Educational Material on Ind AS 41

Agriculture

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

NEW DELHI

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Foreword

Transparent, fair and comparable financial reporting provides useful and relevant information to the various stakeholders of the reporting entity. The Institute of Chartered Accountants of India (ICAI) being the premier accounting body in the country, is playing a paramount role in transforming the quality and depth of financial reporting standards. It strives hard to ensure that financial reports of entities in India are comparable at a global level. With the dawn of Indian Accounting Standards (Ind AS) which are substantially converged with International Financial Reporting Standards (IFRS Standards), the financial reporting system in India has now achieved the global benchmark. These Standards have brought consistency and comparability in the reporting of financial information for the use of various stakeholders with a scope for adapting to the complexities of the modern practices and scenarios.

We at the ICAI, are committed for smooth implementation of Ind AS and take various initiatives, from time to time, to train accounting professionals, create awareness and provide necessary guidance to its members and other stakeholders to ensure that the Standards are implemented in the same spirit in which these have been formulated. Amongst its various initiatives, ICAI issues Educational Materials on Indian Accounting Standards (Ind AS) with the objective to provide guidance on the application and implementation of each Ind AS. These Educational Materials have been found highly useful by the preparers, auditors and other stakeholders in discharge of their functions.

The Ind AS Implementation Committee of the Institute of Chartered Accountants of India has formulated the Educational Material on Ind AS 41, *Agriculture.* This Educational material seeks to provide guidance by way of Frequently Asked Questions (FAQs) to explain the principles enunciated in the Standard. This publication will provide guidance to the stakeholders on accounting and recognition of non-current assets or disposal groups held for sale and presentation and disclosure of discontinued operations.

I express my sincere gratitude and appreciation for the efforts put in by CA. G. Sekar, Chairman, CA. Tarun J. Ghia, Vice-chairman, Ind AS Implementation Committee, members of the Committee and members of the Study Group for their immense efforts in preparing this Educational material, addressing the various practical issues.

I am sure that the publication would be of immense use to professionals and other stakeholders while implementing and applying the Ind AS for fulfilling their financial reporting requirements.

New Delhi	**CA. Nihar N. Jambusaria**
January 28, 2022	**President, ICAI**

Preface

The accounting in India has now substantially transitioned to the new set of standards, Indian Accounting Standards (Ind AS) which are converged International Financial Reporting Standards (IFRS). This set of standards has received enormous support from various stakeholders for its lucid and smooth implementation. Ind AS Implementation Committee of the Institute of Chartered Accountants of India (ICAI) has made arduous efforts for such affluent transition to Ind AS from previous GAAP. The Committee actively engages in providing guidance to the members and other stakeholders by issuing Educational Materials on Ind AS, conducting Certificate Course on Ind AS, developing e-learning modules on Ind AS, training programmes on Ind AS for regulatory bodies, etc.

Previously, there was no specific accounting standard in existence for accounting for agricultural produce and biological assets related to agricultural activities. Therefore, the entities engaged in agricultural activities reported using varied accounting practices which led to inconsistency and non-comparability of financial statements among the entities in the agricultural industry. Ind AS 41, *Agriculture* has removed this inconsistency and lack of comparability by setting out the recognition, measurement, presentation and disclosure requirements for agricultural produce and biological assets relating to agricultural activities. The users of the financial statements of such entities have benefited by consistent and comparable financial information across the industry. The Ind AS Implementation Committee has prepared this Educational Material to provide guidance in the form on Frequently Asked Questions (FAQs) on various practical issues that the preparers of the financial statements face while applying this Ind AS.

I would like to convey my sincere gratitude to our Honourable President, CA. Nihar N Jambusaria and Vice-President, CA. Debashis Mitra for providing us the opportunity of bringing out this publication. I am ever thankful to Vice Chairman CA. Tarun Ghia for his continued support in effective functioning of the Committee. I would also like to thank all the members of the Committee for their valuable contribution in various endeavours of the Committee.

I am highly thankful to CA. C.V. Chitale for leading the Study Group and also appreciate all the members of the Study Group comprising CA. (Dr.) S.B. Zaware, CA. Nikhil Kenjale, CA. Paul Alvares, CA. Shiraz Vastani, CA. Sanjay Agarwal, CA. Prasanna Joshi and CA. Amit Borkar for preparing the draft of this material.

I would like to acknowledge the sincere efforts and support of CA. S.N. Gupta, Head Technical Directorate, CA. Shalini Jindal, Secretary, CA. Prachi Jain, Assistant Secretary and CA. Choshal Patil, Consultant, Ind AS Implementation Committee in the development of this Educational Material. I would also like to extend my gratitude to CA. Ruchika Gupta and CA. Rangoli Sharma, the staff of Accounting Standards Board for their valuable contributions in the formulation of this Educational Material.

I believe that this publication would be of immense use and great help to the members and other stakeholders for overall understanding and implementation of Ind AS 41.

New Delhi | **CA. G. Sekar**
January 31, 2022 | **Chairman**
Ind AS Implementation Committee

Contents

I. Ind AS 41 – Summary

[The purpose of this summary is to help the readers gain a broad understanding of the principal requirements of Ind AS 41 (or 'the Standard'). Reference should be made to the complete text of the Standard for a complete understanding of these requirements or in dealing with a practical situation.]

Introduction

This Standard prescribes the accounting treatment for biological assets except for bearer plants, during the period of growth, degeneration, production and procreation (when such biological assets are used for agricultural activity) and for the initial measurement of agricultural produce at the point of harvest. The Standard also prescribes accounting treatment for government grants relating to biological assets measured at its fair value less costs to sell and used for agricultural activity.

Objective

The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity.

Scope

This Standard shall be applied to account for the following, when they relate to agricultural activity:

a) biological assets.

b) agricultural produce at the point of harvest; and

c) government grants related to biological assets, measured at its fair value less costs to sell.

This Standard does not apply to:

a) land related to agricultural activity (see Ind AS 16, *Property, Plant and Equipment* and Ind AS 40, *Investment Property*)

b) bearer plants related to agricultural activity (see Ind AS 16). However, this Standard applies to the produce on those bearer plants.

c) government grants related to bearer plants (see Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*).

d) intangible assets related to agricultural activity (See Ind AS 38, *Intangible Assets*).

e) right-of-use assets arising from a lease of land related to agricultural activity (see Ind AS 116, *Leases*).

This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2 *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes or processing of sugarcane into sugar by a sugar manufacturer.

Key Definitions

Following terms are used in this standard with the meanings specified.

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Agricultural produce is the harvested product of the entity's biological assets.

A *bearer plant* is a living 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.

A *biological asset* is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

A *group of biological assets* is an aggregation of similar living animals or plants.

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Other important points to remember:

- Produce growing on bearer plants is a biological asset.
- 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.

Recognition

An entity shall recognise a biological asset or agricultural produce when, and only when:

a) the entity controls the asset as a result of past events;

b) it is probable that future economic benefits associated with the asset will flow to the entity; and

c) the fair value or cost of the asset can be measured reliably.

In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes.

Measurement

A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably on initial recognition, as contemplated in paragraph 30 of the Standard.

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement value is the cost at that date when applying Ind AS 2, *Inventories* or another applicable Standard.

The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.

Cost may sometimes approximate fair value, particularly when:

a) little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to the end of a reporting period or newly acquired livestock); or

b) the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).

Gains and losses

A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

A gain or loss arising on initial recognition of agricultural produce (as a result of harvesting) at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

Inability to measure fair value reliably

There is a presumption under the Standard that fair value can be measured reliably for a biological asset.

However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less accumulated depreciation and accumulated impairment losses.

Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell.

Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

Government grants

An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Disclosures

Entity is required to disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets. It shall provide a narrative or a quantified description of each group of biological assets.

An entity is encouraged to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate along with basis for such distinctions.

An entity is required to disclose:

- the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
- the amount of commitments for the development or acquisition of biological assets; and
- financial risk management strategies related to agricultural activity.

A reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period is required to be presented which shall include:

- the gain or loss arising from changes in fair value less costs to sell;
- increases due to purchases;
- decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105;
- decreases due to harvest;
- increases resulting from business combinations;
- net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and
- other changes.

The standard also prescribes certain additional disclosures for biological assets where fair value cannot be measured reliably.

II. Frequently Asked Questions (FAQs)

Question 1

What is considered as an agricultural activity under Ind AS 41? Elaborate with examples.

Response

Paragraph 5 of Ind AS 41, defines Agricultural activity as follows:

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

Following are few examples of activities that may be termed as agricultural activities or non-agricultural activities in accordance with Ind AS 41:

Agricultural Activities*	**Non-agricultural Activities**
Crop raising, green house farming, fruit/vegetable growing, horticulture, floriculture, orchards and plantations	Processing of harvested agricultural produce
Animal/birds raising – poultry farming, sheep, goat, piggeries, cattle etc.	• Maintaining animals for recreational activities, such as, in zoo and circus. • Natural breeding of animals in zoo or circus (as it is incidental to main activity of providing recreational activities)
Honeybee keeping (apiculture), silk-worm breeding (sericulture), rearing of fish (aquaculture or pisciculture)	Ocean fishing
Human-managed growing of trees	Natural forests without human intervention
Plants and trees managed by pharmaceutical companies for extracting medicinal inputs out of them	Animals used for testing vaccines/producing serums
Mushroom growing, tissue culture	

for use in dairy products (growth of tissues or cells in an artificial medium separate from the parent organism)	

*Assuming such plants, organisms/ animals are developed by the entity for sale or for conversion into agricultural produce or into additional biological assets.

Question 2

A Ltd. is in the business of cultivating mango plantations. These mangoes are sold under a popular brand name. Whether such brand name falls within the scope of Ind AS 41?

Response

The mangoes cultivated by A Ltd. are sold by A Ltd. under a popular brand name.

Paragraph 2 of Ind AS 41, *Agriculture, inter alia*, states as under:

"2 This Standard does not apply to:

a) …

b) …

c) …

d) intangible assets related to agricultural activity (See Ind AS 38 *Intangible Assets*).

e) …"

Therefore, the brand name used by A Ltd. to sell its mangoes is not within the scope of Ind AS 41, *Agriculture* and must be accounted as per the principles of Ind AS 38, *Intangible Assets.*

Question 3

Elaborate the terms biological asset, bearer plant, consumable biological asset and bearer biological asset as per Ind AS 41, with the help of examples.

Response

The Standard defines a biological asset in paragraph 5 as under:

"A *biological asset* is a living animal or plant."

Therefore, any kind of living animal or plant would be considered a biological asset in accordance with Ind AS 41.

Paragraph 5 of Ind AS 41 defines a bearer plant as follows:

“A *bearer plant* is a living 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.”

Further, paragraph 44 of Ind AS 41 provides guidance on consumable biological assets and bearer biological assets which states as under:

“44 Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced and fruit trees from which fruit is harvested. Bearer biological assets are not agricultural produce but, rather, are held to bear produce.”

Therefore, biological assets are further classified into consumable biological assets or bearer biological assets depending upon the nature of such assets. On combined reading of paragraphs 5 and 44 of Ind AS 41, it can be concluded that a bearer plant will essentially be a bearer biological asset. However, paragraph 2 of Ind AS 41, *inter alia*, states as under:

“2 This Standard does not apply to:

(a) ...

(b) bearer plants related to agricultural activity (see Ind AS 16). However, this Standard applies to the produce on those bearer plants.

(c) ...

(d) ...

(e) ...”

In view of the above, a bearer plant even though it is a bearer biological asset, will not be accounted as per the accounting principles of Ind AS 41, *Agriculture* because of the specific scope exemption provided in aforementioned paragraph 2(b) of Ind AS 41. Bearer plants related to agricultural activity are accounted as per the principles of Ind AS 16, *Property, Plant and Equipment.* However, Ind AS 41 applies to the produce on bearer plants.

Further, a consumable biological asset, whether a plant or an animal and a bearer biological asset which is an animal are accounted in accordance with Ind AS 41.

Following are examples of biological assets (bearer/consumable), agricultural produce and products that are the result of processing after harvest:

Biological assets	**Bearer/Consumable**	**Accounted under Ind AS 41/Ind AS 16**	**Agricultural produce**	**Accounted under Ind AS 41 (at the point of harvest**	**Products that are the result of processing after harvest**
Sheep	Bearer animal	Ind AS 41	Wool	Ind AS 41	Yarn, carpet
Tea bushes	Bearer plant	Ind AS 16	Picked leaves	Ind AS 41	Tea
Pigs	Consumable animal	Ind AS 41	Carcass	Ind AS 41	Sausages, Cured ham
Grape vines	Bearer plant	Ind AS 16	Picked grapes	Ind AS 41	Wine

Question 4

XYZ Ltd. owns rubber trees that are used for selling latex as well as for harvesting as lumber after extraction of the latex. Whether the rubber trees should be classified as bearer plants to be accounted for as per Ind AS 16 or be accounted for as biological asset under Ind AS 41?

Response

Paragraph 5 of Ind AS 41 defines biological asset and bearer plant as follows:

"A *biological asset* is a living animal or plant."

"A *bearer plant* is a living 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."

Further paragraph 5A of Ind AS 41, inter alia, states:

"The following are not bearer plants:

(a) …

(b) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(c) ..."

Based on the above, it can be concluded that plants with more than one potential use cannot be termed as bearer plants, since bearer plants within the scope of Ind AS 16 are those that are solely used in the production or supply of agricultural produce.

In the given case, XYZ Ltd. holds rubber trees for dual purpose of cultivating agricultural produce (i.e. latex) and tree as lumber. Therefore, it is outside the definition of bearer plants and hence will be accounted for as biological asset as per Ind AS 41.

Question 5

Alphanso Ltd. owns 100 mango trees. Each tree has 20 unharvested mangoes onto them. Whether the mango trees are to be accounted for separately from its produce, i.e. should the same physical biological asset be treated as two different assets in the balance sheet as per Ind AS?

Response

Paragraph 5 of Ind AS 41 defines a bearer plant as follows:

"A *bearer plant* is a living 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."

Further, as per paragraph 5C of Ind AS 41, Produce growing on bearer plants is a biological asset.

In accordance with the above, it may be noted that Ind AS 41 makes a difference between:

- a bearer plant which is accounted for under Ind AS 16, *Property, plant and Equipment*; and
- produce growing on bearer plants is a biological asset to be accounted for under Ind AS 41.

Bearer plants and their agricultural produce are considered to be two separate assets for accounting purposes, i.e. two units of account with different measurement models being applied under different standards.

Ind AS 1, *Presentation of Financial Statements* requires property, plant and equipment to be disclosed separately from biological assets within the scope of Ind AS 41.

Question 6

Fisheries Ltd. practices pisciculture in sweet waters (ponds, tanks and dams). The fishing activity of Fisheries Ltd. in such sweet waters consists only of catching the fishes. Will such fishing activity be within the scope of Ind AS 41?

Response

Paragraph 5 of Ind AS 41, defines Agricultural activity as follows:

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

For fishing to qualify as agricultural activity, it must satisfy both of the below mentioned conditions:

a) management of biological transformation of a biological asset; and

b) harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Therefore, when fishing involves managed activity to grow and procreate fishes in designated areas, such fishing is an agricultural activity as per the above definition. Managing the growth of fish for subsequent slaughter or sale is an agricultural activity as per Ind AS 41.

In the aforementioned scenario, only fish harvesting is managed by Fisheries Ltd. Therefore, mere fish harvesting without management of biological transformation cannot be termed as an agricultural activity as per Ind AS 41.

Hence, fishing in sweet waters (pond, tanks and dams) where only fishing (harvesting) is carried out without any management of biological transformation is outside the scope of Ind AS 41.

Question 7

Shree Tea Ltd. is in the business of producing tea powder. To produce tea powder, tea leaves are plucked from tea plants and then processed into tea powder. How will such plucked tea leaves be measured?

Response

Paragraph 3 of Ind AS 41, *Agriculture* states as follows:

"3 This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2, *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard."

In the given case, Shree Tea Ltd. produces tea powder by processing tea leaves after they are plucked from tea plants, i.e. after they are harvested. Accordingly, any processing of harvested agricultural produce (processing of tea leaves into tea powder) will not be within the scope of Ind AS 41 as per aforementioned paragraph 3 of Ind AS 41.

Paragraph 5 of Ind AS 41, *Agriculture* defines agricultural produce and a biological asset as follows:

"*Agricultural produce* is the harvested product of the entity's biological assets."

"A *biological asset* is a living animal or plant."

Based on above definitions, at the point of harvest, the plucked leaves are the harvested product of tea plants which are the biological assets of Shree Tea Ltd., hence such plucked tea leaves are agricultural produce as per Ind AS 41.

Further, paragraph 13 of Ind AS 41 provides as under:

"13 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 Inventories or another applicable Standard."

Therefore, in line with paragraph 13 of Ind AS 41, the fair value less costs to sell of the plucked leaves at the point of harvest would be the cost of such plucked leaves at the date of applying Ind AS 2. Subsequently, such plucked tea leaves will be measured as inventory as per the accounting principles of Ind AS 2, *Inventories.*

Question 8

Milk delight Ltd. operates a dairy farm. In its farm milk from cattle is further processed and converted into curd, lassi, ice cream, milk powder, shrikhand etc. How should Milk delight Ltd. account for milk and its milk products in its balance sheet as per the principles prescribed under Ind AS 41?

Response

Paragraphs 1, 3 and 13 of Ind AS 41 provide as follows:

"1 This Standard shall be applied to account for the following when they relate to agricultural activity:

(a) biological assets;

(b) agricultural produce at the point of harvest; and

(c) government grants covered by paragraphs 34 and 35."

"3 This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2, *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard."

"13 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the

point of harvest. Such measurement is the cost at that date when applying Ind AS 2 Inventories or another applicable Standard."

In view of the above paragraphs, all animals used in a dairy farm are considered to be biological assets and milk derived from such animals is an agricultural produce. Therefore, the milk will be measured at fair value less costs to sell at the point of milking in line with paragraph 13 of Ind AS 41. Subsequently, such milk (raw material) will be measured as inventory as per the accounting principles of Ind AS 2, *Inventories.*

Also, work in progress (milk processed products in progress) and finished goods produced (milk processed products) will be covered by Ind AS 2, *Inventories*.

Question 9

An entity operates a poultry farm for which it owns chickens to lay eggs. Whether such chickens are biological assets and the eggs (hatching or non-hatching) obtained from such chickens are agriculture produce as per Ind AS 41, *Agriculture?*

Response

Paragraph 5 of Ind AS 41 defines biological asset and agricultural produce and biological asset as follows:

"A *biological asset* is a living animal or plant."

"*Agricultural produce* is the harvested product of the entity's biological assets."

Based on the above definitions, chickens used for laying eggs in a poultry farm are living animals therefore, they are biological assets as per Ind AS 41. Further, the eggs that such chicken lay, both hatching or non-hatching are essentially harvested products derived from the chickens which are biological assets. Therefore, such eggs (hatching or non-hatching) are agricultural produce as per Ind AS 41, *Agriculture.*

Question 10

Whether crops growing on ground (for example maize, wheat, rice, etc.) and produce growing on bearer plants (for example fruits like apples, mangoes, oranges, etc.) that are undergoing biological transformation at the reporting date are required to be recognised in the balance sheet. If yes, then how should it be measured as per Ind AS 41?

Response

Paragraph 2 of Ind AS 41, *inter alia*, states as under:

“2 This Standard does not apply to:

a) …

b) bearer plants related to agricultural activity (see Ind AS 16). However, this Standard applies to the produce on those bearer plants.

c) …

d) …

e) …”

Paragraph 5 of Ind AS 41 defines the following:

“*Agricultural produce* is the harvested product of the entity’s biological assets.”

“A *biological asset* is a living animal or plant.”

“A *bearer plant* is a living 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.”

Paragraph 5C of Ind AS 41 provides as follows:

“5C Produce growing on bearer plants is a biological asset.”

Further, paragraph 44 of Ind AS 41 provides guidance on consumable biological assets and bearer biological assets which states as under:

“44 Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced and fruit trees from which fruit is harvested. Bearer biological assets are not agricultural produce but, rather, are held to bear produce.”

In view of aforementioned paragraphs, the crops growing on ground (for example maize, wheat, rice, etc.) are consumable biological assets within the scope of Ind AS 41, *Agriculture.*

The produce growing on the bearer plant (for example fruits like apples, mangoes, oranges, etc.) are consumable biological assets and growth of these produce directly increases the expected revenue from their prospective sale. Consequently, produce are biological assets within the scope of Ind AS 41.

Further paragraph 10 of Ind AS 41 provides the recognition criteria as follows:

"10 An entity shall recognise a biological asset or agricultural produce when, and only when:

(a) the entity controls the asset as a result of past events;

(b) it is probable that future economic benefits associated with the asset will flow to the entity; and

(c) the fair value or cost of the asset can be measured reliably."

The guidance for measurement of biological assets is provided in paragraphs 12 and 30 of Ind AS 41 which state as follows:

12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.

30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

In accordance with the above measurement requirements, crops growing on the ground (for example maize, wheat, rice, etc.) and produce growing on trees (for example fruits like apples, mangoes, oranges, etc.) shall be measured at fair value less costs to sell as per Ind AS 41 by applying the measurement techniques and principles prescribed under Ind AS 113, *Fair Value Measurement*.

It may be noted that reporting entities are required to disclose information about assumptions and estimates that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year as per paragraph 125 of Ind AS 1, *Presentation of Financial Statements*.

Further, paragraph 91 of Ind AS 113, *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop such measurements, and the effect of measurements that use Level 3 inputs.

Question 11

Agro farming Ltd. is in the business of selling meat and vegetables. It owns a fleet of livestock that it uses for varied purposes. It has chickens to lay eggs, goats to harvest meat bulls for ploughing its agricultural land. Will such livestock be accounted as per requirements of Ind AS 41?

Response

Paragraph 5 of Ind AS 41 defines a biological asset and agricultural activity as follows:

"A *biological asset* is a living animal or plant."

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

Livestock are commonly defined as domesticated animals raised in an agricultural setting to provide labour or produce commodities such as meat, eggs, milk, fur, leather, wool etc. If such activities satisfy the definition of agricultural activity, then they would be covered under Ind AS 41. Therefore, management of biological transformation of livestock for producing meat, eggs, milk, fur, leather, wool and similar products will be covered under Ind AS 41.

Though livestock is a biological asset, livestock used for ploughing, carting, harvesting operations etc. are not covered by Ind AS 41. Similarly guard dogs, animals used in circus, animals kept in zoo, animals used for transportation, animals used in laboratory for vaccine trials, animals used for racing, pet animals, etc. are also not covered under Ind AS 41.The development of animals for the mentioned purposes do not qualify as agricultural activities, as these animals are not being developed for sale or for conversion into agricultural produce or additional biological assets.

Accordingly, in the given case, chickens and goats will be accounted as per Ind AS 41, while, bulls are outside the scope of Ind AS 41.

Question 12

Delhi Racing Club Ltd. raises certain horses that are trained for racing and some horses are utilised primarily for breeding, to produce racehorses. Should these horses be accounted as per Ind AS 41?

Response

Paragraph 1 of Ind AS 41 defines the scope of applicability of Ind AS 41, which states as:

"1 This Standard shall be applied to account for the following when they relate to agricultural activity:

(a) biological assets;

(b) agricultural produce at the point of harvest; and

(c) government grants covered by paragraphs 34 and 35."

Further, paragraph 5 of Ind AS 41 defines a biological asset and agricultural activity as follows:

"A *biological asset* is a living animal or plant."

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

On reading of the above, it can be concluded that Ind AS 41 shall be applied to only those biological assets which are related to agricultural activities.

In the given case, the racehorses even though biological assets are raised primarily for racing which is not an agricultural activity, therefore such racehorses should not be accounted as per Ind AS 41. However, raising of horses that are utilised primarily for breeding satisfies the definition of agricultural activity as breeding results into additional biological assets (i.e. racehorses). Therefore, such breeding horses shall be accounted as per Ind AS 41.

Question 13

Zen Pharma Ltd. is a pharmaceutical company that manufactures legal drugs. It owns a plantation of medicinal herbs that are used in the manufacture of legal drugs. Such herbs can only be harvested once in its lifetime for its leaves and therefore do not meet the definition of a bearer plant. Management of Zen Pharma is of the view that plants used in the pharmaceutical and biotechnology industries are biological assets and should be accounted for under Ind AS 41? Whether the contention of management is correct?

Response

Paragraph 1 of Ind AS 41 defines the scope of applicability of Ind AS 41, which states as:

"1 This Standard shall be applied to account for the following when they relate to agricultural activity:

(a) biological assets;

(b) agricultural produce at the point of harvest; and

(c) government grants covered by paragraphs 34 and 35."

Paragraph 5 of Ind AS 41 defines a biological asset and agricultural activity as follows:

"A *biological asset* is a living animal or plant."

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

On reading of the above, it can be concluded that Ind AS 41 shall be applied to only those biological assets which are related to agricultural activities.

In the given case, Zen Pharma Ltd. grows medicinal herbs that are harvested for its leaves which is the harvested agricultural produce. Such activity therefore meets the definition of an agricultural activity as per Ind AS 41. Accordingly, Zen Pharma Ltd. shall account for medicinal herbs as biological assets as per Ind AS 41.

Question 14

Beta Ltd. raises goats for slaughter and sells the carcass to local meat market. Whether slaughtering of such goats is an agricultural activity as per Ind AS 41? How will the goats and the carcass be accounted?

Response

Paragraph 5 of Ind AS 41 defines a biological asset and agricultural produce as follows:

"A *biological asset* is a living animal or plant."

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

"*Agricultural produce* is the harvested product of the entity's biological assets."

As per the above definitions, goats raised for slaughter are biological assets since they are living animals. Slaughtering is managed by Beta Ltd. to obtain carcass from goats, which is then sold in the local meat market. Therefore, such management of goats, until the stage of slaughter is an agricultural activity as per Ind AS 41. However, once the goats are slaughtered, biological transformation ceases and the carcass obtained is a harvested product of the goats. Therefore, the carcass meets the definition of agricultural produce.

Paragraphs 12 and 13 of Ind AS 41 provide guidance on measurement of biological assets and agricultural produce as under:

"12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.

13 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 Inventories or another applicable Standard."

Hence, Beta Ltd. should measure the goats at fair value less costs to sell in accordance with aforementioned paragraph 12 of Ind AS 41. Further, when the goats are slaughtered, biological transformation ceases, the carcass which meets the definition of agricultural produce shall be measured at fair value less costs to sell at the point of slaughter. Subsequently, such carcass should be accounted as inventory in accordance with Ind AS 2, *Inventories.*

Question 15

Can coconut trees which are cultivated to produce coconuts be termed as bearer plants as per Ind AS 41? Will such coconut trees, when cut and sold at the end of its economic life be accounted as per Ind AS 41?

Response

Paragraph 5 of Ind AS 41 defines a biological asset and a bearer plant as follows:

"A *biological asset* is a living animal or plant."

"A *bearer plant* is a living 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."

Further paragraph 5B of Ind AS 41 states as under:

"5B When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant."

Bearer plants are measured in accordance with the principles prescribed under Ind AS 16, *Property, Plant and Equipment*.

Based on above, coconut tree being a living plant is a biological asset. The coconut trees are cultivated to produce coconuts which are an agricultural produce. The coconut tree would bear produce for more than one period and there is a remote likelihood of such coconut tree being sold as agricultural produce, except for sale as an incidental scrap. Therefore, such coconut trees will be treated as bearer plants as per Ind AS 41 and will be accounted as per the principles prescribed under Ind AS 16, *Property, Plant and Equipment*.

Further, when the coconut tree is no longer used to bear coconut it may be cut down and sold as scrap, for example, coconut timber for making furniture, door and window frames. In accordance with Ind AS 41, such incidental scrap sales do not prevent the coconut tree from satisfying the definition of a bearer plant and therefore, the same will be accounted as per Ind AS 16, *Property, Plant and Equipment*.

Question 16

ABC Ltd. is in the business of manufacturing an apple beverage and requires large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

1) **Contract 1:** The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.

2) **Contract 2:** ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Response

Paragraph 5 of Ind AS 41, *Agriculture* defines agricultural activity and biological transformation as follows:

"*Agricultural activity* is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

"Biological transformation **comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset."**

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets , it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset, Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

Question 17

ABC Ltd. is in the business of growing and selling vegetables. For this purpose, it cultivates land to sell the harvested produce in local markets. It purchased an agricultural land to cultivate crops. How will such land be accounted by ABC Ltd.?

Response:

Paragraph 2 of Ind AS 41, *Agriculture, inter alia*, states as under:

"2 This Standard does not apply to:

(a) land related to agricultural activity (see Ind AS 16 *Property, Plant and Equipment* and Ind AS 40 *Investment Property*);

(b) - (e) ..."

As per aforementioned paragraph, the land related to agricultural activity is outside the scope of Ind AS 41 and should be accounted for as per Ind AS 16, *Property, Plant and Equipment* or Ind AS 40, *Investment Property*, as the case may be.

In the given case, the agricultural land purchased by ABC Ltd. shall be accounted for as per the principles laid down in Ind AS 16, *Property, Plant and Equipment* as the land is held by ABC Ltd. to cultivate crops for production of goods.

Question 18

Biological assets are required to be measured at fair value less costs to sell as per paragraph 12 of Ind AS 41. Whether transport costs can be considered as part of 'costs to sell' as per Ind AS 41?

Response

Paragraph 12 of Ind AS 41 states that, "**A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.**"

Paragraph 5 of Ind AS 41 defines costs to sell as follows:

"*Costs to sell* are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes."

It includes those costs that are necessary for sale but that would not otherwise arise, such as commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties.

Costs to sell exclude transport and other costs necessary to get assets to a market. The word 'incremental' in the definition of 'costs to sell' excludes costs that are included in the fair value measurement of a biological asset, such as transport costs. Such transport and other costs are deducted in determining fair value as per paragraph 25 and 26 of Ind AS 113, *Fair Value Measurement*.

In other words, transport and other costs necessary to get an asset to a market are already considered in the measurement of fair value.

Question 19

In a poultry farm, can chickens be grouped to determine their fair value?

Response

Paragraph 15 of Ind AS 41 states as under:

"15 The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing."

Based on above, chicken at the poultry farm may be categorised as broiler or layer birds and they may be grouped based on the quality, breed and age for determining the fair value of such birds. An entity selects the attributes corresponding to the attributes used in the market as a basis of pricing.

Question 20

Whether impairment loss is required to be recognised on a biological asset?

Response

The guidance regarding measurement of biological assets is provided in paragraph 12 of Ind AS 41 as under:

"12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."

Since biological assets are required to be measured at fair value less costs to sell at each reporting date, the fair valuation of such assets will take into account the impairment loss if any during the period.

However, in cases where fair value of biological assets cannot be measured reliably, paragraph 30 of Ind AS 41, states as under:

"30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably."

Further, paragraph 2 of Ind AS 36, *Impairment of Assets*, *inter alia*, states as under:

"2 This Standard shall be applied in accounting for the impairment of all assets, other than:

(a)- (f)

(g) biological assets related to agricultural activity within the scope of Ind AS 41 *Agriculture* that are measured at fair value less costs to sell;

(h)-(i)"

Based on above, Ind AS 36 specifically excludes only those biological assets which are measured at fair value less costs to sell from its scope. Therefore, biological assets which are measured at cost less any accumulated depreciation and any accumulated impairment losses as per paragraph 30 of Ind AS 41 will be covered under the scope of Ind AS 36. Accordingly, such biological assets will be tested for impairment and an impairment loss will be recognised (if any) as per the accounting requirements of Ind AS 36.

Question 21

XYZ Ltd., on 1st December, 2020, purchased 100 goats from market for Rs. 5,00,000.. The costs to sell such goats is 2% of the market price as on the transaction date. Due to increased demand, the market price of such goats increased from Rs. 5,00,000 to Rs. 6,00,000 on 31st March, 2021. If XYZ Ltd. wants to sell these goats on 31st March, 2021, it will have to incur Rs. 15,000 as costs to sell. How will such goats be measured by XYZ Ltd. on the date of purchase and the reporting date i.e. 31st March, 2021?

Response

Paragraphs 12 and 26 of Ind AS 41, Agriculture state as under:

"12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."

"26 A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises."

Based on above, XYZ Ltd. should measure the goats on initial recognition and subsequently at the end of the reporting period at fair value less costs to sell.

Therefore, in the given case, on the date of purchase, the fair value less cost to sell of goats would be calculated as under:

Purchase price (Fair value) – Costs to sell

= Rs. 5,00,000 – Rs. 10,000 (Rs. 5,00,000 x 2%)

= Rs. 4,90,000.

Subsequently, on the reporting date, the fair value less costs to sell of goats would be calculated as under:

Market price (Fair value) – Costs to sell

= Rs. 6,00,000 – Rs. 15,000

= Rs. 5,85,000

Further, the gain arising on subsequent measurement of such goats at the reporting date will be calculated as:

Carrying value on reporting dates – Carrying value on date of purchase

= Rs. 5,85,000 – Rs. 4,90,000

= Rs. 95,000

Such gain of Rs. 95,000 should be recognised in the profit or loss by XYZ Ltd for the year ended 31st March, 2021.

Question 22

Sunder dairy Ltd. operates dairy farm and owns cows for producing milk. During the year, one of the cows gives birth to a calf. The fair value of the calf on its birth is Rs. 10,500 and an expenditure of Rs. 500 is estimated to be incurred to sell such calf. How should Sunder dairy Ltd. . account for the new calf in its financial statements?

Response

The calf born to a cow of Sunder dairy Ltd. would be a biological asset of Sunder dairy Ltd. in line with the definition of biological asset provided in paragraph 5 of Ind AS 41, as under:

"A *biological asset* is a living animal or plant."

Paragraph 12 of Ind AS 41 provides guidance on measurement of a biological asset which states as under:

"12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."

Accordingly, Sunder dairy Ltd. will measure the calf on initial recognition at its fair value less costs to sell which is calculated as under:

= Fair Value – Costs to sell

= Rs. 10,500 – Rs. 500

= Rs. 10,000

Further, paragraph 26 of Ind AS 41 states as under:

"26 A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises."

On initial recognition of calf, a gain of Rs. 10,000 arises to Sunder dairy Ltd. due to birth of such calf which should be recognised in the Statement of Profit and Loss for the year.

Question 23

What is the transitional guidance for first time application of Ind AS 41, *Agriculture*?

Response

There was no standard on Agriculture prior to Ind AS 41. The accounting for agriculture was done with reference to the then prevailing varied practices.

Ind AS 101, does not specifically provide any exemption for items covered under Ind AS 41. Accordingly, an entity is required to apply the requirements of Ind AS 8 for adoption of this standard. Ind AS 41 requires biological assets and agricultural produce within its scope to be measured at fair value less cost to sell at the reporting date along with the recognition of gain or loss in profit or loss. Therefore, an entity which is a first-time adopter will measure these assets at fair value less cost to sell at the date of transition to Ind AS 41 and recognise the gain or loss in the retained earnings on the date of transition. Any fair value change as on reporting date will be recognised in profit or loss for the year.

Further, since the accounting for bearer plants is scoped out from Ind AS 41 (and is rather covered under Ind AS 16, *Property, Plant and Equipment*), first-time adoption exemptions for property plant and equipment (PPE) will apply to bearer plants as well.

Question 24

P Ltd. is involved in raising a biological asset and recognises them at fair value less costs to sell as per Ind AS 41. The fair value is based on a market-determined price at local markets. Due to some unforeseen circumstances, the price of the biological asset has been severely impacted making them highly volatile. Management of P Ltd. believes that the prices in these markets reflects abnormal conditions and hence are unreliable, and therefore, wishes to adopt cost model approach for the current period. Can such biological asset initially recognised at fair value less costs to sell be subsequently measured at cost less accumulated depreciation and impairment losses?

Response

Paragraph 30 of Ind AS 41, states as under:

"30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably."

Based on above, it may be noted that Ind AS 41 prohibits entities from changing their measurement basis from fair value to cost. If an entity has previously measured a biological asset at its fair value less costs to sell, the Standard requires the entity to continue to measure the biological asset at its fair value less costs to sell until disposal. The presumption in paragraph 30 above can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable.

Accordingly, in the given case, P Ltd. should continue to recognise the biological asset at its fair value less costs to sell. until its t disposal. Furthermore, it may provide additional disclosures regarding the abnormal conditions impacting the price volatility etc. so as to provide relevant information to the users.

Question 25

A Ltd. is in the business of milking cows to sell the obtained milk. On April 1, 2021, it purchased 100 cows for Rs. 5 lakhs and received government grant of Rs. 5 lakhs for the said purchase of cows. This grant is non-refundable. Management of A Ltd. requires guidance on whether such government grant received by A Ltd. can be:

- netted off against the value of cows, or
- deferred over the useful life of cows?

Response

Paragraphs 34, 35 and 38 of Ind AS 41 provide guidance on accounting of government grants related to biological assets, which state as under:

"34 An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

35 If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met."

"38 This Standard requires a different treatment from Ind AS 20, if a government grant relates to a biological asset measured at its fair value less costs to sell or a government grant requires an entity not to engage in specified agricultural activity. Ind AS 20 is applied only to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses."

Further, paragraph 2 of Ind AS 41, inter-alia, states,

"2 This Standard does not apply to:

(a) - (b) …

(c) government grants related to bearer plants (see Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*).

(d) - (e)…"

On combined reading of above paragraphs, it may be noted that:

- Unconditional government grant related to a biological asset measured at its fair value less costs to sell should be recognised in profit or loss when the government grant becomes receivable.
- Conditional government grant related to a biological asset measured at its fair value less costs to sell should be recognised in profit or loss when the conditions attached to such grants are met.
- Government grants related to bearer plants should be recognised as per Ind AS 20.

- Government grants related to a biological asset measured at cost less any accumulated depreciation and any accumulated impairment losses as prescribed under paragraph 37 of Ind AS 41 should be recognised in accordance with Ind AS 20.

In the instant case, A Ltd. has received unconditional grant relating to purchase of biological asset i.e. cow. Accordingly, A Ltd. can neither net off the government grants against the value of cows nor can it recognise the grant over the useful life of cows. The grant of Rs. 5 lakhs should be recognised in the Statement of profit and loss of A Ltd. for the year end.

Question 26

Farm fresh Ltd. is in the business of growing and selling organic vegetables. On April 1, 2020 it receives a government grant of Rs. 20 lakhs for cultivating a particular land for a period of 10 years with a condition that if Farm fresh stops cultivation of land before completion of 10 years, it shall return the grant after retaining the proportionate portion of the grant for the period it has cultivated such land. Farm fresh Ltd. carries on cultivation of such land throughout the year 2020-21. The Management had a reasonable assurance that the Entity will comply with condition of cultivating the land for specified period of 10 Years. How should Farm fresh Ltd. recognise the said grant for the year ended March 31, 2021?

Response

Paragraphs 35 and 36 of Ind AS 41 state as under:

"35 If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

36 Terms and conditions of government grants vary. For example, a grant may require an entity to farm in a particular location for five years and require the entity to return the entire grant if it farms for a period shorter than five years. In this case, the grant is not recognised in profit or loss until the five years have passed. However, if the terms of the grant allow part of it to be retained according to the time that has elapsed, the entity recognises that part in profit or loss as time passes."

In the given case, Farm fresh Ltd. has received a government grant to cultivate a particular land for a period of 10 years with a condition that such grant shall be returned if it stops cultivating the land before a period of 10 years. The grant is to be returned after retaining a proportionate portion relating to the period for which the land was cultivated by Farm fresh Ltd.

Based on the above, Farm fresh Ltd. should recognise the government grant in profit or loss to the extent the condition attached to the grant is met, i.e. the period for which the said land is cultivated. Accordingly, Farm fresh Ltd. should proportionately allocate the government grant of Rs. 20 lakhs over a period of 10 years and the grant of Rs. 2 lakhs (Rs. 20 lakhs / 10 years) will be recognised in profit or loss for the year ended March 31, 2021.

If the terms and conditions attached to the grant were different and the entity was required to repay the full amount of the grant to the government if it stops the cultivation activity at any time during the 10 years, then the entire grant of Rs 20 lakhs will be deferred and recognised in profit or loss after the 10-year period expires.

Question 27

How should biological assets and changes in fair value of biological assets be presented in the financial statements of an entity as per Ind AS?

Response

Biological assets (other than bearer plants) should be classified as current or non-current assets as per paragraph 66 of Ind AS 1, *Presentation of Financial Statements*.

As per paragraph 43 of Ind AS 41, an entity is encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate along with the basis for making any such distinctions.

Further, as per paragraph 51 of Ind AS 41, changes in fair value of biological assets (other than bearer plants) are required to be presented in statement of profit and loss. Separation of changes in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by Ind AS 41.

Bearer plants are recognised in accordance with Ind AS 16, *Property, Plant and Equipment* and should be presented as per the principles of Ind AS 16.

Question 28

ABC Ltd. is in the business of growing corn for sale in local markets. It also has an establishment to obtain milk from cows which is sold in the local markets as well. How will ABC Ltd. present the corn crops and cows in its Balance Sheet?

Response

Paragraphs 60 and 66 of Ind AS 1, *Presentation of Financial Statements,* state as under:

"60 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet in accordance with paragraphs 66–76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.""66 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current."

In the given case, the corn crops (planted solely to be harvested as corn) are biological assets of the entity. The corn crops are expected to be realised within the normal operating cycle of the reporting entity and therefore shall be classified as current asset in the Balance Sheet of A Ltd.

The cows on the other hand being the bearer biological asset of the entity are expected to provide agricultural produce for more than 1 operating cycle and hence may be classified as non-current. An entity should consider the period over which it will derive future economic benefits from the asset. It is normally consistent with determining the useful life of an item of property, plant and equipment in accordance with Ind AS 16.

Question 29

Lumberjacks Ltd. has a plantation with the capacity to grow 200 oak trees. It is in the business of planting the acorns of oak trees and raising them to harvest timber. The oak trees are raised for 30 years until they are mature enough to be cut down for harvesting timber. The oak trees do not meet the definition of bearer plants. Lumberjacks Ltd. planted 100 acorns on 1 December 2020, and the costs incurred to plant them were Rs. 10,000. As on 31 March 2021, Lumberjacks Ltd. had 50 fully matured oak trees which were planted for a cost of Rs. 1,000 and another 50 oak saplings which were planted 10 years ago for a cost of Rs. 3,000. There exists no active market for sale of oak saplings or under developed oak trees. Active market exists for fully grown oak trees and Lumberjacks Ltd. has derived the market value of one matured oak tree to be Rs. 10,000 as on 31 March 2021.It will incur selling cost of Rs.1,000 per tree. How should Lumberjacks Ltd. measure the following?

- Fully matured 50 oak trees on 31 March 2021.
- Newly planted 100 oak saplings on initial recognition and on 31 March 2021.
- Underdeveloped 50 oak saplings planted 10 years ago on 31 March 2021.

Response

Paragraph 10, 12 and 30 of Ind AS 41, *Agriculture* states,

"10 An entity shall recognise a biological asset or agricultural produce when, and only when:

(a) the entity controls the asset as a result of past events;

(b) it is probable that future economic benefits associated with the asset will flow to the entity; and

(c) the fair value or cost of the asset can be measured reliably."

"12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."

"30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably."

As per the above guidance, a biological asset should be recognised when all the conditions for recognition are met. Paragraph 12 of Ind AS 41 requires a biological asset to be measured at fair value less costs of sale at initial recognition and at the end of every reporting period except when paragraph 30 applies.

In accordance with the above, it may be noted that reference to 'clearly unreliable' in above paragraph indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable. That is, the presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable.

Fully matured 50 oak trees

In the given case, the 50 oak trees are fully matured and can be harvested, the market value of Rs. 10,000 per tree is reliably derived by Lumberjacks Ltd. Therefore, the fully matured 50 oak trees should be measured at its fair value less costs to sell i.e. Rs. 4,50,000 [50 X (10,000-1,000)] by Lumberjacks Ltd. by applying paragraph 12 of Ind AS 41, *Agriculture.*

Newly planted 100 oak saplings

Paragraph 24 of Ind AS 41 states that, "Cost may sometimes approximate fair value, particularly when:

(a) little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to the end of a reporting period or newly acquired livestock); or

(b) the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle)."

Lumberjacks Ltd. planted the acorns for the 100 oak trees on 1 April

2020. As at 31 March 2021, only a year has elapsed since planting the acorns and the saplings are in very early stages of its growth. Since no or very little biological transformation has taken place since the initial cost was incurred, the impact of the biological transformation on price is not expected to be material. Therefore, in view of paragraph 24 of Ind AS 41 and assuming recognition criteria is met for the newly planted saplings, Lumberjacks Ltd. may measure the 100 saplings initially at cost of Rs. 10,000 if the cost approximates the fair value.

Underdeveloped 50 oak saplings planted 10 years ago

The underdeveloped oak trees which were planted 10 years ago do not have an active market for sale. They can only be sold when they are fully matured of 30 years. As on 31 March 2021, there still exists a significant amount of time required for the 50 oak saplings to be marketable.

The extent of biological transformation and its impact on price should be assessed. Unless there has been little transformation and the cost approximates the fair value of biological assets, the accounting treatment as per paragraph 24 cannot be applied.

Further, it does not appear that the given situation is one where the fair value cannot be reliably measured. The oak trees are not unique or of a very special nature such that estimates may be unreliable. The standard includes a presumption that fair value can be measured reliably for a biological asset. Thus, in situations like the present one where there is no active market for assets in its current condition, discounted cash flow model may be used. Entities can use observable inputs for identical or similar items when measuring fair value.

Furthermore, an entity must use judgment and careful consideration in determining an appropriate discount rate and estimating its future cash flows, which must be based on assumptions market participants would use. Therefore, if a market participant would consider the potential for future growth, the related cash flows and risks from additional biological transformation should be included in determining the appropriate fair value.

It may be noted that entities are required to disclose information about assumptions and estimates that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year as per paragraph 125 of Ind AS 1, *Presentation of Financial Statements*.

Further, paragraph 91 of Ind AS 113, *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop fair value measurements, and the effect of measurements that use Level 3 inputs.

Question 30

Company XYZ Limited has trees in a controlled plantation. There is no separate market for such trees. However, an active market exists for the plantation as a whole which is estimated to be Rs. 5 crores. Management of XYZ Limited is of the view that since there is no active market for the trees individually, hence fair value for the trees cannot be measured reliably and the same can be measured at cost as per paragraph 30 of Ind AS 41. The fair value of raw land and land improvements of the plantation is estimated to be Rs. 4.25 crore. The trees do not meet the definition of bearer plants as per Ind AS 41.

How should XYZ limited recognise the trees at the balance sheet date as per Ind AS 41?

Response

Paragraph 30 of Ind AS 41 states as follows:

"There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably."

In accordance with the above, it may be noted that reference to 'clearly unreliable' in above paragraph indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable. That is, the presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable.

Paragraph 25 of Ind AS 41 states as follows:

"Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets."

It is pertinent to note that the paragraph 25 above refers to the use of a residual method as an example of a possible valuation technique to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market exists for the combined assets. The reporting entity shall make a judgement to select appropriate valuation techniques to measure fair value in accordance with Ind AS 113, *Fair Value Measurement*.

Accordingly, in the given case, in order to arrive at the fair value of the trees, the fair value of the controlled plantation can be deducted from the fair value of the raw land and land improvements, i.e. Rs.5 crores – Rs. 4.25 crores. Hence, the trees shall be recognised at Rs. 75 lakhs at the balance sheet date.

Question 31

XYZ Ltd. owns a dairy farm for obtaining milk from cows to be sold in a local market. It purchases some calves to be developed into cows for producing milk for sale. After purchase of calves, it incurs certain costs that relates to their biological transformation. How should XYZ Ltd. account for such subsequent expenditure?

Response

XYZ Ltd. operates a dairy farm for obtaining milk to be sold in a local market and incurs subsequent expenditure that is required for the biological transformation of the calves.

Paragraph 12 of Ind AS 41, *Agriculture* states:

"12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."

Based on above, biological assets will be measured at fair value less costs to sell at each reporting date. Ind AS 41 does not specify the accounting for subsequent expenditure for biological assets measured at fair value less costs to sell. Since the biological assets are required to be measured at fair value at each reporting date, any subsequent expenditure on such biological assets will not affect the fair value measurement and in turn the carrying value at the reporting date.

Accordingly, an entity either capitalises subsequent expenditure or recognises it as an expense when incurred.

Capitalising such subsequent expenditure or recognising it as expense does not affect fair value measurement of biological assets nor does it have any effect on profit or loss. However, it affects the presentation of amounts in the statement of profit or loss.

Therefore, such subsequent expenditure shall be presented in the statement of profit or loss by applying requirements of paragraph 81-105 of Ind AS 1, *Presentation of Financial Statements*.

Furthermore, paragraph 13 of Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* states that, "**An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.**"

Therefore, XYZ Ltd. should apply the accounting policy for subsequent expenditure consistently to each group of its biological assets. Further, it should also disclose the selected accounting policy as per paragraphs 117–124 of Ind AS 1, *Presentation of Financial Statements* if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance.

III. Appendix 1 & 2

[Note: The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 41 and the corresponding International Accounting Standard (IAS) 41 Agriculture, issued by the International Accounting Standards Board and between Ind AS 41 and corresponding Accounting Standard issued by ICAI.]

Comparison with IAS 41, *Agriculture*

There are no major differences between Ind AS 41 and IAS 41 except for terminology changes and paragraphs relating to effective date and transition which is not relevant in Indian context.

Comparison with Accounting Standards issued by ICAI

There is no corresponding standard pertaining to Agriculture under the Companies (Accounting Standards) Rules, 2021.