluation adjustments (and impairment, to the extent it reverses previous revaluation increases) would be recognised in other comprehensive income; all other changes would be recognised in profit or loss

Proposed requirements for agricultural produce growing on bearer plants

Under current standards, entities treat a bearer plant and its agricultural produce as a single asset until the point of harvest. The proposed amendments would require an entity to recognise a bearer plant separately from its agricultural produce prior to harvest. Determining the timing of recognition may be difficult.

The agricultural produce would continue to be in the scope of IAS 41 and would be measured at fair value less costs to sell, with changes recognised in profit or loss as the produce grows. In the IASB's view, this proposed requirement would ensure that produce growing in the ground (e.g., wheat) and produce growing on a bearer biological asset (e.g., grapes) would be accounted for consistently. As a result, changes in the fair value of such agricultural produce would continue to be recognised in profit or loss at the end of each reporting period.

Table 2: Comparison of measurement requirements for agricultural produce

	Current requirements	Proposed requirements
At the end of each reporting period prior to harvest	Measured <i>together</i> with the bearer plant (see Table 1)	Would be measured <i>separately</i> from the bearer plant at fair value less costs to sell
At the point of harvest	Measured <i>separately</i> from the bearer plant at fair value less costs to sell	

How we see it

The proposed amendments are intended to address concerns raised regarding the cost, complexity and reliability of a fair value model in the absence of observable markets for these assets. However, they could be challenging to apply in practice. Entities may need to track agricultural produce more closely in order to recognise and measure these assets separately from the related bearer plants.

The proposed requirements would give entities the option to continue measuring their bearer plants at fair value by applying a revaluation model under IAS 16. However, fair value changes would be recognised in other comprehensive income, rather than profit or loss.

In addition, the proposed requirements would not alleviate the need to measure fair value or eliminate the volatility in profit or loss as agricultural produce would still be measured at fair value. Entities would need to determine appropriate fair value measurement methodologies (e.g., discounted cash flow techniques) to measure the fair value of these assets separately from the bearer plants on which they are growing, which may increase the complexity and subjectivity of the measurement.

Disclosure requirements

The proposed amendments do not include any changes to disclosure requirements in IAS 16 or IAS 41. However, the IASB has specifically asked constituents for their views regarding disclosure. This includes whether the fair value of bearer plants accounted for using the cost model should be disclosed and whether additional information about the bearer plant should be provided. Examples of such additional information could include age profiles and estimates of physical quantities.

Proposed requirements for government grants

Since bearer plants would be excluded from the scope of IAS 41, any related government grants would be in the scope of IAS 20 instead. Under IAS 20, government grants related to bearer assets would either be:

- ▶ Recognised as deferred income and then recognised in profit or loss on a systematic basis over the useful life of the asset
- Or
- ▶ Deducted in calculating the carrying amount of the asset and then recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense

Currently, IAS 41 does not permit the second approach for government grants related to biological assets measured at fair value less costs to sell.

Next Steps

The comment period closes on 28 October 2013.

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