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IAS® Standard 41 Agriculture

Co-funded by the
Erasmus+ Programme
of the European Union

Application of the IAS Standard 41

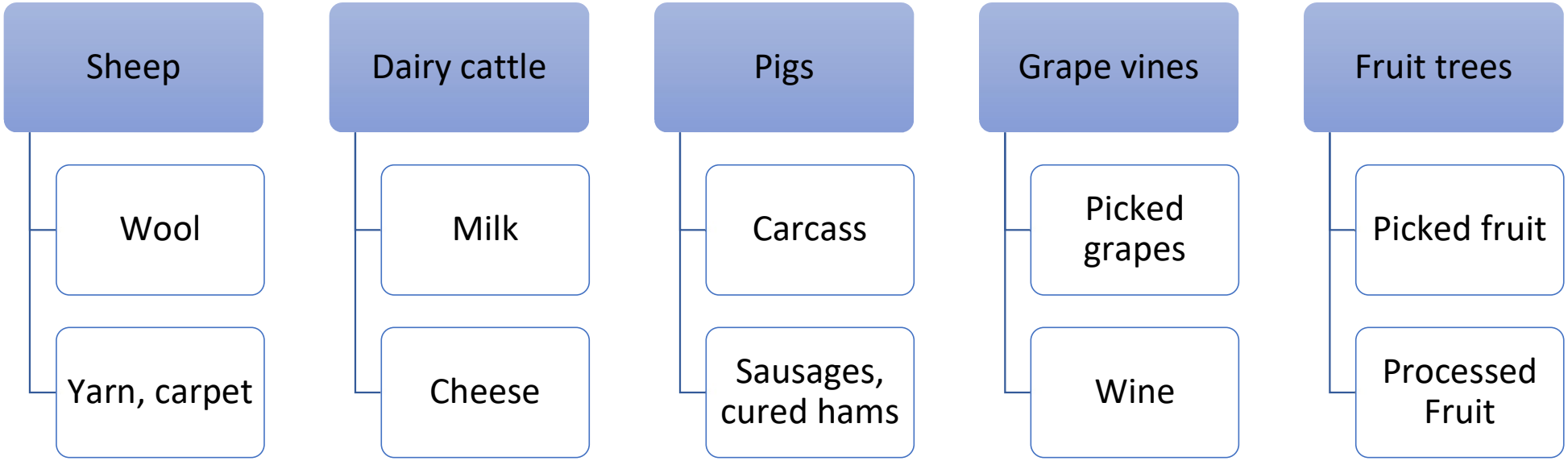
The aim of IAS Standard 41 is to standardise accounting treatment and disclosures for agricultural activities.

- Biological assets, except for bearer plants
- Agricultural produce at the point of harvest
- Government grants

- Land related to agricultural activity
- Bearer plants related to agricultural activity
- Government grants related to bearer plants
- Intangible assets related to agricultural activity
- Right-of-use assets arising from the lease of land related to agricultural activities

Examples of Biological Assets, Outputs and Final Products

IAS Standard 41 is applied to the agricultural output that is harvested at the time of harvest of the entity's biological assets.



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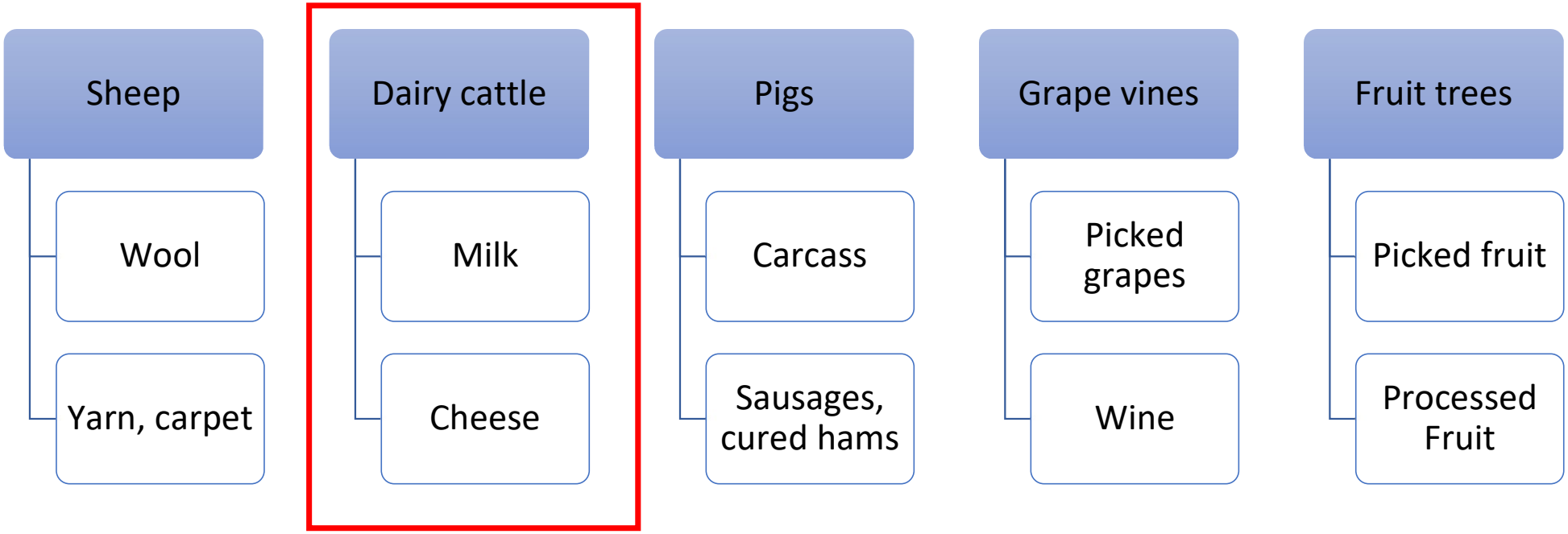
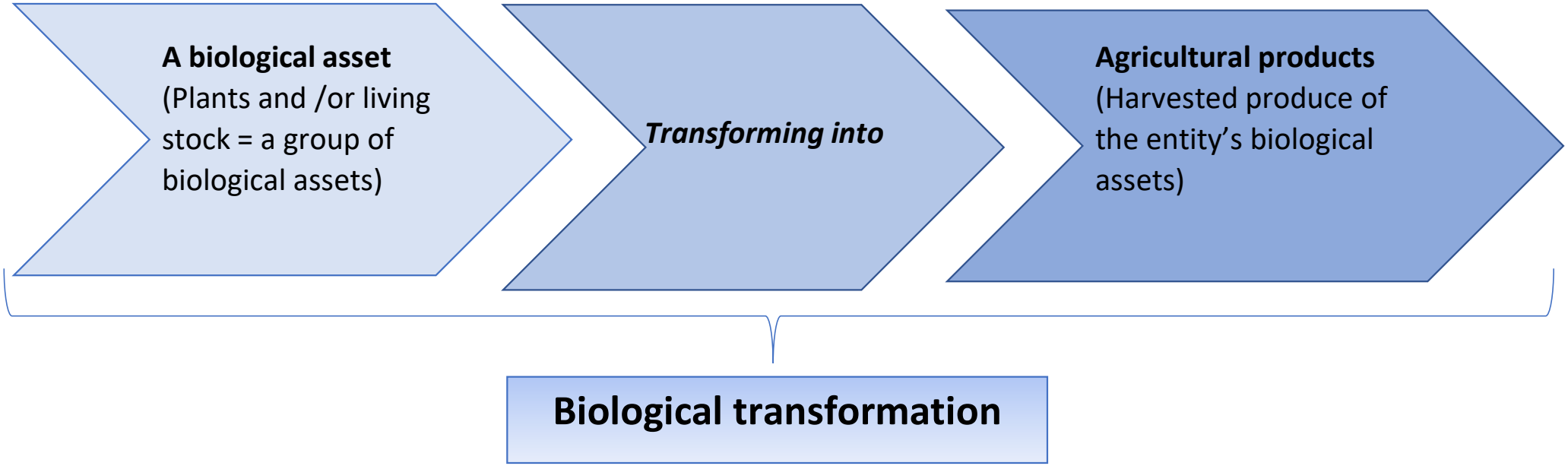


The Concept of Biological Transformation



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Costs to sell	means incremental costs, excluding finance costs and income taxes, form the additional costs related to the sale of an asset.

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The carrying amount	is the amount at which an asset is recognised in the statement of the financial position.
Fair value	is the price that would be received for the sale of an asset or paid for liability in an orderly transaction between market participants at the measurement date.

Recognition of Biological Asset or Agricultural Output

- It is a result of prior events; the entity has control over the asset.
- Future economic gains linked to the asset are likely to flow to the entity.
- The asset's fair value or cost may be measured reliably.

Examples of Recognition of Agricultural Outputs

Recognition of agricultural outputs	Examples
By cost	
By fair value	

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By cost	It is known that raw materials (seeds, fertilisers, fuel) were used to grow wheat for CU10,000, labour costs were CU3,000, and machinery costs (depreciation, repairs) were CU2,000. The total cost of growing wheat is CU15,000. It is known that the wheat harvested was 100 tons. Therefore, agricultural production (wheat) will be recorded at a cost of 100 tons at CU150.
By fair value	

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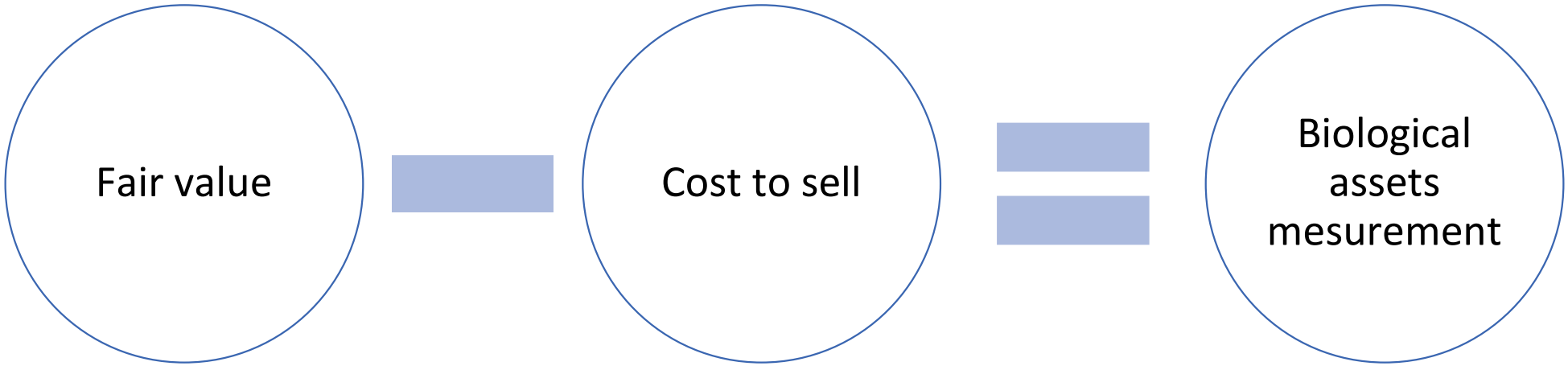
By fair value	It is known that the entity produced 100 tons of wheat. The price of wheat on the principal market on the valuation day was found to be CU140 per tonne. Therefore, wheat will be recorded at fair value of 100 tonnes for CU140 at a total value of CU14,000.

Measurement of Biological Assets



Examples of Measurement of Biological Assets

Situation	The entity purchases a cow at an auction for CU2,000. The entity knows that the brokers were paid CU200 for the transaction.

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Situation	The entity purchases a cow at an auction for CU2,000. The entity knows that the brokers were paid CU200 for the transaction (transaction cost).
Solution	Given that biological assets in entity are recognized at fair value in the initial and subsequent evaluation, the biological assets will be accounted at price less transaction costs. Therefore, the fair value of a cow is CU2,000 – CU200 = CU1,800.

Examples of Grant Recognition

Situation	Examples
The agricultural entity received CU2,000 grant (direct payments) for infertile crops on 15 August 20x1.	

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The agricultural entity received CU2,000 grant (direct payments) for infertile crops on 15 August 20x1.	Grant received: Dr. Cash CU2,000 Cr. Revenue CU2,000

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Examples of Grant Recognition

Situation	Examples
The agricultural entity signed agreement for CU5,000 grant for cattle. Payment in two stages – in March and in July.	1. Signed agreement: Dr. Receivables CU5,000 Cr. Revenue CU5,000 **2. Payment in March:** Dr. Cash CU2,500 Cr. Receivables CU2,500

Examples of Grant Recognition

Situation	Examples
The agricultural entity signed agreement for CU5,000 grand for cattle. Payment in two stages – in March and in July.	1. Signed agreement: Dr. Receivables CU5,000 Cr. Revenue CU5,000 2. Payment in March: Dr. Cash CU2,500 Cr. Receivables CU2,500 **3. Payment in July:** Dr. Cash CU2,500 Cr. Receivables CU2,500

Gain or Loss from Recognition at Fair Value

A gain or loss resulting from the first recognition of a biological asset at fair value less costs to sell, as well as a change in fair value less costs to sell, must be included in profit or loss for the period in which it occurs (IAS 41.26).

Examples of Gain or Loss from Recognition at Fair Value

Situation	Record
Calves were purchased for CU6,000. It is known that the cost of sales was 500.	Dr. Biological assets CU5,500 Dr. Loss on fair value CU500 Cr. Cash CU6,000

Examples of Gain or Loss from Recognition at Fair Value

Situation	Record
During the period established, calves (previously purchased) are known to have incurred livestock costs for the year at CU2,000. And the fair value of the calves at the end of the period was set at CU8,200. The gain was estimated to be equal to CU700 (CU8,200 - CU5,500 - CU2,000).	Dr. Biological assets CU2,700 Cr. Work-in-progress CU2,000 Cr. Gain on fair value CU700

Examples of Gain or Loss from Recognition at Fair Value

Situation	Record
In the autumn, the value of the winter crop (wheat) was set at CU6,000, taking into account the crop costs incurred.	**1. Recognition of crops:** **Dr. Biological assets CU6,000** **Cr. Work-in-progress CU6,000**

Examples of Gain or Loss from Recognition at Fair Value

Situation	Record
The value of the winter crop (wheat) was set at CU6,000, taking into account the crop costs incurred. **After an assessment in the next year spring was found that some crops were freezing and that their fair value was set CU5,200.**	1. Recognition of crops: Dr. Biological assets CU6,000 Cr. Work-in-progress CU6,000 **2. Fair value estimate in spring:** **Dr. Loss on fair value CU800** **Cr. Biological assets CU800**

The Information is Disclosed with the Financial Statements

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· The nature of its activities involving each group of biological assets. · Non-financial measures or estimates of the physical quantities: ○ At the end of the period, each group of the entity's biological assets. ○ Output of agricultural produce during the period.	

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· The nature of its activities involving each group of biological assets. · Non-financial measures or estimates of the physical quantities: ○ At the end of the period, each group of the entity's biological assets. ○ Output of agricultural produce during the period.	· The presence and carrying amounts of biological assets with restricted title, as well as the carrying amounts of biological assets pledged as the collateral for liabilities. · The amount of commitments for the development or acquisition of biological assets. · Strategies for managing financial risks associated with agricultural industry.

Practical Examples

- The main activity of an entity is agricultural activities.
- The entity grows broilers for sale, so broilers are classified as the current assets.
- Biological assets and agricultural produce are measured at fair value.

Practical Examples

- The entity has purchased broiler chicks.

Record of purchase:		
Dr. Biological assets	CU10,000	
Dr. Expenses	CU2,000	
Cr. Cash		CU12,000

Practical Examples

- The feed that was fed to farmed broilers for CU30,000.

Record of the write–off of inventories		
Dr. Work in progress (livestock costs)	CU30,000	
Cr. Inventories		CU30,000

Practical Examples

- Depreciation of the non-current assets is calculated.

Record of deprecation		
Dr. Work in progress (livestock costs)	CU4,000	
Cr. Accumulated depreciation of tractor		CU1,000
Cr. Accumulated depreciation of farm building		CU3,000

Practical Examples

- Depreciation of the non-current assets is calculated.

Record of deprecation
Dr. Work in progress (livestock costs) CU4,000 Cr. Accumulated depreciation of tractor CU1,000 Cr. Accumulated depreciation of farm building CU3,000

It is also known that the tractor received a grant (subsidy) of 60% of its value.

Record of used grant
Dr. Grant (CU1,000 x 60%) CU600 Cr. Work in progress (livestock costs) CU600

Practical Examples

- At the end of February, 6,000 broilers gained the required weight and were put up for sale.

Record of the agricultural output
Dr. Finished products CU23,400 Cr. Work in progress (livestock costs) CU23,400

Practical Examples

- It is estimated that 4,000 broilers are still being grown, the fair value of which is calculated on the live weight basis.

Record for the subsequent measurement of the biological assets		
Dr. Biological assets (CU15,000 - CU10,000)	CU5,000	
Dr. Loss in change of fair value	CU5,000	
Cr. Work in progress (livestock costs)		
(CU30,000 + CU4,000 – CU600 - CU23,400)		CU10,000

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