Bearer plants – the new requirements

What you need to know

- *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) changes the accounting requirements for biological assets that meet the definition of bearer plants.
- Bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply.
- IAS 41 will still apply to any agricultural produce growing on a bearer plant.
- IAS 20 will now apply to government grants related to bearer plants.
- The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**Highlights**

The International Accounting Standards Board (IASB) issued *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) on 30 June 2014, which changed the accounting requirements for biological assets that meet the definition of bearer plants (e.g., fruit trees).

Bearer plants will now be within the scope of IAS 16 *Property, Plant and Equipment* and will be subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement.

Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41 *Agriculture*. Government grants relating to bearer plants will now be accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, instead of in accordance with IAS 41.

**Summary of the amendments**

**Definition of a bearer plant**

The amendment defines a bearer plant as “a living plant that:

- is used in the production or supply of agricultural produce;
- is expected to bear produce for more than one period; and
- has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.”

All of the above criteria need to be met for a biological asset to be considered a bearer plant.

---

1 IAS 16.6 and IAS 41.5
The definition captures plants that would intuitively be considered to be bearers, for instance, grape vines. In addition, some plants that may appear to be consumable, such as the root systems of perennial plants (e.g., sugar cane or bamboo) are expected to meet the definition of a bearer plant.

Annual crops and other plants that are held solely to be harvested as agricultural produce (e.g., many traditional arable crops such as maize, wheat and soya, as well as trees grown for lumber), are not expected to meet the definition of a bearer plant. In addition, plants that have a dual use, that is, both bearing produce and the plant itself being sold as either a living plant or agricultural produce (beyond incidental scrap sales), will not meet the definition. This may be the case when, for example, an entity holds rubber trees to sell both the rubber milk as agricultural produce and the trees as lumber.

Bearer animals, like bearer plants, may be held solely for the produce that they bear. However, bearer animals have been explicitly excluded from the amendments and will continue to be accounted for under IAS 41 on the basis that the measurement model would become more complex if applied to such assets.

### How we see it

Determining whether an asset meets the definition of a bearer plant may not be entirely intuitive. Careful assessment will, therefore, be important. In addition, it is not clear whether an entity would need to reassess whether a plant meets the definition of a bearer plant after initial recognition. For example, if a plant meets the definition of a bearer plant and that changes subsequently, would IAS 41 then apply instead of IAS 16? The amendments do not address this question or specify how to transfer such assets between IAS 16 and IAS 41 (or vice versa).

### Separating bearer plants from their agricultural produce - impact on current and non-current classification

Currently, bearer plants and their agricultural produce are considered to be one asset prior to harvest (i.e., a single unit of account) and presented as either current or non-current (usually the latter) based on the asset’s useful life. The amendments now split the plant and the produce into two assets (i.e., two units of account), with different measurement models. Bearer plants will be presented as non-current assets. Agricultural produce will usually be a current asset, unless it takes more than a year to mature.

### Measurement requirements for bearer plants

Under IAS 41, bearer plants are currently measured at fair value less costs to sell both at initial recognition and subsequently (unless the measurement exception applies because fair value cannot be reliably measured\(^2\)). As a result of the amendments, bearer plants will be subject to all of the recognition and measurement requirements in IAS 16, including the following:

- Before maturity, bearer plants will be measured at their accumulated cost, similar to the accounting treatment for a self-constructed item of plant and equipment before it is ‘available for use’.
- After the bearer plants mature, entities will have a policy choice to measure the bearer plants using either the cost model or the revaluation model.
- If the revaluation model is selected, revaluations will need to take place with sufficient regularity to ensure the carrying amount does not differ materially from the asset’s fair value had it been measured at the end of the reporting period, which may be as frequent as currently required by IAS 41 (see Table 1).

---

\(^2\) If the presumption that fair value can be reliably measured is rebutted on initial recognition, paragraph 30 of IAS 41 permits an entity to measure a biological asset at its cost less any accumulated depreciation until fair value becomes reliably measurable.

**Bearer plants - the new requirements**
Entities following either model will need to determine the useful life of the bearer plant in order to depreciate it. The useful life will need to be re-evaluated each year.

Unlike biological assets, property, plant and equipment is not scoped out of IAS 36 Impairment of Assets. Entities will, therefore, need to assess whether there are indicators that a bearer plant is impaired at the end of each reporting period. If such indicators exist, an impairment loss will be recognised if the carrying value is lower than the bearer asset’s recoverable amount (being the higher of the asset’s fair value less costs of disposal and its value in use).

While the amendments will reduce the volatility in profit or loss when accounting for bearer plants, entities will still need to recognise any changes in the fair value of agricultural produce growing on the bearer plant, as discussed below.

Table 1: Comparison of measurement requirements for bearer plants (assuming fair value can be reliably measured)

<table>
<thead>
<tr>
<th>Current requirements</th>
<th>New requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>At initial recognition</td>
<td></td>
</tr>
<tr>
<td>▶ Measured together with any agricultural produce attached (i.e., one unit of account)</td>
<td>▶ Measured separately from any agricultural produce attached (i.e., two units of account)</td>
</tr>
<tr>
<td>▶ Measured at fair value less costs to sell</td>
<td>▶ Measured at cost, accumulated until maturity</td>
</tr>
<tr>
<td>Subsequent measurement requirements</td>
<td></td>
</tr>
<tr>
<td>▶ Measured together with the agricultural produce until the point of harvest (see Table 2) (i.e., one unit of account until the point of harvest)</td>
<td>▶ Measured at:</td>
</tr>
<tr>
<td>▶ Measured at the end of each reporting period at fair value less costs to sell, with changes recognised in profit or loss</td>
<td>▶ Cost, less any subsequent accumulated depreciation and impairment, with changes recognised in profit or loss Or ▶ Fair value at each revaluation date, less any subsequent accumulated depreciation and impairment. Revaluation adjustments (and impairment, to the extent it reverses previous revaluation increases) recognised in other comprehensive income; all other changes recognised in profit or loss</td>
</tr>
</tbody>
</table>

Requirements for agricultural produce growing on bearer plants

As noted above, under IAS 41, entities currently treat a bearer plant and its agricultural produce as a single asset until the point of harvest. The amendments will require an entity to recognise a bearer plant separately from its agricultural produce prior to harvest. Determining the point at which to recognise agriculture produce separately will require judgement. For example, should the blossom on a fruit tree be treated as separate agricultural produce?

Agricultural produce will continue to be in the scope of IAS 41 and will be measured at fair value less costs to sell, with changes recognised in profit or loss as the produce grows. In the IASB’s view, this requirement will ensure that produce growing in the ground as an annual crop (e.g., wheat) and produce growing on a bearer biological asset (e.g., grapes) will be accounted for consistently. As a result, changes in the fair value of such agricultural produce will continue to be recognised in profit or loss at the end of each reporting period.
Recognised in retained earnings

Any difference between the previous carrying amount and fair value would be recognised in retained earnings.

An entity may apply the amendments on a fully retrospective basis. Alternatively, an entity may elect to measure a bearer plant at its fair value at the beginning of the earliest period presented. The fair value would be used as its deemed cost at that date. Any difference between the previous carrying amount and fair value would be recognised in retained earnings.

### How we see it

The amendments are intended to address concerns about the cost, complexity and reliability of a fair value model in the absence of observable markets. However, there could be a number of challenges in practice, for example:

- **Initial scoping considerations**
- **Identifying the costs that can be capitalised under IAS 16**
- **Tracking bearer plants and unharvested agricultural produce separately**

The requirements will give entities the option to continue measuring their bearer plants at fair value by applying a revaluation model under IAS 16. However, fair value changes will be recognised in other comprehensive income, rather than profit or loss.

In addition, the requirements will not entirely alleviate the need to measure fair value or eliminate the volatility in profit or loss as agricultural produce will still be measured at fair value. Entities will need to determine appropriate fair value measurement methodologies (e.g., discounted cash flow techniques) to measure the fair value of these assets separately from the bearer plants on which they are growing, which may increase the complexity and subjectivity of the measurement.

### Requirements for government grants

Since bearer plants will be excluded from the scope of IAS 41, any related government grants will be in the scope of IAS 20 instead. Under IAS 20, government grants related to bearer assets will either be:

- Recognised as deferred income and then recognised in profit or loss on a systematic basis over the useful life of the asset

Or

- Deducted in calculating the carrying amount of the asset and then recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense

Currently, IAS 41 does not permit the second approach for government grants related to biological assets measured at fair value less costs to sell.

### Transition and effective date

Entities will need to apply the amendments to annual periods beginning on or after 1 January 2016. However, earlier adoption is permitted.

An entity may apply the amendments on a fully retrospective basis. Alternatively, an entity may elect to measure a bearer plant at its fair value at the beginning of the earliest period presented. The fair value would be used as its deemed cost at that date. Any difference between the previous carrying amount and fair value would be recognised in retained earnings.

### Table 2: Comparison of measurement requirements for agricultural produce

<table>
<thead>
<tr>
<th></th>
<th>Current requirements</th>
<th>New requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the end of each reporting period prior to harvest</td>
<td>Measured together with the bearer plant (see Table 1)</td>
<td>Measured separately from the bearer plant at fair value less costs to sell</td>
</tr>
<tr>
<td>At the point of harvest</td>
<td>Measured separately from the bearer plant at fair value less costs to sell</td>
<td></td>
</tr>
</tbody>
</table>