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

MEMBERS' HANDBOOK

Update No. 155

(Issued 7 August 2014)

This Update relates to the issuance of:

- *Agriculture: Bearer Plants* (Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 41 *Agriculture*)

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 pages
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 16 *Property, Plant and Equipment*	Replace the cover page, pages 4 and 22 with revised cover page, pages 4 and 22. Insert pages 21C-21E after page 21B and pages 36-50 after page 35.	- Note 1
HKAS 41 *Agriculture* (Standard)	Replace the cover page and page 3 with revised cover page and page 3. Insert pages 20-26 after page 19.	- Note 1
HKAS 41 *Agriculture* (Basis for Conclusions)	Replace the cover page with revised cover page. Insert pages 20-24 after page 19.	- Note 1

Note:

1. HKAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The amendments state that bearer plants should be accounted for in the same way as property, plant and equipment in HKAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of HKAS 16, instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

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MEMBERS' HANDBOOK
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HKAS 16
Revised ~~June~~August 2014

Hong Kong Accounting Standard 16

Property, Plant and Equipment

Hong Kong Institute of
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TABLE OF CONCORDANCE

Hong Kong Accounting Standard 16 *Property, Plant and Equipment* (HKAS 16) is set out in paragraphs 1-83 and Appendix B. All the paragraphs have equal authority. HKAS 16 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.

Appendix D

Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

The following sets out amendments required for this Standard resulting from amendments to HKAS 16 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

In the Introduction, paragraph IN5 is amended and paragraph IN1A is added. New text is underlined.

Introduction

…

IN1A The HKICPA amended the scope of HKAS 16 in 2014 to include bearer plants related to agricultural activity.

…

Scope

IN5 This Standard clarifies that an entity is required to apply the principles of this Standard to items of property, plant and equipment used to develop or maintain (a) biological assets and (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources. *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41), issued in August 2014, amended the scope of this Standard to include bearer plants related to agricultural activity.

Paragraphs 3, 6 and 37 are amended and paragraphs 22A and 81K–81M are added. New text is underlined and deleted text is struck through.

Scope

...

3 This Standard does not apply to:

(a) property, plant and equipment classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*~~;~~.

(b) biological assets related to agricultural activity other than bearer plants (see HKAS 41 *Agriculture*). This Standard applies to bearer plants but it does not apply to the produce on bearer plants.~~;~~

(c) the recognition and measurement of exploration and evaluation assets (see HKFRS 6 *Exploration for and Evaluation of Mineral Resources*)~~; or~~.

(d) …

Definitions

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

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.**

(Paragraphs 5A–5B of HKAS 41 elaborate on this definition of a bearer plant.)

Carrying amount **is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.**

…

Elements of cost

…

22A Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

…

Revaluation model

…

37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

(a) …

(g) furniture and fixtures; ~~and~~

(h) office equipment~~.~~; and

(i) bearer plants.

…

Effective date and transition

…

81K *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41), issued in August 2014, amended paragraphs 3, 6 and 37 and added paragraphs 22A and 81L–81M. 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, except as specified in paragraph 81M.

81L 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.

81M An entity may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity first applies *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41) and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in opening retained earnings at the beginning of the earliest period presented.

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Appendix

Amendments to the Basis for Conclusions on HKAS 16 *Agriculture: Bearer Plants*

This appendix contains amendments to the Basis for Conclusions on HKAS 16 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

Paragraph BC2A and paragraphs BC38–BC117 and their related headings are added. New text is underlined.

Introduction

…

BC2A *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), issued in June 2014, amended the scope of IAS 16 to include bearer plants. IAS 41 *Agriculture* applies to the produce growing on those bearer plants. The amendments define a bearer plant and require bearer plants to be accounted for as property, plant and equipment in accordance with IAS 16. These amendments are discussed in paragraphs BC38–BC117.

…

Accounting for bearer plants (2014 amendments)

Overview

BC38 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, for which the accounting is prescribed in IAS 16. IAS 16 permits the use of either a cost model or a revaluation model.

Background

BC39 Prior to the 2014 amendments, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement. IAS 41 defines 'biological transformation' as follows:

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

BC40 IAS 41 has a single accounting treatment for all bearer and consumable biological assets within its scope. IAS 41 only distinguishes between bearer and consumable biological assets for disclosure purposes (see paragraphs 43–44 of IAS 41).

BC41 Stakeholders told the Board that they think that fair value measurement is not appropriate for mature bearer biological assets such as oil palms and rubber trees because they are no longer undergoing significant biological transformation. The use of mature bearer biological assets such as these is seen by many as similar to that of manufacturing. Consequently, they said that a cost model should be permitted for those bearer biological assets, because it is permitted for property, plant and equipment. They also said that they had concerns about the cost, complexity and practical difficulties of fair value measurements of bearer biological assets in the absence of markets for those assets, and about the volatility from recognising changes in the fair value less costs to sell in profit or loss. Furthermore, they asserted that investors, analysts and other users of financial statements adjust the reported profit or loss to eliminate the effects of changes in the fair values of these bearer biological assets.

BC42 Most respondents who cited agriculture in their responses to the Board's 2011 Agenda Consultation raised concerns in relation to fair value measurement of plantations, for example oil palm and rubber trees plantations, and favoured a limited-scope project for these bearer biological assets to address the concerns in paragraph BC41. Only a small number of respondents favoured a broader consideration of IAS 41 or a Post-implementation Review, or said that there is no need to amend IAS 41.

BC43 Before the limited-scope project for bearer biological assets was added to its work programme, the Board was monitoring the work undertaken by the Asian-Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal to remove some bearer biological assets from the scope of IAS 41 and account for them in accordance with IAS 16. Those proposals were discussed several times by national standard-setters, the Board's Emerging Economies Group (EEG) and the IFRS Advisory Council. Feedback from these meetings indicated strong support for the AOSSG/MASB proposals and for the Board to start a limited-scope project for bearer biological assets.

BC44 In September 2012 the Board decided to add to its agenda a limited-scope project for bearer biological assets, with the aim of considering whether to account for some or all of them as property, plant and equipment, thereby permitting use of a cost model. The limited-scope project was supported by the following reasons:

(a) it addressed the accounting treatment for those biological assets for which respondents to the 2011 Agenda Consultation had concerns. It also had significant support among national standard-setters and other interested parties. Furthermore, on the basis of feedback from the 2011 Agenda Consultation and other outreach, the expected changes under the project would be likely to reduce compliance costs for preparers and would not adversely affect users of financial statements.

(b) it had the advantage of timeliness compared to a more comprehensive project. The Board was able to use the research performed by the MASB and address the main issues relatively quickly. A more comprehensive project would have had to wait for space on the Board's agenda and, once started, might have taken several years.

BC45 The Board decided that it had received sufficient information to develop an Exposure Draft (ED) from work performed by the MASB, meetings of national standard-setters, feedback from preparers on the 2011 Agenda Consultation and user outreach performed by staff. Furthermore, the project was expected to result in limited changes that were sought by both users and preparers of financial statements, as explained in more detail in the analysis of the likely effects of the amendments in paragraphs BC99–BC117. Consequently, the Board decided that the project could proceed without a Discussion Paper and developed an ED that was issued in June 2013.

Changes to the proposals in the ED

BC46 The Board received 72 comment letters on the ED. The vast majority of respondents supported the proposal in the ED to account for bearer plants in accordance with IAS 16. Three additional issues raised by respondents were:

(a) extend the scope of the amendments to other biological assets (see paragraphs BC54–BC58);

(b) do not require fair value measurement of growing produce (see paragraphs BC75–BC78); and

(c) provide guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with paragraph 16(b) of IAS 16—ie when it reaches maturity (see paragraph BC82).

BC47 As a result of the Board's redeliberations of the issues raised on the ED, three changes were made to the proposed amendments in the ED, other than drafting changes. Those three changes were:

(a) modifying criterion (c) of the definition of a bearer plant (see paragraph BC62);

(b) clarifying the transition provisions (see paragraph BC96); and

(c) exempting entities from the disclosure requirements in paragraph 28(f) of IAS 8 for the current period in both the amendments to IAS 16 and the amendments to IAS 41 (see paragraph BC97).

Paragraphs BC48–BC117 summarise the Board's considerations in developing the amendments and its reasons for only making limited changes to the amendments proposed in the ED.

Scope of the amendments

BC48 The Board decided that, before it could consider whether some or all bearer biological assets should be accounted for in accordance with IAS 16 instead of IAS 41, it first needed to define bearer biological assets for the purposes of the amendments. The Board initially discussed four options when deciding on the scope:

(a) Option 1: no-alternative-use model. Limit the scope of the amendments to IAS 41 to biological assets that are solely used in the production or supply of agricultural produce (ie only used as bearer biological assets) and that are expected to be used for more than one period.

(b) Option 2: predominant-use model. Limit the scope of the amendments to IAS 41 to biological assets that are used predominantly in the production or supply of agricultural produce (ie used primarily as bearer biological assets) and that are expected to be used for more than one period.

(c) Option 3: no-alternative-use model—plants only. This is the same as Option 1 except that it would only include plants, not livestock.

(d) Option 4: predominant-use model—plants only. This is the same as Option 2 except that it would only include plants, not livestock.

BC49 The Board's first consideration when setting the scope of the amendments to IAS 41 was whether to follow a 'no-alternative-use' model or a 'predominant-use' model. The Board observed that many types of livestock that are used as bearer biological assets by an entity also have a common alternative use as a consumable biological asset. For example, an entity may choose to rear a sheep for its wool (bearer attribute) and/or for its meat (consumable attribute). It was also observed that some trees are cultivated both for their lumber, for example, for furniture production (consumable attribute) and for their fruit (bearer attribute).

BC50 The Board observed that a predominant-use model would be more difficult to apply than a no-alternative-use model because it would require additional judgement to be applied in order to determine the predominant use, and would need to address the consequences of reclassifications between IAS 16 and IAS 41 if the predominant use changes. In contrast, if the scope is restricted to biological assets that are solely used as bearer biological assets, the need to apply judgement and make reclassifications would be expected to be rare.

BC51 The Board further noted that, if an entity intends to sell a biological asset as agricultural produce after it has been used as a bearer biological asset for a period of time, fair value measurement would provide useful information about the future economic benefits from the future sale of the asset. Furthermore, if a biological asset is commonly sold as agricultural produce, there will often be an active market for sale of that biological asset separately from land, meaning that fair value information is likely to be readily available and easier to apply than cost measurement. The Board also noted that the concerns raised by respondents to the 2011 Agenda Consultation generally relate to plants that do not have an alternative use to the entity and that do not have a market value separate from the land component. Consequently, any sales transactions that take place in the market are likely to be of bearer plants plus land, and possibly whole plantations. For these reasons, the Board decided to limit the scope to biological assets that are solely used as bearer biological assets.

BC52 The Board's second consideration when setting the scope was whether livestock should be included within the amendments to IAS 41. The Board observed that including livestock would make the use of a cost model more complex. Unlike plants, livestock is not attached to land and there is usually an active market for it, meaning that fair value information is likely to be readily available and easier to apply than cost measurement. As noted in paragraph BC51, concerns raised by respondents to the 2011 Agenda Consultation mainly relate to plants, not livestock. Consequently, the Board decided to restrict the scope to plants.

BC53 On the basis of the considerations in paragraphs BC49–BC52, the Board decided on Option 3.

BC54 Many respondents to the ED said that the concerns outlined by interested parties in paragraph BC41 about fair value measurement and the Board's reasoning in the ED for accounting for bearer plants in accordance with IAS 16 (repeated in paragraphs BC63–BC68) apply equally to other biological assets, such as bearer livestock and plants predominantly used to produce agricultural produce. These respondents said that there was no conceptual basis for singling out bearer plants and that all biological assets used in the production or supply of agricultural produce should be accounted for in the same way.

BC55 During redeliberations of the proposals in the ED, the Board noted that the limited-scope project was added to the Board's agenda to respond to concerns raised by respondents to the 2011 Agenda Consultation, which were raised primarily about plants used solely to bear agricultural produce, for example, oil palm and rubber tree plantations. When the limited-scope project was added to the Board's agenda, the Board had noted that it did not have the resources at that time to perform a comprehensive review of IAS 41. However, the Board had observed that a limited-scope project could be addressed quickly.

BC56 Most respondents to the ED who suggested expanding the scope to livestock did not acknowledge that a key reason the Board limited the scope to bearer plants was the complexities of measuring the initial cost of bearer livestock. A few respondents disagreed with the Board's observation in paragraph BC52 that a cost model would be complex to implement for bearer livestock and noted that cost-based models are used for livestock in some jurisdictions. However, they did not provide any further information on how a cost model like the one in IAS 16 can be applied to livestock.

BC57 The Board observed that before and during development of the amendments it had received significant information from interested parties about the consequences of including bearer plants in IAS 16. However, the Board noted that it had only received limited information about these issues within the context of other biological assets. The Board agreed that the scope of the project should not be expanded without understanding whether IAS 16 is appropriate and can be applied consistently to those biological assets. The Board observed that obtaining this understanding would take time and delay completion of the ED. The Board also noted that such requests for an expanded scope would increase the complexity of the project and raise conceptual issues that did not belong in a limited-scope project but instead in a comprehensive review of IAS 41.

BC58 The Board agreed that the amendments address an immediate need for plantation businesses and are generally perceived by respondents to result in a significant improvement in financial reporting. Consequently, the Board decided not to expand the limited scope of the amendments with the aim of finalising the amendments quickly.

BC59 The ED defined a bearer plant as a plant that is:

(a) used in the production or supply of agricultural produce;

(b) expected to bear produce for more than one period; and

(c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

BC60 The Board noted that some crops are perennial plants because their roots remain in the ground to sprout for the next period's crop. An example would be sugarcane if its roots are retained for a second harvest. The Board agreed that if an entity retains the roots to bear produce for more than one period and the roots are not later sold, the roots would meet the definition of a bearer plant. The Board decided that this did not need to be clarified in the amendments and most respondents to the ED agreed.

BC61 Some respondents to the ED asked for guidance on applying the definition of a bearer plant to a range of plants. Because of the diversity of bearer plants, the Board decided not to add guidance on specific types of plants.

BC62 The Board decided to amend criterion (c) of the definition to state 'has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales' to ensure that the amendment captures only those plants used solely in the production or supply of agricultural produce. The Board also clarified in the definition that a bearer plant is a living plant. No other changes were made to the proposed definition.

Basis for accounting for bearer plants in IAS 16

BC63 The Board considered whether the current requirements in IAS 16 for property, plant and equipment are appropriate for bearer plants and also considered the concerns raised by interested parties in paragraph BC41. The Board concluded that applying IAS 16 to bearer plants is appropriate. Paragraphs BC64–BC68 explain the reasons supporting the Board's conclusion.

Support for the use of IAS 16

BC64 Prior to the 2014 amendments, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell, based on the principle that their biological transformation is best reflected by fair value measurement. However, mature bearer plants are fully grown and so, apart from bearing produce, biological transformation is no longer significant in generating future economic benefits. Bearer plants are used solely to grow produce over several periods. After this time they are usually scrapped. Consequently, the only significant future economic benefits from bearer plants arise from selling the agricultural produce that they create.

BC65 The Board noted that while fair value measurement may provide an indication of the quality and productive capacity of the bearer plants at a point in time, it is less important to users of financial statements than it is for biological assets whose value may be realised through sale as agricultural produce.

BC66 Bearer plants meet the definition of property, plant and equipment. The use of mature bearer plants to produce agricultural produce is similar to the use of machinery to manufacture goods. The manner in which an entity derives economic benefits from bearer plants and a production plant is similar and that manner differs from biological assets that are harvested for sale. The progressive decline in the future earning potential of a bearer plant over its life is also similar to other depreciable assets, for example, plant and machinery.

BC67 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the decision-usefulness of the reported information. The land upon which bearer plants are growing, the structures used to support their growth and the agricultural machinery are measured in accordance with IAS 16. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used supports accounting for them in the same way.

Cost-benefit considerations

BC68 The Board noted that, on the basis of the responses to the 2011 Agenda Consultation and the outreach performed by the staff, the costs of measuring bearer plants at fair value are perceived by many preparers to exceed the benefits to users of financial statements. The Board also observed that nearly all investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants has limited use to them. The main reasons given by the investors and analysts were:

(a) information about operating performance and cash flows is more relevant to their forecasting and analysis. Consequently, they eliminate changes in the fair value less costs to sell of bearer plants from the figures used for their analysis.

(b) there are concerns about relying on the fair value measurements because valuations involve significant management judgement, have the potential for manipulation, and assumptions vary significantly between companies.

(c) fair value information about bearer plants is not very useful without fair value information about the related land, land improvements, agricultural machinery, etc.

Biological transformation

BC69 The IAS 41 fair value model is based on the principle that biological transformation is best reflected by fair value measurement. Once bearer plants mature, they are held by an entity solely to grow produce and so, apart from bearing produce, their biological transformation is no longer significant in generating future economic benefits. Consequently, the Board decided bearer plants should be accounted for under IAS 16 instead of IAS 41 (see paragraphs BC63–BC68). However, the Board noted that the same argument is not true for bearer plants before they reach maturity and bear produce. Until they reach maturity, bearer plants are in a growth phase and so undergo significant biological transformation. Furthermore, the Board noted that the produce growing on the bearer plants is undergoing biological transformation until it is harvested (for example, grapes growing on a grape vine). Paragraphs BC70–BC79 explain the reasons supporting the Board's conclusions regarding bearer plants before they reach maturity and the produce growing on the bearer plants.

Accounting for bearer plants before they mature

BC70 The Board considered whether a fair value approach or a cost accumulation approach should be applied to bearer plants before they reach maturity.

BC71 The Board noted that, before they mature, bearer plants undergo biological transformation and this distinguishes them from self-constructed property, plant and equipment. Such biological transformation would not be reflected by a cost accumulation approach. The Board further noted that a fair value approach would be consistent with the principle in IAS 41 that biological transformation is best reflected by fair value measurement.

BC72 However, the Board noted that IAS 16 does not incorporate internal profit in the measurement of a self-constructed item of machinery. By analogy, biological transformation should not be included either. The Board further noted that most of the investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants is of limited use to them and that the measurement of the fair values of bearer plants is particularly subjective during the early years of the life cycle of those bearer plants. For these reasons the Board decided that bearer plants should be measured at accumulated cost before they reach maturity. The Board also observed that it would be simpler to keep bearer plants in IAS 16 throughout their life. Virtually all respondents to the ED supported measuring bearer plants using a cost accumulation approach before they mature.

Accounting for produce growing on a bearer plant

BC73 The Board considered whether produce should be recognised at fair value less costs to sell only at the point of harvest or from the date that it starts to grow.

BC74 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 will actually 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.

BC75 Many respondents to the ED acknowledged the conceptual reasons for accounting for produce at fair value less costs to sell, but expressed concern with the likely practical challenges. Some respondents suggested only requiring fair value less costs to sell to be measured at the point of harvest, or providing additional relief from fair value measurement on the basis of cost-benefit considerations. Other respondents suggested accounting for produce using a cost model before harvest, similarly to inventories or work in progress. Several respondents said further guidance should be provided on how to measure the produce at fair value.

BC76 The Board acknowledged that measuring produce growing on bearer plants at fair value less costs to sell might sometimes 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 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.

BC77 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. Paragraph 10(c) of IAS 41 states that an entity shall recognise a biological asset only when the fair value or cost of the asset can be measured reliably. Paragraph 30 of IAS 41 requires a biological asset to be measured using a cost model if fair value measurement is determined to be clearly unreliable. The Board noted that this limited-scope project was not intended to address the fair value model in IAS 41. Consequently, the Board agreed not to further discuss the exemptions in IAS 41 as part of this project.

BC78 On the basis of the considerations above, the Board decided to reaffirm that produce is a biological asset within the scope of IAS 41 and consequently should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This would maintain the 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.

BC79 The Board noted that most of the areas for which respondents to the ED 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.

Application of the IAS 16 requirements to bearer plants

Unit of measure

BC80 Agricultural activity is often a continuous process, meaning that older plants are continuously removed from service and replaced. The Board noted that, if bearer plants are accounted for using a cost model, this continuous process needs to be made discrete. Consequently, the question arises as to what the unit of measure is—for example, is it the individual plant or some larger aggregation, such as a field or a planting cycle?

BC81 The Board noted that IAS 16 does not prescribe the unit of measure, or the extent to which items can be aggregated and treated as a single item of property, plant and equipment. Consequently, applying the recognition criteria in IAS 16 to bearer plants will require judgement. This would give an entity flexibility, depending on its circumstances, to decide how to aggregate individual plants for the purpose of determining a measurable unit of bearer plants. The Board noted that accounting for an aggregation of plants would be similar to accounting for a large quantity of equipment that is acquired or constructed in batches. For example a company may construct a large number of moulds for use within its business. Some aggregation of the moulds would usually be necessary for determining an item of property, plant and equipment. Consequently, the Board decided that the requirements for the unit of measure in IAS 16 would provide sufficient guidance for bearer plants without modification.

Point of maturity

BC82 Most respondents to the ED requested additional guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with paragraph 16(b) of IAS 16—ie when it is deemed to have reached maturity. For example, an oil palm may start to grow produce after two years, but only reach its maximum yield after seven years. Respondents suggested either defining the date of maturity to be 'the date of the first harvest of commercial value' or 'the date commercial quantities of produce are produced'. The Board noted that without further clarification these terms would not assist entities in applying judgement in this area and would be likely to lead to interpretation requests in the future. The Board also noted that a similar scenario arises for a factory or retail outlet that is not yet capable of operating at full capacity and did not think that this was a major issue in practice. Consequently, the Board decided not to add guidance in this area.

Other recognition and measurement requirements of the cost model

BC83 The Board considered whether the other recognition and measurement requirements of the cost model in IAS 16 were sufficient to address the unique costs of growing bearer plants both before and after they reach maturity. The following were the main requests for guidance raised by respondents to the ED:

(a) how to assess what is an abnormal amount of wastage/mortality during the growth phase of the bearer plants. The Board noted that there is a similar issue when an entity constructs a large number of fragile items of machinery for use within the business.

(b) the nature of costs that can be capitalised before maturity. The Board noted that although the examples in IAS 16 are about non-living items, paragraph 17(a)–(b) and (e) of IAS 16 adequately covers the types of costs incurred to cultivate and grow bearer plants.

(c) allocation of costs after maturity between the growing fruit and the bearer plant. The Board noted that an entity may recognise all costs as an expense after maturity unless they meet the criteria for capitalisation as part of bearer plants in accordance with paragraph 7 of IAS 16. Consequently, such guidance would not be necessary.

(d) transfers between IAS 16 and IAS 41 if the entity changes its intention for a bearer plant or if scrap sales are no longer considered incidental. The Board noted that it would be rare for transfers to take place between IAS 16 and IAS 41 for bearer plants, particularly in the light of the Board's decision to change criterion (c) of the definition of a bearer plant to 'has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales' (see paragraph BC62).

BC84 The Board decided that the current principles in IAS 16 are sufficient to cater for bearer plants without modification or supplement.

BC85 Some respondents to the ED requested guidance on the application of other Standards to bearer plants, for example, IAS 17 *Leases*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, IAS 23 *Borrowing Costs* and IAS 36 *Impairment of Assets*. However, when commenting on those Standards, respondents did not highlight issues unique to bearer plants. The Board noted that bearer plants meet the definition of property, plant and equipment in IAS 16 and are accounted for as property, plant and equipment. Consequently, bearer plants are items of property, plant and equipment when applying other Standards.

Disclosure requirements of the cost model

BC86 The Board considered the disclosure requirements in IAS 16 and decided that they could be applied to bearer plants without modification. The Board also considered whether any additional disclosures should be required for bearer plants.

BC87 Some Board members were concerned that if entities move from a fair value model to a cost model for bearer plants, decision-useful information about the fair values of bearer plants and the assumptions used to determine those fair value measurements would be lost. However, the Board noted that most of the investors and analysts consulted during the user outreach performed by the staff said that fair value information about bearer plants has limited use to them without fair value information about the related land, agricultural machinery, etc. Furthermore, virtually all respondents to the ED said that disclosure of fair value information about bearer plants and/or information about the significant inputs used in valuation techniques should not be required.

BC88 The Board noted that there is no clear basis for requiring fair value disclosures for bearer plants when such disclosures are not required for the rest of the property, plant and machinery involved in the process of growing the produce. It also noted that there is also no clear basis for requiring entities with bearer plants to provide fair value disclosures for their land when these disclosures are not required for land used for other purposes. The Board further acknowledged that the limited-scope project was not intended to address fair value disclosure requirements for other assets in IAS 16. Consequently, the Board decided not to require additional fair value disclosures for entities with bearer plants.

BC89 During user outreach, many investors and analysts told the staff that instead of using fair value information they use other information, for example, about yield, acreage and age of bearer plants. This information is usually obtained via the presentations made to analysts, the front of annual reports (for example, in the Management Commentary) or is otherwise received directly from companies. Many respondents to the ED acknowledged that disclosures about productivity and future cash flows are useful to users of financial statements, but most said that such disclosures should not be mandatory and belonged outside the financial statements.

BC90 Some respondents to the ED noted that disclosure of non-financial measures of physical quantities of biological assets and output of agricultural produce is currently required for all biological assets in paragraph 46 of IAS 41. They said that including bearer plants in IAS 16 would mean that this disclosure requirement would no longer apply to them. The Board observed that this is likely to have a limited effect in practice because the disclosures in paragraph 46 of IAS 41 will continue to apply to the produce in IAS 41 as follows:

(a) paragraph 46(a) and (b)(ii) of IAS 41—the Board noted that the disclosures made by entities in accordance with paragraphs 46(a) and (b)(ii) would be the same regardless of whether those paragraphs refer to the entire plant or only the produce.

(b) paragraph 46(b)(i) of IAS 41—the Board noted that paragraph 46(b)(i) now applies to physical quantities of produce instead of physical quantities of entire plants. The Board noted that paragraph 46(b)(i) does not stipulate the type of non-financial measures or estimates that an entity needs to provide. The Board also noted that plantation companies generally provide more information about productivity of bearer plants outside the financial statements than is required by paragraph 46 of IAS 41 and would be likely to continue to disclose their chosen non-financial measures of bearer plants even if this paragraph only refers to produce.

Consequently, the Board decided not to add the disclosures in paragraph 46 of IAS 41 to IAS 16.

BC91 The Board observed that agricultural activity is diverse and it would be difficult to identify specific productivity disclosures that would provide useful information for users of financial statements and cover all types of bearer plants. The Board also observed that if additional productivity disclosures were included in IAS 16 for bearer plants (other than those in paragraph 46 of IAS 41), it would be difficult to justify requiring them in IAS 16 for bearer plants and not in IAS 41 for other biological assets. The Board noted that reconsidering the disclosure requirements of IAS 41 was outside the scope of this project. Consequently, the Board decided not to add any additional disclosures in IAS 16 for bearer plants.

Revaluation model

BC92 IAS 16 permits entities to choose either the cost model or the revaluation model for each class of property, plant and equipment. The Board decided that the same accounting policy options should be permitted for bearer plants. Consequently, the Board decided that the revaluation model in IAS 16 should be permitted for bearer plants.

BC93 Most respondents to the ED supported allowing entities an option to use the revaluation model. However, some respondents asked for guidance on applying the revaluation model to bearer plants. The Board decided that the requirements of the revaluation model are clear without additional guidance and it noted its expectation that the vast majority of entities with bearer plants will use the cost model for the reasons set out in paragraph BC103. Consequently, the Board confirmed that the revaluation model would be permitted for bearer plants and decided not to add additional guidance.

Positioning of requirements

BC94 The Board observed that there was some benefit to keeping all of the requirements for agricultural activity together. However, the Board noted that the requirements in IAS 16 would be applied to bearer plants with virtually no modification. Furthermore, bearer plants meet the definition of property, plant and equipment and are used like property, plant and equipment within the business. Virtually all respondents to the ED supported including bearer plants within the scope of IAS 16. The Board thus confirmed that it would include bearer plants within the scope of IAS 16.

Transition requirements

Current IFRS preparers

BC95 The Board noted that if an entity currently measures its bearer plants at fair value less costs to sell and has not previously collected cost information, collecting this information to measure the cost of those bearer plants may be costly. If bearer plants have long life cycles, entities could be required to look back several decades in order to obtain the necessary information. Consequently, for cost-benefit reasons, the Board decided that the amendments to IAS 16 should permit the use of fair value as deemed cost for items of bearer plants at the beginning of the earliest comparative period presented in the financial statements. The Board also noted that the amendments address an immediate need for entities with bearer plants. Consequently, the Board decided that the amendments should be available for early application.

BC96 Virtually all respondents to the ED supported the transition requirements without change. However, some respondents said that the Board should clarify how to account for differences between fair value and the carrying value determined in accordance with IAS 41 (fair value less costs to sell) at the transition date. The Board agreed.

BC97 The Board noted that on the initial application of the amendments, paragraph 28(f) of IAS 8 would require an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. The Board observed that requiring this disclosure requirement for the current year would be burdensome because it would require an entity to maintain dual systems in the year of initial application. The Board noted that not requiring this disclosure for the current year would be consistent with its other decisions during the project. Consequently for both the amendments to IAS 16 and the amendments to IAS 41, the Board decided to exempt entities from providing the disclosure required by paragraph 28(f) for the current period. Entities would still be required to provide those disclosures for each prior period presented in the financial statements.

First-time adoption of IFRS

BC98 Consistent with the reasoning for accounting for bearer plants as property, plant and equipment (see paragraphs BC63–BC68), the Board decided that the same deemed cost exemptions provided for property, plant and equipment in IFRS 1 *First-time Adoption of International Financial Reporting Standard*s should be available for bearer plants. Virtually all respondents to the ED supported this requirement for first-time adopters of IFRSs. The Board thus confirmed the proposals for first-time adopters. The Board noted that no consequential amendments to IFRS 1 were required because bearer plants are accounted for as items of property, plant and equipment. Consequently, exemptions already provided in IFRS 1 would address first-time application issues related to bearer plants.

Analysis of the likely effects of the amendments

BC99 The following paragraphs describe the Board's analysis of the likely effects that will result from the amendments to the requirements for the accounting for bearer plants.

BC100 The Board is committed to assessing and sharing knowledge about the likely costs of implementing new requirements, and the likely ongoing application costs and benefits of each new or revised Standard—the costs and benefits are collectively referred to as 'effects'.

BC101 The Board gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities. The likely effects are assessed:

(a) in the light of the Board's objective of financial reporting transparency; and

(b) in comparison to the existing financial reporting requirements.

BC102 In evaluating the likely effects of the amendments, the Board has considered the following issues (see paragraphs BC106–BC117):

(a) how the changes are likely to affect how bearer plants are reported in the financial statements of those applying IFRS;

(b) whether those changes improve the comparability of financial statements between different reporting periods for an individual entity and between different entities in a particular reporting period;

(c) whether the changes will improve the ability of users of financial statements to assess the future cash flows of an entity;

(d) whether the improvements to financial reporting will result in better economic decision-making;

(e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and

(f) whether the likely costs of analysis for users of financial statements, including the costs of extracting data, identifying how it has been measured and adjusting it for the purposes of including that data in, for example, a valuation model, are affected.

BC103 The amendments will permit entities to apply either the cost model or the revaluation model, in accordance with IAS 16, for bearer plants. The Board expects that most entities will choose the cost model instead of the revaluation model, because:

(a) the revaluation model would not eliminate the main concerns raised by preparers, in particular the cost and complexity of regularly measuring the fair value of bearer plants.

(b) most entities apply a cost model to agricultural land and machinery and the Board expects that those entities would favour using a consistent approach for all assets used in the production of income, including bearer plants.

(c) IAS 16 only permits the revaluation model to be used if the fair value of bearer plants can be measured reliably. Many entities with bearer plants told the Board that fair value estimations are often complex and subjective. If fair value cannot be measured reliably, use of the revaluation model would be precluded.

BC104 Consequently, the analysis of the likely effects in paragraphs BC106–BC117 only considers the likely effects of applying the IAS 16 cost model in comparison to the IAS 41 fair value model.

BC105 If entities choose to account for bearer plants using the revaluation model in IAS 16, the most significant effect would be to require changes in the revalued amount, which approximates fair value, to be recognised in other comprehensive income. Currently, changes in fair value less costs to sell are recognised in profit or loss under IAS 41.

How the amendments are likely to affect how activities are reported

BC106 The amendments will only affect specific types of agricultural activity, namely those entities with bearer plants.

BC107 Assuming that current IFRS adopters choose to apply the cost model in IAS 16 to bearer plants the main changes will be as follows:

Effect	Fair value model in IAS 41	Cost model in IAS 16	Effect
Financial position	Measured at fair value less costs to sell (together with the produce).	Measured at cost less any accumulated depreciation and any accumulated impairment losses. (Produce measured separately at fair value less costs to sell.)	Net asset amounts are likely to be lower for the cost model than the fair value model during the earlier part of the productive life of a bearer plant. This is because the future cash flows that can be generated by the bearer plant, and reflected in a fair value measurement, will likely be higher than the cost on initial recognition. Over time, the carrying amounts measured in accordance with the two models are expected to converge as the asset approaches the end of its productive life.
Profit or loss	Changes in fair value less costs to sell are recognised in profit or loss. Costs may be recognised as an expense immediately or capitalised. If they are capitalised there is an equal reduction in the change in the fair value less costs to sell.	The depreciation charge for each period, and any impairment loss, will be recognised in profit or loss.	Over the life of the bearer plants the net amount recognised in profit or loss will likely be the same whether applying the fair value model or the cost model. However, if an entity applies the fair value model the effect on profit or loss will be variable (changes in fair value). If an entity applies the cost model the effect on profit or loss is likely to be more systematic (depreciation, with possible impairment).

How the amendments affect the comparability of financial statements

Comparability between entities

BC108 The Board does not expect the amendments to significantly reduce the comparability between entities because:

(a) IAS 41 requires biological assets to be accounted for using the fair value model. The Board does not expect the choice of accounting policy in IAS 16 to reduce comparability between entities with bearer plants because most entities are expected to choose the cost model for the reasons explained in paragraph BC103.

(b) The primary benefits of using fair value for biological assets are that fair value captures biological development (ie the growth of the produce) and is closely aligned with how the entity expects to convert the asset to cash (ie through sale). The Board has retained fair value for the produce of a bearer plant (for which these primary benefits are applicable) while aligning the accounting for the bearer plant with the accounting for property, plant and equipment. The Board considers that this change will improve comparability by distinguishing between types of biological asset.

(c) The Board observed that some entities may elect to measure bearer plants at fair value on initial application of the amendments and use that fair value as its deemed cost at that date, while others may elect to apply the amendments retrospectively (eg if they currently use a cost model in accordance with IAS 16 for management purposes). However, the Board noted that if there is any lack of comparability between entities on initial application, it is just as likely to arise from the aggregation of costs incurred at different dates as from the use of fair value as deemed cost by some but not all entities. Furthermore, the use of fair value as the deemed cost for bearer plants means that an entity will report the same cost data as if it had acquired bearer plants with the same remaining service potential at the date of transition to IFRS, eg if it had purchased an area of plantation on that date.

Comparability between reporting periods for an individual entity

BC109 The Board does not expect the amendments to significantly reduce the comparability between reporting periods for an individual entity choosing the cost model. This is because under IAS 41 the change in the fair value less costs to sell of bearer plants can fluctuate significantly between reporting periods as a result of small changes in assumptions. Furthermore, most investors and analysts consulted during the user outreach performed by staff said that they eliminate the change in the fair value less costs to sell of bearer plants when comparing an entity's operating performance between reporting periods.

BC110 Currently, bearer plants are accounted for in a different way from the land, land improvements and agricultural machinery used in the production process. In most cases entities account for these assets at cost under IAS 16. Consequently, accounting for the bearer plants under IAS 16 will improve comparability between the producing assets of the entity by accounting for similar assets in similar ways.

How the amendments will improve a user's ability to assess future cash flows

BC111 IAS 41 currently requires bearer plants to be measured at fair value less costs to sell. Consequently, the requirement to measure fair value applies to both the bearer plant and the produce growing on the bearer plant. As a result of the amendments, only the produce growing on bearer plants will be measured at fair value less costs to sell.

BC112 The produce of bearer plants is usually grown for sale. Consequently, fair value changes in the produce have a direct relationship to the expectations of future cash flows that the entity will receive on sale. In contrast, bearer plants are normally held by an entity for the whole of their useful life and then scrapped, so changes in fair value are not directly recognised as cash flows on sale of the bearer plants. Consequently, the Board thinks that providing separate fair value information for the produce is likely to improve the ability of users of the financial statements to assess future cash flows.

BC113 During the project the staff sought the views of investors and analysts that use the financial statements of companies with bearer plants. Many of these investors and analysts told the staff that they focus on cash flows that an entity is expected to realise. These investors and analysts said that the fair value of bearer plants is not considered in their analysis because 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. Furthermore, some of these investors and analysts said that they would prefer a cost model for bearer plants because it provides a better basis to forecast future capital expenditure than a fair value model.

How the amendments will affect economic decision-making and the costs of analysis for users of financial statements

BC114 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the usefulness of the reported information. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used provides support for accounting for them in the same way.

BC115 As a result of the amendments, users of financial statements will generally receive cost information about bearer plants instead of fair value information. This is not expected to result in less relevant information for users of financial statements because nearly all investors and analysts consulted during the user outreach performed by staff said that the IAS 41 fair value information about bearer plants is of limited use to them for the reasons set out in paragraph BC68.

Effect on the compliance costs for preparers

BC116 Preparers of financial statements have expressed concern that, in the absence of active markets for bearer plants, fair value measurements are complex, time-consuming and costly, especially for entities that hold large plantations with varying maturities, yield profiles and locations. The amendments respond to this concern and are expected to significantly reduce costs for preparers of financial statements by permitting a cost model for bearer plants. However, entities will still be required to perform the following fair value measurements:

(a) the produce growing on the bearer plants will still be measured at fair value less costs to sell. The Board's reasoning for requiring the produce to be measured at fair value less costs to sell is set out in paragraphs BC73–BC79.

(b) as is the case for all items of property, plant and equipment, bearer plants will be subject to an impairment test under IAS 36. Consequently, if there is an indication that bearer plants are impaired at the reporting date, the entity would be required to estimate the recoverable amount of the asset (or its cash-generating unit). The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

BC117 Nevertheless, the amendments will reduce compliance costs for the majority of entities because:

(a) the Board thinks that measuring the produce at fair value less costs to sell would be less complex than measuring the bearer plants and produce together at fair value less costs to sell. This is because the produce is growing on the bearer plants only for a short period and so the valuation of produce will not involve forecasting over long time periods. Furthermore, there is usually an active market for the harvested produce, whereas there is rarely an active market for bearer plants and observable market prices generally exist only for many bearer plants together with the land.

(b) IAS 41 currently requires entities to determine the fair value less costs to sell of bearer plants at each reporting date. As a result of the amendments, an entity applying the cost model in accordance with IAS 16 would be required to estimate the recoverable amount of an item of bearer plants (or the relevant cash-generating unit) only if there are indicators of impairment at the reporting date. In general, bearer plants do not generate cash flows independently of the land. Consequently, the impairment test would take place at the cash-generating unit level. If the fair value of the land is greater than the carrying amount of the cash-generating unit containing the land and bearer plants, the cash-generating unit would not be impaired. Consequently, as a result of the amendments, fair value measurements are expected to be less frequent.

HKAS 41
Revised ~~June~~August 2014

Hong Kong Accounting Standard 41

Agriculture

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

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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.

Appendix
Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

The following sets out amendments required for this Standard resulting from amendments to HKAS 41 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

In the Introduction, paragraphs IN1 and IN5 are amended. Deleted text is struck through and new text is underlined.

Introduction

IN1 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.

…

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.

Paragraphs 1–5, 8, 24 and 44 are amended and paragraphs 5A–5C and 62–63 are added. Deleted text is struck through and new text is underlined.

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 (seeHKAS 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
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 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.

…

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.

…

General definitions

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

…

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

Recognition and measurement

…

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).

…

General

…

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.

…

Effective date and transition

…

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.

Consequential amendments to other Standards

HKAS 1 *Presentation of Financial Statements*

Paragraph 54 is amended. New text is underlined.

Information to be presented in the statement of financial position

54 As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) …

(f) biological assets <u>within the scope of HKAS 41 *Agriculture*</u>;

(g) ...

HKAS 17 *Leases*

Paragraph 2 is amended. Deleted text is struck through and new text is underlined.

Scope

2 …

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

(a) …

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

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

HKAS 23 *Borrowing Costs*

Paragraphs 4 and 7 are amended. Deleted text is struck through and new text is underlined.

Scope

…

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) …

Definitions

…

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

(a) …

(e) investment properties~~.~~

(f) bearer plants.

HKAS 36 *Impairment of Assets*

Paragraph 2 is amended. Deleted text is struck through and new text is underlined.

Scope

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

(a) …

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

(h) …

HKAS 40 *Investment Property*

Paragraphs 4 and 7 are amended. Deleted text is struck through and new text is underlined.

Scope

…

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) …

Classification of property as investment property or owner-occupied property

…

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. IAS 16 ~~*Property, Plant and Equipment*~~ applies to owner-occupied property.

Basis for Conclusions
Hong Kong Accounting Standard 41

Agriculture

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

Appendix

Amendments to the Basis for Conclusions on HKAS 41 *Agriculture: Bearer Plants*

This appendix contains amendments to the Basis for Conclusions on HKAS 41 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

Paragraph BC1 is amended and a footnote is added. New text is underlined.

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)[1] in June 2014. Individual Board members gave greater weight to some factors than to others.

1 *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.

The headings above paragraph BC3 are amended. New text is underlined.

Scope (2008 and 2014 amendments)

Costs to sell (paragraph 5) – 2008 amendments

Paragraphs BC4A–BC4E and their related heading are added and the heading above paragraph BC5 is amended. New text is underlined.

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*.

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

Dissenting Opinions

Dissent of Patrick Finnegan and Patricia McConnell

DO1 Mr Finnegan and Ms McConnell voted against the publication of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) issued in June 2014 (the 'June 2014 Amendment') because they believe that including bearer plants within the scope of IAS 16 *Property, Plant and Equipment* instead of IAS 41 *Agriculture* will eliminate information about the fair value changes in bearer plants and the underlying assumptions used to estimate those changes. Information about the fair values of all biological assets including bearer plants is critical both to managing agricultural activities and to investing in entities that engage in those activities. Without such information, investors are unable to assess changes in expectations of future net cash inflows for an entity engaged in agricultural activity. The fact that published price quotations have developed throughout the world for orchards and plantations that include bearer plants demonstrates the importance of fair value information to those who invest in agricultural activities.

DO2 IAS 41 prescribes the accounting for agricultural activity, that 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. The underlying principle of IAS 41 is that fair value measurement best reflects the biological transformation of biological assets. It requires measurement at fair value less costs to sell (referred to hereafter as fair value) from initial recognition of biological assets up to and including the point of harvest, other than when fair value cannot be measured reliably on initial recognition.

DO3 The June 2014 Amendment changes the measurement for one subset of biological assets, bearer plants, from fair value to a cost-based measure. Bearer plants are plants that are used only in the production or supply of agricultural produce and are expected to bear produce for more than one period. The June 2014 Amendment includes bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for bearer plants. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41, including bearer animals.

The importance of fair value information for biological assets

DO4 Fundamentally, IAS 41 is a Standard on accounting for biological transformation. Biological transformation of bearer assets occurs both prior to maturity and after maturity. A cost model ignores biological transformation when it occurs. That is why IAS 41 requires fair value measurement. The Basis for Conclusions of IAS 41 states:

> "Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity."

Mr Finnegan and Ms McConnell see no reason to abandon that principle with respect to bearer plants. Consequently, they do not agree that prior to maturity, bearer plants should be measured at accumulated cost. They do not believe that accounting for bearer plants in the same way as for self-constructed items of property, plant and equipment will provide users of financial statements with information that is useful to an understanding of the agricultural entity's performance for the period or of its productive capacity at a point in time.

DO5 While maturing, bearer plants are undergoing biological transformation. Mr Finnegan and Ms McConnell continue to believe that fair value measurement for the biological transformation process provides the best information about bearer assets' quality and quantitative changes during their growth period. They also believe that the fair value of bearer plants at maturity provides the best measure of an entity's resources being placed into the production of produce at maturity. Investors need that information to assess management's stewardship of the resources invested in the production process and the performance of the entity using those resources. Consequently, they believe that bearer plants must be measured at fair value while maturing because fair value provides users of financial statements with the best information about an important aspect of an agricultural entity's performance and management stewardship.

DO6 They also reject the view that biological transformation of bearer assets is no longer a key element for understanding the future net cash flows to an entity once such assets reach maturity. By definition, biological transformation is not limited to merely the growth process to maturity, but also includes the cycles of production and degeneration, which are critical phases in the life cycle of bearer assets. Fair value measurements of bearer assets throughout their lives provide information about the effectiveness and efficiency of the production process, and about the capability of such assets to generate net cash inflows into the future. In contrast, depreciation of the cost of a mature bearer asset only approximates the biological transformation of a bearer asset throughout its productive life and has only an indirect relationship, at best, to changes in future net cash inflows.

Effects of the use of fair value measurement

DO7 Mr Finnegan and Ms McConnell acknowledge that measuring bearer plants at fair value may sometimes be difficult. In particular, the Board has been told that the fair value of bearer plants is particularly subjective during the early years of their life cycle. However, Mr Finnegan and Ms McConnell note that IAS 41 contains an exception from fair value for biological assets for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable on initial recognition. They believe that this exception is sufficient to deal with the concerns about the reliability of fair value measures of bearer plants during the early years of their life cycle. They also note that entities throughout the world have been applying IAS 41 in a wide variety of agricultural activities since 2003. In fact, some national accounting standards required or recommended measurement of bearer assets at fair values even before IAS 41 was issued. They do not believe that measuring fair value of bearer plants, in general, is any more difficult than measuring fair value for other biological assets such as bearer animals. Furthermore, they believe that applying a cost measure to bearer plants may be equally as difficult in some situations. Fair value measurements are required in assessing bearer plants for impairment, and surely those who are urging a reversion to a cost model for bearer assets would not suggest that impairment should be ignored because fair value measurement may sometimes be difficult. Moreover, the June 2014 Amendment would permit fair value measurements as a pure accounting policy choice. Mr Finnegan and Ms McConnell believe that accounting should reflect underlying economic circumstances and should not merely be left to choice. The existing fair value exception in IAS 41 is based on circumstances (measurement reliability), and is not an accounting policy choice.

DO8 In addition to concerns about the reliability of fair value measures, entities with bearer assets expressed concern about the volatility that arises from recognising changes in the fair value of the bearer plants in profit or loss and said that users of financial statements adjust reported profit or loss to eliminate the effects of changes in fair values of bearer biological assets. Mr Finnegan and Ms McConnell accept the view that the use of fair value for bearer assets makes the analysis of profit or loss and financial position more difficult. At the same time, they note that price volatility is an indicator of risk, and risk assessment is part of an analyst's job. Mr Finnegan and Ms McConnell note that sound financial statement analysis will always adjust reported profit or loss and financial position for the effects of unusual or non-recurring changes in reported information. However, if critical information about changes in the economic benefits arising in an agricultural operation is not reported, such analysis is impaired or not possible at all.

DO9 Mr Finnegan and Ms McConnell believe that instead of ignoring the fair value volatility, which a cost model does, volatility should be addressed as a matter of financial statement presentation—such as by putting the fair value changes in other comprehensive income. They note that under the June 2014 Amendment, the bearer assets will be within the scope of IAS 16 and revaluation will be permitted. If an entity were to choose revaluation, the change in the revaluation amount (which approximates fair value) would be reported in other comprehensive income. Consequently, they believe that requiring fair value measurement during the entirety of the bearer plant's life cycle with the fair value changes reported in other comprehensive income would be consistent with permitting revaluation of the bearer asset. Furthermore, Mr Finnegan and Ms McConnell believe that such a change would preserve relevant information for investors through prominent display in the primary financial statements, while addressing the concerns of those who believe that fair value changes distort profit or loss.

Current proposals are not improvements to IFRS

DO10 Mr Finnegan and Ms McConnell believe that if bearer assets are measured at accumulated cost, then at a minimum, the fair value of the bearer plants should be a required disclosure, including information about the valuation techniques and key inputs/assumptions used. However, the 2014 Amendment is not requiring disclosure of fair value. Consequently, critical information is being eliminated from the financial statements of entities engaged in agricultural activities using bearer assets. Mr Finnegan and Ms McConnell do not believe that this is an improvement to financial reporting. In January 2013, the Trustees of the IFRS Foundation approved a new *Due Process Handbook* that specifies, among other things, the criteria for new Standards or major improvements. The main criteria (in addition to pervasiveness of the issue) are (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports, and (b) the importance of the matter to those who use financial reports. Mr Finnegan and Ms McConnell believe that, from a user perspective, there is no deficiency in the accounting for, and disclosures about, bearer assets in IAS 41 and that fair value information is important (indeed essential) to those who use the financial reports of entities engaged in agricultural activity.

DO11 In the user outreach performed by the staff, most investors and analysts said that fair value information about bearer plants is of either limited or no use to them *without* fair value information about the related land, agricultural machinery, etc. Instead of meeting the needs of users by providing this additional fair value information to make the fair value of bearer plants more useful, the Board has chosen to withdraw the requirement to provide the fair value of bearer plants. In the view of Mr Finnegan and Ms McConnell this solution does not adequately address the needs of users of financial statements.

DO12 A better solution would have been for the Board to require the fair value of bearer plants in combination with the fair value of the land to which such plants are attached. One of the weaknesses in IAS 41 is that it does not require the use of fair value to measure land to which bearer plants are attached. This is a weakness because the value of bearer plants is inextricably tied to the value of the land. By understanding the value of the bearer plants and the land, investors know the true potential of an entity's future net cash inflows. A historical cost model for either or both is incapable of providing such information.

DO13 As just discussed, Mr Finnegan and Ms McConnell do not believe the June 2014 Amendment represents an improvement to IFRS and, in fact, represents a step towards lowering the quality of the information available in the financial statements of entities engaged in agricultural activities. The June 2014 Amendment therefore fails to meet the Board's own criteria for a new or amended Standard.