

Issues Paper – AASB ED 245 (IASB ED/2013/8) *Agriculture: Bearer Plants*

Introduction and background

- 1 The purpose of this paper is to consider the key proposals and potential issues in ED 245 and decide whether these issues, or any other issues, should be included in the AASB's submission on IASB ED/2013/8. After making some overall comments, this paper is structured to correspond to the questions in ED/2013/8 that relate to what AASB staff regard as the key proposals. Accordingly, questions in the ED relating to perennial crops, additional disclosures, transitional provisions and first-time adopters are not discussed in this paper.
- 2 The discussion of the issues raised in this paper incorporate feedback from:
 - (a) submissions received on ED 245 (see Agenda Paper 14.3); and
 - (b) targeted outreach discussions with constituents.
- 3 Staff will raise at the Board meeting any significant issues included in any further submissions received and outreach meetings held that they think have not already been adequately dealt with in this paper.

Overall comments

- 4 The feedback from Australian constituents¹ via comment letters and targeted outreach has been broadly positive about the ED's proposals. Some respondents view bearer plants (as defined by the IASB) to be similar in nature to other income producing assets currently accounted for in accordance with IAS 16 *Property, Plant and Equipment*. Accordingly, they consider that the ED's proposals appropriately address their major concerns about accounting for bearer plants under IAS 41 *Agriculture*.
- 5 Some AASB staff strongly support the Alternative Views in the ED and therefore have a strong preference that the IASB not proceed with the proposals. They are particularly not convinced by the conceptual arguments used to justify the proposals, and note that in relation to practicability issues, IAS 41 addresses circumstances where there is an inability to measure fair value reliably on initial recognition.²

1 Staff received feedback from preparers involved with bearer plants and an academic institution.

2 Paragraph 30 of IAS 41 states: "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 market-determined prices or values are not available and for which alternative estimates of fair value 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

- 6 Biological assets (including bearer plants) undergo biological transformation throughout their life, including during the cycles of production and degeneration, and AASB staff consider that the fair value measurement model in IAS 41 best reflects the effects of this transformation. Accordingly, on a conceptual basis, AASB staff do not agree with the ED's proposals to account for bearer plants under IAS 16. This is because information about the biological transformation of bearer plants would not be adequately reflected under IAS 16, particularly if the cost model is applied.
- 7 Furthermore, AASB staff question whether a biological asset should be conceptually equated to property, plant and equipment due to the fundamentally different properties of inanimate machinery compared with 'living' biological organisms. On that basis, an amendment to IAS 41 that permits bearer plants to be accounted for at cost or fair value could be a better way to achieve the same practical outcome as the proposals without introducing these conceptual issues.
- 8 Some AASB project staff, whilst agreeing with the conceptual underpinnings of IAS 41, can accept the practical concerns about its application to bearer plants and think that the broad direction of the proposals is a reasonable basis for addressing those concerns.
- 9 In light of the mixed views of staff, in its submission to the IASB the AASB project staff suggest the Board express strong reservations about the conceptual basis for the proposals, but acknowledge that practical considerations arguably provide a basis for reviewing the applicability of IAS 41 to bearer plants. Given IASB resource constraints and priorities, a fundamental review of IAS 41 cannot be justified at this time and therefore a narrow scope project seems appropriate. Subject to specific comments below, treating bearer plants like they are property, plant and equipment seems a defensible way to proceed under these circumstances.

Question 1 to the Board

- (a) Does the Board agree with the project staff view reflected in paragraph 9 above?
- (b) Are there any other overall comments in relation to IASB ED/2013/8 that the Board would like to raise with the IASB?

sale (or is included in a disposal group that is classified as held for sale) in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.”

Question 1—Scope of the amendments

The IASB proposes to restrict the scope of the proposed amendments to bearer plants. The proposals define a bearer plant as a plant that is used in the production or supply of agricultural produce, that is expected to bear produce for more than one period and that is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Under the proposals, if an entity grows plants both to bear produce and for sale as living plants or agricultural produce, apart from incidental scrap sales, it must continue to account for those plants within the scope of IAS 41 at fair value less costs to sell in their entirety (for example, trees that are cultivated for their lumber as well as their fruit).

Do you agree with the scope of the amendments? If not, why and how would you define the scope?

- 10 The feedback from Australian constituents via the comment letters and targeted outreach is broadly positive about the ED's scope. Most agree with the narrow scope of the project because broadening the scope to include all bearer biological assets would introduce complexity and delay the resolution of issues in respect of bearer plants. One respondent goes on to say that although the limited scope provides a means of quickly dealing with the most pressing issues, the project should subsequently be broadened to a review of all agricultural producers (and involve a thorough review of IAS 16 and IAS 41). We are also aware that some question the narrow scope of the project and consider that it would be more principles-based if all bearer biological assets were to be included in the amendments. They note that excluding other bearer biological assets on the grounds that measuring their cost would be too complex is not a valid reason, arguing that measuring the cost of bearer livestock, for example, is not significantly more complex than measuring the cost of bearer plants.
- 11 AASB staff note that, in response to the IASB's 2011 Agenda Consultation, entities with bearer plants expressed concern about the cost, complexity and reliability of fair value measurements of bearer plants in the absence of markets for those assets and nearly all investors and analysts consulted during an outreach performed by IASB said that the IAS 41 fair value information about bearer plants has either limited or no use to them (paragraph BC21 of ED).
- 12 Thus, on (i) the practical grounds of costs, complexity and reliability of fair value information and (ii) the cost benefit considerations provided by the IASB in the ED (paragraph BC21), AASB project staff can accept the proposals of the ED, particularly

for mature bearer plants. AASB project staff also consider that the biological transformation for mature bearer plants could conceivably be less significant than for other mature biological assets like livestock and therefore IAS 16 treatment of mature bearer plants is more justifiable than for bearer animals.

- 13 AASB project staff agree that the scope of the proposals should be limited to bearer plants for the reasons provided above. They agree with the IASB observation that the use of a cost model becomes more complex for livestock and there is usually an active market for livestock, meaning that fair value measurement is likely to be more reliable and easier to apply than cost measurement (paragraph BC14).
- 14 AASB project staff also agree that the scope be limited to bearer plants that are not intended to be sold as living plants or harvested as agricultural produce, except for incidental scrap sales. Otherwise it would be more difficult and too judgemental to determine the main purpose of a bearer plant and the appropriate accounting (i.e. whether to account for it under IAS 16 or IAS 41). There would also be the issue of dealing with reclassifications between IAS 16 and IAS 41 if the main purpose of the bearer plant changes.
- 15 AASB staff note that the limited-scope project was added to the IASB agenda for the sole purpose of considering a scope amendment for bearer plants and not to address the fair value model in IAS 41 in general (paragraph BC28). However, as noted in paragraph 5 above, IAS 41 permits an entity to value biological assets at cost when the fair value of that asset cannot be reliably determined on initial recognition. Accordingly, some AASB staff question whether the amendments should be formulated in isolation without considering the fair value exemption/rebuttable presumption provided in paragraph 30 of IAS 41.³

Question 2 to the Board

- (a) Does the Board agree with the project staff views in paragraphs 11–15 above?

Produce on bearer plants

- 16 AASB staff note the produce growing on bearer plants is excluded from the scope of the amendments and would continue to be accounted for under IAS 41 as a biological asset. This would require the produce to be measured separately from the bearer plant at fair value less costs to sell at initial recognition and at the end of each reporting

3 See footnote 2 to paragraph 5.

period prior to harvest. AASB staff consider that this approach may increase the complexity and subjectivity of the measurement of the produce, particularly as the (mature) bearer plant itself could be carried at either cost or revalued amount.

- 17 AASB staff also note that when fair valuing an item of produce on a bearer plant, that value could incorporate some of the cost inputs to the bearer plant itself, such as labour and materials costs. Therefore, some of the cost accumulated for bearer plants is at risk of also being effectively incorporated into the fair value of the produce growing on the bearer plants, thus potentially leading to double counting.
- 18 Given that the rationale for the proposals appears to be primarily for practical reasons, AASB project staff question whether the fruit growing on the plant should be required to be treated differently from the plant itself. If the IASB proceeds with its proposals, AASB staff suggest that further guidance would be warranted to reduce the likelihood of bearer plants and their produce being overvalued.

Question 3 to the Board

- (a) Does the Board agree with the project staff views in paragraphs 16–18 above?

The definition of bearer plants

- 19 The definition of a bearer plant⁴ gives effect to the proposal's scope. AASB staff note that the definition (particularly components (a) and (b)) is based on the definition of property, plant and equipment.⁵ Although preparers are familiar with that definition and its application in practice, we note that when it is looked at afresh in relation to bearer plants, questions about its interpretation could arise.
- 20 For example, some might consider that the definition does not include immature bearer plants because they are not yet 'used in the production or supply of agricultural produce'. Furthermore, some might interpret (b) in the definition in a literal sense such that, at the end of a reporting period where it is known that a bearer plant would

4 A bearer plant is a plant that is:
(a) used in the production or supply of agricultural produce;
(b) expected to bear produce for more than one period; and
(c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

5 Property, plant and equipment are tangible items that:
(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period.

bear produce for the final time in the next reporting period, the plant should be reassigned to IAS 41 accounting.

Question 4 to the Board

- (a) Does the Board agree with including the staff concerns about the definition of bearer plants noted in paragraph 20 above in the submission to the IASB?
- (b) Are there any other issues in relation to the scope of the amendments that the Board would like to raise with the IASB?

Question 2—Accounting for bearer plants before maturity

The IASB proposes that before bearer plants are placed into production (ie before they reach maturity and bear fruit) they should be measured at accumulated cost. This would mean that bearer plants are accounted for in the same way as self-constructed items of machinery.

Do you agree with this accounting treatment for bearer plants before they reach maturity? If not, why and what alternative approach do you recommend?

- 21 The respondents to ED 245 and AASB staff's targeted outreach support the proposals to measure plants before maturity at accumulated cost as they consider the information to be more relevant to users than valuations that rely more heavily on estimation techniques. They consider that determining when bearer plants are mature and cost accumulation ceases is a decision best left to the directors in the light of the business model of the entity. However, we are also aware that some constituents note that questions arise as to when a bearer plant reaches maturity, noting that some plants produce early in their lives before reaching a commercial level of production some years later. On this aspect, they suggest additional guidance is provided to avoid significant diversity in practice.
- 22 AASB staff do not agree with analogising bearer plants before they reach maturity to self-constructed machinery and therefore requiring them to be measured at accumulated cost. As noted in the paragraph BC24 of the ED, bearer plants undergo significant biological transformation before they mature, which distinguishes them from self-constructed machinery, and fair value measurement would best reflect the biological transformation.
- 23 AASB project staff can accept bearer plants before they reach maturity being measured at accumulated cost on practical grounds, given cost benefit considerations. However, they are strongly of the view that entities should be permitted to measure such plants at fair value, to enable entities to adopt a better accounting approach conceptually, if they choose to do so.

Question 5 to the Board

- (a) Does the Board agree with the project staff views noted in paragraphs 22–23 above?
- (b) Are there any other issues in relation to accounting for bearer plants before maturity that the Board would like to raise with the IASB?

Question 4—Accounting for bearer plants after maturity

The IASB proposes to include bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for mature bearer plants subject to the requirements in IAS 16. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41.

Do you agree that bearer plants should be accounted for in accordance with IAS 16? Why or why not? If not, what alternative approach do you recommend?

- 24 The respondents to ED 245 and AASB staff’s targeted outreach consider that, upon reaching maturity, bearer plants should be accounted for in accordance with IAS 16 using either a cost model or a revaluation model. This is on the basis that bearer plants fit into the definition of ‘property, plant and equipment’ under paragraph 6 of IAS 16, as well as satisfy the recognition and measurement criteria of IAS 16. In addition, the concepts of depreciation and revaluation are equally applicable to bearer assets as they are to any assets traditionally described as property, plant and equipment.
- 25 For the reasons described in paragraph 12 above, AASB project staff can accept the ED’s proposals to account for bearer plants under IAS 16, with measurement at either cost or revalued amount.
- 26 AASB project staff concede that some might question whether the requirements of IAS 16 could conceptually provide an adequate approximation of the value of bearer plants considering that the degeneration of such plants might not be as predictable as for other items of property, plant and equipment. However, AASB project staff note that bearer plants would be subject to impairment testing requirements under both the cost model and revaluation model, which could go some way to addressing this concern.

Question 6 to the Board

- (a) Does the Board agree with the project staff views noted in paragraphs 25–26 above?
- (b) Are there any other issues in relation to accounting for bearer plants after maturity that the Board would like to raise with the IASB?

Question 6—Fair value disclosures for bearer plants

Do you think either of the following types of disclosures about bearer plants should be required if they are accounted for under the cost model in IAS 16—why or why not:

- (a) the disclosure of the total fair value of the bearer plants, including information about the valuation techniques and the key inputs/assumptions used; or
- (b) disclosure of the significant inputs that would be required to determine the fair value of bearer plants, but without the need to measure or disclose the fair value of them?

27 The respondents to ED 245 and AASB staff’s targeted outreach believe that these mooted disclosures would impose an unnecessary burden on entities. If bearer plants are to be accounted for under IAS 16, the disclosure requirements should be the same as for other items within the scope of that standard. One respondent makes a comment about disclosures generally, saying that the IASB should, as a means of reducing clutter:

- (a) limit disclosures in the financial statements to summarised financial position, financial performance, cash flows and notes that are significant to or are judgemental as to estimates for the basic financial statements; and
- (b) allow entities to make more detailed disclosures on their website.

28 AASB staff note that, for entities that would elect to measure mature bearer plants at revalued amounts, the disclosures currently required in paragraph 77 of IAS 16⁶ are broadly consistent with the disclosures mooted in question 6 of the ED. For entities that elect to carry bearer plants at cost, the mooted disclosure requirements would negate most of the practical and operational benefits derived from scoping bearer plants into IAS 16.

29 Furthermore, requiring disclosure of significant inputs that might be needed to determine the fair value of bearer plants without actually disclosing the fair values is at risk of resulting in ‘boilerplate’ disclosures with little informational value to users.

6 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) the methods and significant assumptions applied in estimating the items’ fair values;
- (d) the extent to which the items’ fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm’s length terms or were estimated using other valuation techniques;
- (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- (f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Thus, AASB project staff do not consider that the disclosures mooted in question 6 of the ED should be required.

Question 7 to the Board

- (a) Does the Board agree with the project staff view in paragraphs 29 above?
- (b) Are there any other issues in relation to fair value disclosures that the Board would like to raise with the IASB?