Ihre Ansprechpartner

Sehr geehrte Damen und Herren,

für Rückfragen zu der beigefügten Publikation „In depth“ zur Thematik
„Amendments to classification of bearer plants”
stehen Ihnen folgende Ansprechpartner gerne zur Verfügung:

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September 2014
No. INT2014-07

Amendments to classification of bearer plants

At a glance

In June 2014, the IASB issued amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture' which change the accounting requirements for biological assets that meet the definition of bearer plants such as grape vines and oil palms. The amendments affect companies that cultivate bearer plants for agricultural produce.

Prior to the amendments, bearer plants were included within the scope of IAS 41 and measured at fair value less costs to sell. Bearer plants are now included within the scope of IAS 16 where the use of a cost or revaluation model is permitted. However the agricultural produce growing on bearer plants is still within the scope of IAS 41 and required to be measured at fair value.

This publication sets out the scope and impact of the amendments.

Scope

What has changed?

Mature bearer plants are seen by many as similar to an item of machinery in a manufacturing process. Consequently, the IASB decided bearer plants should be accounted for in the same way as property, plant and equipment within the scope of IAS 16.

Prior to the amendments, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell with fair value changes recognised in profit or loss. This treatment is based on the principle that the biological transformation these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefit it generates comes from the agricultural produce it creates.

The produce growing on bearer plants such as fruit and vegetables remains in the scope of IAS 41 as does the accounting for bearer livestock.

The IASB decided not to change the accounting for bearer livestock as including livestock would make the use of a cost model more complex. Unlike plants, the

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differentiation between bearer and consumable is based more on the business model which can change over time.

What are bearer plants?

Bearer plants are living plants that are solely used to grow produce over their productive lives. For example, in an oil palm plantation, the trees that produce fruit are bearer plants, whilst the fruit bunches growing on the tree are agricultural produce until harvested. In a vineyard, the vines are the bearer plants and the grapes the agricultural produce.

Definition of a bearer plant in IAS 16

A bearer plant is a 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.*

Trees grown to be harvested and sold as produce such as lumber are not bearer plants. Annual crops which do not bear produce for more than one period such as maize and wheat are also not bearer plants.

A plant may have two uses: 1) it is cultivated for bearing agricultural produce, and 2) the bearer plant will also be harvested and sold as agricultural produce. For example, rubber trees may be cultivated for both their latex and wood. If the sales from wood are not incidental scrap sales, the tree does not meet the definition of a bearer plant.

Bearer plants that no longer bear produce are commonly cut down and sold as scrap at the end of their life. Such incidental scrap sales would not prevent the plant from being a bearer plant.

PwC observation:

Determining whether a plant is a bearer plant is critical as it drives the subsequent measurement of the plant. Judgment is required in determining if the definition is met, especially in deciding if sales of the plant itself are incidental scrap sales.

Recognition and measurement of bearer plants during their life cycle

Immature bearer plants

Bearer plants may take a long time to grow before reaching maturity. Immature bearer plants are similar to an item of property, plant and equipment being constructed before its intended use. The IASB decided that bearer plants, before they reach maturity, are measured at accumulated cost in the same manner as self-constructed items of property, plant and equipment.

Accumulation of cost ceases when the bearer plants are in the location and condition necessary for them to be capable of operating in the manner intended by management, i.e. when bearer plants reach maturity.

Bearer plants are a qualifying asset under IAS 23 *Borrowing costs*. Specific and general borrowing costs will be capitalised in accordance with that standard.

PwC observation:

Accumulating costs of an immature bearer plant is a new concept, except on initial recognition in cases where fair value cannot be measured reliably. Under the old IAS 41, the plant was measured at fair value less costs to sell. IAS 41 does not prescribe the treatment of agricultural costs before and after maturity, hence in the past entities typically either capitalised such costs or expensed them to profit or loss as incurred. Now that the amendments require such costs to be accumulated, entities currently adopting the policy of expensing such costs will need to ensure their systems are able to track and capture costs incurred for bearer plants during the pre-maturity stage.

There is no specific guidance on when a bearer plant reaches maturity. For example, a palm oil tree may start to grow produce after two years, but only reach its maximum yield after seven years. A grape vine may take many years to produce the right quantity and quality of fruit. Entities will need to determine their own accounting policy for determining when bearer plants reach maturity.

Mature bearer plants

Mature bearer plants are measured using either cost or revalued amounts, less accumulated depreciation and impairment losses. The policy adopted must be applied consistently.

For entities applying the revaluation model, revaluations shall be made with sufficient regularity to ensure the carrying amount of the bearer plants does not differ materially from their fair value. Revaluation adjustments are normally recognised in other comprehensive income and are accumulated in equity. Where a plant's carrying amount decreases more than any previous revaluation surplus, the decrease shall be recognised profit or loss.

The carrying amount of bearer plants is depreciated on a systematic basis over their useful life that is, the number of years bearing agricultural produce. The depreciation method used shall reflect the pattern in which future economic benefits from the plant are expected to be consumed by the entity. An example is the units of production method. IAS 16 however does not prohibit the use of other appropriate depreciation methods, such as straight line. The plant's useful life needs to be reviewed periodically, at least at each financial year-end.

At the end of each reporting period, entities would need to assess if there is any indication that the bearer plants may be impaired by applying the requirements of IAS 36 'Impairment of assets'. For example, a drop in the market price of agricultural produce; natural phenomena, such as drought or floods; disease in plants causing decreased productivity; and labour constraints are some impairment indicators requiring an impairment test to be performed.

PwC observation:

If the revaluation model in IAS 16 is applied for bearer plants, fair value changes are recognised in other comprehensive income, except to the extent a fair value decrease exceeds a previous revaluation surplus, where such decrease is recognised in profit or loss. This contrasts with the requirements of the old IAS 41 where all fair value less costs to sell changes were recognised in profit or loss.

Mature bearer plants

Agricultural produce growing on bearer plants is measured at fair value less costs to sell with changes recognised in profit or loss as the produce grows.

Measuring the growing produce at fair value provides useful information to users of financial statements about future cash flows that an entity will realise from the expected revenue from the sale of the produce. A valuation technique is used to measure the produce at fair value. Compilation of historical and current data may be inputs or provide evidence to support inputs used. For example in the palm oil industry, data such as historical yields, quality of the fruit and current market prices of harvested produce would be some of the key inputs included in estimating the fair value. The resultant fair value is likely to be a level 3 measurement in the fair value hierarchy under IFRS 13 as significant unobservable inputs are involved.

If an entity encounters significant practical difficulties on initial measurement of produce, for example during the initial growth period, it should consider whether the fair value measurement exemption requirements in paragraphs 10 and 30 of IAS 41 are met.

Paragraph 10 of IAS 41 states that a biological asset is recognised only when the entity controls the asset as a result of past events, it is probable that future economic benefits associated with the assets will flow to the entity, and the fair value or cost of the asset can be measured reliably. Paragraph 30 of IAS 41 requires the produce to be measured using a cost model if market-determined prices or values are not available, and for which alternative estimates of fair value are determined to be clearly unreliable. The term "clearly unreliable" is not used elsewhere in the IFRS literature, and based on the objective of the standard it is a high hurdle to clear. For example, large fluctuations in the price of the final produce are not a justification for an estimate to be clearly unreliable. The fact that the asset has a very long production cycle and there is no forward market price is not a justification not to measure the asset at fair value.

These exemptions are applicable on initial recognition of the agricultural produce up until the point at which fair value can be measured reliably. Even if the produce is not measured at fair value, IAS 41 requires entities to disclose the range of estimates within which fair value is likely to lie, and an explanation of why fair value cannot be measured reliably.

PwC observation:

The fair value mechanism under the amendments is different from the old IAS 41. Under the old IAS 41, the bearer plant together with its un-harvested agricultural produce was accounted for and fair valued as one asset. With the amendments, the bearer plant and agricultural produce are accounted for and measured as two separate assets. Fair value, less costs to sell, is only required for the produce growing on the bearer plants.

Measuring produce growing on a bearer plant at fair value requires judgment and may well be a level 3 measurement under IFRS 13. This may impact comparability with other companies carrying on similar agricultural activities.

Determining the point at which to apply fair value will also require some judgment. The reporting entity should have a well-articulated accounting policy for both of these judgments and make clear disclosures to help users compare different companies.

Harvested produce

Harvested produce is measured at fair value less costs to sell at the point of harvest. IAS 41 provides that the fair value of produce at the point of harvest can always be measured reliably; hence there is no possibility of exemption from fair value measurement at the point of harvest. The fair value less costs to sell of the

PwC observation:

As mentioned above, an entity applying the exemption from fair value measurement at initial growth stages of the produce is required to measure the produce at fair value once it becomes reliably measurable. Judgment is required to decide at which point the fair value is reliably measureable. As IAS 41 provides that fair value of produce at the point of harvest can always be measured reliably, it would be unusual for an entity to state that fair value is not reliable in the period close to the harvest, but to record a fair value gain on the day of harvest.

Transition

The new requirements are effective for annual periods beginning on or after 1 January 2016. Earlier adoption is permitted.

An entity may apply the amendments on a full retrospective basis or apply the relevant transitional provisions depending on whether the entity is a current IFRS preparer or first-time adopter.

Current IFRS preparers on initial application of the amendments may elect to use the fair value at the beginning of the earliest comparative period presented in the financial statements as the deemed cost of the bearer plants on that date. Any difference between fair value and the carrying amount (that is, fair value less costs to sell determined under the old IAS 41) is recognised in opening retained earnings at the beginning of the earliest period presented.

First time IFRS adopters may apply the deemed cost exemptions for items of property, plant and equipment as provided in IFRS 1 'First-time adoption of IFRS'. In addition to the fair value on date of transition as deemed cost exemption (similar to the exemption for the existing IFRS preparers described above), first time IFRS adopters may elect to use a previous GAAP revaluation at, or before, the date of transition as deemed cost. This exemption is applicable if the revaluation was broadly comparable to fair value or cost or depreciated cost adjusted to reflect, for example, changes in a general or specific price index. First time IFRS adopters may also use an event driven fair value (for example at the point of privatisation or initial public offering) as the deemed cost at the date of measurement.

PwC observation:

Existing IFRS preparers would have measured all biological assets at fair value less costs to sell under the old IAS 41. Upon adoption of the amendments, fair value less costs to sell on the date of transition needs to be allocated into to 2 components - the bearer plant and agricultural produce. In cases where the "costs to sell" of the bearer plant is significant, the fair value allocated to the plant would need to be adjusted to remove such costs. The fair value allocated to the bearer plant on the date of transition would be the deemed cost upon adoption of the amendment.