

## IAS 41 *Agriculture* (June 2017)

### **Biological assets growing on bearer plants**

The Committee received a request about the fair value measurement of produce growing on bearer plants. More specifically, the request asked whether the Committee considers fruit growing on oil palms to be an example of a biological asset for which an entity might rebut the fair value presumption applying paragraph 30 of IAS 41.

The Committee observed that:

- a. paragraph 5C of IAS 41 says that produce growing on bearer plants is a biological asset. Accordingly, an entity accounts for fruit growing on oil palms applying IAS 41.
- b. the recognition requirements in paragraph 10 of IAS 41 specify when an entity recognises the fruit growing on oil palms separately from the oil palms themselves. The entity accounts for the oil palms applying IAS 16 *Property, Plant and Equipment*. An entity recognises a biological asset when the entity controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably.
- c. applying paragraph 12 of IAS 41, an entity measures a biological asset on initial recognition and at the end of each reporting period at its fair value less costs to sell, except as described in paragraph 30 of IAS 41.
- d. paragraph 30 of IAS 41 contains a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. Paragraph 30 of IAS 41 says that once the fair value of such a biological asset becomes reliably measurable, an entity measures it at its fair value less costs to sell.

The Committee concluded that the reference to ‘clearly unreliable’ in paragraph 30 of IAS 41 indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable. Paragraph BC4C of IAS 41 suggests that, when developing the amendments to IAS 41 on bearer plants, the Board’s expectation was that fair value measurements of produce growing on bearer plants might be clearly unreliable when an entity encounters significant practical difficulties. However, the Committee observed that the converse is not necessarily true—ie if an entity encounters significant practical difficulties, this does not necessarily mean that any fair value measurement of produce is clearly unreliable. In paragraph BC4C, the Board observed that in this situation, an entity should consider whether the measurement is clearly unreliable.

The Committee also observed that the submission appears to ask whether possible differences in supportable assumptions (which might result in significantly different valuations) constitute ‘significant practical difficulties’ as referred to in paragraph BC4C of IAS 41. The Committee concluded that this is not evidence of significant practical difficulties, and that it would not, in and of itself, result in fair value measurements that are clearly unreliable.

The Committee noted that paragraph 125 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose information about assumptions and estimates that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In addition, paragraph 91 of IFRS 13 *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop fair value measurements, and the effect of measurements that use Level 3 inputs.

The Committee observed that the submission asks the Committee to conclude whether fair value measurements for a particular type of produce growing on bearer plants are clearly unreliable. The Committee determined that its role is not to conclude upon very specific application questions, particularly when they relate to the application of the judgements required in applying IFRS Standards. Consequently, the Committee decided not to add this matter to its standard-setting agenda.