FAR-1 — FINANCIAL ACCOUNTING & REPORTING 1

Topic: AGRICULTURE — IAS 41

1 TOPIC OVERVIEW

WHAT IS IT?
IAS 41 prescribes the accounting for agricultural activity — the biological transformation and harvest of biological assets for sale, into produce, or into more biological assets.

WHY IMPORTANT?
Living assets grow, degenerate, produce and procreate continuously — unlike PPE, they must be remeasured to fair value at every reporting date, and this drives profit directly.

CORE PRINCIPLE
Measure biological assets at fair value less costs to sell at initial recognition and every period end; agricultural produce is measured the same way, but only once — at the point of harvest.

2 KEY DEFINITIONS [IAS 41:5]

Biological asset: A living animal or plant (e.g. sheep, cows, plants, trees).

Group of biological assets: An aggregation of similar living animals or plants (e.g. a herd of cows).

Harvest: Detachment of produce from a biological asset, or cessation of its life processes (milking, slaughtering, picking fruit, felling trees).

Agricultural produce: The harvested produce of an entity's biological assets (e.g. milk, meat, wood logs).

Costs to sell: Incremental costs directly attributable to disposal, excluding finance costs and income taxes (e.g. broker commission, non-refundable transfer taxes).

Agricultural activity: Management of the biological transformation and harvest of biological assets, for sale, for conversion into produce, or into more biological assets.

3 SCOPE [IAS 41:1–4]

✔ IAS 41 APPLIES TO
- Biological assets, except bearer plants
- Agricultural produce — but only at the point of harvest
- Government grants for agriculture (certain situations)

✘ IAS 41 DOES NOT APPLY TO
- Harvested product after the point of harvest → IAS 2 (or another Standard)
- Land related to agricultural activity → IAS 16 or IAS 40
- Bearer plants → IAS 16 (but produce ON them stays IAS 41)
- Intangible assets related to agricultural activity → IAS 38

Biological asset	Agricultural produce	Product after processing
Sheep	Wool	Yarn, carpet
Dairy cattle	Milk	Cheese
Trees in a timber plantation	Felled trees	Logs, lumber
Grape vines	Picked grapes	Wine

4 BIOLOGICAL TRANSFORMATION [IAS 41:5&7] & AGRICULTURAL ACTIVITY TEST

Growth
increase/improvement (lambs grow into sheep)

Degeneration
decrease/deterioration (death, old age)

Production
getting produce (latex, milk, wool)

Procreation
new animals/plants (birth)

3 FEATURES OF AGRICULTURAL ACTIVITY [Example 03]
(a) Capability to change — living things can transform; (b) Management of change — entity facilitates the process (nutrients, moisture, temperature) — this excludes unmanaged harvesting like ocean fishing/deforestation; (c) Measurement of change — quality/quantity change is routinely measured. **Not IAS 41:** zoo animals for exhibition, mules/horses for tourist transport (no biological transformation being managed for sale/produce). **Is IAS 41:** parrots/horses kept for breeding and sale.

5 BEARER PLANTS [IAS 41:5–5C] — IAS 16 APPLIES INSTEAD

A bearer plant is a living plant that: (a) is used in production/supply of agricultural produce; (b) is expected to bear produce for more than one period; and (c) has only a remote likelihood of being sold as agricultural produce (except incidental scrap). Example: fruit trees grown only for their fruit.

Produce growing ON a bearer plant is still a biological asset (IAS 41 applies to it). **NOT bearer plants (IAS 41 applies):** plants grown to be harvested as produce (e.g. lumber trees), plants grown for both produce and eventual sale as produce (e.g. trees for both fruit and lumber), annual crops (maize, wheat). **No animal-equivalent** of a bearer plant exists — cows kept only for milk stay within IAS 41.

RECOGNITION & MEASUREMENT — FAIR VALUE LESS COSTS TO SELL

6 RECOGNITION [IAS 41:10&11] — DECISION TREE

Recognise a biological asset or agricultural produce when, and only when ALL THREE:

▼

A. Entity controls the asset from past events

B. Probable future economic benefits will flow to the entity

C. Fair value or cost can be measured reliably

Control evidenced e.g. by legal ownership, branding/marking cattle on acquisition, birth or weaning. [Example 04: a wild herd of elephants living on farmland is **not recognised** — the entity does not control them or reliably capture future benefits.]

7 MEASUREMENT — BIOLOGICAL ASSETS [IAS 41:12–25]

BIOLOGICAL ASSET — AT INITIAL RECOGNITION AND EVERY PERIOD END

Fair value – Costs to sell

WORKED CHECK [Example 05]

10 goats bought @ Rs.25,000 (broker: 2% from buyer, 3% from seller). **Cost of purchase** = 25,000×10×102% = Rs.255,000. **Initial measurement (FV less costs to sell)** = 25,000×10×97% = Rs.242,500. 2 kids born (FV Rs.7,000 each) → 7,000×2×97% = Rs.13,580. Year-end remeasurement uses year-end FV (Rs.33,000/goat, Rs.9,000/kid), each ×97%.

8 MEASUREMENT — AGRICULTURAL PRODUCE [IAS 41:12–25]

AGRICULTURAL PRODUCE — ONLY AT THE POINT OF HARVEST

Fair value – Costs to sell, at harvest date = deemed cost for IAS 2 thereafter

WORKED CHECK [Example 06]

980 litres milked at FVLCS Rs.170/litre → harvested at Rs.166,600. This becomes the **deemed cost of inventory**; any later sale above this cost is ordinary trading profit (under IAS 2), not an IAS 41 gain.

9 SPECIAL MEASUREMENT SITUATIONS

Biological assets attached to land	No separate market may exist — deduct FV of raw land/land improvements from the FV of the **combined** package to derive the biological asset's FV. [Example 07: combined value Rs.336m − land Rs.10m×15 acres = orchard FV Rs.186m.]
Grouping of assets	Group by significant attributes (age, quality) as the market uses for pricing.
Future contract prices	NOT used to adjust fair value — FV reflects current market conditions, not contracted prices (IAS 37 applies only if the contract is onerous).
Using cost as fair value	Acceptable proxy when little biological transformation has occurred since cost was incurred (e.g. seedlings just planted, newly acquired livestock), or transformation's price impact is immaterial.

GAINS & LOSSES — JOURNAL ENTRIES

10 GAINS/LOSSES — BIOLOGICAL ASSETS [IAS 41:26–29]

A gain or loss on **initial recognition** AND from every subsequent **change in FV less costs to sell** is recognised in **profit or loss** for the period it arises. A loss can arise on initial recognition simply because costs to sell are deducted; a gain can arise too (e.g. a calf born at FV above zero cost).

Worked journal entries [Example 08: 10 goats bought Rs.25,000 FV, 2 kids born, year-end remeasurement]		
Biological assets [10 goats × 25,000 × 97%]	242,500	
Loss on initial recognition (P&L)	12,500	
Bank [10 goats × 25,000 × 102%]		255,000
Biological assets [2 kids × 7,000 × 97%]	13,580	
Gain on initial recognition (P&L)		13,580
Biological assets [year-end remeasurement, W1]	81,480	
Gain on re-measurement (P&L)		81,480

W1: Year-end FVLCS [10×33,000×97% + 2×9,000×97%] = Rs.337,560 − already-recognised Rs.256,080 (242,500+13,580) = **Rs.81,480 gain**.

11 GAINS/LOSSES — AGRICULTURAL PRODUCE [IAS 41:26–29]

A gain or loss on initial recognition of produce at FVLCS (at the point of harvest) → **profit or loss**, in the period it arises. Once recorded as inventory at this deemed cost, subsequent sale profit follows IAS 2 as ordinary trading, not IAS 41.

Worked journal entries [Example 09: 980 litres milked FVLCS Rs.170/litre; 900L sold Rs.160,000; 80L → cheese sold Rs.24,000, conversion cost Rs.5,000]		
Milk (agricultural produce) [980 × 170]	166,600	
Gain on harvest (P&L)		166,600
Milk inventory	166,600	
Milk (agricultural produce)		166,600
Cash/Receivables	160,000	
Revenue: Milk		160,000
Cost of sales	153,000	
Milk inventory [900 × 170]		153,000
Cheese inventory	18,600	
Cash/Bank (conversion cost)		5,000
Milk inventory [80 × 170]		13,600
Cash/Receivables	24,000	
Revenue: cheese		24,000
Cost of sales	18,600	
Cheese inventory		18,600

12 INABILITY TO MEASURE FAIR VALUE RELIABLY [IAS 41:30–33]

There is a presumption FV CAN be reliably measured. This presumption is rebuttable **only on initial recognition**, and only where quoted market prices are unavailable and alternative FV estimates are clearly unreliable. In that case → measure at **cost less accumulated depreciation and impairment** (apply IAS 2/16/36 as relevant). Once FV becomes reliably measurable, switch to FV less costs to sell. An entity that has previously used FV must **continue** at FV until disposal. Agricultural produce at harvest is **always** assumed reliably measurable at FV.

13 GOVERNMENT GRANTS RELATED TO BIOLOGICAL ASSETS [IAS 41:34–38]

Biological asset at FV less costs to sell — UNCONDITIONAL grant	Recognise in P&L when, and only when, the grant **becomes receivable**.
Biological asset at FV less costs to sell — CONDITIONAL grant	Recognise in P&L when, and only when, the **conditions are met** (includes grants requiring the entity NOT to engage in specified activity).
Conditional grant — partial recognition allowed	If terms allow retaining part according to elapsed time, recognise that part in P&L **as time passes**. If the whole grant must be repaid for any shortfall (all-or-nothing), recognise nothing until the full condition period has passed.
Biological asset measured at COST (or bearer plants)	Grant is recognised in accordance with **IAS 20** instead.

WORKED CHECK [Examples 10–11]

Rs.15m grant, condition = 5-year organic feed system, **full repayment** if discontinued any time → recognise the **full Rs.15m only at year 5 end** (all-or-nothing condition not met until then). Same grant but only **proportionate repayment** required → recognise Rs.3m (15m/5) in P&L **each year** as time passes.

DISCLOSURE & QUICK RECAP

14 DISCLOSURE [IAS 41:40–57]

GENERAL

- Aggregate gain/loss on initial recognition and from FV changes during the period
- Description of each group of biological assets (consumable vs bearer; mature vs immature)
- Reconciliation of carrying amount: FV/price-change gains, purchases, sales/held-for-sale, harvest decreases, business combinations, exchange differences, other changes
- Nature of activities per group; physical quantities of assets and produce output
- Restricted-title assets, pledged assets, acquisition commitments, financial risk strategies

WHEN FV NOT RELIABLE / GRANTS

Cost-model disclosures: description, reason FV unreliable, estimate range if possible, depreciation method/rates, gross cost & accumulated depreciation/impairment, disposal gain/loss, impairment losses/reversals, depreciation in the reconciliation.

Government grants: nature and extent recognised, unfulfilled conditions/contingencies, significant expected decreases in grant levels.

15 WORKED RECONCILIATION — PRICE vs PHYSICAL CHANGE [Example 12 pattern]

Herd: 100 two-yr-old + 50 newborn on 1 Jan; 3 more calves born; none died. **Price change** = quantity at start-of-period age × (year-end price − start price) for that same age. **Physical change** = quantity × (price for the new age at year-end − price for the old age at year-end), plus new births at year-end price. SFP shows closing biological assets at Rs.11,150,000 (non-current asset); SPL shows the combined FV gain (price + physical change) as income, less maintenance cost as an expense.

16 FINANCIAL STATEMENT IMPACT

STATEMENT OF PROFIT OR LOSS

- Gain/loss on initial recognition of biological assets and produce
- Gain/loss on remeasurement to FV less costs to sell
- Government grant income (when receivable/conditions met)
- Farm maintenance and other operating costs

STATEMENT OF FINANCIAL POSITION

- Biological assets — separate non-current (or current, if near harvest/sale) asset line at FV less costs to sell
- Agricultural produce inventory — at FVLCS at harvest, then per IAS 2

! ⚠ EXAM TRAPS — COMMON MISTAKES

- Applying IAS 41 to land, bearer plants, or intangible assets used in farming — these fall under IAS 16/40 or IAS 38 instead.
- Applying IAS 41 to **unmanaged** wild animals/harvesting (e.g. ocean fishing) — management of the biological transformation is essential.
- Continuing to apply IAS 41 to produce **after** the point of harvest — it becomes inventory under IAS 2 from that point.
- Treating costs to sell as including **finance costs or income tax** — both are always excluded.
- Forgetting that a **loss can legitimately arise on initial recognition** purely because costs to sell are deducted — this is not an error to "fix".
- Using **future contract prices** to adjust fair value — FV always reflects current market conditions, not the entity's own contracts.
- Recognising a **conditional government grant** before its conditions are met, or recognising an all-or-nothing grant proportionately when the terms actually require full repayment for any shortfall.
- Confusing **bearer plants** (IAS 16) with plants grown for harvest as produce or for both fruit and lumber (IAS 41 applies to both).
- Rebutting the FV-reliability presumption at a date **other than initial recognition** — the rebuttal is only ever available at that point.
- Mixing up **price change** and **physical change** components in a biological-asset reconciliation — they are calculated and disclosed separately.

17 QUICK DECISION TREE — ANSWERING ANY IAS 41 QUESTION

1 Question given → 2 Biological asset, produce, or bearer plant? → 3 Recognition criteria met? → 4 Measure at FVLCS (or cost if unreliable) → 5 Journal entry (gain/loss to P&L) → ✔ FS effect / final answer

IAS 41 — AGRICULTURE IN 60 SECONDS

Biological asset = living animal/plant; measured at FV less costs to sell at initial recognition AND every period end.

Agricultural produce = harvested product; measured at FVLCS ONLY at point of harvest, then IAS 2 applies.

Bearer plants → IAS 16, not IAS 41 (but produce on them stays IAS 41).

Recognise if: control + probable benefit + reliable measurement.

All gains/losses (initial recognition and remeasurement) → profit or loss.

FV not reliable (initial recognition only): use cost − acc. dep. − acc. impairment.

Unconditional grant → P&L when receivable. **Conditional grant** → P&L when conditions met (or pro-rata if partial retention allowed).

Grant on cost-model biological assets → follow IAS 20 instead.

Disclose: aggregate gain/loss, group descriptions, full reconciliation (price change + physical change split encouraged).