ACCOUNTING STANDARD **AASB 141**
July 2004

Agriculture

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 141 *Agriculture* is set out in paragraphs Aus1.1 – 57. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 141 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing AASB 141

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

(a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and

(b) UIG Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

First-time Application and Comparatives

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

Main Requirements

The Standard:

(a) prescribes the accounting treatment and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets;

(b) requires biological assets to be measured at fair value less estimated point-of-sale costs from initial recognition of the biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition;

(c) requires that, where fair value cannot be measured reliably on initial recognition, biological assets are to be measured at cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of the biological asset can be reliably measured, the biological asset is measured at its fair value less estimated point of sale costs;

(d) deems that the cost of agricultural produce is its fair value less estimated point of sale costs at the point of harvest;

(e) requires changes in fair value less estimated point of sale costs to be included in profit or loss for the period in which it arises;

(f) prescribes specific requirements for government grants related to a biological asset; and

(g) requires specific disclosures in relation to biological assets.

Differences between this Standard and AASB 1037

There are a number of differences between this Standard and the AASB standard that it supersedes, AASB 1037 *Self-Generating and Regenerating Assets*. These differences include:

(a) the narrower scope of AASB 141;

(b) the accounting for some biological assets under lease;

(c) the inclusion of a rebuttable presumption in AASB 141 in relation to the reliable measurement of the fair value of biological assets; and

(d) AASB 141 contains specific requirements for accounting for government grants related to biological assets measured at fair value less estimated point-of-sale costs.

A more detailed description of the differences between this Standard and AASB 1037 accompanies this Standard under the heading "Differences between AASB 141 and AASB 1037".

The requirements of the superseded AASB 1037 are essentially the same as AAS 35 *Self-Generating and Regenerating Assets*. Accordingly, there is no separate analysis of differences between AASB 141 and AAS 35.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 141 and IAS 41

AASB 141 is equivalent to IAS 41 *Agriculture* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB standard) are identified with the prefix "Aus", followed by the number of the relevant IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Compliance with IAS 41

For-profit entities that comply with AASB 141 will simultaneously be in compliance with IAS 41. Not-for-profit entities using the added "Aus" paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 41. Whether a not-for-profit entity will be in compliance with IAS 41 will depend on whether the "Aus" paragraphs provide additional guidance for not-for-profit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the not-for-profit entity.

AASB 141 and IPSASs

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

There is no specific IPSAS dealing with accounting for agriculture at present.

ACCOUNTING STANDARD AASB 141

The Australian Accounting Standards Board makes Accounting Standard AASB 141 *Agriculture* under section 334 of the *Corporations Act 2001*.

D.G. Boymal
Dated 15 July 2004 Chair – AASB

ACCOUNTING STANDARD AASB 141
AGRICULTURE

Objective

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

Application

Aus1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial reports of each other reporting entity; and

(c) financial reports that are, or are held out to be, general purpose financial reports.

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.

Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.

Aus1.4 The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Aus1.5 When applicable, this Standard supersedes:

(a) AASB 1037 *Self-Generating and Regenerating Assets* as notified in the *Commonwealth of Australia Gazette* No S 390, 7 August 1998 and as amended by AASB 1037A *Amendments to Accounting Standard AASB 1037*, which was notified in the *Commonwealth of Australia Gazette*, No S 314 8 July 1999; and

(b) AAS 35 *Self-Generating and Regenerating Assets* as issued in August 1998 and as amended by AAS 35A *Amendments to Australian Accounting Standard AAS 35*, which was issued in July 1999.

Aus1.6 AASB 1037, AASB 1037A, AAS 35 and AAS 35A remain applicable until superseded by this Standard.

Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Scope

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 34-35.

2. This Standard does not apply to:

(a) land related to agricultural activity (see AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Property*); and

(b) intangible assets related to agricultural activity (see AASB 138 *Intangible Assets*).

3. This Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, AASB 102 *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.

4. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	**Agricultural produce**	**Products that are the result of processing after harvest**
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Logs	Lumber
Plants	Cotton	Thread, clothing
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

Definitions

Agriculture-Related Definitions

5. The following terms are used in this Standard with the meanings specified.

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

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

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.**

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.**

6. Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:

   (a) *Capability to change*. Living animals and plants are capable of biological transformation;

   (b) *Management of change*. Management facilitates biological transformation by enhancing, or at least stabilising, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

   (c) *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation is measured and monitored as a routine management function.

7. Biological transformation results in the following types of outcomes:

   (a) asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant); (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant); or (iii) procreation (creation of additional living animals or plants); or

   (b) production of agricultural produce such as latex, tea leaf, wool, and milk.

General Definitions

8. The following terms are used in this Standard with the meanings specified.

An *active market* is a market where all the following conditions exist:

(a) the items traded within the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

***Carrying amount* is the amount at which an asset is recognised in the balance sheet.**

***Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.**

***Government grants* are as defined in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.**

9. The *fair value* of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle to that market.

Recognition and Measurement

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.

11. 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.

12. A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale

costs, 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 estimated point-of-sale costs at the point of harvest. Such measurement is the cost at that date when applying AASB 102 or another applicable Standard.

14. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.

15. The determination of fair value for 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.

16. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce may be an onerous contract, as defined in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. AASB 137 applies to onerous contracts.

17. If an *active market* exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.

18. If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

    (a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;

    (b) market prices for similar assets with adjustment to reflect differences; and

(c) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

19. In some cases, the information sources listed in paragraph 18 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.

20. In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining fair value.

21. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.

22. An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

23. In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.

24. Cost may sometimes approximate fair value, particularly when:

(a) little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to a reporting date); 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).

25. 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, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to determine fair value for 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.

Gains and Losses

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

27. A loss may arise on initial recognition of a biological asset, because estimated point-of-sale costs are deducted in determining fair value less estimated point-of-sale costs of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.

28. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in profit or loss for the period in which it arises.

29. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to Measure Fair Value 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 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 estimated point-of-sale costs. 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 AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.

31. The presumption in paragraph 30 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less estimated point-of-sale costs continues to measure the biological asset at its fair value less estimated point-of-sale costs until disposal.

32. In all cases, an entity measures agricultural produce at the point of harvest at its fair value less estimated point-of-sale costs. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

33. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers AASB 102, AASB 116, and AASB 136 *Impairment of Assets*.

Government Grants

34. An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs shall be recognised as income 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 estimated point-of-sale costs is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.

36. Terms and conditions of government grants vary. For example, a government grant may require an entity to farm in a particular location for five years and require the entity to return all of the government grant if it farms for less than five years. In this case, the government grant is not recognised as income until the five years have passed. However, if the government grant allows part of the government grant to be retained based on the passage of time, the entity recognises the government grant as income on a time proportion basis.

37. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), AASB 120 is applied.

38. This Standard requires a different treatment from AASB 120, if a government grant relates to a biological asset measured at its fair value less estimated point-of-sale costs or a government grant requires an entity not to engage in specified agricultural activity. AASB 120 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.

Aus38.1 Notwithstanding paragraphs 34-38, not-for-profit entities recognise government grants related to a biological asset in accordance with AASB 1004 *Contributions*.

Disclosure

39. [Deleted by the IASB]

General

40. An entity shall 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 estimated point-of-sale costs of biological assets.

41. An entity shall provide a description of each *group of biological assets*.

42. The disclosure required by paragraph 41 may take the form of a narrative or quantified description.

43. 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. For example, an entity may disclose the carrying amounts of consumable biological assets and bearer biological assets by group. An entity may further divide those carrying amounts between mature and immature assets. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.

Aus43.1 An entity shall disclose the nature of biological assets and an estimate or relevant indication of their physical quantity, separately classified between "plants" and "animals", and

sub-classified as appropriate to the circumstances of the entity, showing separately those biological assets subject to a lease arrangement.

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, and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced, grape vines, fruit trees, and trees from which firewood is harvested while the tree remains. Bearer biological assets are not agricultural produce but, rather, are self-regenerating.

45. Biological assets may be classified either as mature biological assets or immature biological assets. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).

46. If not disclosed elsewhere in information published with the financial report, an entity shall describe:

(a) the nature of its activities involving each group of biological assets; and

(b) non-financial measures or estimates of the physical quantities of:

(i) each group of the entity's biological assets at the end of the period; and

(ii) output of agricultural produce during the period.

47. An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.

48. An entity shall disclose the fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest.

49. An entity shall disclose:

(a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;

(b) the amount of commitments for the development or acquisition of biological assets; and

(c) financial risk management strategies related to agricultural activity.

Aus49.1 An entity shall disclose biological assets for which the entity's use or capacity to sell is subject to restrictions imposed by regulations or other external requirements that have a significant impact on their total fair value less estimated point-of-sale costs. The total and restricted amounts of those biological assets shall be disclosed, together with details of the nature and extent of those restrictions.

50. An entity shall present a reconciliation of changes in the *carrying amount* of biological assets between the beginning and the end of the current period. Comparative information is not required. The reconciliation shall include:

(a) the gain or loss arising from changes in fair value less estimated point-of-sale costs;

(b) increases due to purchases;

(c) 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 AASB 5;

(d) decreases due to harvest;

(e) increases resulting from business combinations;

(f) net exchange differences arising on the translation of the financial report into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and

(g) other changes.

51. The fair value less estimated point-of-sale costs of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less estimated point-of-sale costs included in profit or loss due to physical changes and due to price

changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

52. Biological transformation results in a number of types of physical change – growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits. A change in fair value of a biological asset due to harvesting is also a physical change.

53. Agricultural activity is often exposed to climatic, disease, and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with AASB 101 *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably

54. If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30) at the end of the period, the entity shall disclose for such biological assets:

(a) a description of the biological assets;

(b) an explanation of why fair value cannot be measured reliably;

(c) if possible, the range of estimates within which fair value is highly likely to lie;

(d) the depreciation method used;

(e) the useful lives or the depreciation rates used; and

(f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

55. If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall

disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:

(a) impairment losses;

(b) reversals of impairment losses; and

(c) depreciation.

56. If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

(a) description of the biological assets;

(b) an explanation of why fair value has become reliably measurable; and

(c) the effect of the change.

Government Grants

57. An entity shall disclose the following related to agricultural activity covered by this Standard:

(a) the nature and extent of government grants recognised in the financial statements;

(b) unfulfilled conditions and other contingencies attaching to government grants; and

(c) significant decreases expected in the level of government grants.

Effective Date of IAS 41 and Transition

58. [Deleted by the AASB]

59. [Deleted by the AASB]

APPENDIX A

This Australian appendix accompanies, but is not part of, AASB 141.

Australian Illustrative Examples

The purpose of the appendix is to illustrate the application of the Standard.

A1. Example 1 illustrates how the disclosure requirements of this Standard might be put into practice for an entity whose sole activity is managing a hazelnut grove. This Standard encourages the separation of the change in fair value less estimated point-of-sale costs of an entity's biological assets into physical change and price change. That separation is reflected in Example 1.

A2. The financial report in Example 1 does not conform to all of the disclosure and presentation requirements of other Standards. Other approaches to presentation and disclosure may also be appropriate.

A3. In Example 1, it is assumed that the trees are planted in 2004 and begin producing saleable nuts in 2007. The trees were measured at historical cost until 30 June 2004 because historical cost was regarded as the best basis for determining fair value less estimated point-of-sale costs in the circumstances. After 2004, the trees have been measured at each reporting date using net present value techniques because net present value is regarded as the best basis for determining fair value less estimated point-of-sale costs in the circumstances. Eighty per cent of the hazelnuts are sold immediately after being picked, and selling costs are assumed to be immaterial. Twenty per cent of the picked hazelnuts are recognised as inventories as at the reporting date.

Example 1: Hazelnut Limited

Balance Sheet

Hazelnut Limited
Balance Sheet
as at 30 June 2007

	Notes	2007	2006
		$	$
ASSETS			
Current Assets			
Cash		873	921
Inventories (picked hazelnuts)		1,071	–
Total Current Assets		**180,950**	**145,650**
Non-current Assets			
Land		20,000	20,000
Hazelnut trees	4	142,470	101,220
Total Non-current Assets		**162,470**	**121,220**
Total Assets		**164,414**	**122,141**
LIABILITIES			
Current Liabilities			
Bank overdraft		49,321	32,872
Total Current Liabilities		**49,321**	**32,872**
Non-current Liabilities			
Deferred tax liability		20,050	10,753
Long-term borrowings		32,000	32,000
Total Non-current Liabilities		**52,050**	**42,753**
Total Liabilities		**101,371**	**75,625**
Net Assets		**63,043**	**46,516**
EQUITY			
Share capital		27,400	27,400
Retained earnings		35,643	19,116
Total Equity		**63,043**	**46,516**

Income Statement[1]

Hazelnut Limited
Income Statement
for the year ended 30 June 2007

	Notes	2007	2006
		$	$
Revenue from sale of hazelnuts		4,284	–
Deemed cost of hazelnuts sold		(4,284)	–
Net revenue from sale of hazelnuts		–	–
Gains arising from changes in fair value less estimated point-of-sale costs of hazelnut trees	3	41,250	36,293
Gains arising from changes in fair value less estimated point-of-sale costs of hazelnuts picked during the reporting period	3	4,091	–
		45,341	**36,293**
Employee benefits expense		(2,736)	(3,000)
Fertilizers		(12,000)	(12,178)
Operating lease expenses		(2,000)	(2,000)
Finance costs		(2,517)	(1,822)
Other operating expenses		(264)	(935)
		(19,517)	**(19,935)**
Profit before income tax		**25,824**	**16,358**
Income tax expense		(9,297)	(5,889)
Profit for the period		**16,527**	**37,828**

1 This income statement presents an analysis of expenses using a classification based on the nature of expenses. AASB 101 *Presentation of Financial Statements* requires that an entity present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. AASB 101 encourages presentation of an analysis of expenses on the face of the income statement.

Statement of Changes in Equity[2]

Hazelnut Limited
Statement of Changes in Equity
for the year ended 30 June 2007

	2007	2006
	$	$
Net income recognised directly in equity	–	–
Profit for the period	16,527	10,469
Total recognised income and expense for the period	16,257	10,469

Cash Flow Statement[3]

Hazelnut Limited
Cash Flow Statement
for the year ended 30 June 2007

	Notes	2007	2006
		$	$
Cash flows from operating activities			
Proceeds from sale of hazelnuts		4,284	–
Cash paid for supplies and to contractors		(18,264)	(18,113)
Interests and other costs of finance paid		(2,517)	(23,815)
Net cash from operating activities		**(16,497)**	**(19,935)**
Net increase in cash		**(16,497)**	**(19,935)**
Cash at beginning of period		**(31,951)**	**(12,016)**
Cash at end of period		**(48,448)**	**(31,951)**

2 This is one of the formats for the statement of changes in equity permitted by AASB 101.
3 This cash flow statement reports cash flows from operating activities using the direct method in accordance with AASB 107 *Cash Flow Statements*.

Notes

1. Operations and Principal Activities

Hazelnut Limited ("the Company") is engaged in managing a hazelnut grove, with the picked hazelnuts being supplied to various customers. At 30 June 2007, the Company held 2,240 hazelnut trees that are able to produce hazelnuts. The Company produced hazelnuts with a fair value less estimated point-of-sale costs of $5,355 (determined at the time of picking) for the period ended 30 June 2007.

2. Accounting Policies

Hazelnut trees and hazelnuts

Hazelnut trees and hazelnuts are measured at their fair value less estimated point-of-sale costs. The fair value of hazelnut trees is determined as the difference between the net present value of cash flows expected to be generated by the grove discounted at a current market-determined rate which reflects the risks associated with the grove and the fair value of the land on which the trees are grown. Hazelnuts are initially measured their fair value less estimated point-of-sale costs at the time of picking. The fair value of hazelnuts is determined based on market prices in the local area.

3. Determination of net increment / decrement of fair value less estimated point-of-sale costs

The net increment in fair value less estimated point-of-sale costs of hazelnut trees recognised as revenue [$41,250 (2006 – $36,293)] is determined as:

(i) the difference between the total fair value less estimated point-of-sale costs of the trees recognised as at the beginning of the period and the fair value less estimated point-of-sale costs of trees recognised as at the reporting date [$41,250 (2006 – $36,293)]; less

(ii) costs incurred during the period to acquire and plant hazelnut trees [nil (2006 – nil)].

Costs incurred in maintaining or enhancing trees are recognised as expenses when incurred. Therefore, those costs are not included in the determination of the net increment in fair value less estimated point-of-sale costs.

The fair value less estimated point-of-sale costs of hazelnuts picked during the period recognised as revenue [$4,091 (2006 – nil)] is determined as:

(i) fair value less estimated point-of-sale costs of hazelnuts immediately after picking [$5,355 (2006 – nil)]; less

(ii) costs of picking [$1,264 (2006 – nil)].

4. Hazelnut grove

Harvesting of hazelnuts occurs from February through to April each year.

The hazelnut grove is situated 2 kilometres from the Victorian township of Hoddles Creek.

The fair value less estimated point-of-sale costs of the hazelnut grove, the trees and the land have been determined in accordance with an independent valuation performed at each reporting date.

Significant assumptions made in determining the net market value of the trees are:

(a) the trees will reach maturity in 2018;

(b) the trees will be productive until 2037;

(c) the expected price of the hazelnuts is constant in real terms, based on average prices throughout the current year;

(d) the costs expected to arise throughout the life of the trees are constant in real terms, based on average costs throughout the current year;

(e) the post-tax average real rate at which the net cash flows are discounted is 18% per annum; and

(f) inflation will continue at the current rate.

Cash flows are gross of income taxes and are expressed in real terms.

Sensitivity of the Net Market Value of the Hazelnut Trees to Changes in Significant Assumptions

		Effect of Fair Value less estimated point-of-sale costs of the Hazelnut Trees	
	Change	**2007**	**2006**
		$	$
Discount Rate	28% + 1%	(8,515)	(7,386)
	28% - 1%	9,301	8,120
Future Prices	+5%	10,494	8,408
	- 5%	(10,494)	(8,408)
Future Costs	+5%	(3,371)	(3,347)
	- 5%	3,371	3,347

5. Biological Assets

Reconciliation of Carrying Amounts of Hazelnut Trees	**2007**
Carrying amount at beginning or period	101,220
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes[4]	32,467
Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes[4]	12,874
Decreases due to harvest	(4,091)
Carrying amount at end of period	142,470

6. Financial Risk Management Strategies

The Company is exposed to financial risks arising from changes in hazelnut prices. The Company does not anticipate that hazelnut prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in hazelnut prices. The Company reviews its outlook for hazelnut prices regularly in considering the need for active financial risk management.

4 Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

7. Reconciliation of Net Cash provided by Operating Activities to Profit or Loss

	2007	2006
	$	$
Profit	16,527	10,469
Net increment in fair value less estimated point-of-sale costs of hazelnut trees recognised as revenue	(41,250)	(36,293)
Increase in inventories of nuts	(1,071)	–
Increase in deferred tax liability	9,297	5,889
Net cash used by operating activities	(16,497)	(19,935)

8. Reconciliation of Cash

For the purposes of the cash flow statement, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the reporting date as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2007	2006
	$	$
Cash	873	921
Bank overdraft	(49,321)	(32,872)
Cash (bank overdraft) at end of period	(48,448)	(31,951)

DIFFERENCES BETWEEN AASB 141 AND AASB 1037

This analysis of differences accompanies, but is not part of, AASB 141.

This section identifies differences between AASB 1037 *Self-Generating and Regenerating Assets* and AASB 141 *Agriculture* under the following headings.

A: Incompatibilities between AASB 1037 and AASB 141

B: AASB 1037 is more detailed or restrictive

C: AASB 141 is more detailed or restrictive

D: AASB 1037 disclosures are more extensive

E: AASB 141 disclosures are more extensive

The analysis of differences should not be taken as providing an exhaustive list of differences.

Introduction

AASB 141 addresses the recognition, measurement and disclosure of agricultural activities, whereas AASB 1037 addresses the recognition, measurement and disclosure of self-generating and regenerating assets (SGARAs). Agriculture is defined in AASB 141.5 as the management of the transformation of living animals or plants (biological assets) for the purpose of sale, agricultural produce, and/or the creation of additional biological assets. AASB 1037 applies to all SGARAs other than those that are held for non-commercial purposes. Therefore SGARAs, as defined in AASB 1037, comprise the following three categories:

- non-human living animals and plants (biological assets as in AASB 141) that relate to agricultural activity (this category of SGARAs is within the scope of AASB 141);
- non-human living animals and plants (biological assets) that do not relate to agricultural activity (this category of SGARAs is outside the scope of AASB 141); and
- non-human living assets other than animals and plants (this category of SGARAs is outside the scope of AASB 141).

Both AASB 141 and AASB 1037 prescribe, among other things, the accounting treatment for those assets that come within their scope during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. Both AASB 141 and AASB 1037 require the assets to which they apply to be measured at fair value less estimated point-of-sale costs (AASB 1037 uses the expression "net market value") from the time of their initial recognition up to the point of harvest. Both AASB 141 and AASB 1037 comment that market-determined prices are the best indicator of fair value and, where this information is not available, the most relevant and reliable indicator of fair value is used. (Both AASB 141 and AASB 1037 identify a range of indicators of fair value.) Changes in the fair value less estimated point-of-sale costs of the relevant assets during a reporting period are recognised in profit or loss. Both Standards require that the non-living produce of an asset be accounted for at its fair value less estimated point-of-sale costs immediately after the produce becomes non-living.

AASB 141 includes requirements for accounting for government grants related to biological assets. In contrast, AASB 1037 contains no special requirements for accounting for government grants related to biological assets.

Differences

A. Incompatibilities between AASB 1037 and AASB 141

A.1 Scope

The scope of AASB 141 is narrower than the scope of AASB 1037, in that AASB 141 excludes from its scope:

- non-human living animals and plants that are not agricultural activities, such as:
    - an investment in a forest as a carbon sink which gives rise to carbon credits that can either be sold or used to offset pollution caused by the entity;
    - greyhounds, horses, pigeons and whippets held for racing;
    - performing animals held by a theme park; and
    - non-human living assets other than animals and plants, such as viruses and blood cells.

Such assets would be measured at net market value under AASB 1037, but at cost or other value under relevant Australian Accounting Standards.

A.2 Leases of non-human living assets other than biological assets

Non-human living assets, other than biological assets, held under a lease are subject to AASB 117 *Leases*, such that where:

- the item is subject to a finance lease, the lessee recognises a lease asset and lease liability, measured at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments (AASB 117.12); or

- the item is subject to an operating lease, it continues to be lessor-controlled property and the lessor applies the measurement requirements of AASB 116 *Property, Plant and Equipment*, together with the AASB 117 requirement that such assets be presented according to their nature.

Where exclusive rights to non-human living assets other than biological assets are obtained under a finance lease, AASB 1037.2.1(b) requires a lessee to recognise and measure the right at its net market value, as if that right is itself a non-human living asset other than a biological asset. Similarly, where such an asset is subject to an operating lease, the lessor applies AASB 1037.

A.3 Operating leases of biological assets

Under AASB 117.25 a lessee of a biological asset does not recognise an asset but instead recognises the operating lease payments as an expense. In contrast, where an operating lease gives the lessee an exclusive right over SGARAs, AASB 1037.2.1(b) requires the lessee to recognise and measure that right at its net market value, as if that right is itself a SGARA.

A.4 Fair value

AASB 141.12 presumes that fair value can be reliably measured for most biological assets. However, AASB 141.30 includes a rebuttable presumption that fair value can be reliably measured. AASB 141.30 prohibits the use of fair value accounting on initial recognition for a biological asset whose market-determined price or value is not available and for which alternative estimates of fair value are determined to be clearly unreliable. In these situations the entity is required to measure that asset at its cost and both depreciate the asset and subject the asset to impairment test screening. AASB 141.33 comments that, in determining cost, accumulated depreciation and accumulated impairment losses, the entity considers AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment* and AASB 136 *Impairment of Assets*. AASB 141.30 requires a biological asset to be

measured at its fair value less estimated point-of-sale costs if its fair value subsequently becomes reliably measurable. In contrast, AASB 1037 presumes that the net market values of SGARAs are always reliably measurable.

A.5 Government grants

AASB 141 specifically addresses the accounting treatment for government grants related to biological assets measured at fair value less estimated point-of-sale costs. AASB 141.34 requires unconditional government grants to be recognised immediately as income, but only when the government grant becomes receivable. AASB 141.35 similarly requires conditional government grants to be recognised immediately as income, but only when the conditions attaching to the grant are met. Not-for-profit entities recognise government grants related to biological assets in accordance with AASB 1004 *Contributions*.

B. AASB 1037 is more detailed or restrictive

B.1 Leases of biological assets

In respect of leases covering exclusive rights over SGARAs, AASB 1037.2.1(b), 5.2 and 5.3 requires that:

- where a finance lease gives an exclusive right over a SGARA, the lessee recognise and measure that right as if that right is a SGARA; and
- where a lessor leases a SGARA under an operating lease, the lessor recognise and measure that right as if that right is a SGARA.

In respect of leases giving non-exclusive rights over SGARAs, there are no specific requirements because these leases are excluded from AASB 1008 *Leases* (paragraph 2.1(a)). AASB 117.1 states that AASB 117 does not apply to:

- lessees of biological assets held under a finance lease; and
- lessors of biological assets leased under an operating lease.

It follows that Australian GAAP contains “specific” requirements about leases of biological assets conveying exclusive rights.

C. AASB 141 is more detailed or restrictive

No items noted.

D. AASB 1037 disclosures are more extensive

No items noted.

E. AASB 141 disclosures are more extensive

E.1 Commitments and risks

AASB 141.49 requires that entities disclose:

- the amount of commitments for the development or acquisition of biological assets; and
- financial risk strategies related to agricultural activity.

E.2 Reconciliation of beginning and ending carrying amounts

AASB 141.50 requires an entity to present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current reporting period, including:

- the gain or loss arising from changes in fair values less estimated point-of-sale costs;
- increases due to purchases;
- decreases due to sales;
- decreases due to harvest;
- increases resulting from business combinations;
- net exchange differences arising on the translation of the financial report into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and
- other changes.

E.3 Measurement on cost basis

AASB 141.54-55 requires an entity that has biological assets that relate to agricultural activities that are measured on the cost basis at the reporting date to disclose:

- a description of the biological assets;

- an explanation as to why fair value cannot be measured reliably;
- if possible, the range of estimates within which fair value is highly likely to lie;
- the depreciation method used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation aggregated with accumulated impairment losses at the beginning and end of the period;
- the disclosure of any gain or loss recognised on disposal during the current reporting period;
- the reconciliation required under E.2, disclosing separately the amounts that relate to biological assets measured on the cost basis; and
- the following amounts included in profit or loss: impairment losses, reversals of impairment losses and depreciation.

E.4 Fair value of assets previously measured on a cost basis

AASB 141.56 requires that if during the current reporting period an entity is able to reliably measure the fair value of biological assets of the type described in E.3 above, it must disclose for those biological assets:

- a description of the biological assets;
- an explanation of why fair value has become reliably measurable; and
- the effect of the change.