

<b>IAS 41</b>	<b>Agriculture</b>	<b>10</b>
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**INTRODUCTION****SCOPE**

<b>Included</b>	<p>IAS 41 Agriculture covers the following agricultural activities:</p> <ul style="list-style-type: none"> <li>▪ biological assets, except for bearer plants;</li> <li>▪ agricultural produce at the point of harvest; and</li> <li>▪ government grants for agriculture (in certain situations).</li> </ul>
<b>Excluded</b>	<p>IAS 41 does not apply to:</p> <ul style="list-style-type: none"> <li>▪ the harvested agricultural product (IAS 2 Inventory applies);</li> <li>▪ land relating to the agricultural activity (IAS 16 or IAS 40 applies);</li> <li>▪ bearer plants related to agricultural activity (however, IAS 41 does apply to the produce on those bearer plants).</li> <li>▪ intangible assets related to agricultural activity (IAS 38 Intangible assets applies).</li> </ul>

**DEFINITIONS**

<b>Agricultural activities</b>	<p>The management by an entity of the biological transformation and harvest of biological assets:</p> <ul style="list-style-type: none"> <li>▪ for sale; or</li> <li>▪ into agricultural produce; or</li> <li>▪ into additional biological assets.</li> </ul>
<b>Biological asset</b>	A living animal or plant, such as sheep, cows, plants, trees and so on.
<b>Biological transformation</b>	The processes of growth, production, degeneration and procreation that cause changes in the quality or the quantity of a biological asset
<b>Agricultural produce</b>	Agricultural produce is the harvested product of the entity's biological assets.
<b>Harvest</b>	The detachment of produce from a biological asset or the cessation of a biological asset's life.

*Illustration: A farmer is involved in agricultural activity of raising and selling lambs and wool.*

- *A farmer has a field of lambs ('biological assets').*
- *As the lambs grow they go through biological transformation.*
- *As sheep they are able to procreate, and lambs will be born (additional biological assets) and the wool from the sheep provides a source of revenue for the farmer ('agricultural produce').*
- *Once the wool has been sheared from the sheep ('harvested'), IAS 2 requires that it be accounted for as regular inventory.*

<b>Bearer plant</b>	<p>A bearer plant is a living plant that:</p> <ul style="list-style-type: none"> <li>▪ is used in the production or supply of agricultural produce;</li> <li>▪ is expected to bear produce for more than one period; and</li> <li>▪ has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.</li> </ul> <p><i>Plants such as tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IAS 41.</i></p> <p><i>Note that there is no “animal” equivalent of a bearer plant. Thus, cows kept for milk are within the scope of IAS 41.</i></p>
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Biological assets	Agricultural produce	Products that result from processing after harvest
sheep	wool	yarn, carpet etc.
trees in a timber plantation	felled trees	logs, lumber
dairy cattle	milk	cheese
cotton plants	harvested cotton	thread, clothing etc.
sugarcane	harvested cane	sugar
tobacco plants	picked leaves	cured tobacco
tea bushes	picked leaves	tea
fruit tress	picked fruit	processed fruit
oil palm	picked fruit	palm oil
rubber trees	harvested latex	rubber products

**RECOGNITION**

<b>Criteria</b>	<p>An entity should recognise a biological asset or agricultural produce when (and only when):</p> <ul style="list-style-type: none"> <li>▪ the entity controls the asset as a result of past events</li> <li>▪ it is probable that future benefits will flow from the asset to the entity, and</li> <li>▪ the fair value or cost of the asset can be measured reliably.</li> </ul>
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**ACCOUNTING TREATMENT**

**MEASUREMENT**

<b>Biological assets</b>	<p>A biological asset should be measured <b>initially and subsequently</b> at the end of each reporting period at its <b>fair value minus cost to sell</b> (unless the fair value cannot be measured reliably).</p> <p>The gain or loss arising on initial recognition and subsequent revaluation should be included in <b>profit or loss</b> for the period in which it arises.</p>
<b>Agricultural produce</b>	<p>Agricultural produce harvested from an entity’s biological assets is measured at its <b>fair value minus cost to sell</b>.</p> <p>The gain or loss on initial recognition is included in the <b>profit or loss</b> for that period.</p>

<b>Cost to sell</b>	Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. These include commissions to brokers and dealers, levies to regulators, transfer taxes and duties.
<b>The use of cost model</b>	Fair value is the quoted price in an active market. It is presumed that fair values can be measured reliably for biological assets. If this is not so, the biological asset should be measured at its cost minus any accumulated depreciation or impairment.
<p>Illustration: Using the earlier example of a sheep farmer:</p> <ul style="list-style-type: none"> <li>▪ Lambs should initially be measured when they are born at their fair value minus costs to sell.</li> <li>▪ As they grow and their value changes, this gain or loss should be reflected in the biological asset value and also in profit and loss.</li> <li>▪ The sheep may be used for obtaining wool. Once the wool has been sheared from the sheep, as an agricultural produce the wool should be valued at fair value minus costs to sell.</li> <li>▪ If the wool is then turned into yarn or carpet its value is then transferred to inventory and IAS 2 will provide any further accounting rules.</li> </ul>	

**GOVERNMENT GRANT**

Agricultural entities (for example, farms) often benefit from government grants in the form of cash payments.

<b>Unconditional grant</b>	An unconditional grant relating to a biological asset that is being measured at fair value less costs to sell should be recognised as income <b>when the grant becomes receivable</b> .
<b>Conditional grant</b>	A grant may be dependent on certain conditions being met. For example, the entity may be asked not to engage in a specific agricultural activity. In such cases, the grant should be recognised <b>only when the conditions are met</b> .
<b>Apply IAS 20, if cost model is used</b>	If the biological asset has been <b>measured at cost because fair value could not be measured reliably</b> , then the requirements of IAS 20 Accounting for government grants should be applied.

**DISCLOSURE REQUIREMENTS**

<b>General</b>	<p>The IAS 41 disclosure requirements include the following:</p> <ul style="list-style-type: none"> <li>▪ the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.</li> <li>▪ a description of each group of biological assets;</li> <li>▪ information about biological assets whose title is restricted or that are pledged as security</li> <li>▪ commitments for development or acquisition of biological assets</li> <li>▪ financial risk management strategies</li> <li>▪ reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences;</li> </ul>
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<b>If fair value cannot be measured reliably</b>	<ul style="list-style-type: none"> <li>▪ description of the assets</li> <li>▪ an explanation of the circumstances</li> <li>▪ if possible, a range within which fair value is highly likely to lie</li> <li>▪ depreciation method</li> <li>▪ useful lives or depreciation rates</li> <li>▪ gross carrying amount and the accumulated depreciation, beginning and ending</li> </ul>
<b>Fair value become available</b>	If the fair value of biological assets previously measured at cost now becomes available, certain additional disclosures are required.
<b>Related to government grant</b>	Disclosures relating to government grants include the nature and extent of grants, unfulfilled conditions, and significant decreases expected in the level of grants.

## SYLLABUS

Reference	Content/Learning outcome
<b>B4</b>	<b>IAS 41 Agriculture</b>
<b>LO2.4.1</b>	Understand accounting and disclosure requirements for agriculture as per IAS 41
Proficiency level: 2	
Testing level: 1	

### Past Paper Analysis

A14	S15	A15	S16	A16	S17	A17	S18	A18	S19	A19	S20
										-	05 <sup>1</sup>
<b>Objective Type</b>										<b>01</b>	<b>01</b>

<sup>1</sup> Total Marks 08 (including IAS 21)

## PRACTICE Q&A

Sr.#	Description	Marks	Reference
<b>QUESTION BANK</b>			
1H	Gujranwala Foods Limited – SPL and theory	13	QB
2C	Helios Group – consolidation, presentation, theory	17	QB
3H	The Dairy Company – theory and measurement	07	QB
4H	Fatima Limited – classification	04	QB
5H	Zoha Limited – extracts of financial statements	06	QB
6H	Mishall Limited – Valuation and measurement	15	QB

**QUESTION****01**

Gujranwala Foods Limited has the following information in its records for the year ended 31 January 2017:

	<b>Chickpea</b>	<b>Apricot</b>	<b>Dates</b>	<b>Onion</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
Sales	200	300	750	250
Purchases	75	150	300	80
Subsidies	40	80	60	60
Own consumption	45	40	75	20
Opening Inventory	40	40	70	-
Closing Inventory	60	110	300	60

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The farm expenses for the period **1 February 2016 to 30 April 2017** are as follows:

	<b>Rs.</b>
Casual labour	20,000
Regular workers	30,000
Land preparation and clearing costs	80,000
Hire of tractors	60,000

The farm's non-current assets for the year ended 31 January 2017 were as follows:

	<b>Rs.</b>
Farm's irrigation at cost	800,000
Farm's implement and equipment	400,000

**Additional Information:**

- (i) Farm's irrigation costs are to be written off over 10 years.
- (ii) Farm's implement and equipment were purchased on 31 April 2016 and these are to be depreciated at 20% per annum.

**Required**

- (a) Prepare Gujranwala Foods Limited's gross output and statement of profit or loss for the year ended 31 January 2017. **(10)**
- (b) In accordance with IAS 41 on Agriculture, you are required to define the following terms:
  - (i) Biological assets
  - (ii) Biological transformation
  - (iii) Harvest **(03)**

**QUESTION****02**

Helios Ltd is an agricultural production company.

Helios Ltd acquired 70% of the ordinary shares of Sol Ltd, an agricultural based company for Rs. 600 million on 1 January 2015, when the reserves of Sol Ltd were Rs. 300 million.

At the date of acquisition, the fair value of the non-controlling interest in Sol Ltd was Rs. 160 million.

The fair values of the net assets of Sol Ltd are the same as their carrying values with the exception of a plot of agricultural land. This land was carried by Sol Ltd at its cost of Rs. 300 million. It was estimated at a fair value of Rs. 360 million.

## Statements of financial position of as at 31 December 2016

	Helios Ltd Rs.'000	Sol Ltd Rs.'000
<b>Non-current assets:</b>		
Property, plant and equipment	600,000	450,000
Investments	800,000	-
<b>Current assets:</b>		
Inventories	160,000	150,000
Trade & other receivables	120,000	280,000
Cash and cash equivalent	20,000	50,000
<b>Total assets</b>	1,700,000	930,000
<b>Equity:</b>		
Ordinary share capital	160,000	120,000
Share premium	40,000	20,000
Reserves	590,000	500,000
<b>Non-current liabilities:</b>		
Loan notes	600,000	170,000
<b>Current liabilities</b>		
Trade & other payables	310,000	120,000
<b>Total equity &amp; liabilities</b>	1,700,000	930,000

**Additional information:**

Immediately after acquisition, the following agricultural products were procured and included in property, plant and equipment and inventories of Sol Ltd as at 31 December 2016:

<b>(i) Included in property, plant and equipment of Sol Ltd are:</b>	<b>Rs.'000</b>
Dairy livestock – immature	40,000
Dairy livestock – mature	50,000
<b>(ii) Included in inventories of Sol Ltd is:</b>	
Cotton plants	20,000

**Required**

- (a) Prepare the consolidated statement of financial position for Helios Ltd group as at 31 December 2016 as expected for an agricultural business. **(15)**
- (b) State how to measure agricultural products harvested by an entity in line with the requirements of IAS 41 on Agriculture. **(02)**

**QUESTION****03**

- (i) Briefly explain the term “biological asset” and state when a biological asset is recognised in the financial statements under the International Financial Reporting Standards. **(03)**
- (ii) The Dairy Company (TDC) owns three farms and has a stock of 3,200 cows. During the year ended 30 June 2015, 300 animals were born, all of which survived and were still owned by TDC at year-end. Of those, 225 are infants whereas 75 are nine-month old having market values of Rs. 26,000 and Rs. 53,000 per animal respectively. The incidental costs are 2% of the transaction price. **(04)**

**Required:**

In accordance with the requirements of the International Financial Reporting Standards, discuss how the gain in respect of the new born cows should be recognized in TDC's financial statements for the year ended 30 June 2015. (Show all necessary computations)

**QUESTION****04**

Fatima Limited on adoption of IAS 41 has reclassified certain assets as biological assets. The total value of the group's forest assets is Rs.3,400 million comprising:

	<b>Rs. in million</b>
Freestanding trees (for timber sale)	2,500
Land under trees	500
Roads in forests	400
	3,400

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**Required:**

Show how the forests would be classified in the financial statements. **(04)**

**QUESTION****05**

Zoha Limited has these balances in its financial records:

	<b>Rs.</b>
Value of biological asset at cost 31/12/2018	600
Fair valuation surplus on initial recognition at fair value 31/12/2018	700
Change in fair value to 12/31/2019 due to growth and price fluctuations	100
Decrease in fair value due to harvest	90

**Required:**

Show how these values would be incorporated into the statement of financial position and statement of comprehensive income at December 31, 2019. **(06)**

**QUESTION****06**

Mishall Limited a public limited company, Dairy, produces milk on its farms. It produces 30% of the country's milk that is consumed. Dairy owns 450 farms and has a stock of 210,000 cows and 105,000 heifers. The farms produce 8 million kilograms of milk a year, and the average inventory held is 150,000 kilograms of milk. However, the company is currently holding stocks of 500,000 kilograms of milk in powder form.

At December 31, 2018, the herds are:

- 210,000 cows (3 years old), all purchased on or before January 1, 2018
- 75,000 heifers, average age 1.5 years, purchased on June 1, 2018
- 30,000 heifers, average age 2 years, purchased on January 1, 2018

No animals were born or sold in the year. The unit values less estimated selling costs were:

	<b>Rs.</b>
1-year-old animal at December 31, 2018	32
2-year-old animal at December 31, 2018	45
1.5-year-old animal at December 31, 2018	36
3-year-old animal at December 31, 2018	50
1-year-old animal at January 1, 2018 and June 1, 2018	30
2-year-old animal at January 1, 2018	40

The company has had problems during the year: Contaminated milk was sold to customers. As a result, milk consumption has gone down. The government has decided to compensate farmers for potential loss in revenue from the sale of milk. This fact was published in the national press on November 1, 2018. Dairy received an official letter on December 10, 2018, stating that Rs.5 million would be paid to it on March 2, 2019.

## **CAF 7 – IAS 41**

The company's business is spread over different parts of the country. The only region affected by the contamination was Lahore, where the government curtailed milk production in the region. The cattle were unaffected by the contamination and were healthy.

The company estimates that the future discounted cash flow income from the cattle in the Lahore region amounted to Rs.4 million, after taking into account the government restriction order. The company feels that it cannot measure the fair value of the cows in the region because of the problems created by the contamination. There are 60,000 cows and 20,000 heifers in the region. All these animals had been purchased on January 1, 2018.

A rival company had offered Dairy Rs.3 million for these animals after selling costs and further offered Rs.6 million for the farms themselves in that region. Dairy has no intention of selling the farms at present. The company has been applying IAS 41 since January 1, 2018.

### **Required:**

Advise the directors on how the biological assets and produce of Dairy should be accounted for under IAS 41, discussing the implications for the financial statements. **(15)**



**ANSWER****01****Part (a)**

	<b>Chickpea</b>	<b>Apricot</b>	<b>Dates</b>	<b>Onion</b>	<b>Total</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
Sales:	200	300	750	250	1,500
Add: Subsidies	40	80	60	60	240
Own consumption*	45	40	75	20	180
	<u>285</u>	<u>420</u>	<u>885</u>	<u>330</u>	<u>1920</u>
<b>Cost of sales</b>					
Opening inventory	40	40	70	-	150
Add: Purchases	75	150	300	80	605
Closing inventory	(60)	(110)	(300)	(60)	(530)
	<u>55</u>	<u>80</u>	<u>70</u>	<u>20</u>	<u>225</u>
Gross output value	<u>230</u>	<u>340</u>	<u>815</u>	<u>310</u>	<u>1,695</u>
<b>Less expenses:</b>					
Casual labour					16
Regular workers					24
Land preparation					64
Hire of tractors					48
Depreciation: irrigation					80
Depreciation: farms equipment					60
					<u>(292)</u>
					<u>1,403</u>

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\*alternatively could have been deducted from costs.

**Workings:**

Casual labour 12/15 x Rs. 20,000	Rs. 16,000
Regular workers 12/15 x Rs. 30,000	Rs. 24,000
Land preparation 12/15 x Rs. 80,000	Rs. 64,000
Hire of tractors 12/15x Rs. 60,000	Rs. 48,000

**Depreciation:**

Irrigation cost Rs. 800,000/10	Rs. 80,000
Farm equipment 20% x 400,000 x 9/12	Rs. 60,000

**Part (b)**

- (i) **Biological assets** are living plants and animals.
- (ii) **Biological transformation** relates to the process of growth and degeneration that can cause changes of a quantitative or qualitative nature in a biological asset.
- (iii) **Harvest** is the detachment of produce from a biological asset or cessation of a biological asset's life process.

**ANSWER****02****Helios Ltd****Consolidated statement of financial position as at 31 December 2016**

<b>Non-current assets</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
Biological assets		
- Dairy livestock: Immature	40,000	
- Dairy livestock: mature	50,000	
- Plantation	<u>20,000</u>	110,000
Property, plant and equipment		
(600,000 + 450,000 + 60,000 – 40,000 – 50,000)		1,020,000
Investments (800,000 – 600,000)		200,000
Goodwill (W3)		<u>260,000</u>
		<u>1,590,000</u>

**Current assets**

Inventories (160,000 + 150,000 – 20,000)	290,000	
Trade receivables (120,000 + 280,000)	400,000	
Cash and cash equivalents (20,000 + 50,000)	<u>70,000</u>	<u>760,000</u>
		<u>2,350,000</u>

**Equity**

Ordinary shares capital		160,000
Share premium		40,000
Group reserves (W5)		<u>730,000</u>
Parent equity		930,000
Non-controlling interests (W4)		<u>220,000</u>
		<u>1,150,000</u>

**Non-current Liabilities**

Loan notes (600,000 + 170,000)	770,000	
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**Current liabilities**

Trade payables (310,000 + 120,000)	<u>430,000</u>	<u>1,200,000</u>
Total equity and liabilities		<u>2,350,000</u>

**Workings (W)**

**(1) Group Structure**

Helios Ltd	70%	
NCI	30%	Sol Ltd

**(2) Net assets of Sol Ltd**

	Acquisition date	Reporting date	Post acquisition
	Rs.'000	Rs.'000	Rs.'000
Ordinary shares	120,000	120,000	-
Share premium	20,000	20,000	-
Reserves	300,000	500,000	200,000
Fair value adjustment (land)	<u>60,000</u>	<u>60,000</u>	
Fair value of net assets	<u>500,000</u>	<u>700,000</u>	<u>200,000</u>

**(3) Goodwill in Sol Ltd**

	<b>Rs.'000</b>
Purchase consideration	600,000
Fair value of NCI at acquisition	<u>160,000</u>
	760,000
Fair value of net assets at acquired	<u>(500,000)</u>
Goodwill	<u>260,000</u>

**(4) NCI at reporting date**

	<b>Rs.'000</b>
Fair value of NCI at acquisition	160,000
Share of post-acquisition reserves (30% x Rs. 200,000)	<u>60,000</u>
	<u>220,000</u>

**(5) Group reserves**

	<b>Rs.'000</b>
Helios Ltd	590,000
Share of post-acquisition (70% x Rs. 200,000)	<u>140,000</u>
	<u>730,000</u>

**Part (b)**

Measurement of harvested agricultural products. Agricultural products harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying it as inventories or another applicable standard.

**ANSWER****03**

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- (i) "Biological asset" is a living animal or plant. An entity shall recognize a biological asset if all the following conditions are met:
- The entity controls the asset as a result of past event;
  - It is probable that future economic benefits associated with the asset will flow to the entity;
  - The fair value or cost of the asset can be measured reliably.
- (ii) The new born cows are biological assets and should be measured at fair value less costs to sell, both on initial recognition and at each reporting period.

The gains on initial recognition and the gains from change in this value should be recognized in profit or loss for the period in which it arises. The total gains to be recognized in the year ended 30 June 2015 is as follows:

	<b>Rupees</b>
New born [26,000 × 225 × (100%-2%)]	5,733,000
9 month old [53,000 × 75 × (100% - 2%)]	3,895,500
	<u>9,628,500</u>

**ANSWER****04****Fatima Limited****Extracts of Statement of Financial Position****As at 31 December 2018**

	<b>Rs. in million</b>
<b>Current assets</b>	
Biological assets - Freestanding trees	2,500
<b>Non-current assets</b>	
Land under trees	500
Roads in forests	400
	<u>3,400</u>

**ANSWER****05****Zoha Limited****Extracts of Statement of Financial Position as at 31 December 2019**

	<b>2019</b>	<b>2018</b>
	<b>Rs. in million</b>	
Biological assets [1300 +100 – 90] and [600 + 700]	1,310	1,300

**Zoha Limited****Extracts of Statement of Comprehensive Income for the year ended 31 December 2019**

	<b>2019</b>	<b>2018</b>
	<b>Rs. in million</b>	
Fair value gain on biological assets	100	700
Loss on biological assets due to decrease in harvest	(90)	-
	<u>10</u>	<u>700</u>

**ANSWER****06**

Biological assets should be measured at each reporting date at fair value less estimated selling costs unless fair value cannot be measured reliably. The Standard encourages companies to separate the change in fair value less estimated selling costs between those changes due to physical reasons and those due to price.

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<b>Fair value of cattle excluding Lahore region:</b>	<b>Rs. 000</b>	<b>Rs. 000</b>
Fair value at January 1, 2018		
Cows (210,000 – 60,000) × 40	6,000	
Heifers (30,000 – 20,000) × 30	300	
Purchase 75,000 heifers × 30	2,250	
	<u>8,550</u>	
Increase due to price change		
150,000 × (45 – 40)	750	
10,000 × (32 – 30)	20	
75,000 × (32 – 30)	150	
	<u>920</u>	
Increase due to physical change		
150,000 × (50 – 45)	750	
10,000 × (45 – 32)	130	
75,000 × (36 – 32)	300	
	<u>1,180</u>	<u>10,650</u>
Fair value less estimated POS costs at October 31, 20X4		
150,000 × 50	7,500	
10,000 × 45	450	
75,000 × 36	2,700	
	<u>10,650</u>	<u>10,650</u>

**Lahore region—fair value of cattle:**

This region has an inventory of cattle of 60,000 cows and 20,000 heifers. Fair value is difficult to ascertain because of the region's problems. However, according to IAS 41, if fair value was used on initial recognition, then it should be continued to be used. The cattle in this region would have been fair valued at January 1, 2018, under the Standard. Therefore, the cattle must be valued at fair value less estimated selling costs as at December 31, 2018.

Although Rs.3 million has been offered for these animals, this may be an onerous contract as rival companies are likely to wish to take advantage of the problems in this region. The future discounted income is again an inappropriate value as the cattle are healthy and could be moved to another region and sold.

The cattle in this region would therefore be valued at

	<b>Rs.000</b>
60,000 cows × 50	3,000
20,000 heifers × 45	900
	<u>3,900</u>

## OBJECTIVE BASED QUESTIONS

- 01.** To which of the following items does IAS 41 Agriculture apply?
- (i) A change in fair value of a herd of animals relating to the unit price of the animals.
  - (ii) Logs held in a wood yard.
  - (iii) Farm land which is used for growing vegetables.
  - (iv) The cost of developing a new type of crop seed which is resistant to tropical diseases.
- (a) All four  
 (b) (i) only  
 (c) (i) and (ii) only  
 (d) (ii) and (iii) only
- 02.** IAS 41 should be applied to account for the following when they relate to agricultural activity:
- (i) Biological assets.
  - (ii) Agricultural produce at the point of harvest.
  - (iii) Certain government grants.
  - (iv) Land related to agricultural activity.
  - (v) Intangible assets related to agricultural activity.
- (a) (i)  
 (b) (i) & (ii)  
 (c) (i), (ii) & (iii)  
 (d) (i), (ii), (iii) & (iv)
- 03.** IAS 41 is applied to agricultural produce:
- (a) Before the harvest
  - (b) Only at the point of harvest
  - (c) After the harvest
  - (d) Before, during and after the harvest
- 04.** Agricultural activity is the management of biological transformation of biological assets:
- (i) for sale
  - (ii) into agricultural produce.
  - (iii) into additional biological assets.
- (a) (i)  
 (b) (i) & (ii)  
 (c) (i), (ii) & (iii)  
 (d) (ii) & (iii)
- 05.** Identify whether the following items would be accounted for under IAS 41 Agriculture or not.
- Dairy cattle
  - Milk
  - Cheese
- (a) All three  
 (b) Dairy cattle and Milk only  
 (c) Milk and Cheese only  
 (d) Dairy cattle and Cheese only
- 06.** Agricultural activity covers a diverse range of activities; for example:
- (i) Raising livestock
  - (ii) Forestry
  - (iii) Annual or perennial cropping
  - (iv) Cultivating orchards and plantations
  - (v) Food processing
- (a) (i)  
 (b) (i), (ii) & (v)  
 (c) (i), (ii), (iii) & (v)  
 (d) (i), (ii), (iii) & (iv)

- 07.** An active market is a market where all the following conditions exist:
- (i) The items traded within the market are homogeneous
  - (ii) Willing buyers, and sellers, can normally be found at any time
  - (iii) Prices are available to the public
  - (iv) The market trades every day
- (a) (i)  
 (b) (i), (ii)  
 (c) (i), (ii), & (iii)  
 (d) (i), (ii), (iii) & (iv)
- 08.** An undertaking should record a biological asset, or agricultural produce, only when:
- (i) The undertaking controls the asset, as a result of past events.
  - (ii) Future benefits, associated with the asset, will flow to the undertaking.
  - (iii) The fair value, or cost, of the asset can be measured reliably.
- (a) (i)  
 (b) (i), (ii)  
 (c) (i), (ii), & (iii)  
 (d) None of the above
- 09.** Point-of-sale costs include:
- (i) Commissions to brokers and dealers.
  - (ii) Levies by regulatory agencies.
  - (iii) Levies by commodity exchanges.
  - (iv) Transfer taxes and duties.
  - (v) Transport, and other costs, necessary to transport assets to a market.
- (a) (i)  
 (b) (i), (ii) & (v)  
 (c) (i), (ii), (iii) & (v)  
 (d) (i), (ii), (iii) & (iv)
- 10.** Pluto Limited owned a one-year old herd of cattle on 1 January, recognised in the financial statements at Rs. 140 million. At 31 December, the fair value of a two-year-old herd of cattle is Rs. 170 million. Costs to sell are still estimated to be Rs. 5 million for the whole herd.
- What is the correct accounting treatment for the cattle at 31 December according to IAS 41 Agriculture?
- (a) Revalue to Rs. 165 million, taking gain of Rs. 25 million to other comprehensive income.  
 (b) Revalue to Rs. 165 million, taking gain of Rs. 25 million to the statement of profit or loss.  
 (c) Revalue to Rs. 170 million, taking gain of Rs. 30 million to other comprehensive income.  
 (d) Revalue to Rs. 170 million, taking gain of Rs. 30 million to the statement of profit or loss.
- 11.** The information sources may suggest different conclusions as to the fair value of a biological asset, or agricultural produce. Use:
- (a) The most reliable estimate
  - (b) The lowest figure
  - (c) The average figure
  - (d) None of above
- 12.** A grant related to a biological asset measured at cost because 'fair value less estimated point-of-sale costs' could not be measured reliably, should be recorded as income:
- (a) In accordance with IAS 41
  - (b) In accordance with IAS 20
  - (c) When the grant becomes receivable
  - (d) When the conditions of grant are met
- 13.** A conditional grant related to a biological asset measured at its 'fair value less estimated point-of-sale costs' should be recorded as income:
- (a) Only when cash is received
  - (b) Only when the grant becomes receivable
  - (c) Only when the conditions are met
  - (d) Only when it is expected that grant may be received.

14. A gain (or loss) may arise on initial recognition of a biological asset:
- (i) Because estimated point-of-sale costs are deducted in determining 'fair value less estimated point-of-sale costs' of a biological asset
  - (ii) When a calf is born
  - (iii) As a result of harvesting
- (a) (i)
  - (b) (i) & (ii)
  - (c) (i), (ii) & (iii)
  - (d) None of these

15. An unconditional grant related to a biological asset measured at its 'fair value less estimated point-of-sale costs' should be recorded as income:
- (a) Only when cash is received
  - (b) Only when the grant becomes receivable
  - (c) Only when the goods are sold
  - (d) Only when it is expected that grant may be received.

16. Wool Limited (WL) started its business on 1 April 2015.

On 1 April 2015, WL purchased a flock of sheep for Rs. 100 million. At 31 March 2016, the flock was valued at Rs. 120 million. Every time animals are sold there is a 5% commission fee payable to the district municipal corporation. No further sheep was purchased or sold during the year. During the year, the wool sheared by WL had "fair value less point of sale costs" of Rs. 8 million.

At which amount the flock of sheep should be presented in financial statement of WL as at 31 March 2016?

Rs. \_\_\_\_\_

17. Wool Limited (WL) started its business on 1 April 2015.

On 1 April 2015, WL purchased a flock of sheep for Rs. 100 million. At 31 March 2016, the flock was valued at Rs. 120 million. Every time animals are sold there is a 5% commission fee payable to the district municipal corporation. No further sheep was purchased or sold during the year. During the year, the wool sheared by WL had "fair value less point of sale costs" of Rs. 8 million.

Calculate the total income of WL in respect of its agriculture activity for the year ended 31 March 2016.

Rs. \_\_\_\_\_

18. Maria Limited (ML) bought oil palm garden for Rs. 150 million (includes Rs. 120 million for land) on 1 January 2019. The garden is expected to give agriculture produce for next three years before re-plantation process.

On 31 December 2019, the year end, the fair value of garden is Rs. 22 million (excluding land). Estimated point-of-sale costs are Rs. 2 million. Land has fair value of Rs. 130 million on 31 December 2019. ML uses cost model for items under scope of IAS 16 and 'fair value less point of sale cost' for items under scope of IAS 41

What is the total amount of non-current assets to be presented in statement of financial position of ML as at 31 December 2019?

Rs. \_\_\_\_\_

## CAF 7 – IAS 41

19. Cow Limited (CL) owned cattle recorded in the financial statements at Rs. 10.5 million on 1 January 2014.

At 31 December 2014 the cattle have a fair value of Rs. 13 million. If CL sold the cattle, commission of 2% would be payable.

What is the gain to be recognised in profit or loss for the period ended at 31 December 2014 according to IAS 41 Agriculture?

Rs. \_\_\_\_\_

20. A herd of fifty 3-year old animals was held on 1 January 2013. On 1 July 2013 ten 3.5-year-old animal were purchased for Rs. 40,000.

The fair values less estimated point of sale costs were:

- 3-year-old animal at 1 January 2013 Rs. 32,000
- 3.5-year-old animal at 1 July 2013 Rs. 40,000
- 4-year-old animal at 31 December 2013 Rs. 43,000

Calculate the amount that will be taken to the statement of profit or loss for the year ended 31 December 2013.

Rs. \_\_\_\_\_

21. IAS 41 is applied to agricultural produce:

- (a) before the harvest
- (b) at the point of harvest
- (c) after the harvest
- (d) before, during and after the harvest

**[A19]**

**(01)**



## OBJECTIVE BASED ANSWERS

01.	(b)	The logs will be classed as inventory. The land will be classed as property, plant and equipment. The development costs will be treated as an intangible asset.
02.	(c)	Land is not biological asset and IAS 38 applies to intangible assets relating to agricultural activity, for example, license for a dairy business.
03.	(b)	IAS 41 applies to agriculture produce at the time of harvest and not afterwards.
04.	(c)	All three are part of agriculture activity.
05.	(b)	The cheese will be a product which is the result of processing after harvest, so will be outside the scope of IAS 41 Agriculture.
06.	(d)	Food processing is outside scope of agriculture activity.
07.	(c)	The daily market trading is not necessary criteria.
08.	(c)	All three are required recognition criteria.
09.	(d)	Cost of transport to the market is not part of point of sale costs.
10.	(b)	Agriculture should be revalued to fair value less costs to sell, with the gain or loss being shown in the statement of profit or loss.
11.	(a)	The most reliable estimate should be used.
12.	(b)	IAS 20 applies in this case.
13.	(c)	Conditional grant is recognised, only when conditions are met, under IAS 41.
14.	(c)	In all three cases, a gain or loss is recognised in profit or loss.
15.	(b)	Unconditional grant is recognised when it becomes receivable under IAS 41
16.	<b>Rs. 114 million</b>	Biological assets = $120 \times 95\% = \text{Rs. } 114 \text{ million}$
17.	<b>Rs. 22 million</b>	Gain on biological assets = $(120 \times 95\%) - 100 = \text{Rs. } 14 \text{ million}$ Agriculture produce at point of harvest = $\text{Rs. } 8 \text{ million}$ Total Rs. 22 million
18.	<b>Rs. 140 million</b>	Land Rs. 120 million (cost) Oil palms Rs. 30 million – Rs. 10 million depreciation = Rs. 20 million Total Rs. 140 million Oil palms are bearer plants and therefore, IAS 16 is applicable.
19.	<b>Rs. 2.24 million</b>	$(\text{Rs. } 13 \text{ million} \times 98\%) - 10.5 = \text{Rs. } 2.24 \text{ million}$

**CAF 7 – IAS 41**

<b>20.</b>	<b>Rs. 580,000</b>		<b>Rs.</b>
		As at 1 January	1,600,000
		Purchased	400,000
			<u>2,000,000</u>
		<b>Gain (balancing figure)</b>	<b><u>580,000</u></b>
		As at 31 December	<u>2,580,000</u>
<b>21.</b>	<b>(b)</b>	At the point of harvest.	