

# IFRS in Focus

## IASB proposes amendments to IAS 16 and IAS 41 for bearer plants

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### The Bottom Line

- The ED proposes that certain bearer plants (such as grape vines and oil palms that can be repeatedly harvested for agricultural produce) be accounted for under the requirements in IAS 16 (rather than IAS 41) which essentially means that those assets can be carried at cost instead of fair value less costs to sell.
- The proposed changes are restricted to bearer plants that are only used as such and are not intended to be sold as living plants or harvested as agricultural produce (apart from incidental scrap at the end of their productive life).
- The comment period closes on 28 October 2013.

This edition of IFRS in Focus outlines the proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* set out in the recently published Exposure Draft ('the ED') ED/2013/8 issued by the International Accounting Standards Board (IASB).

### Why are amendments being proposed to IAS 16 and IAS 41?

IAS 41 is predicated on 'fair value less costs to sell' being the most relevant measurement attribute to reflect biological transformation. However, for mature bearer plants there is no longer any significant biological transformation and the IASB suggests that such assets are no different, other than in form, to machinery used to manufacture goods. For that reason, it is argued, bearer plants should be accounted for in the same manner under IAS 16 and not under the fair value measurement model in IAS 41.

These proposals originate from work undertaken by the Asian-Oceanian Standard Setters Group suggesting that it was not appropriate to have single accounting model for both bearer and consumable biological assets. They argued that the model in IAS 41 should only be applied to biological transformation related to consumable biological assets.

For more information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

### Observation

The IASB's notes that in its user outreach, many investors and analyst told them that they do not use fair value information and instead rely on other information such as yield, acreage and age of plants. However, two IASB members (both formerly from the user community) voted against the proposals in the ED. They argued that the proposals fail to adequately address the needs of users of the financial statements and that "a better solution would for the IASB to require the fair value of bearer plants in combination with the fair value of the land to which such plants are attached".

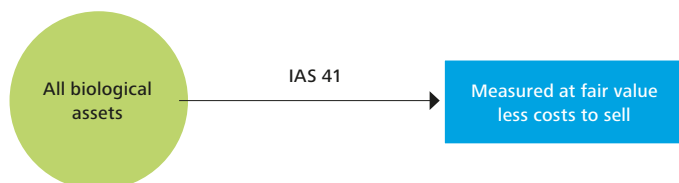
### What are the proposed amendments to the standards?

The proposals would remove some bearer plants from the scope of IAS 41 and have such assets accounted for as property, plant and equipment under IAS 16. To qualify for IAS 16 accounting, a biological asset must meet the proposed definition of a 'bearer plant':

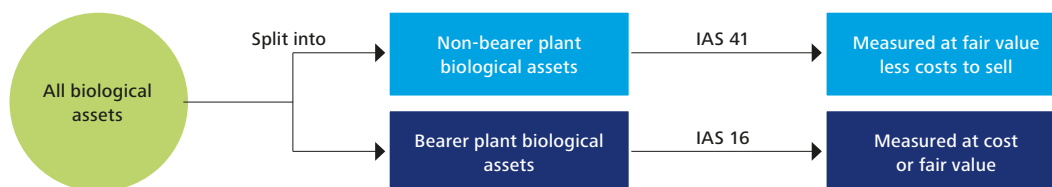
- it must be used in the production or supply of agricultural produce;
- be productive for more than one period; and
- not intended to sold as a living plant or harvested as agricultural produce (other than as scrap at the end of its productive life).

Accordingly, the IASB rejected a 'predominant-use' model for a 'no-alternative-use' approach to minimise any potential ambiguity about whether a bearer plant should be accounted for under IAS 16 or IAS 41.

#### Current requirements



#### Proposal



Apart from modifications to the scope of IAS 16, no other significant amendments are proposed on the basis that the IASB believes that the general principles of that standard can readily be applied to bearer plants.

#### Observation

The IASB acknowledges that bearer plants undergo biological transformation until they reach maturity and that the fair value measurement basis would be consistent with IAS 41. However, the IASB propose that bearer plants should be measured at accumulated cost before they reach maturity on the basis that investors and analysts consulted during their outreach activities indicated that they see little or no value in having fair value information during that growth period.

The IASB suggests that even though under IAS 16 entities will have an option for the subsequent measurement of bearer plants at either cost or fair value, most will elect to apply cost.

#### Effective date and comment period

The ED does not specify an effective date. The IASB will determine the effective date after considering the comments they receive on the ED.

Entities would be required to apply the proposed requirements retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Comments on the ED are due by 28 October 2013.

#### Observation

The IASB is proposing that for cost-benefit reasons the amendments to IAS 16 would permit the use of fair value as deemed cost for bearer plants on transition.

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