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Evaluating and Recognising Biological Assets and Agricultural Activities According to IAS 41

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Abstract

The International Accounting Standard IAS 41 – Agriculture prescribes accounting treatment, financial sheet drawing and information related to biological assets and agricultural activities from the harvesting point. This standard does not treat the processing of produce obtained after harvesting, because this process is described by IAS 2 – Stoks. International accounting standard-IAS 41-Agriculture does not contain specific information related to how often one should evaluate biological assets, deducing that the evaluation must be conducted on each closing date, because there are no existent regulations to stipulate a less frequent evaluation of biological assets. This standard presents the general idea that the fair value can be realistically estimated by using deductive hierarchy, which this article will debate, for a better understanding of initial evaluation and consecutive evaluation of biological assets. IAS 41 is treating the management of biological assets: increasing the agricultural output, logging, plant cultivation; horticulture and aquaculture. The biological alteration is the process of growing, ageing, production and procreation of biological assets; these alteration lead to new agricultural produce, or transformation of other biological assets. In addition, IAS 41 does not contain any specific information referring how often one should estimate the biological assets. We can conclude that that the estimation must be conducted on each closure, because the standard does not state any information on how frequent the estimation must be run. As explanation, IASB stated the availability of fair values on relative expected costs, and the consistent progress of biological transformations. In the case of biological assets or agricultural produce that are similar, IAS 41 allows grouping them in order to simplify the fair value estimation. The relevant characteristics for grouping the assets are: nature, naturalness, consumption possibility, and quality and production capacity.

Keywords: evaluating, biological asset, IAS 41, recognition, agricultural produce.,

Introduction

Agriculture is one of the oldest human activities and has an important role in global economy by its generated economic resources. The International Accounting Standard IAS 41 – Agriculture does not treat problems of agricultural lands and intangible agricultural assets, because these issues are presented in IAS 16 standard (or IAS 40), respectively IAS 38. IAS 41 does not contain specific information related to how often one should evaluate biological assets, deducing that the evaluation must be conducted on each closing date, because there are no existent regulations to stipulate a less frequent evaluation of biological assets.

The fair value estimation for agricultural produce at the harvesting point is strictly controlled compared to biological assets (according to IAS 41). Therefore, harvested cereal, animal sacrifice, picked fruits will be estimated at fair value minus point-of-sale costs, even if they cannot be realistically estimated; the estimation at production costs, due to exceptional circumstances, is not possible, as compared to biological assets. IASB states its premises, which states that there is an active market and a suited price for agricultural produce. Therefore, for agricultural harvested produce held as inventories, the fair value (minus point-of- sale costs) is actually the initial value correspondent to the acquisition costs or production costs (according to IAS 20).

Materials and Methods

IAS 41 deals with the management of biological assets transformation, considering logging, orcharding, plantations, horticulture and aquaculture. This standard will apply for the accounting of the following elements, as they refer only to agricultural activities:

a) Biological assets – plants or living animals. The transformation process creates the processes of growing, anatomic degradation of living cells, production or breeding, which cause quality or quantity alteration of the biological asset. A biological asset or an agricultural produce are accounted only if the economic entity controls the asset due to previous events, and the future economic benefits generated by the asset are obtained by the entity, where the fair value or cost can be realistically estimated. A biological asset is evaluated on the initial accounting and on the year-end accounts, at its fair value, minus sale costs.

b) The agricultural produce at the harvesting point is actually the harvested product and the biological asset of the company. The harvest is the detachment of produce form the biological asset, or ceasing the vital processes of a biological asset. The harvested agricultural produce must be evaluated and accounted on basis of the results, at its fair values, minus sale costs during harvest. According to IAS 2 – Inventories, this estimation leads to the input cost

for the harvest estimation. In this case, the fair value is estimated in the following order:

- Current price existent on an active market
- Most recent transaction price
- Current market price for similar assets or products, considering possible dissimilarities
- Sector references

There are situations where there is no reference price or value for a biological asset; in this circumstance the fair value will be calculated as updated value of assets' net expected cash flows. This standard implies that there is always a realistic way of determining fair value; if not, one will consider applying the amortized cost as replacement for the fair value.

c) The governmental grants will be accounted as revenues, when the receivables are received. Although IAS/IFRS includes in IAS 20

"Accounting for Government Grants and Disclosure of Government Assistance" special stipulations related to government grants, IASB was forced to create separated stipulations for their accounting, due to the fact that agricultural government grants are becoming more and more frequent. Offering unconditional grants is not corrected by any restrictive stipulation; they are conditioned when their offering depends on at least 3 requirements: for example, the government stipulates the land to be exploited for 3 years; if this condition is not fulfilled, the grant must be reimbursed. The unconditional government grants are recognized as revenue only when the grant becomes receivable. The conditional grants, such as those given for ceasing an agricultural activity will be registered as revenues when the conditions corrected with the grants are fulfilled, and chargeable revenue is registered for the grant donor. The IAS 41 refers only to the grants that are given for biological assets evaluated at fair value, minus estimated costs at the sale point. The biological assets grants, as they are registered with historical analyzed costs, are treated according with IAS 20.

Results and Discussion

Evaluating biological assets

At the annual accounts or at the beginning of the year, the biological assets must be evaluated at their fair value minus point-of-sale expenses. Although, if on the initial estimation, the fair value cannot be estimated realistically, the biological asset must be estimated at its costs, minus collected amortization and any depreciation collected loss. Once the fair value becomes realistic, the asset must be estimated at its fair value, minus the point-of-sale costs. If there is an active market for a certain asset or agricultural produce, the quote on that market

is actually an appropriate basis for estimating the assets' fair value. If there is no such market, the following criteria are used for the fair value estimation:

- the most recent market transaction price
- market prices of similar assets
- sector standards

Value estimation based on market prices

In the circumstances where there is no active market for the evaluated asset, one must check for prices determined by market variations. The market prices are the most recent transaction prices, and the market prices for similar products or sector prices are transferred to production capacity. The biological assets and agricultural produce are often sold through future goods contracts. According to IASB, the buying prices established by these contracts don't necessarily reflect the real market price, that is why is doesn't correspond to an evaluation criterion for biological assets and agricultural produce.

Purchase or production costs and determining the updated value

The third step in determining the fair value is using the purchase and production costs as parameters for estimating the fair value. This implies that on the purchase or production date, the asset already suffered a reduced biological transformation, or it had an insignificant influence on the assets' value. In these 2 cases, the purchase and production costs are approximate to the fair value. The purchase and production costs of assets are determined as purchase price minus purchase price cuttings. The production costs of assets that are produced by the entity include all production costs as well as indirect costs. IAS 41 stipulates that in order to determinate the fair value, one must calculate the updated value of net cash flows resulted from the assets' usage. This procedure is available only if the fair value of the asset cannot be realistically determined, neither it can be determined using an active market, nor the purchase and production costs are eliminated. The asset's net cash flows will be updated using the update rate determined by the market's variations, assuming the asset will remain the same and in the same place. The net cash flows cannot include financial or fiscal payments, or cash flows used for reproducing biological assets after the harvest. In this case, the company can conduct an independent external evaluation for determining the value using planned cash flows.

Example

In 2024, a gardener plants a plum orchard, at the cost of 10.000 dollars. At the end of 2024, the following situation occurs:

Incidents and diseases that affected the plants

During the year, various diseases and natural incidents affected the plants. Consequently, we can say that there was no active market for this orchard, but it is specified that the situation will recover in the following 4 months, during

which one should specify which plants are sensitive to diseases, and which aren't. Obviously enough, no one will risk buying such an orchard.

Antecedently

The last orchard sold by the gardener was 4 months ago, sold at 4000 Dollars, whereas he didn't have any idea about the market conditions.

Actual situation – the gardeners in that region have similar sized orchards, estimated at 8000 Dollars.

National references – the gardener saw on a specialized site that the average price for a plum orchard is 9000 dollars.

Solution

A proper evaluation for these biological assets is made using the fair value minus point-of-sale costs. Fair value estimation will be determined:

- By using the active market's current prices – in this case it doesn't exist, due to the plant diseases
- By using other relevant and necessary information, such as:
  - The most recent transaction: 4000 dollars
  - Market prices for similar assets: 8000 dollars
  - Sector standards: 9000 dollars

In this situation, when the fair value cannot be realistically estimated, the biological asset will be estimated at its costs minus cumulated amortization and depreciation losses: 10000 dollars.

Nevertheless, there is plausible and relevant information relating to fair value estimation; the average value of all available indicators (between 4000 and 9000) will be used. The gardener will need to consider the reasons for the differences between the information sources, before taking his decision on estimating the fair value. Considering the lack of more recent prices, sector standards and other information, the gardener must calculate the fair value as cost, minus depreciations, minus amortization, resulting in 10.000 dollars.

Conclusion

Consequently, a company should present the assets' accounting values separately in the annual financial statements. A company will present the profits or losses of the current period, at the initial recognition of biological assets and agricultural produce, and from the fair value modification, minus point-of-sale costs, and describing each group of biological assets separately. Therefore, the company will need to describe the following: the nature of its activities and each group of biological assets; non-financial measures or quantity estimations for each group of biological assets and agricultural produce of the current period. The entity will present all significant methods used in determining the fair value of each group of biological assets and agricultural produce; fair value

determined at the harvesting point minus point-of-sale costs of agricultural assets during the period; the existence and accounting values of restricted biological assets and accounting values of biological assets that guarantee the debts; the value of the commitments taken for the development or purchase of biological assets; financial risk management strategies related to agricultural activities; nature and value of government grants; unfulfilled requirements and other contingencies of government grants; significant reductions related to government grants.

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