Accounting for Agriculture under Ind AS 41

India's economy is still principally based on its agriculture, as more than two thirds of its population is either directly or indirectly dependent on agriculture. Agriculture being one of the largest contributors to the national GDP, India deserves to have a standardised accounting approach for its agriculture sector. Ind AS-41, as notified by the Ministry of Corporate Affairs in 2015, has prescribed the accounting for agricultural activity, the management of transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The author in this article describes various aspects of the accounting for agriculture under Ind AS 41 including its applicability, recognition, measurement, gains and losses, disclosures, etc., among others, for our readers. Read on to know more…

While India is witnessing an impressive growth in its industrial sector, India's economy is still principally based on agriculture and more than 2/3rd of its population directly or indirectly depends on agriculture as their principal means of livelihood. Agriculture is one of the largest contributors to the GDP (gross domestic product) of the country. In spite of these facts, no standardised accounting approach has been developed for the agriculture sector of India.

However, Ind AS-41, as notified by the Ministry of Corporate Affairs (MCA) vide its notification dated 16th February 2015, prescribes accounting for agricultural activity, management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The accounting standard generally requires the biological assets to be measured at fair value less costs to sell.

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Key Definitions

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

Agricultural activities have three common features - capability to change, management of that change and measurement of that change. Among these, the most important is the entity's management of the biological transformation. Harvesting from unmanaged sources (such as fishing from open ocean) is not an agricultural activity, as it does not involve management of the resources.

2. **Biological transformation** comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.
3. A **biological asset** is a living plant or animal.
4. **Agricultural produce** is the harvested product of the entity's biological assets.

5. **Harvest** is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Applicability

Ind AS 41 should be *applied* to the following when they relate to the agricultural activity:

- Biological assets;
- Agricultural produce at the point of harvest; and
- Government grants when they relate to the agriculture activity.

Ind AS 41 *does not* apply to:

- Land related to agricultural activity (to be accounted as per Ind AS 16 Property, Plant and Equipment);
- Bearer plants related to agricultural activity (to be accounted as per Ind AS 16). However, Ind AS 41 should be applied to the produce on those bearer plants.
- Government grants related to bearer plants (to be accounted as per Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance).
- Intangible assets related to agricultural activity (to be accounted as per Ind AS 38 Intangible Assets).

Ind AS 41 deals only with the treatment of biological assets upto the point of harvest. After the harvest, the assets are generally accounted for under Ind AS 2 Inventories or another applicable standard. For example, the processing of grapes into wine or rubber product from harvested latex.

Agriculture Activity related to Bearer Plants

Bearer plant may be defined as 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.

For example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are outside the scope of Ind AS 41 and covered under Ind AS 16.

Ind AS 41 requires biological assets to be measured at fair value less costs to sell. But to adopt this treatment for bearer plants is not appropriate since they are no longer undergoing significant biological transformation. The use of mature bearer plants such as these is seen as similar to that of manufacturing. Consequently, bearer plants are made outside the scope of Ind AS 41 and get covered under Ind AS 16 which permits to follow the cost model.

Produces growing on bearer plants are covered by Ind AS 41. It is a consumable biological asset growing on the bearer plant which will ultimately be detached and is normally sold separately, meaning it has a market value of its own.

Recognition

Entities are required to recognise a biological asset or agricultural produce when and only when, all of the following conditions are satisfied:

i. the entity *controls* the asset because of past events;
ii. it is probable that *future economic benefits associated* with the asset will flow to the entity; and
iii. the fair value or cost of the asset can be *measured reliably*.

Measurement

Biological Assets

This standard requires that biological asset should be *measured* on initial recognition and at the end of each reporting period *at its fair value less costs to sell* unless the fair value cannot be measured reliably. Fair value meaning is similar to as defined in Ind AS 113. The measurement of fair value of a biological asset or agriculture produce may be facilitated by grouping biological assets or agriculture produce according to the significant attributes.

In limited circumstances, *cost may be approximate to fair value,* particularly when little biological transformation has taken place since the cost was incurred or the impact of biological transformation on price is not expected to be material.

In case an entity has entered into a sales contract for the biological assets or agriculture produce at a

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future date, those *contract prices are not necessarily relevant in measuring the fair value*. Since fair value is not entity specific but it reflects current market condition in which market participants enter into a transaction.

Inability to Measure Fair Value Reliably

This standard has a presumption that the fair value of most biological assets can be measured reliably. This presumption, however, can be rebutted only on the initial recognition of a biological asset subject to the following conditions:

i. Quoted market prices are not available for the biological asset and
ii. Alternative fair value measurements are determined to be clearly unreliable.

When these conditions are met, the biological asset is required to **measure at Cost** less Accumulated Depreciation and any Accumulated Impairment Losses. If later the fair value becomes reliably measureable, a switch to fair value less cost to sell model is required.

Agricultural Produce

This standard requires agricultural produce also to be *measured at fair value less cost to sell* at the point of harvest from entity's biological asset. However, there is no measurement reliability exception (as provided for biological asset) for agricultural produce. This is because agriculture produce is a marketable commodity. Hence in all cases, harvested produce is required to be measured at fair value less cost to sell.

The fair value measurement of agricultural produce at the point of harvest is the cost of that produce for subsequent accounting under Ind AS 2 Inventories or other applicable standard.

Leased Assets

Biological Assets acquired under a finance lease and biological asset provided under operating lease should be measured in accordance with measurement requirement of Ind AS 41 i.e. *at fair value* less cost to sell model. Biological assets are specifically excluded from the scope of Ind AS 17 leases.

Gains and losses

When a biological asset is initially recognised at fair value less cost to sell, any gain or loss arising is *reported in profit or loss* of the period. A loss can arise on initial recognition due to the requirement to deduct cost to sell. A gain can arise, for example, when a biological asset is initially recognised such as when a calf is born.

Gains and losses will also arise over the life of the biological asset to reflect the changes in fair value less cost to sell. These gains and losses are presented in profit or loss in the period in which they arise. Thus as a calf grows, its fair value will also change which will be recorded in profit or loss.

The gain or loss arising on initial recognition of agricultural produce at fair value less cost to sell is included in profit or loss for the period in which it arises. Agricultural produce is first recognised at the point of harvest (up to that point it is recognised as a biological asset).

Government Grants

The treatment prescribed by this standard may give a different result than would arise if Ind AS 20 Accounting for Government Grants and Disclosures of Government Assistance were applied.

This standard requires that unconditional grants related to the biological assets measured on fair value basis should be recognised in profit or loss when, and only when, the grant becomes receivable. If the grant is conditional, it should be in profit or loss when, and only when, the conditions attached to the grant are met. This includes grants under the conditions of which entities are required not to engage in specified agricultural activity.

Government grants relation to biological assets measured on a cost basis (i.e. inability to measure fair value reliably) or bearer plants are to be dealt in accordance with principles laid down in Ind AS 20.

Disclosure

The standard requires extensive disclosure of:

i. Description of biological assets and activities.
ii. Gains and losses recognised during the period.
iii. Reconciliation of changes in biological assets.
iv. Restricted assets, commitments and risk management strategies.
v. Additional disclosures when fair value cannot be measured reliably.■