Hong Kong Institute of Certified Public Accountants
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# MEMBERS' HANDBOOK

## Update No. 196

*(Issued 24 January 2017)*

The following Amendments to Standards are effective for annual reporting periods beginning on or after 1 January 2016:

- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to HKAS 16 and 38)
- *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41)

The amendments were previously set out in the Appendix to the respective Standards but are now incorporated into the relevant Standards and Basis for Conclusions.

| ***Document Reference and Title*** | ***Instructions*** | ***Explanations*** |
|---|---|---|
| **VOLUME II** | | |
| Contents of Volume II | Discard existing pages i-ii & replace with revised pages i-ii. | Revised contents page |
| **HONG KONG ACCOUNTING STANDARDS (HKAS)** | | |
| HKAS 1 *Presentation of Financial Statements* (Standard) | Replace the cover page and pages 2 and 19 with revised cover page and pages 2 and 19. | Amendments due to *Agriculture: Bearer Plants* |
| HKAS 17 *Leases* (Standard) | Replace the cover page and pages 2 and 7 with revised cover page and pages 2 and 7. | |
| HKAS 23 *Borrowing Costs* (Standard) | Replace the cover page and pages 2 and 5-6 with revised cover page and pages 2 and 5-6. | |
| HKAS 36 *Impairment of Assets* (Standard) | Replace the cover page and pages 2 and 10 with revised cover page and pages 2 and 10. | |

(continued next page)

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|---|---|---|
| HKAS 38 *Intangible Assets* (Standard) | Replace the cover page and pages 2, 4, 27, 28 and 35 with revised cover page and pages 2, 4, 27, 28-28A and 35. Discard pages 37-39. | Amendments due to *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| HKAS 38 *Intangible Assets* (Basis for Conclusions) | Replace the cover page and pages 3 and 25 with revised cover page and pages 3 and 25-25C. Discard pages 36-38. | |
| HKAS 40 *Investment Property* (Standard) | Replace the cover page and pages 2 and 6-7 with revised cover page and pages 2 and 6-7. | Amendments due to *Agriculture: Bearer Plants* |
| HKAS 41 *Agriculture* (Standard) | Replace the cover page and pages 2-8 and 10 with revised cover page and pages 2-8 and 10. Insert page 12A after page 12. Discard pages 20-26. | |
| HKAS 41 *Agriculture* (Basis for Conclusions) | Replace the cover page and pages 2 and 20-21 with revised cover page and pages 2-2A and 20-21. | |

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# MEMBERS' HANDBOOK
# CONTENTS OF VOLUME II

(Updated to January 2017)

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HKAS 1 (Revised)
Revised ~~December 2016~~January 2017

Effective for annual periods
beginning on or after 1 January 2009

*Hong Kong Accounting Standard 1 (Revised)*

# Presentation of Financial Statements

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52 An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.

53 An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

## Statement of financial position

### Information to be presented in the statement of financial position

**54 The statement of financial position shall include line items that present the following amounts:**

**(a) property, plant and equipment;**

**(b) investment property;**

**(c) intangible assets;**

**(d) financial assets (excluding amounts shown under (e), (h) and (i));**

**(e) investments accounted for using the equity method;**

**(f) biological assets within the scope of HKAS 41 *Agriculture*;**

**(g) inventories;**

**(h) trade and other receivables;**

**(i) cash and cash equivalents;**

**(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;**

**(k) trade and other payables;**

**(l) provisions;**

**(m) financial liabilities (excluding amounts shown under (k) and (l));**

**(n) liabilities and assets for current tax, as defined in HKAS 12 *Income Taxes*;**

**(o) deferred tax liabilities and deferred tax assets, as defined in HKAS 12;**

**(p) liabilities included in disposal groups classified as held for sale in accordance with HKFRS 5;**

**(q) non-controlling interests, presented within equity; and**

**(r) issued capital and reserves attributable to owners of the parent.**

HKAS 17
Revised ~~February 2014~~January 2017

*Hong Kong Accounting Standard 17*

# Leases

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# Hong Kong Accounting Standard 17
## *Leases*

## Objective

1 The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

## Scope

**2 This Standard shall be applied in accounting for all leases other than:**

**(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and**

**(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.**

**However, this Standard shall not be applied as the basis of measurement for:**

**(a) property held by lessees that is accounted for as investment property (see HKAS 40 *Investment Property*);**

**(b) investment property provided by lessors under operating leases (see HKAS 40);**

**(c) biological assets within the scope of HKAS 41 *Agriculture* held by lessees under finance leases ~~(see HKAS 41 *Agriculture*)~~; or**

**(d) biological assets within the scope of HKAS 41 provided by lessors under operating leases ~~(see HKAS 41)~~.**

3 This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

## Definitions

**4 The following terms are used in this Standard with the meanings specified:**

**A** *lease* **is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.**

**A** *finance lease* **is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.**

**An** *operating lease* **is a lease other than a finance lease.**

**A** *non-cancellable lease* **is a lease that is cancellable only:**

**(a) upon the occurrence of some remote contingency;**

**(b) with the permission of the lessor;**

**(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or**

**(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.**

**The** *inception of the lease* **is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:**

**(a) a lease is classified as either an operating or a finance lease; and**

HKAS 23 (Revised)
Revised ~~March 2010~~January 2017

Effective for annual periods
beginning on or after 1 January 2009*

*Hong Kong Accounting Standard 23 (Revised)*

# Borrowing Costs

| | | |
|---|---|---|
| * | (a) | HKSA 23 (Revised) is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted. HKAS 23 (Revised) supersedes HKAS 23 issued in 2004. |

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# Hong Kong Accounting Standard 23
# *Borrowing Costs*

## Core principle

**1 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.**

## Scope

**2 An entity shall apply this Standard in accounting for borrowing costs.**

3 The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

4 An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

(a) a qualifying asset measured at fair value, for example a biological asset <u>within the scope of HKAS 41 *Agriculture*</u>; or

(b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

## Definitions

**5 This Standard uses the following terms with the meanings specified:**

*Borrowing costs* **are interest and other costs that an entity incurs in connection with the borrowing of funds.**

**A** *qualifying asset* **is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.**

6 Borrowing costs may include:

(a) interest expense calculated using the effective interest method as described in HKAS 39 *Financial Instruments: Recognition and Measurement*;

(b) [deleted]

(c) [deleted]

(d) finance charges in respect of finance leases recognised in accordance with HKAS 17 *Leases*; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

7 Depending on the circumstances, any of the following may be qualifying assets:

(a) inventories

(b) manufacturing plants

(c) power generation facilities

(d) intangible assets

(e) investment properties.

(f) bearer plants.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

## Recognition

**8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.**

9 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies HKAS 29 *Financial Reporting in Hyperinflationary Economies*, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

### Borrowing costs eligible for capitalisation

10 The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

11 It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

**12 To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.**

HKAS 36
Revised ~~December 2016~~January 2017

*Hong Kong Accounting Standard 36*

# Impairment of Assets

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# Hong Kong Accounting Standard 36
# *Impairment of Assets*

## Objective

1 The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

## Scope

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

**(a) inventories (see HKAS 2 *Inventories*);**

**(b) assets arising from construction contracts (see HKAS 11 *Construction Contracts*);**

**(c) deferred tax assets (see HKAS 12 *Income Taxes*);**

**(d) assets arising from employee benefits (see HKAS 19 *Employee Benefits*);**

**(e) financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement*;**

**(f) investment property that is measured at fair value (see HKAS 40 *Investment Property*);**

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

**(h) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of HKFRS 4 *Insurance Contracts*; and**

**(i) non-current assets (or disposal groups) classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.**

3 This Standard does not apply to inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because existing HKFRSs applicable to these assets contain requirements for recognising and measuring these assets.

HKAS 38
Revised ~~November 2016~~January 2017

Effective for annual periods
beginning on or after 1 January 2005

*Hong Kong Accounting Standard 38*

# Intangible Assets

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90 Many factors are considered in determining the useful life of an intangible asset, including:

(a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

(b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(c) technical, technological, commercial or other types of obsolescence;

(d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) expected actions by competitors or potential competitors;

(f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;

(g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and

(h) whether the useful life of the asset is dependent on the useful life of other assets of the entity.

91 The term 'indefinite' does not mean 'infinite'. The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.

92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it ~~is likely~~ will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

93 The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

**94 The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.**

 

95 There may be both economic and legal factors influencing the useful life of an intangible asset. Economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. The useful life is the shorter of the periods determined by these factors.

96 Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:

(a) there is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;

(b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and

(c) the cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the 'renewal' cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

# Intangible assets with finite useful lives

### Amortisation period and amortisation method

**97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.**

98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

98A There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:

(a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or

(b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

98B In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (ie time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.

98C In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches CU2 billion) and not be based on time or on the amount of gold extracted. In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches CU100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.

99 Amortisation is usually recognised in profit or loss. However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see HKAS 2 *Inventories*).

130A An entity shall apply the amendments in paragraph 2 for annual periods beginning on or after 1 January 2006. If an entity applies HKFRS 6 for an earlier period, those amendments shall be applied for that earlier period.

130B HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 85, 86 and 118(e)(iii). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

130C HKFRS 3 (as revised in 2008) amended paragraphs 12, 33-35, 68, 69, 94 and 130, deleted paragraphs 38 and 129 and added paragraph 115A. *Improvements to HKFRSs* issued in May 2009 amended paragraphs 36 and 37. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 July 2009. Therefore, amounts recognised for intangible assets and goodwill in prior business combinations shall not be adjusted. If an entity applies HKFRS 3 (revised 2008) for an earlier period, it shall apply the amendments for that earlier period and disclose the fact.

130D Paragraphs 69, 70 and 98 were amended and paragraph 69A was added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

130E [Deleted]

130F HKFRS 10 and HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraph 3(e). An entity shall apply that amendment when it applies HKFRS 10 and HKFRS 11.

130G HKFRS 13, issued in June 2011, amended paragraphs 8, 33, 47, 50, 75, 78, 82, 84, 100 and 124 and deleted paragraphs 39-41 and 130E. An entity shall apply those amendments when it applies HKFRS 13.

130H *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraph 80. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

130I An entity shall apply the amendment made by *Annual Improvements to HKFRSs 2010–2012 Cycle* to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis and explain that basis.

130J *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to HKAS 16 and HKAS 38), issued in June 2014, amended paragraphs 92 and 98 and added paragraphs 98A–98C. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

HKAS 38 BC
Revised ~~November 2016~~January 2017

*Basis for Conclusions on*
*Hong Kong Accounting Standard 38*

# Intangible Assets

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have a fair value regardless of the costs required to renew. This means the useful life of a contractual customer relationship could be inconsistent with the basis used to determine the fair value of the relationship.[#]

BC70 In relation to (a) above, the Board observed that if renewal by the entity is subject to third-party (eg government) approval, the requirement that there be evidence to support the entity's ability to renew would compel the entity to make an assessment of the likely effect of the third-party approval process on the entity's ability to renew. The Board could see no conceptual basis for narrowing the requirement to situations in which the contractual or legal rights are not subject to the approval of third parties.

BC71 In relation to (b) above, the Board observed the following:

(a) the requirements relating to renewal periods address circumstances in which *the entity* is able to renew the contractual or other legal rights, notwithstanding that such renewal may, for example, be conditional on the entity satisfying specified conditions, or subject to third-party approval. Paragraph 94 of the Standard states that "… the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal *by the entity* [emphasis added] without significant cost." The ability to renew a customer contract normally rests with the customer and not with the entity.

(b) the respondents seem to regard as a single intangible asset what is, in substance, two intangible assets—one being the customer contract and the other being the related customer relationship. Expected renewals by the customer would affect the fair value of the customer relationship intangible asset, rather than the fair value of the customer contract. Therefore, the useful life of the customer contract would not, under the Standard, extend beyond the term of the contract, nor would the fair value of that customer contract reflect expectations of renewal by the customer. In other words, the useful life of the customer contract would not be inconsistent with the basis used to determine its fair value.

BC72 However, in response to respondents' suggestions, the Board included paragraph 96 in the Standard to provide additional guidance on the circumstances in which an entity should be regarded as being able to renew the contractual or other legal rights without significant cost.

## Intangible assets with finite useful lives (paragraph 98)[*]

BC72A The last sentence of paragraph 98 previously stated, 'There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight line method.' In practice, this wording was perceived as preventing an entity from using the units of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight-line method. However, using the straight-line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 98.

[#] IFRS 13, issued in May 2011, contains the requirements for measuring fair value.

[*] This heading and paragraph BC72A were adde~~r~~d by *Improvements to IFRSs* issued in May 2008.

## Amortisation method (paragraphs 97–98C)

BC72B The IASB decided to amend IAS 38 to address concerns regarding the use of a revenue-based method for amortising an intangible asset. The IASB's decision was in response to a request to clarify the meaning of the term 'consumption of the expected future economic benefits embodied in the asset' when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. The issue raised is related to the application of paragraphs 97–98 of IAS 38, although the IASB decided to address the issue broadly, rather than limit it only to intangible assets arising in an SCA.

BC72C A revenue-based amortisation method is one that allocates an asset's amortisable amount based on revenues generated in an accounting period as a proportion of the total revenues expected to be generated over the asset's useful economic life. The total revenue amount is affected by the interaction between units (ie quantity) and price and takes into account any expected changes in price. The IASB observed that the price component of revenue may be affected by inflation and noted that inflation has no bearing upon the way in which the asset is consumed.

BC72D The IASB observed that paragraph 97 of IAS 38 states that the amortisation method used shall reflect the pattern in which the intangible asset's future economic benefits are expected to be consumed by the entity.

BC72E On the basis of the guidance in IAS 38 the IASB proposed to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (Proposed amendments to IAS 16 and IAS 38) (the 'ED') that a method of amortisation that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset.

BC72F During its redeliberations of the ED the IASB decided to include a rebuttable presumption that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in the intangible asset. The IASB also considered the question of whether there could be circumstances in which revenue could be used to reflect the pattern in which the future economic benefits of the intangible asset are expected to be consumed.

BC72G In finalising the proposed amendments to IAS 38, the IASB decided to make clear in the Standard that the presumption precluding the use of revenue as a basis for amortisation could be overcome in two circumstances. One of those circumstances is when it can be demonstrated that revenue is highly correlated with the consumption of the economic benefits embodied in an intangible asset. The IASB also noted that another circumstance in which revenue could be used is when the right embodied by an intangible asset is expressed as a total amount of revenue to be generated (rather than time, for example), in such a way that the generation of revenue is the measurement used to determine when the right expires. The IASB noted that, in this case, the pattern of consumption of future economic benefits that is embodied in the intangible asset is defined by reference to the total revenue earned as a proportion of the contractual maximum and, consequently, the amount of revenue generated contractually reflects the consumption of the benefits that are embodied in the asset.

BC72H The IASB also analysed situations in which an intangible asset is used in multiple activities to provide multiple revenue streams. Some respondents commented that the application of a units of production method did not seem practicable, because the units of production were not homogeneous. For example, the producer of a motion picture will typically use the intellectual property embodied in the film to generate cash flows through exhibiting the film in theatres, licensing the rights to characters to manufacturers of toys and other goods, selling DVDs or digital copies of the film and licensing broadcast rights to television broadcasters. Some respondents thought that the best way to amortise the cost of the intellectual property embodied in the film was to use a revenue-based method, because revenue was considered a common denominator to reflect a suitable proxy of the pattern of consumption of all the benefits received from the multiple activities in which the intellectual property could be used.

BC72I The IASB acknowledged that determining an appropriate amortisation method for situations in which an intangible asset is used in multiple activities, and generates multiple cash flow streams in different markets, requires judgement. The IASB considered suggestions that an intangible asset should be componentised for amortisation purposes in circumstances in which the asset is used to generate multiple cash flow streams. It observed that separating an asset into different components is not a new practice in business or in IFRS—it is routinely done for property, plant and equipment and IAS 16 provides guidance in this respect—but refrained from developing guidance in this respect for intangible assets.

BC72J The IASB also decided to provide guidance on how an entity could identify an amortisation method in response to some respondents who observed that further guidance was required in the application of paragraph 98 of IAS 38, which is limited to providing a description of the amortisation methods most commonly used. During its deliberations the IASB determined that, when choosing an amortisation method, an entity could determine the predominant limiting factor for the use of the intangible asset. For example, a contract could be limited by a number of years (ie time), a number of units produced or an amount of revenue to be generated. The IASB clarified that identifying such a predominant limiting factor is only a starting point for the identification of the amortisation method and an entity may apply another basis if the entity determines that it more closely reflects the expected pattern of consumption of economic benefits.

BC72K In the ED the IASB proposed to provide guidance to clarify the role of obsolescence in the application of the diminishing balance method. In response to the comments received about the proposed guidance, the IASB decided to change the focus of this guidance to explain that expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. The IASB noted that the expectation of technical or commercial obsolescence is relevant for estimating both the pattern of consumption of future economic benefits and the useful life of an asset. The IASB noted that the diminishing balance method is an accepted amortisation methodology in paragraph 98 of IAS 38, which is capable of reflecting an accelerated consumption of the future economic benefits embodied in the asset.

BC72L Some respondents to the ED suggested that the IASB should define the notion of 'consumption of economic benefits' and provide guidance in this respect. During its redeliberations the IASB decided against doing so, noting that explaining the notion of consumption of economic benefits would require a broader project.

## Consistency in the use of the phrase 'units of production'

BC72M The IASB decided to make consistent the phrase 'units of production method' and has therefore amended the instances of the phrase 'unit of production method'.

HKAS 40
Revised ~~November 2016~~January 2017

*Hong Kong Accounting Standard 40*

# Investment Property

Hong Kong Institute of
Certified Public Accountants
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# Hong Kong Accounting Standard 40
# *Investment Property*

## Objective

1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

## Scope

**2 This Standard shall be applied in the recognition, measurement and disclosure of investment property.**

3 Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in HKAS 17 *Leases*, including:

(a) classification of leases as finance leases or operating leases;

(b) recognition of lease income from investment property (see also HKAS 18 *Revenue*);

(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(d) measurement in a lessor's financial statements of its net investment in a finance lease;

(e) accounting for sale and leaseback transactions; and

(f) disclosure about finance leases and operating leases.

4 This Standard does not apply to:

(a) biological assets related to agricultural activity (see HKAS 41 *Agriculture* and HKAS 16 *Property, Plant and Equipment* ); and

(b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

## Definitions

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

*Carrying amount* **is the amount at which an asset is recognised in the statement of financial position.**

*Cost* **is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other HKFRSs, eg HKFRS 2 *Share-based Payment*.**

*Fair value* **is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See HKFRS 13 *Fair Value Measurement*).**

*Investment property* **is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:**

**(a) use in the production or supply of goods or services or for administrative purposes; or**

**(b) sale in the ordinary course of business.**

*Owner-occupied property* **is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.**

## Classification of property as investment property or owner-occupied property

6 **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33-55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74-78.**

7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. HKAS 16 ~~*Property, Plant and Equipment*~~ applies to owner-occupied property.

8 The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.

(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see HKAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(b) property being constructed or developed on behalf of third parties (see HKAS 11 *Construction Contracts*).

(c) owner-occupied property (see HKAS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [deleted]

(e) property that is leased to another entity under a finance lease.

HKAS 41
Revised ~~August 2014~~January 2017

*Hong Kong Accounting Standard 41*

# Agriculture

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# CONTENTS



Hong Kong Accounting Standard 41 *Agriculture* (HKAS 41) is set out in paragraphs 1-61. All the paragraphs have equal authority. HKAS 41 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Introduction

IN1 Hong Kong Accounting Standard 41 *Agriculture* (HKAS 41) prescribes the accounting treatment, financial statement presentation, and disclosures related to most agricultural activity, ~~a matter not covered in other Standards~~. 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. *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41), issued in August 2014, amended the scope of HKAS 16 *Property, Plant and Equipment* to include bearer plants related to agricultural activity. However, HKAS 41 applies to the produce growing on those bearer plants.

IN2 HKAS 41 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less costs to sell from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. However, HKAS 41 does not deal with processing of agricultural produce after harvest; for example, processing grapes into wine and wool into yarn.

IN3 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, HKAS 41 requires an entity to measure that biological asset 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 should measure it at its fair value less costs to sell. In all cases, an entity should measure agricultural produce at the point of harvest at its fair value less costs to sell.

IN4 HKAS 41 requires that a change in fair value less costs to sell of a biological asset be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity. Under a transaction-based, historical cost accounting model, a plantation forestry entity might report no income until first harvest and sale, perhaps 30 years after planting. On the other hand, an accounting model that recognises and measures biological growth using current fair values reports changes in fair value throughout the period between planting and harvest.

IN5 HKAS 41 does not establish any new principles for land related to agricultural activity. Instead, an entity follows HKAS 16 ~~*Property, Plant and Equipment*~~ or HKAS 40 *Investment Property*, depending on which standard is appropriate in the circumstances. HKAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. HKAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses. Biological assets within the scope of HKAS 41 that are physically attached to land (for example, trees in a timber plantation ~~forest~~) are measured at their fair value less costs to sell separately from the land.

IN6 HKAS 41 requires an unconditional government grant related to a biological asset measured at its fair value less costs to sell to be recognised in profit or loss when, and only when, the government grant becomes receivable. If a government grant is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, the entity applies HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

IN7 HKAS 41 is effective for annual financial statements covering periods beginning on or after 1 January 2005. Earlier application is encouraged.

IN8 HKAS 41 does not establish any specific transitional provisions. The adoption of HKAS 41 is accounted for in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

IN9 The Appendix provides illustrative examples of the application of HKAS 41. The Basis for Conclusions summarises the International Accounting Standards Board's reasons for adopting the requirements set out in HKAS 41.

# Hong Kong Accounting Standard 41
# *Agriculture*

## Objective

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

## Scope

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

**(a) biological assets, except for bearer plants;**

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

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

2 This Standard does not apply to:

(a) land related to agricultural activity (see HKAS 16 *Property, Plant and Equipment* and HKAS 40 *Investment Property*)~~; and~~.

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

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

(~~b~~d) intangible assets related to agricultural activity (see HKAS 38 *Intangible Assets*).

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

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 timber plantation ~~forest~~ | Felled trees | Logs, lumber |
| ~~Plants~~ | ~~Cotton~~ | ~~Thread, clothing~~ |
| | ~~Harvested cane~~ | ~~Sugar~~ |
| Dairy cattle | Milk | Cheese |
| Pigs | Carcass | Sausages, cured hams |
| Cotton plants | Harvested cotton | Thread, clothing |
| Sugarcane | Harvested cane | Sugar |
| Tobacco plants ~~Bushes~~ | Picked leaves ~~Leaf~~ | ~~Tea, c~~Cured tobacco |
| Tea bushes | Picked leaves | Tea |

| **Biological assets** | **Agricultural produce** | **Products that are the result of processing after harvest** |
|---|---|---|
| Grape ~~V~~vines | Picked ~~G~~grapes | Wine |
| Fruit trees | Picked fruit | Processed fruit |
| Oil palms | Picked fruit | Palm oil |
| Rubber trees | Harvested latex | Rubber products |
| Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of HKAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of HKAS 41. | | |

# 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 and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.**

*Agricultural produce* **is the harvested ~~product~~ produce 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.**

5A The following are not bearer plants:

(a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(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) annual crops (for example, maize and wheat).

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.

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

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 or harvest 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:**

*Carrying amount* **is the amount at which an asset is recognised in the statement of financial position.**

*Fair value* **is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See HKFRS 13 *Fair Value Measurement.)***

*Government grants* **are as defined in HKAS 20~~ *Accounting for Government Grants and Disclosure of Government Assistance*~~.**

9 [Deleted]

## 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 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 HKAS 2 *Inventories* or another applicable Standard.**

14 [Deleted]

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.

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 measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers 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 HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. HKAS 37 applies to onerous contracts.

17 - 21 [Deleted]

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 [Deleted]

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 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).

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 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.

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), HKAS 20 is applied.

38 This Standard requires a different treatment from HKAS 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. HKAS 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.

# Disclosure

***39*** [Deleted]

## 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 costs to sell 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.

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~~, grape vines,~~ and fruit trees from which fruit is harvested~~, and trees from which firewood is harvested while the tree remains~~. Bearer biological assets are not agricultural produce but, rather, are ~~self-regenerating~~ held to bear produce.

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 statements, 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 - 48** [Deleted]

62 *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41), issued in August 2014, amended paragraphs 1–5, 8, 24 and 44 and added paragraphs 5A–5C and 63. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively in accordance with HKAS 8.

63 In the reporting period when *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41) is first applied an entity need not disclose the quantitative information required by paragraph 28(f) of HKAS 8 for the current period. However, an entity shall present the quantitative information required by paragraph 28(f) of HKAS 8 for each prior period presented.

HKAS 41 BC

Revised ~~August 2014~~January 2017

*Basis for Conclusions*

*Hong Kong Accounting Standard 41*

# Agriculture

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

# Basis for Conclusions on

# IAS 41 *Agriculture*

*This Basis for Conclusions accompanies, but is not part of, IAS 41.*

HKAS 41 is based on IAS 41 Agriculture. In approving HKAS 41, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 41. Accordingly, there are no significant differences between HKAS 41 and IAS 41. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 41 referred to below generally correspond with those in HKAS 41.

## Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on amending IAS 41 *Agriculture* by *Improvements to IFRSs* in May 2008 and by *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41)* in June 2014. Individual Board members gave greater weight to some factors than to others.

BC2 Because the Board's intention was not to reconsider the fundamental approach to the accounting for agriculture established by IAS 41, this Basis for Conclusions does not discuss requirements in IAS 41 that the Board has not reconsidered. The IASC Basis for Conclusions on IAS 41 follows this Basis.

## Scope（2008 and 2014 amendments）

### Costs to sell (paragraph 5) – 2008 amendments

BC3 Before the *Improvements to IFRSs* issued in May 2008, IAS 41 used the term 'point-of-sale costs'. This term was not used elsewhere in IFRSs. The term 'costs to sell' is used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*. The Board decided that 'point-of-sale costs' and 'costs to sell' meant the same thing in the context of IAS 41. 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. It includes costs that are necessary for a sale to occur 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. Both terms relate to transaction costs arising at the point of sale.

BC4 Therefore, the Board decided to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' with 'costs to sell' to make IAS 41 consistent with IFRS 5 and IAS 36.

### Produce growing on bearer plants – 2014 amendments

BC4A Before *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) was issued in June 2014, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell. However, the Board observed that there is a class of biological assets, bearer plants, that are held by an entity solely to grow produce over their productive life. The Board's principal decision underlying the 2014 amendments is that bearer plants should be treated as property, plant and equipment. Accordingly, the Board decided to account for bearer plants as property, plant and equipment in accordance with the requirements in IAS 16 *Property, Plant and Equipment*.

* *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), issued in June 2014, introduced a definition of a bearer plant. The amendments require biological assets meeting the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* and as such the amendments are more comprehensively discussed in paragraphs BC38–BC117 of IAS 16. The produce growing on the bearer plants is within the scope of IAS 41. A summary of the specific changes to IAS 41 are discussed in paragraphs BC4A–BC4E of this Standard.

BC4B Nevertheless the Board noted that the same argument is not true for the produce growing on the bearer plants that is undergoing biological transformation until it is harvested (for example, grapes growing on a grape vine). The Board observed that the produce is a consumable biological asset growing on the bearer plant and the growth of the produce directly increases the expected revenue from the sale of the produce. Consequently, fair value measurement of the growing produce provides useful information to users of financial statements about future cash flows that an entity is expected to realise. In contrast the bearer plants themselves are not sold and the changes in the fair value of the bearer plants do not directly influence the entity's future cash flows. The Board also observed that produce will ultimately be detached from the bearer plants and is normally sold separately, meaning it has a market value on its own. This is in contrast to many bearer plants that are unlikely to have an observable market value on their own because they can only be sold while attached to the land.

BC4C The Board acknowledged that measuring produce growing on bearer plants at fair value less costs to sell sometimes might be difficult to apply in practice. However, it was noted that similar difficulties are encountered when measuring the fair value less costs to sell of the produce growing in the ground. Consequently, the Board decided that it would be inconsistent to provide additional relief from fair value measurement for produce growing on a bearer plant and not also for other biological assets within the scope of IAS 41. The Board observed that if preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemptions in paragraphs 10(c) and 30 of IAS 41.

BC4D Consequently, the Board decided to reaffirm that produce is a biological asset within the scope of IAS 41 and should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This would maintain consistency of accounting for produce growing in the ground and produce growing on a bearer plant. Consequently, the Board decided to keep the produce within the scope of IAS 41.

BC4E The Board noted that most of the areas for which respondents asked for additional guidance were specific to a particular type of bearer plant or produce. The Board decided that because of the specialised nature and diversity of bearer plants and produce it would be too difficult for the Board to develop additional guidance on measuring the fair value of produce.

## Recognition and measurement – 2008 amendments

### Discount rate (paragraph 20)

BC5 As part of the annual improvements project begun in 2007, the Board reconsidered whether it is appropriate to require a pre-tax discount rate in paragraph 20 when measuring fair value.[*] The Board noted that a fair value measurement should take into account the attributes, including tax attributes, that a market participant would consider when pricing an asset or liability.

BC6 The Board noted that a willing buyer would factor into the amount that it would be willing to pay the seller to acquire an asset (or would receive to assume a liability) all incremental cash flows that would benefit that buyer. Those incremental cash flows would be reduced by expected income tax payments using appropriate tax rates (ie the tax rate of a market participant buyer). Accordingly, fair value takes into account future income taxes that a market participant purchasing the asset (or assuming the liability) would be expected to pay (or to receive), without regard to an entity's specific tax situation.[#]

[*] IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

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