

Bearer Plants: Amendments to IAS 41 To bear or not to bear

Introduction

Currently, all biological assets are measured and accounted for at their fair value less costs to sell. However, the International Accounting Standards Board (IASB) has now addressed concerns over fair value not being considered an appropriate measure of performance for certain biological assets, specifically bearer plants.

An amendment to IAS 41 Biological Assets relating to bearer plants has been issued. The change in requirements may reduce the valuation burden on companies, but it will change the pattern of income recognition.

This publication aims to highlight the financial impact of the change in the standards.

Summary of the amendments

The amendments to IAS 41 and IAS 16 Property, Plant and Equipment (IAS 16) define a bearer plant as a living plant that:

- Is used in the production or supply of agricultural produce
- Is expected to bear produce for more than one period
- Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales

Examples of bearer plants are:

1. Sugar cane roots that produce standing sugar cane



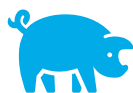
2. Rubber trees that provide latex, which is extracted from the tree



Where an item is a bearer plant, the plant and its produce will have different accounting treatments:

- **Bearer plants:** A bearer plant should be accounted for as property, plant and equipment in accordance with IAS 16. Companies will now be required to measure bearer plants initially at cost and will thereafter have an option to apply either the cost or the revaluation model.
- **Agricultural Produce:** The produce growing on the bearer plants will be a biological asset measured at fair value in accordance with IAS 41.





Current requirements under IAS 41

All biological assets and agricultural produce at the point of harvest are to be accounted for at their fair value less costs to sell.

Measured at fair value?



New requirements under IAS 41

Should all biological assets continue to be measured at fair value less costs to sell?

Measured at fair value?



Consumable biological assets, e.g. pigs

Other biological assets, e.g. sunflowers

Bearer livestock, e.g. cows

Produce-bearing biological assets, e.g. fruit trees

Biological assets such as fruit trees may be classified as bearer plants if there is not more than a remote chance that it will be sold as agricultural produce, e.g. for lumber.

Agricultural produce, e.g. tea leaves harvested from the bearer plant

Bearer plants, such as tea bushes

What does this mean?

The application of the amendment will have the following impacts:

1) On transition

The amendment should be applied retrospectively from periods beginning on or after 1 January 2016, and earlier application is permitted. The transitional guidance states that companies will be allowed to apply the fair value of bearer plants as their deemed cost at the beginning of the earliest period presented. A company with a December 2016 year-end will restate at 1 January 2015. It will have the following impact:

- The fair value of bearer plants at 1 January 2015 will be the deemed cost.
- Depreciation for these bearer plants will be based on this deemed cost. Where fair value gains have been recognised in the past, the consequential increase in deemed cost will result in a higher depreciation expense in the future.
- The restated statement of profit or loss for the 2015 year will exclude previously recognised fair value adjustments. Companies that previously recognised fair value gains will therefore see a decrease in profit; however, this will be comparable across periods presented.

The following example provides an illustration of the impact on transition:

	2014	2015	2016
Existing requirements under IAS 41 relating to bearer plants:	CU	CU	CU
Statement of financial position			
Biological asset (bearer plant)	80 000	100 000	115 000
Retained Income	(20 000)	(40 000)	(55 000)
Bank	(60 000)	(60 000)	(60 000)
Statement of profit or loss			
Fair value gain (bearer plant)	(20 000)	(20 000)	(15 000)

Observation: Assuming 2016 is the year of transition, the deemed cost for the bearer plant at the beginning of the 2015 restated financial year will be 80 000. At the end of 2015, the carrying amount of the bearer plant will be 70 000 after depreciation, based on an eight-year remaining useful life, reported at 10 000. This is highlighted below.

	2014	2015 restated	2016 restated
Existing requirements under IAS 41 relating to bearer plants:	CU	CU	CU
Statement of financial position			
Biological asset (bearer plant)	80 000		
PPE (bearer plant)		70 000	60 000
Retained Income	(20 000)	(10 000)	
Bank	(60 000)	(60 000)	(60 000)
Statement of profit or loss			
Fair value gain (bearer plant)	(20 000)		
Depreciation (bearer plant) – useful life of eight years		10 000	10 000

2) Post-Transition:

- The statement of financial position should include bearer plants as a class of property, plant and equipment. After initial recognition, the entire class should be measured at either cost or revaluation.
- In the event that companies decide to apply a revaluation model to their bearer plants in order to continue using their current measurement principles, this fair value movement will be recorded in other comprehensive income and not profit or loss.

What to look out for?

Maturity	For bearer plants, costs capitalisation should cease when the bearer plants reach maturity. Judgement may be needed to identify when bearer plants reach maturity; and, hence, costs will cease to be capitalised and depreciation will commence.
Maintenance versus capital expenditure	Many bearer plants will require significant costs to be incurred during the growth stage after the initial costs of planting, as well as subsequent costs after they reach maturity – some of which may be capital in nature. For example, while pruning costs need to be incurred on grape vines on a regular basis, grafting procedures can significantly add value to the vines. Judgement will need to be applied to determine which costs may be capitalised.
Impairment	Bearer plants under IAS 16 would have to be assessed for impairment under IAS 36 Impairment of Assets. In applying a value-in-use model, significant judgement may be involved for bearer plants; for example, in differentiating between cash inflows or outflows that are expected to arise from improving or enhancing the asset's performance and expenditure that would be operating costs such as fertiliser. There could also be difficulties in determining cash inflows, in particular in estimating the price at which each future harvest might be sold.
Government grants	IAS 41 requires that government grants – related to biological assets measured at fair value – should be accounted for in profit or loss. However, bearer plants included within IAS 16 will now be subject to the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, and companies will have an option to account for the grant as deferred income or to deduct the grant from the carrying amount of the plant.
Useful lives	Companies will need to determine the useful lives of their bearer plants to determine the depreciation value under IAS 16 that should be recorded in profit or loss.

Next steps

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