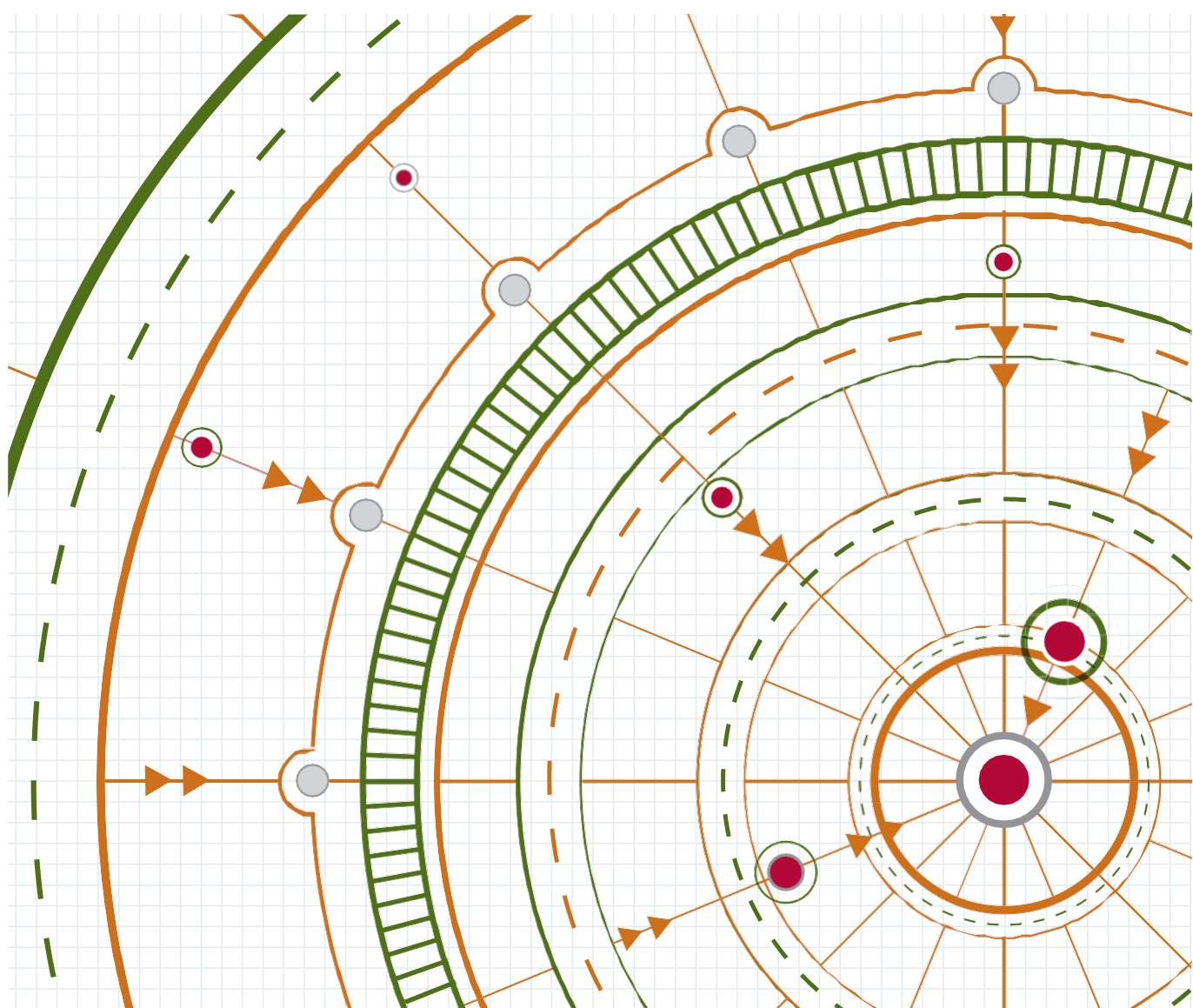


# Module 34—Specialised Activities



# **IFRS<sup>®</sup> Foundation**

## **Supporting Material**

### **for the *IFRS for SMEs*<sup>®</sup> Standard**

including the full text of  
Section 34 *Specialised Activities*  
of the *IFRS for SMEs* Standard  
issued by the International Accounting Standards Board in October 2015

*with extensive explanations, self-assessment questions and a case study*

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# Contents

INTRODUCTION	1
Which version of the <i>IFRS for SMEs</i> Standard?	1
This module	1
<i>IFRS for SMEs</i> Standard	2
Introduction to the requirements	3
What has changed since the 2009 <i>IFRS for SMEs</i> standard	4
REQUIREMENTS AND EXAMPLES	5
Scope of this Section	5
Agriculture	6
Exploration for and evaluation of mineral resources	37
Service concession arrangements	42
SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS	53
COMPARISON WITH FULL IFRS STANDARDSs	55
TEST YOUR KNOWLEDGE	56
APPLY YOUR KNOWLEDGE	60
Case study	60
Answer to Case study	62

# Module 34—Specialised Activities

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015. This module has been prepared by IFRS Foundation education staff. The contents of Section 34 *Specialised Activities* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 34. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

## INTRODUCTION

### Which version of the *IFRS for SMEs*<sup>®</sup> Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

### This module

This module focuses on the general requirements for accounting and reporting small and medium-sized entities (SMEs) that are involved in agriculture, extractive activities and service concession, applying Section 34 *Specialised Activities* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in accounting and reporting for these specialised activities. In addition, the module includes questions designed to test your understanding of the requirements and a case study that provides a practical opportunity to apply the requirements to account for these specialised activities applying the *IFRS for SMEs* Standard.

## Module 34—Specialised Activities

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

- identify whether an activity is in the scope of Section 34;
- identify when a biological asset or agricultural produce should be recognised in the financial statements;
- understand how to measure biological assets and the agricultural produce harvested from biological assets, and be able to determine whether the fair value of a biological asset is readily determinable without undue cost or effort;
- present and disclose biological assets in the financial statements;
- account for exploration and evaluation expenditures incurred by an entity engaged in the exploration for, or evaluation of, mineral resources;
- account for service concession arrangements: this will include determining whether the service concession operator has a financial asset or an intangible asset, or both; and
- demonstrate an understanding of the significant judgements that are required in the accounting for the three types of specialised activities that are addressed in Section 34.

### **IFRS for SMEs Standard**

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue*. These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as

## Module 34—Specialised Activities

'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (February 2019) the SMEIG has not issued any Q&As relevant to this module.

### Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 34 is to specify the accounting and reporting requirements for three types of specialised activities—agriculture, extractive activities that involve the exploration for and evaluation of mineral resources, and service concessions. These activities are not considered to be related and there are consequently no common requirements. Each activity is dealt with separately in Section 34 and in this module.

*Agriculture (paragraphs 34.2 to 34.10)*

Agricultural activity as defined in the Glossary is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets. An entity that is engaged in agricultural activity determines its accounting policy for each class of its biological assets as follows:

- (a) uses the fair value model for those biological assets for which fair value is readily determinable without undue cost or effort; and
- (b) uses the cost model for all other biological assets.

Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest.

*Exploration for and evaluation of mineral resources (Extractive activities) (paragraphs 34.11 to 34.11F)*

An entity that is engaged in the exploration for, or evaluation of, mineral resources applies its judgement in determining an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets that results in information that is relevant and reliable (applying paragraph 10.4 of Section 10 *Accounting Policies, Estimates and Errors*). However, in making this judgement, it is exempt from considering the requirements and guidance of the *IFRS for SMEs* Standard for similar and related issues, and from considering Section 2 *Concepts and Pervasive Principles* (applying paragraph 10.5 of Section 10).

Exploration and evaluation assets are initially measured at cost. Subsequently, an entity applies Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill* to those assets, according to the nature of the assets acquired.

When an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and any associated costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its

## Module 34—Specialised Activities

recoverable amount. An entity determines an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units and then performs an impairment test in accordance with Section 27 *Impairment of Assets*.

*Service concessions (paragraphs 34.12 to 34.16)*

A service concession arrangement is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets, such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. There are two principal categories of service concession arrangements. Either the operator receives a financial asset or an intangible asset. Sometimes, a single contract may contain both types. Categorisation (ie as a financial asset, an intangible asset, or both) determines the accounting policy adopted by the operator.

### **What has changed since the 2009 IFRS for SMEs Standard**

The following are the main changes made to Section 34 by the 2015 Amendments:

- the removal of the requirement to disclose comparative information for the reconciliation of changes in the carrying amount of biological assets (see paragraph 34.7(c)); and
- the alignment of the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 *Exploration for and Evaluation of Mineral Resources* (see paragraphs 34.11-34.11F).

All of the changes are covered in this module, including editorial changes.



# Module 34—Specialised Activities

## REQUIREMENTS AND EXAMPLES

### Scope of this section

34.1 This section provides guidance on financial reporting by SMEs involved in three types of specialised activities—agriculture, extractive activities, and service concessions.

### Notes

This section of the *IFRS for SMEs* Standard is applied by small and medium-sized entities that have agricultural or extractive activities or are operators in service concession arrangements. The following definitions may be helpful in deciding whether an entity must apply this section:

- The Glossary defines agricultural activity as the management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets. The Glossary defines a biological asset as a living animal or plant.
- Extractive activities are those that involve the exploration for, or evaluation of, mineral resources (eg oil, natural gas and similar non-regenerative resources).
- The Glossary defines a service concession arrangement as an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets, such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.

Only entities that are engaged in the activities stated above are required to apply Section 34. Entities within the scope of Section 34 are also required to apply all the other relevant sections of the *IFRS for SMEs* Standard.

# Module 34—Specialised Activities

## Agriculture

- 34.2 An entity using this Standard that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets** as follows:
- (a) the entity shall use the **fair value** model in paragraphs 34.4–34.7 for those biological assets for which fair value is readily determinable without undue cost or effort; and
  - (b) the entity shall use the cost model in paragraphs 34.8–34.10 for all other biological assets.

### Notes

For an entity's biological assets to be in the scope of Section 34, the entity must be engaged in the management of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets (agricultural activity). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity. Agricultural activities do not include using animals for competitions, racing or exhibitions.

An entity does not have a free choice in measuring its biological assets. It must use the fair value model for all classes of biological assets for which fair value is readily determinable without undue cost or effort. All other classes of biological assets are measured using the cost model.

The determination of whether the fair value of biological assets would involve undue cost or effort depends on the entity's specific circumstances and on management's judgement in assessing the costs and benefits. This judgement requires consideration of how the economic decisions of those that are expected to use the financial statements could be affected by the absence of that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits that those that are expected to use the SME's financial statements would receive from having the information (see paragraph 2.14B). If an SME already has, or could easily and inexpensively acquire, the information necessary to comply with a requirement, any related undue cost or effort exemption would not be applicable. This is because, in that case, the benefits to the users of the financial statements of having the information would be expected to exceed any further cost or effort by the SME.

The assessment of whether a requirement would involve undue cost or effort on initial recognition in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at that time. If the undue cost or effort exemption also applies after initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date (see paragraph 2.14C).

Paragraph 34.6 provides requirements for measuring the fair value of biological assets and agricultural produce. Depending on the type of biological asset and the specific jurisdiction, there may be an active market in which quoted prices are readily available. In such cases, measuring cost is generally more burdensome and subjective

## Module 34—Specialised Activities

than determining fair value because of the extensive allocations of costs required. For example, it may be difficult to determine the cost of a calf two weeks after its birth (eg including all costs of rearing the calf and the allocations of appropriate overheads). However, if there is an active market for two-week-old calves, the fair value can be looked up.

In addition, management often manages agricultural activities on the basis of market price or other measures of current value rather than on historical cost (paragraph BC146 of the *IFRS for SMEs* Standard). In such cases, the fair value model provides more relevant information about agricultural activities than the cost model.

However, the Board concluded that, both because of the measurement difficulties in inactive markets and developing countries and for cost-benefit reasons, SMEs should be required to use the fair value model only when fair value is readily determinable without undue cost or effort. When that is not the case, the Board concluded that SMEs should follow the cost model (see paragraph BC124 of the *IFRS for SMEs* Standard). In practice, it could be difficult to determine and measure the fair value of some biological assets and agricultural produce (for example, niche, or new, products). Section 4 *Statement of Financial Position* requires the separate presentation in the statement of financial position of biological assets carried at cost less accumulated depreciation and impairment (paragraph 4.2(h)) and biological assets carried at fair value through profit or loss (paragraph 4.2(i)).

### Examples—agriculture

**Ex 1 An entity grows cacao to sell to chocolate factories. Its statement of financial position at 31 December 20X8 presents: two tractors, three computers and software to manage the cultivation of cacao on its farmland, which is planted with 10,000 cacao-bearing trees. The entity’s assets also include 1,000 pods of recently harvested cacao.**

The entity is engaged in agricultural activity, as defined in the *IFRS for SMEs* Standard, relating to the cacao-bearing trees—the entity manages the biological transformation of the cacao-bearing trees into agricultural produce (harvested cacao) for sale. The cacao-bearing trees are biological assets (living plants) and consequently, the entity accounts for them in accordance with Section 34.

The following assets are not biological assets (neither living animals nor living plants), so the entity does not account for them in accordance with Section 34. Instead, the entity accounts for:

- the harvested cacao after initial recognition in accordance with Section 13 *Inventories*;
- the tractors, farmland and computers in accordance with Section 17 (and if they are under leases, Section 20 *Leases*); and
- the software in accordance with Section 18.

## Module 34—Specialised Activities

- Ex 2** An entity holds 400 beef cattle for meat production, 85 dairy cattle for milk production and 10 mules for pulling carts to distribute feed to its cattle.
- Female calves are retained by the entity to maintain and expand its herds.
- Male dairy calves are sold soon after birth. Male beef calves are sold when they are two years old.
- Mature dairy cows are sold for meat after they have produced milk for five years. Mature beef cows are sold in the meat trade when they are nine years old.

The entity is engaged in agricultural activity, as defined in the *IFRS for SMEs* Standard. The cattle and the mules are biological assets (living animals). The entity accounts for the 400 beef cattle and the 85 dairy cattle as biological assets in accordance with Section 34. The biological transformation of the cattle is managed by the entity for sale or for agricultural produce (milk and carcasses from the dairy cattle and carcasses from the beef cattle) or for additional biological assets (offspring of the beef cattle and the dairy cattle).

The entity also accounts for the 10 mules in accordance with Section 34, because the entity as a whole is engaged in agricultural activity.

- Ex 3** An entity provides security services to local businesses. The security services deploys guard dogs and their handlers at the clients' premises. The guard dogs are purchased by the entity when they are puppies and are trained by the handlers who are employees of the entity.

Although the guard dogs are biological assets (living animals), the entity does not account for them in accordance with Section 34 because it is not engaged in agricultural activity (they are not breeders, managing the biological transformation of the dogs for additional biological assets). The dogs are property, plant and equipment and are accounted for in accordance with Section 17.

The salary payable to the dog handlers as they perform services for the entity constitutes employee benefits. The entity accounts for those benefits in accordance with Section 28 *Employee Benefits*.

### Example—use of fair value model or cost model—biological asset

- Ex 4** An entity cultivates a single species of fast-growing softwood timber in a 10-year growth cycle. The entity is one of many farmers growing the same species of pine in an extensive area of similar land.

The entity (like many of its competitors) uses the services of local pine planting specialists to plant its land. The specialists prepare the land, supply the saplings, fertiliser, other chemicals and water, and plant the saplings. After the trees are planted, the entity manages and maintains its plantations (fertilising and watering, chemical-spraying and thinning) to optimise timber growth.

There are frequent sales of essentially homogeneous pine plantations (trees and the land on which they are planted) in the local market. Sales are conducted by online auction and the prices are published on the local pine growers' website, listed per acre by age of plantation sold (ie newly planted, one year, two years, three years and so on). Sales of recently harvested land (ie without pine trees) in the same area are also quoted per acre.

The entity classifies its pine plantations into two classes: mature (four years or older) and immature (three years or younger).

## Module 34—Specialised Activities

The entity is engaged in agricultural activity, as defined in the *IFRS for SMEs* Standard. The entity applies the fair value model to measure its pine forest biological assets (mature and immature) because the fair values of the biological assets are readily determinable without undue cost or effort. The entity's management can readily obtain the fair value of the pine forests by age (including the land on which the trees are planted) and deduct from that amount the fair value of the land to measure the fair value of its trees.

**Ex 5** An entity cultivates a wide variety of species of slow-growing softwood timber trees in 'natural' forests. The growth cycles of the species range from 10 to 20 years and because of the unique and varied topography of the entity's forests, the growth cycles for individual species vary considerably. The entity is the only entity that cultivates timber in the jurisdiction in which it operates.

The entity manages and maintains its forests by planting saplings (grown in its nursery) to replace harvested trees, nurturing the growth of saplings and removing invasive alien plant species. This optimises timber growth and maintains the integrity of the forest. The entity classifies its softwood timber into two classes: mature (five years or older) and immature (four years or younger).

The entity harvests trees when they reach harvesting age. The harvested timber (logs) is sold in international timber markets. There is an active market for all of the types of timber that are harvested by the entity.

For each species that the entity harvests from the forest, the entity maintains detailed management records of growth rates, costs to maintain the nursery, planting costs, maintenance costs, felling costs and costs of transporting the logs to market. Based on these historical records, that have been adjusted for recent trends, management forecasts expected future income and expenses by species of tree harvested. In addition, the forecasts help management to determine which species it should propagate and manage for harvest in the future.

The entity is engaged in agricultural activity, as defined in the *IFRS for SMEs* Standard. An active market does not exist for the entity's standing softwood biological assets in their present location and condition. However, this does not necessarily mean that the fair value of the standing softwood biological assets cannot be readily determined without undue cost or effort (see paragraph 34.6). Consequently, the absence of such an active market does not automatically result in the entity applying the cost model to account for the entity's standing softwood biological assets.

The entity's management must apply its judgement to determine whether the fair value of the entity's standing softwood biological assets can be readily determined without undue cost or effort. In making that judgement, management would consider whether fair value could be measured without undue cost or effort other than by reference to an active market for the entity's standing softwood biological assets in their present location and condition.

For example, management would evaluate whether a reliable measure of fair value is readily determinable without undue cost or effort by reference to the present value of the expected net cash flows from the asset, discounted at a current market-determined rate. In this example, management appears already to have obtained relevant sector benchmarks for management purposes, such as the current market price of harvested logs for each type of softwood under cultivation, as well as many of the inputs required

## Module 34—Specialised Activities

to measure the present value of the expected net cash flows from its standing softwood biological assets (ie management has forecasts of expected future income and expenses by species of tree harvested). If the only additional information that is needed to measure fair value is the discount rate to be applied to the forecast cash flows, management will likely assert that fair value is readily determinable without undue cost or effort.

**Ex 6 The facts are the same as in Example 5. However, in this example, the entity has only recently begun cultivating plantation timber in the jurisdiction where it operates. Plantation timber cultivation has not previously been undertaken in this jurisdiction.**

**The environmental conditions in the jurisdiction are different from those in other areas where softwoods are grown. Management has not forecast the future income and expenses by species of tree harvested.**

An active market does not exist for the entity's standing softwood biological assets in their present location and condition. However, this does not necessarily mean that the fair value of the standing softwood biological assets cannot be readily determined without undue cost or effort (see paragraph 34.6).

The entity's management would apply judgement to determine whether the fair value of the entity's standing softwood biological assets can be readily determined without undue cost or effort. In making that judgement, management would consider whether fair value could be measured without undue cost or effort other than by reference to an active market for the entity's standing softwood biological assets in their present location and condition.

For example, management would evaluate whether fair value is readily determinable without undue cost or effort and whether the result is a reliable measure of fair value. In the absence of market-determined prices or values, management might consider whether it could calculate the present value of expected net cash flows from the assets discounted at a current market-determined rate without undue cost or effort.

In this example, because of significant unknown factors (eg absence of historical information and forecasts on which to base future cash flow estimates) management might conclude that fair value is not readily determinable without undue cost or effort.

# Module 34—Specialised Activities

## Recognition

- 34.3 An entity shall recognise a biological asset or **agricultural produce** when, and only when:
- (a) the entity controls the **asset** as a result of past events;
  - (b) it is **probable** that future economic benefits associated with the asset will flow to the entity; and
  - (c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

## Notes

The requirements for the recognition of a biological asset and for agricultural produce are consistent with the general asset recognition concepts set out in Section 2 *Concepts and Pervasive Principles*.

Agricultural produce is the harvested product of the entity’s biological assets (*Glossary*). A distinction should be made between biological assets, agricultural produce and products that are the result of processing agricultural produce.

The table below provides examples of these.

<i>Biological assets</i>	<i>Agricultural produce</i>	<i>Products that are the result of processing agricultural produce</i>
Sheep	Sheared wool	Yarn, carpet
Trees in a plantation forest	Felled trees	Logs, lumber
Plants	Harvested cotton	Thread, clothing
	Harvested cane	Sugar, alcohol
Dairy cattle	Milk	Cheese, butter
Pigs	Carcasses	Sausages, cured hams
Bushes	Picked leaves	Tea, cured tobacco
Vines	Picked grapes	Wine, juice, raisins
Fruit trees	Picked fruit	Processed fruit
Cacao trees	Harvested cacao pods and beans	Chocolate liquor, chocolate

This classification is relevant when determining which section of the *IFRS for SMEs* Standard the entity must apply. Biological assets of an entity engaged in an agricultural activity are accounted for in accordance with Section 34, both initially and subsequently (paragraph 34.4).

Agricultural produce is accounted for in accordance with Section 34 only at the point of harvest, and subsequently in accordance with Section 13 *Inventories* or another applicable section of the *IFRS for SMEs* Standard (paragraph 34.5). Products that are the result of processing agricultural produce after harvest are outside the scope of Section 34 both during and after processing. They are accounted for in accordance with Section 13 or with another applicable section of the *IFRS for SMEs* Standard.

## Module 34—Specialised Activities

### Measurement—fair value model

- 34.4 An entity shall measure a biological asset on initial **recognition** and at each **reporting date** at its **fair value less costs to sell**. Changes in fair value less costs to sell shall be recognised in **profit or loss**.

### Notes

The fair value less costs to sell of an asset is the amount obtainable from the sale of that asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (*Glossary*).

The measurement of the fair value of the biological assets in accordance with Section 34 follows similar principles to fair value measurements in other sections; for example, for financial instruments and investment property. However, a key difference for biological assets is that, where fair value measurement applies, the expected costs to sell are deducted. In this respect, the fair value model under Section 34 is similar to fair value measurements for the purposes of determining the recoverable amount of assets in accordance with Section 27 *Impairment of Assets*.

When biological assets are measured in accordance with the fair value model, the change in fair value less costs to sell is recognised in profit or loss during the period in which the change occurs.

Costs to sell are incremental costs associated with the sale transaction itself. For example, they include commissions paid to brokers and dealers, auctioneer's fees, transfer taxes and duties and fees paid to regulatory agencies or commodity exchanges.

Costs of transporting the asset to market are commonly considered in determining fair value. However, the *IFRS for SMEs* Standard does not explicitly require that they must be included in determining fair value and so they might instead be considered as costs to sell. Regardless of how they are considered, they must only be deducted once when determining fair value less costs to sell.

Section 34 is silent on the treatment of subsequent expenses for agricultural activity (eg feeding, veterinary services, planting, weeding, irrigation, fertilisation, harvesting and slaughtering costs). Consequently, when applying the fair value model, an entity may choose either to capitalise these costs or recognise these costs as an expense in the period incurred (eg, as 'costs of production').



# Module 34—Specialised Activities

## Examples—fair value model—biological asset

**Ex 7** An entity cultivates cattle as livestock for meat and sells the cattle to slaughterhouses. At 31 December 20X0 the fair value less costs to sell of the entity’s livestock is CU10,000<sup>(4)</sup>

In its statement of financial position as at 31 December 20X0, the entity presents its livestock at fair value less costs to sell of CU10,000.

**Ex 8** The facts are the same as in Example 7. At 31 December 20X1 the fair value less costs to sell of the livestock is CU15,000. The entity neither bought nor sold any cows in 20X1. No calves were born in 20X1. The entity has chosen to expense all costs incurred in maintaining the herd, such as feedstuff, veterinary services, etc.

At 31 December 20X1 the entity measures the livestock at CU15,000 and recognises the CU5,000 increase in fair value less costs to sell in profit or loss for the year ended 31 December 20X1.

Journal entries:

Dr	Asset—biological assets carried at fair value through profit or loss	CU5,000	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU5,000

*To recognise the increase in the fair value less costs to sell of the cattle.*

**Ex 9** The facts are the same as in Example 7. However, in this example, in 20X1 eight calves were born and the entity sold 10 heifers for CU200 each, incurring selling costs of CU10 per heifer. The fair value less costs to sell of the herd at 31 December 20X1 is CU14,000.

In 20X1, upon sale of the heifers, the entity recognises an increase in cash of CU1,900 (being CU2,000 selling price less CU100 selling costs). As the livestock is accounted for using the fair value model the changes in fair value less costs to sell are recognised in profit or loss.

At 31 December 20X1 the entity measures the herd including the eight calves born during the period at CU14,000 and recognises the increase of CU5,900 (ie CU14,000 closing fair value + CU1,900 realised through sale less CU10,000 opening fair value) in fair value less costs to sell in profit or loss.

Journal entries:

Dr	Asset—cash	CU1,900	
Dr	Expenses—Cost of sales	CU1,900	
Dr	Expenses—Selling expense	CU100	
	Cr	Asset—biological assets carried at fair value through profit or loss	CU1,900
	Cr	Income—Revenue	CU2,000

*To recognise the sale of the heifers.*

<sup>(4)</sup> In this example, and in all examples in this module, monetary amounts are denominated in ‘currency units (CU)’.  
IFRS Foundation: Supporting Material for the IFRS for SMEs® Standard (version 2019-02)

## Module 34—Specialised Activities

Dr	Asset—biological assets carried at fair value through profit or loss	CU5,900	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU5,900

*To recognise the increase in fair value of the herd.*

Note: There are a number of different approaches that could be used to record these events in the entity's journals. These could include revaluing the heifers immediately before sale or recognising the fair value of the calves at birth. Whichever approach is taken, the total increase in fair value less costs to sell during the year is CU5,900; some of this relates to the 10 heifers sold, some to the birth of the calves and the balance to the increase in the calves and remaining livestock.

The disclosure requirements of the *IFRS for SMEs* Standard require separate disclosure of increases resulting from purchases (see paragraph 34.7(c)(ii)) but they do not require separate disclosure of increases resulting from biological assets born during the period. Consequently, the above two journals are sufficient to enable the disclosure and presentation requirements of Section 34 to be met.

- Ex 10 At 31 December 20X1 the fair value less costs to sell of a tomato farmer's vines bearing partially developed tomatoes is CU11,500 (ie the vine and the tomatoes taken as a whole). The initial cost of those vines, purchased earlier in 20X1, including the cost of planting that was capitalised by the entity, was CU1,500.**

Until the point of harvest, a vine is accounted for together with the fruit it bears as a single biological asset. At 31 December 20X1 (the end of the reporting period) the entity measures the biological assets at the fair value less costs to sell of CU11,500. The CU10,000 (ie CU11,500 less CU1,500) change in fair value is recognised in profit or loss in 20X1.

Journal entries:

Dr	Asset—biological assets carried at fair value through profit or loss	CU10,000	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU10,000

*To recognise the increase in the fair value less costs to sell of the vine and tomatoes taken as a whole.*

- Ex 11 At the start of the reporting period a grape grower has bare vines whose fair value less costs to sell is CU1,400,000. At the end of the reporting period the vines bear partially developed grapes. The fair value less costs to sell of the vines containing grapes is CU1,650,000 at the end of the reporting period. The entity has chosen to expense all costs incurred in maintaining the vines, such as fertiliser, pruning, etc and these have been recorded as incurred.**

Until the grapes are harvested, a vine is accounted for together with the fruit it bears as a single biological asset. At the end of the reporting period, the entity recognises the increase in the fair value less costs to sell of the biological assets.

# Module 34—Specialised Activities

Journal entries:

Dr	Asset—biological assets carried at fair value through profit or loss (grape vines)	CU250,000	
	Cr      Income—profit or loss: fair value gain (biological assets)		CU250,000

*To recognise the increase in fair value of the grape vines.*

**34.5** Agricultural produce 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 Section 13 *Inventories* or another applicable section of this Standard.

**Examples—measurement of agricultural produce**

**Ex 12** At the end of the reporting period (31 December 20X1) a tomato grower’s vines bear developed ripe tomatoes. On 31 December 20X1, the fair value less costs to sell of the vines with the soon-to-be harvested tomatoes attached is measured at CU24,000. The initial cost of the vines was CU5,500 and the cost of growing them during 20X1 (planting, irrigation and fertilisation) was CU7,250. The entity harvested its tomatoes on 3 January 20X2. There was no significant change in the fair value less costs to sell of the vines between 31 December 20X1 and 3 January 20X2.

The cost of harvesting the tomatoes is CU1,000. The quoted price per kilogram of tomatoes is CU50 and costs to sell are estimated at 1% of quoted price. The entity harvests 500 kilograms of tomatoes.

The life of a tomato vine is about six months. After harvest, the vine has come to the end of its life and its fair value is negligible.

In this example, the costs of growing the tomato vines (eg planting, irrigation and fertilisation and harvesting) are expensed as incurred (Section 34 does not specify the treatment of these costs).

A vine and the fruit it bears are accounted for as a single biological asset until the point of harvest. At 31 December 20X1, the entity recognises the increase in the biological assets due to tomatoes growing on the vines.

Journal entries:

**During 20X1**

Dr	Asset—biological assets carried at fair value through profit or loss	CU5,500	
	Cr      Asset—cash		CU5,500

*To recognise the purchase of the tomato vines.*

Dr	Expense—profit or loss: planting, irrigation and fertilisation costs	CU7,250	
	Cr      Asset—cash		CU7,250

*To recognise the expenses of growing the tomato vines.*

## Module 34—Specialised Activities

### 31 December 20X1

Dr	Asset—biological assets carried at fair value through profit or loss	CU18,500	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU18,500

*To recognise the increase in fair value of the tomato-bearing vines.*

### 3 January 20X2

Dr	Expense—profit or loss: cost of harvesting	CU1,000	
	Cr	Asset—cash	CU1,000

*To recognise the costs of harvesting (not a cost of sale)*

Dr	Asset—Inventory: tomatoes (= 500 × CU50 × 99%)	CU24,750	
	Cr	Income—profit or loss: fair value gain (on recognition of agricultural produce)	CU750
	Cr	Asset—biological assets carried at fair value through profit or loss	CU24,000

*To recognise the inventory of tomatoes at the point of harvest at its fair value less costs to sell. The entire fair value of the tomato vine is transferred to the tomato inventory, as the decomposing vine remaining in biological assets has negligible fair value.*

**Ex 13** The facts are the same as in Example 12. However, in this example, the tomato crop is not harvested on 3 January 20X2. On 4 January 20X2 a hailstorm destroyed many of the entity's competitors' crops. The entity harvested its tomatoes on 5 January 20X2 when, because of anticipated tomato supply shortages, the fair value less costs to sell of the entity's tomato vines immediately before harvest is measured at CU50,000. The cost of harvesting the tomatoes is CU1,000. The quoted price per kilogram of tomatoes is CU103.03 and costs to sell are estimated at 1% of the quoted price. The entity harvests 500 kilograms of tomatoes. The life of a tomato vine is about six months. After harvest, the vine has come to the end of its life and its fair value is negligible.

A vine and the fruit it bears are accounted for as a single biological asset until the point of harvest. At 31 December 20X1, the entity recognises the increase in the biological assets due to the tomatoes growing on the vines.

Journal entries:

#### During 20X1

Dr	Asset—biological assets carried at fair value through profit or loss	CU5,500	
	Cr	Asset—cash	CU5,500

*To recognise the purchase of the tomato vines.*

Dr	Expense—profit or loss—planting, irrigation and fertilisation costs	CU7,250	
	Cr	Asset—cash	CU7,250

*To recognise the expenses of growing the tomato vines.*

## Module 34—Specialised Activities

### 31 December 20X1

Dr	Asset—biological assets carried at fair value through profit or loss	CU18,500	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU18,500

*To recognise the increase in fair value of the tomato-bearing vines.*

### 5 January 20X2

Dr	Asset—biological assets carried at fair value through profit or loss	CU26,000	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU26,000

*To recognise the tomato vines and the fruit that they bear immediately before harvest at fair value less costs to sell.*

**Note:** in this example, the change in fair value of the biological asset (the tomato-bearing vines) before harvest is significant due to the hail damage to many competitors' tomato crops.

Dr	Expense—profit or loss: cost of harvesting	CU1,000	
	Cr	Asset—cash	CU1,000

*To recognise the costs of harvesting (not a cost of sale)*

Dr	Asset—inventory: tomatoes (= 500 × CU103.03 × 99%)	CU51,000	
	Cr	Income—profit or loss: fair value gain (on recognition of agricultural produce) <sup>(a)</sup>	CU1,000
	Cr	Asset—biological assets carried at fair value through profit or loss	CU50,000

*To recognise the inventory of tomatoes at the point of harvest at its fair value less costs to sell. The entire fair value of the tomato vines is transferred to the tomato inventory as the decomposing vines remaining in biological assets have negligible fair value.*

<sup>(a)</sup> The CU1,000 could also be recognised as part of the fair value gain (biological assets)

**Ex 14** On 1 January 20X1, the start of the year, the fair value less costs to sell of a grape grower's vines is CU1,800,000.

**On 31 January 20X1 the vines bear fully developed grapes and are ready for harvest. The fair value less costs to sell of the vines (including the grapes they bear) is CU1,860,000. On 31 January the fair value less costs to sell of bare vines is CU1,380,000. The grapes are harvested on 31 January 20X1. The cost of harvesting the grapes is CU2,000. The quoted price per kilogram of grapes is CU492 and costs to sell are estimated at 2% of price. The entity harvests 1,000 kilograms of grapes.**

The vines and the fruit they bear are accounted for as a single biological asset until the point of harvest. Grape vines bear fruit over many years. Until they are harvested, a vine is classified together with the fruit it bears as a single biological asset. At the end of the reporting period, the entity recognises in profit or loss the increase in the biological asset attributable to the grapes growing on vines.

## Module 34—Specialised Activities

Journal entries:

### 31 January 20X1

Dr	Asset—biological assets carried at fair value through profit or loss	CU60,000	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU60,000

*To recognise the grape vines immediately before harvest at fair value less costs to sell.*

Dr	Asset—inventory: grapes (1,000 × CU492 × 98%)	CU482,160	
	Cr	Income—profit or loss: fair value gain (on recognition of agricultural produce)	CU2,160
	Cr	Asset—biological assets carried at fair value through profit or loss: grape vines (= 1,860,000-1,380,000)	CU480,000

*To recognise the grape inventories at the point of harvest measured at fair value less costs to sell. The fair value of the bare vine remains in biological assets.*

Dr	Expense—Profit or loss: cost of harvesting	CU2,000	
	Cr	Asset—cash	CU2,000

*To recognise the costs of harvesting (not a cost of sale).*

**Ex 15 An entity rears cattle for the fresh meat industry. It slaughters its cattle and butchers the meat into cuts before selling them to its meat wholesaler customers.**

**The entity's statement of financial position at 31 December 20X1 reported cattle at their fair value less costs to sell of CU10,000.**

**At 31 December 20X2, when the fair value less costs to sell of the entity's herd is CU15,000, the entity slaughtered 40% of its herd (10 cattle) incurring slaughter costs of CU50. The quoted price of a carcass is CU700 and the costs to sell are estimated at CU2 per carcass.**

**On 31 December 20X2 the entity also incurs CU300 direct costs in processing the carcasses into meat cuts ready for sale to its customers.**

**For simplicity, assume that the entity does not sell the hide, bone or any other component of the cattle, but only the meat. The slaughtering costs are recognised as an expense as they are incurred. Section 34 does not specify the treatment of these costs.**

At 31 December 20X2 the entity should:

- measure the cattle at CU15,000, recognising the CU5,000 increase in fair value less costs to sell in profit or loss;
- recognise CU50 of slaughter costs;
- reclassify CU6,000 of biological assets (livestock) to inventory (carcasses);
- recognise the inventory (carcasses) at CU6,980 (their fair value less costs to sell) and recognise the gain of CU980 in profit or loss; and
- recognise the CU300 meat processing costs.

## Module 34—Specialised Activities

Journal entries:

### 31 December 20X2

Dr	Asset—biological assets carried at fair value through profit or loss: cattle	CU5,000	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU5,000

*To recognise the increase in fair value of the entity's cattle.*

Dr	Asset—inventory (= 10 × (CU700 – CU2))	CU6,980	
	Cr	Income—profit or loss: fair value gain (on recognition of agricultural produce)	CU980
	Cr	Asset—biological assets carried at fair value through profit or loss: cattle	CU6,000 <sup>(a)</sup>

*To recognise the reclassification of slaughtered cattle at the point of harvest.*

(a) CU15,000 (ie fair value less costs to sell of cattle at the date of harvest) × 40% (ie proportion of cattle slaughtered) = CU6,000.

Dr	Expense—profit or loss: slaughter expenses	CU50	
	Cr	Asset—cash	CU50

*To recognise the costs of harvesting, ie slaughter (not a cost of sale).*

Dr	Asset—inventory	CU300	
	Cr	Asset—cash or Liability—accounts payable	CU300

*To recognise costs of converting carcasses into meat cuts inventory. Note: this is not an incremental cost of sale of the carcasses, it is a cost of processing agricultural produce after harvest into meat cuts. Consequently, it is not deducted from the fair value of the carcasses at the point of harvest, instead it forms part of the cost of inventory.*

Once harvested, the meat is accounted for in accordance with Section 13 *Inventories*. Assuming that, at the end of the period, the entity did not hold any other meat inventory, the closing balance of meat inventory at 31 December 20X2 would be CU7,280 (calculation: CU6,980 fair value less estimated costs to sell of the carcasses (agricultural produce at the point of harvest from an entity's biological assets in accordance with paragraph 34.5) + CU300 costs of converting the carcasses into meat cuts (paragraphs 13.5 and 13.8)).

## Module 34—Specialised Activities

34.6 In determining fair value, an entity shall consider the following:

- (a) if an **active market** exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.
- (b) if an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:
  - (i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the **reporting period**;
  - (ii) market prices for similar assets with adjustment to reflect differences; and
  - (iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel or hectare and the value of cattle expressed per kilogram of meat.
- (c) in some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- (d) in some circumstances, fair value may be readily determinable without undue cost or effort even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the **present value** of expected net **cash flows** from the asset discounted at a current market determined rate results in a reliable measure of fair value.

### Notes

As already emphasised by paragraph 34.2, an entity does not choose which measurement model (fair value or cost model) to apply in accounting for its biological assets. An entity must use the fair value model (fair value less costs to sell) if fair value can be readily determined without undue cost or effort (see paragraphs 2.14A-2.14D). Otherwise, the entity uses the cost model (cost less any accumulated depreciation and any accumulated impairment losses).

Measuring the fair value of a biological asset or of agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.

Fair value is not an entity-specific measure. It is required to reflect the current market in which a willing buyer and a willing seller would enter into a transaction. There are often usable market-driven prices available because agricultural produce often takes the form of basic commodities that are traded actively.

The quoted price for an identical asset in an active market is the best measure (and hence the first choice) when determining the fair value of the asset. If there is no active market, fair value can be determined using one or more of the alternative approaches (see paragraph 34.6(b)):

- most recent transaction price for the asset;
- market prices for similar assets, adjusted to reflect any differences; or
- sector benchmarks.



## Module 34—Specialised Activities

Biological assets are often physically attached to land (eg trees in a plantation forest). There may be no separate market for biological assets that are attached to the land, but an active market might exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. Therefore, estimates to determine fair value for the biological assets might best be made using information about the combined assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of the biological assets.

When market-determined prices or values are not available for a biological asset in its present condition, the present value of expected net cash flows from the asset discounted at a current market-determined rate may still result in a reliable measure of fair value and therefore can be used by an entity. An entity estimates expected net cash flows and determines an appropriate discount rate to be used. To be consistent with the objective of estimating fair value, the cash flows should be based as far as possible on market data.

For example, there may be a market for a mature animal but no market for a young animal. It may be possible to determine the fair value of the young animal by projecting the cash inflows from the sale of a mature animal, less the cash outflows needed to grow the animal to its marketable weight and discounting the cash flows to the present-day value using a discount rate.

In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. Fair value measurements reflect the possibility of such variations, for example, in estimating the fair value of crops by reflecting the effect of different weather conditions on the harvest. Accordingly, an entity incorporates expectations about possible variations in cash flows either into the expected cash flows or into the discount rate. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows in order to avoid the effect of some assumptions being double-counted or ignored.

Once an entity has measured the fair value of a biological asset, it deducts the expected disposal costs of the biological asset (ie costs to sell) from that fair value. The entity will deduct disposal costs relevant for the market from which the fair value was estimated.

Costs to sell are incremental costs associated with the sale transaction itself (eg commissions paid to brokers, transfer taxes and duties). Costs to sell are deducted from fair value. Consequently, they are not also deducted in arriving at fair value.

If the entity uses the present value of expected net cash flows from the asset to measure the asset, it would normally include the disposal costs outflows when estimating the 'expected net cash flows'; in this case the resulting net present value is the estimate of fair value less costs to sell (rather than being an estimate of fair value). In such cases, the entity does not also deduct the costs to sell from the net present value because that would result in the costs to sell being deducted twice (ie a double-counting error).

Changes in the fair value less costs to sell of biological assets are included in profit or loss for the period in which the change arises (paragraph 34.4).

## Module 34—Specialised Activities

Costs to sell are deducted from fair value when biological assets are first recognised and so they can give rise to an immediate loss. For example, if an asset is purchased for its fair value of CU1,000, and it is estimated that a 5% commission would be payable to the dealer if the asset were ever sold, then the asset is initially recognised at CU950. A CU50 loss is recognised in profit or loss for the expected dealer's commission. This is recognised irrespective of whether the entity expects to sell the asset in the future and/or make a profit on the sale of that asset.

### Examples—determining fair value less costs to sell

**Ex 16** An entity rears cattle for the beef industry. At 31 December 20X0 the entity's herds included 500 18-month-old cattle.

At 31 December 20X0 the quoted price for live cattle delivered to the local slaughterhouse is CU300 per 18-month-old animal.

The slaughterhouse is located 25 miles from the entity's farmland where the cattle are raised. Carriers providing cattle transport services to the entity charge CU65 per trip from the entity's farm to the slaughterhouse using a 10-cow carrier. No incremental selling costs arise on the sale to the slaughterhouse.

At 31 December 20X0 the entity determines that the fair value less costs to sell of the herd of cattle (biological assets) is CU146,750.

Calculation: The entity determines the fair value less costs to sell of the cattle as the market price for live cattle delivered to the local slaughterhouse less transport costs to the slaughter house:

- market price for: 500 units of cattle × CU300 quoted price per live animal = CU150,000.
- transport costs: CU65 cost per trip to the city × 50 trips (ie 500 units of cattle ÷ 10 cattle per truck) = CU3,250.
- fair value less costs to sell: CU150,000 less CU3,250 = CU146,750.

**Ex 17** The facts are the same as in Example 16. However, in this example, the entity sells the cattle to slaughterhouses located in two different cities. City A is 25 miles away from the farm where the cattle are raised. The carrier charges CU65 per trip for a 10-cow carrier. City B is 70 miles away from the farm and the carrier charges CU150 per trip for a 10-cow carrier.

At 31 December 20X0 the quoted price for a live animal delivered in City A is CU300 and CU304 in City B. No incremental selling costs arise in either market.

The entity expects to sell 80% of its production in City A and 20% in City B.

The entity expects to sell 80% of its herd of cattle in City A and 20% in City B, so it measures the fair value less costs to sell in each market based on the expected usage of the two markets (ie 80% City A and 20% City B; consistent with paragraph 34.6(a), if the entity has access to different active markets, the entity shall use the price existing in the market that it expects to use). Consequently, at 31 December 20X0 the entity determines the fair value less costs to sell of its cattle (biological assets) to be CU146,300.

## Module 34—Specialised Activities

Calculation:

- The entity determines the fair value less costs to sell of the cattle sold in City A as the market price in City A less the transport costs to City A:
- market price: 500 units of cattle × 80% × CU300 quoted price per live animal = CU120,000.
- transport costs: CU65 cost per trip to the city × 40 trips (ie 500 units of cattle × 80% ÷ 10 cattle per truck) = CU2,600.
- fair value less costs to sell of the 400 cattle to be sold in City A: CU120,000 less CU2,600 = CU117,400.
- The entity determines the fair value less costs to sell of the cattle sold in City B as the market price in City B less the transport costs to City B:
- market price: 500 units of cattle × 20% × CU304 quoted price per live animal = CU30,400.
- transport costs: CU150 cost per trip to the city × 10 trips (ie 500 units of cattle × 20% ÷ 10 cattle per truck) = CU1,500.
- fair value less costs to sell of the 100 cattle to be sold in City B: CU30,400 less CU1,500 = CU28,900.
- The entity determines the fair value less costs to sell of its herd to be: CU117,400 + CU28,900 = CU146,300.

**Ex 18 An entity rears cattle for the beef industry. At 31 December 20X0 the entity's herds included 500 18-month-old cattle. There is no available active market for selling cattle.**

**On 15 October 20X0 the entity sold ten 18-month-old cattle for a gross selling price of CU298 each and paid cattle transportation costs of CU65 for transporting the cattle using a 10-cow carrier to the market in City A. The livestock was sold by auction and the auctioneer took a selling commission of 5% of the selling price.**

**Managers believe that no significant change in economic circumstances took place between 15 October 20X0 and 31 December 20X0.**

The management believes that no significant change in economic circumstances took place between the date of transaction and the reporting date, so the entity uses the price data from the date of transaction (15 October 20X0) in determining the fair value of its 18-month-old cattle at the reporting date (31 December 20X0). Consequently, at 31 December 20X0 the entity determines the fair value less costs to sell of the entity's 18-month-old herd (biological assets) to be CU138,300.

Calculation:

- The entity determines the fair value less costs to sell as the expected market price less the transport costs and the auctioneer selling commission:
- market price: 500 units of cattle × CU298 quoted price per live cattle = CU149,000.
- transport costs: CU65 cost per trip to the city × 50 trips (ie 500 units of cattle ÷ 10 cattle per truck) = CU3,250.
- auctioneer selling commission: CU149,000 × 5% = CU7,450.
- fair value less costs to sell: CU149,000 – CU3,250 less CU7,450 = CU138,300.

## Module 34—Specialised Activities

**Ex 19** An entity cultivates tobacco leaf. The entity holds two tonnes of harvested tobacco leaf (whole leaf) and 0.4 tonnes of harvested damaged tobacco leaf (stalk-cut leaf).

At the date of harvest the market price of harvested whole leaf was CU3 per kilogram. There is no quoted price for stalk-cut leaf. However, the entity has consistently, over a number of years, negotiated the price of stalk-cut leaves at 40% of the market price for whole leaves. The entity expects to be able to negotiate the same deal as in previous years.

Estimated costs to sell (eg duties on tobacco) on both the whole leaf and stalk-cut leaf are 5% of the transaction price.

There is no quoted price for the stalk-cut leaves, so the entity measures its fair value by adjusting the market price of whole leaves (CU3 per kilo) to reflect the differences between the similar items (ie a 60% reduction). Consequently, at the date of harvest the entity determines the fair value less costs to sell of its cut-leaf tobacco (agricultural produce) to be CU456.

At the point of harvest, the entity determines the fair value less costs to sell of all the harvested tobacco leaf, all of which is agricultural produce, to be CU6,156.

Calculation:

- Fair value of stalk-cut leaf: 400 kilos of stalk-cut leaf × CU1.2 adjusted market price (ie CU3 per kilo market price for similar asset × 0.4 to reflect differences) = CU480.
- Costs to sell of stalk-cut leaf: 5% of CU480 = CU24.
- Fair value less costs to sell of stalk-cut leaf: CU480 fair value less CU24 costs to sell = CU456.
- The entity determines the fair value less costs to sell of its whole leaf tobacco (agricultural produce) at the date of harvest to be CU5,700 (ie fair value of CU6,000 (= 2,000 kilos of whole leaf × CU3 per kilo market price) less 5% of CU6,000 costs to sell).
- At the point of harvest, the entity determines the fair value less costs to sell of all the harvested tobacco leaf to be: CU5,700 + CU456 = CU6,156.

**Ex 20** An entity cultivates sugar cane. The entity sells its harvested cane to local ethanol manufacturing plants at the international market price of sugar cane on the day of delivery to the ethanol plant.

At 31 December 20X0 the entity's 200-hectare cane plantation is ready for harvest. Management expects that the costs of harvesting are CU3 per tonne.

The sector benchmark productivity is 70 tonnes of harvested sugar cane per hectare for farmers that grow the same type of cane on similar land, using the same inputs, methods and technologies, and in the same area as the entity. In past years the entity's harvest has approximated the sector benchmark and management has no reason to believe that this year's harvest will deviate from that benchmark.

At 31 December 20X0 (the entity's reporting date) sugar cane traded on the international market at CU15 per tonne.

## Module 34—Specialised Activities

**Costs to transport the harvested cane to the ethanol manufacturing plants are estimated at CU1 per tonne.**

On the basis of the sector benchmark, the entity expects to harvest 14,000 tonnes of sugar cane (ie 200 hectares × 70 tonnes per hectare).

Consequently, at 31 December 20X0 the entity determines the fair value less costs to sell of the sugar cane that has not yet been harvested (ie a biological asset) to be CU154,000 (ie 14,000 tonnes × (CU15 market price of harvested cane less CU3 harvesting costs less CU1 costs to transport the cane to the ethanol manufacturing plants)).

**Note:** the costs of harvesting are not an incremental cost of selling the sugar. However, the entity takes them into account in determining the fair value of the unharvested cane as an adjustment to the market price for harvested cane (see paragraph 34.6(b)(ii)).

### Disclosures—fair value model

34.7 An entity shall disclose the following with respect to its biological assets measured at fair value:

- (a) a description of each class of its biological assets.
- (b) the methods and significant assumptions applied in determining the fair value of each category of agricultural produce at the point of harvest and each category of biological assets.
- (c) a reconciliation of changes in the **carrying amount** of biological assets between the beginning and the end of the current period. The reconciliation shall include:
  - (i) the **gain** or loss arising from changes in fair value less costs to sell;
  - (ii) increases resulting from purchases;
  - (iii) decreases resulting from harvest;
  - (iv) increases resulting from **business combinations**;
  - (v) net exchange differences arising on the translation of **financial statements** into a different **presentation currency**, and on the translation of a **foreign operation** into the presentation currency of the reporting entity; and
  - (vi) other changes.

This reconciliation need not be presented for prior periods.

### Example—disclosures—fair value

Ex 21 **Entity A, an apple-farming entity, could disclose information about its biological assets as follows:**

**Extract from Entity A's notes to the financial statements for the year ended 31 December 20X1**

#### **Note 1. Operations and principal activities**

Entity A is engaged in the business of growing apples for supply to grocery stores.

## Module 34—Specialised Activities

### Note 2. Accounting policies

#### *Biological assets and agricultural produce*

Biological assets consist of apple trees. Apple trees are measured at fair value less costs to sell, with changes in fair value less costs to sell recognised in profit or loss in the period of the change. Until the point of harvest, the fair value less costs to sell will be the amount for the trees and the developing apples.

At the point of harvest, the harvested apples are measured at fair value less costs to sell; this is the cost of the apples as they are transferred to inventories. The fair value of apples at the point of harvest is based on market prices in the local market where the apples are expected to be sold.

...

### Note 3. Biological assets

The entity classifies apple trees into two classes: mature trees (trees aged between six and 15 years, the average fruit-bearing life of the entity's apple trees) and immature trees (trees younger than six years, which generally do not bear apples).

The fair values of immature apple trees are measured at the estimated market price of the orchard less estimated market price of the land taking into account age, cultivar and genetic merit of the trees with adjustments, where necessary, to reflect any differences.

The fair value of a mature tree is measured at the present value of the expected net cash flows from the tree. The cash flows are based on financial budgets approved by the directors of the expected physical apple yield, which are based on the entity's historical yield pattern by cultivar or by region over the estimated remaining fruit-bearing life of each tree, and the expected future prices of the cultivar of apples in the local market (where the entity sells its apples), which are based on current prices adjusted for inflation. The cash flows also take into account all the expected costs associated with maintaining the trees and harvesting the apples. A notional rental charge for land has been included in the calculation to reflect the cost of the land where the orchard is situated. To account for the risks specific to the entity's mature apple trees, a 10% risk adjustment factor is added to the risk-free interest rate in arriving at the discount rate used to measure the present value of the expected net cash flows.

Reconciliation of the carrying amounts of apple trees:

	<i>Mature trees</i>	<i>Immature trees</i>	<i>Total</i>
	<i>CU</i>	<i>CU</i>	<i>CU</i>
Balance at 1 January 20X0	30,950	3,450	34,400
Increase resulting from planting new trees	-	1,400	1,400
Reclassification	1,350	(1,350)	-
Decrease resulting from harvesting	(4,900)	-	(4,900)
Gains arising from changes in fair value less costs to sell	3,200	400	3,600
Balance at 31 December 20X0	30,600	3,900	34,500
Increase resulting from planting new trees	-	900	900
Reclassification	2,890	(2,890)	-
Decrease resulting from harvesting	(5,890)	-	(5,890)
Gains arising from changes in fair value less costs to sell	4,600	1,500	6,100
Balance at 31 December 20X1	32,200	3,410	35,610

## Module 34—Specialised Activities

### Notes:

- The reconciliation above (required by paragraph 34.7(c)) shows the two classes of apple trees separately to provide more information. This is not required by paragraph 34.7. The two columns could be combined into one.
- The entity need not provide the comparative figures presented in this reconciliation (see paragraph 34.7). However, in this example the entity has chosen to provide the comparative information.
- The example above illustrates only the requirements of paragraph 34.7. It does not present the information required by other paragraphs of the *IFRS for SMEs* Standard (for example, the entity would also need to make any disclosures required in accordance with paragraph 8.7 regarding key assumptions concerning the future and paragraph 13.22 regarding its inventory of apples).

### Measurement—cost model

- 34.8 The entity shall measure at cost less any accumulated **depreciation** and any accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.

### Notes

Section 34 does not provide requirements on how to measure the cost of a biological asset. Consequently, in accordance with paragraph 10.4, management uses its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users (eg owners who are not involved in managing the business, potential owners, existing and potential lenders and other creditors) and that is reliable. In doing so, management refers to, and considers the applicability of, the requirements and guidance in the *IFRS for SMEs* Standard that deal with similar and related issues (see paragraph 10.5). Consequently, an entity would consider how a cost model is applied to other similar or related assets.

Some biological assets are used by an entity like plant and equipment (for example fruit trees held by the company for their entire life to produce fruit or cows held for many years to produce offspring and milk) and other biological assets are used like inventory in a manufacturing entity (for example, carrots growing in the ground for a few months before they are harvested and sold or beef cattle held for a year before they are sold for meat). The way a biological asset is used would typically be considered when determining whether the asset is similar to the assets accounted for under the requirements in Section 13 (inventory) or Section 17 (property, plant and equipment).

The requirements of Section 17 are discussed below with consideration of how they might be applied to biological assets identified as being similar to property, plant and equipment. Section 13 provides requirements for cost allocations; for example, the allocation of production overheads to assets which may be useful even when an entity is looking to Section 17 to determine the cost of its biological assets. Following the discussion of the requirements of Section 17 there is a discussion of the requirements of Section 13 with consideration of how they might be applied to biological assets identified as similar to inventories.

## Module 34—Specialised Activities

*Application of Section 17 to biological assets similar to PPE*

*Elements of cost (see paragraphs 17.10–17.12)*

The cost of a biological asset may comprise all of the following:

- (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates (by analogy to paragraph 17.10(a)); and
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of initial delivery and handling (by analogy to paragraph 17.10(b)). For a dairy cow, for example, directly attributable costs could include initial delivery costs as well as feed, vaccines and other medicines up to the date on which the dairy cow is first capable of producing milk (ie capable of operating in the manner intended by management).

Borrowing costs would not however be included in the cost of a biological asset because this is explicitly disallowed in paragraph 25.2.

*Measurement of cost (see paragraphs 17.13–17.14)*

The cost of a biological asset is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the present value of all future payments.

If a biological asset is acquired in exchange for a non-monetary asset or assets, paragraph 17.14 should be considered.

*Depreciation (see paragraphs 17.16–17.23)*

An entity depreciates a biological asset from the date it is available for use, ie when it is in the location and condition necessary for it to be capable of operating as intended by management (by analogy to paragraph 17.20). For an apple tree, for example, the date on which it is capable of operating as intended by management could be when the tree first starts to grow fruit.

For those biological assets, an entity allocates the depreciable amount of a biological asset on a systematic basis over its useful life (by analogy to paragraph 17.18). Consequently, management must estimate the useful life, the residual value and the most appropriate depreciation method for each of its biological assets measured under the cost model:

- (a) Management selects a depreciation method that reflects the pattern in which the entity expects to consume the biological asset's future economic benefits (or, in other words, the depreciation method must reflect the pattern in which the entity expects to consume the biological asset's service potential) (by analogy to paragraph 17.22). For example, it may be appropriate to allocate more depreciation during a tree's prime fruit-yielding years and less depreciation during other years.
- (b) Management estimates the useful life of a biological asset as the period over which the asset is expected to be available for use by the entity or the number of production or similar units expected to be obtained from the asset by the entity (Glossary). For example:



## Module 34—Specialised Activities

- a horse stud farmer could determine the useful life of a mare according to the number of foals that the mare is expected to give birth to over its life.
  - the useful life of dairy cows varies greatly between breed and management practices. Dairy farmers generally first milk dairy cows when they are about two years old. Farmer A might keep dairy cows in milk production for only two years while Farmer B keeps them in production for eight years. Both farmers sell their cows to the meat trade at the end of their respective useful milking lives (ie farmers A and B sell cows when they are four and 10 years old respectively). On the basis of the period during which the cows are able to be milked, the useful life of Farmer A's cows is two years and Farmer B's cows is eight years.
- (a) Management estimates the residual value of a biological asset at the estimated amount the entity would currently obtain from the disposal of the biological asset, after deducting the estimated costs of disposal, if that asset were already of the age and in the condition expected at the end of its useful life (Glossary). In the dairy cow example above Farmer A would determine the residual value of a two-year-old cow to be the amount for which he could currently sell a four-year-old dairy cow, less his estimated costs of disposal. Similarly, Farmer B would determine the residual value of a two-year-old cow to be the amount for which he could currently sell a 10-year-old cow, less estimated costs of disposal.
- (b) If indicators suggest that a biological asset's residual value, useful life or the pattern in which the entity expects to consume that biological asset's future economic benefits has changed from those previously determined, management should review its previous estimates. If current expectations differ, they should amend the residual value, depreciation method or useful life and account for the change as a change in accounting estimate in accordance with paragraphs 10.15–10.18 (by analogy to paragraphs 17.19 and 17.23).

### *Application of Section 13 to biological assets similar to inventory*

For some biological assets, for example carrots growing in the ground, the asset is being “developed” similarly to a manufacturing entity manufacturing goods for sale. Assets that are reared for sale as agricultural produce are used by an entity in a way similar to inventory under production and so the cost model in Section 13 is more likely to be appropriate.

### *Costs of purchase (paragraphs 13.6-13.7)*

The costs of purchase comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

### *Costs of Conversion (see paragraph 13.8)*

The costs of conversion include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. For carrots growing in the ground this might include cost of labour and supplies used to care for the carrots while they are growing.

## Module 34—Specialised Activities

*Allocation of production overheads (paragraph 13.9)*

An entity allocates fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities.

*Application of Section 27 (Impairment of Assets) to all biological assets measured at cost*

At each reporting date, an entity applies Section 27 to determine whether there is any indication that a biological asset (or group of biological assets) measured using the cost model is impaired and, if there is, the entity performs an impairment test (by reference to the recoverable amount) and recognises and measures any impairment loss.

The scope exemption in paragraph 27.1(e) for biological assets does not apply to biological assets that are measured using the cost model.

Section 27 explains when and how an entity should estimate the recoverable amount of an asset to see if the asset is impaired and when an impairment loss should be recognised or reversed.

### **Example—cost model**

Whether the fair value of a particular type of biological asset can be measured reliably without undue cost or effort will depend on the specific facts and circumstances relating to that asset; for example, the jurisdiction in which the asset is sold, the current market conditions, the asset's specific condition and the entity's own resources. Consequently, the biological assets used in the examples below are not intended to be examples of biological assets that will always have a fair value that is not readily determinable without undue cost or effort.

**Ex 22 An entity has recently begun to raise a rare breed of chickens for meat. On 1 January 20X0, the entity buys 310,000 one-day-old chicks for CU1 each. When the chickens are 45 days old the entity slaughters the chickens, processes the meat and sells it to supermarkets.**

**For the purposes of this example, it is assumed that the fair values of all of the entity's biological assets are not readily determinable without undue cost or effort due to the rarity of the breed of chickens and the lack of historical data.**

**One farm worker is employed to look after the chickens at CU1,000 per day. The farm worker's supervisor oversees the farm worker and supervision of the farm worker takes 20% of the supervisor's time. The rest of the supervisor's time is related to dealing with the sale of the chicks to the supermarket, marketing and customer relationships. The supervisor is paid an annual salary of CU1,000,000.**

**On 14 February 20X0 the entity holds 300,000 45-day-old chicks. As well as labour costs, the entity incurred direct costs of CU250,000 to raise the chicks (cost of feed and medicine) and an appropriate allocation of farm overheads of CU100,000, including depreciation of the entity's chicken-farming equipment (such as chicken runs).**

**Between 1 January and 14 February 20X0 10,000 chickens died, a mortality rate that is within the expectations of the management.**

The fair value of an immature chicken is not readily determinable without undue cost or effort, so the entity accounts for these biological assets using the cost model.

## Module 34—Specialised Activities

Management observed that assets that are reared for sale as agricultural produce are used by an entity like inventory under production and so applying paragraph 10.5 chooses to analogue to the cost model in Section 13. Consequently, the costs incurred during the 45 days should be recognised as follows:

Dr	Asset—biological assets accounted for by the cost model (chickens)	CU729,658	
	Cr	Asset—cash or Liability—outstanding liabilities	CU729,658

*To recognise the costs incurred in raising chickens. This means each chicken has a cost of CU2.43 (CU729,658/300,000) at 14 February 20X0.*

### Calculation

- Direct costs: purchase price + direct labour + other direct costs = CU310,000 + (CU1,000 × 45) + CU250,000 = CU605,000
- Allocated costs: indirect labour + other indirect costs = 20% of CU1,000,000 × 45 ÷ 365 + CU100,000 = CU124,658
- Total cost: CU729,658

**Ex 23** An entity rears dairy cattle for milk and sells the milk (unprocessed) to cheese producers. The entity milks dairy cows for five years and uses dairy bulls for breeding for two years. Subsequently, all animals are sold in the meat trade.

On 1 January 20X0 the entity:

- bought 100 mature dairy cows for CU350 each;
- bought two mature dairy bulls for CU400 each;
- sold 10 dairy cows that had reached the end of their milking lives for CU150 each; and
- sold a dairy bull that had reached the end of its breeding-life for CU180.

In 20X0:

- 40 female calves were born (all the female calves were kept for replacement of the herd);
- 60 male calves were born at the end of December 20X0 (a few calves will be kept for breeding and the others will be sold in the bob veal trade in 20X1); and
- there were no indicators that the useful life or residual value of the cows and bulls changed during the year.

There is no active market for dairy livestock in the entity's jurisdiction, except for newly born male calves in the bob veal trade. There is a quoted price of CU90 per calf at 31 December 20X0 for newly born male calves in the bob veal trade. Costs to sell are CU7 per calf.

The fair value of male calves is readily determinable, so the entity is required to account for these calves at fair value. The fair values of the dairy livestock excluding the male calves (the dairy herd) are not readily determinable without undue cost or effort, so the entity accounts for the dairy herd using the cost model. Management notes that assets that are retained for ongoing production of an agricultural produce

## Module 34—Specialised Activities

are used by the entity like a property plant and equipment and so applying paragraph 10.5 chooses to analogise to the cost model in Section 17.

The cost of dairy cattle purchased on 1 January 20X0 is CU35,800 (ie 100 mature dairy cows × CU350 each) and CU800 (2 bulls × CU400 each).

The entity expects to dispose of dairy cows after milking them for five years, so the useful life of the entity's dairy cows is five years. The entity can currently sell dairy cows at the end of their five-year useful lives for CU150 each and so the residual value of the cows purchased on 1 January 20X0 is estimated to be CU150. Assuming that the entity expects dairy cows to produce approximately the same amount of milk in each of the five years over which they are in milk production, the straight-line depreciation method would be an appropriate method to depreciate dairy cows. Consequently, the entity recognises depreciation for the 100 dairy cows purchased on 1 January 20X0 at CU4,000 per year ((CU350 cost less CU150 residual value) ÷ 5 years × 100 cows).

The entity expects to use dairy bulls for two years before selling them, so their useful life is two years. The entity can currently sell dairy bulls at the end of their two-year useful lives for CU180 each and so their residual value is estimated to be CU180. Assuming that the entity expects dairy bulls to sire a similar number of calves in each of the two years over which they are breeding, the straight-line depreciation method would be an appropriate method to depreciate the bulls. Consequently, the entity recognises depreciation for the two dairy bulls purchased on 1 January 20X0 at CU220 per year ((CU400 cost less CU180 residual value) ÷ 2 years × 2 bulls).

The 60 male calves are biological assets. As there is an active market for the calves at 31 December 20X0, the entity measures the calves at fair value less costs to sell and records a gain in profit or loss. Consequently, the entity recognises a CU4,980 gain for the male calves born in December 20X0 (ie 60 male calves × (CU90 fair value less CU7 costs to sell)). Even though some male calves will be kept for breeding rather than being sold in the bob veal trade, they will still be measured at the fair value less costs to sell of newly born male calves in the bob veal trade. Once the male calves that will be kept for breeding purposes have been identified their measurement basis changes. The fair value less costs to sell at that date becomes their cost, and any subsequent directly attributable costs will be added until the bulls are suitable for breeding purposes. At this stage the bulls are available for their intended purposes and they will be depreciated over their expected useful lives of two years from that point.

For female calves, if the fair value is not readily determinable without undue cost or effort, the cost model must be used. In applying the cost model, management must, by analogy to the requirements of Section 17, develop an accounting policy to measure and account for the calves. The initial cost of the calf should include direct and allocated costs. This allocation requires estimates and judgements. The costs of getting the calves ready for use as intended by management would include expenses such as feed, vaccines, other medicines, an allocation of the depreciation of the calf sheds and an allocation of the depreciation charge of the calves' parents. These costs are included in the cost of the female calves up until the point a female calf reaches maturity and becomes a cow that is ready to be milked. Consequently, an entity may conclude that the expense of determining the fair value of an animal could be less than the expense of determining the cost. In deciding whether to apply the undue cost or effort exemption, the entity should also consider the costs related to the other alternative.

## Module 34—Specialised Activities

**Ex 24** An entity grows grapes for sale to the local wine industry. It grows the grapes on vines imported from Europe and grafted on local root stock. The age of the vines ranges between those planted in the current period, and vines planted more than a century ago. The grapes' value comes from a combination of the age of the vines, their genetic makeup, the soil in which they grow and the highly localised climate. Farms in the area are family owned and very seldom come up for sale.

Grapes are harvested and delivered to customers annually shortly before the entity's year end. Grape yield and quality varies significantly dependent on weather conditions, age of the vines and the skill of the farmer. Over the year end (winter), the vines are dormant.

Each year, the entity replants approximately 3% of its vines to replace vines that have stopped producing, and to ensure an appropriate age spread across the vineyard. Vines start producing grapes after 3 years, but the vines only achieve quality production after 10 years. Until then, the grapes are sold to generic wine producers for about 10% of their normal price.

At 31 December 20X1, there is no remaining unharvested produce. The vineyard at that date is split into four categories.

- 9% of the entity's vines have been planted in the last three years and will not produce saleable grapes in 20X2 (new vines)
- 20% of the entity's vines are older than 3 years, but not yet 10 years old, and will not form part of the primary production in 20X2 (young vines)
- 68% of the entity's vines will be in full production in 20X2 (mature vines), and
- 3% of the entity's vines will be replaced in 20X2 (retired vines)

The fair value of the vines is not readily determinable without undue cost or effort. Management notes that the vines are planted and cultivated for ongoing production of agricultural produce and are used by the entity like property, plant and equipment and so applying paragraph 10.5 chooses to analogise to the cost model in Section 17.

In analogising to Section 17, management is likely to view the new vines as analogous to an item of property, plant and equipment that it manufactures itself. It is therefore likely to calculate the cost of the vines as the, including any import duties and transport costs, of the vines imported from Europe, plus costs incurred during the first three years, for example an allocation of labour costs for grafting the new vines on local root stock and for helping the vines to develop during the first three years.

Once the vines are three years old, management should start charging depreciation because they are in the location and condition necessary to be capable of operating in the manner intended by management, that is, producing grapes for harvest. A unit of production method of depreciation would potentially permit less depreciation to be charged on the young vines and more on the mature vines.

## Module 34—Specialised Activities

34.9 The entity shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this Standard.

### Notes

Irrespective of whether an entity measures a biological asset under the fair value model or the cost model, it measures any agricultural produce harvested from that biological asset, at the point of harvest, at fair value less estimated costs to sell.

Agricultural produce usually meets the definition of inventory and is accounted for in accordance with Section 13 after the point of harvest. Consequently, the fair value less estimated costs to sell, measured at the point of harvest, will be the deemed cost of the inventory for subsequent accounting under Section 13.

### Example—measurement at the point of harvest of agricultural produce

Ex 25 The facts are the same as in Example 22.

**On 15 February 20X0 the entity slaughters all of its 45-day-old chickens using a local butchering service costing CU100,000. The fair value of a chicken carcass at this stage (with no further processing), is estimated to be CU5 per unit. A non-refundable duty of 10% is payable by the seller of a chicken carcass**

**On 16 February, after slaughter, the entity packages the meat into cuts for sale, incurring processing and packaging costs of CU200,000. It is expected that the meat will be sold to supermarkets on 20 February 20X0 for an estimated selling price of CU7 per unit.**

**In the absence of an active market and any historical transactions, fair value may need to be determined using a discounted cash flow calculation using the expected selling price.**

At the point of harvest (slaughter) the carcass becomes agricultural produce (ie it is no longer a biological asset). In accordance with paragraph 34.9, the carcass is measured at fair value less costs to sell. After harvest, it is recognised as inventory and the fair value less costs to sell at the point of harvest is the cost on application of Section 13.

The fair value less costs to sell per carcass is CU4.5 per unit (ie CU5 fair value per unit less 10% expected costs to sell CU0.50) and 300,000 chickens are slaughtered.

Consequently, the entity recognises the following journal entry:

Dr	Asset—inventory: chicken carcasses	CU1,350,000 <sup>(a)</sup>	
	Cr Asset—biological assets accounted for at cost (chickens)		CU729,658 <sup>(b)</sup>
	Cr Asset—cash or Liability—payables (cost of slaughter)		CU100,000
	Cr Income—profit or loss: fair value gain (on recognition of agricultural produce)		CU520,342

*To recognise the harvesting, remeasurement to fair value and transfer to inventory.*

(a)  $CU1,350,000 = 300,000 \text{ chickens} \times (CU5.00 \text{ less } (CU 5.00 \times 10\%))$ .

(b) From Example 28.

The costs incurred after the point of harvest (ie CU200,000 processing and packaging costs) are included in the cost of inventory in accordance with Section 13.

## Module 34—Specialised Activities

**Ex 26** The facts are the same as in Example 23. In addition, the entity produced 580,000 litres of milk. There is an active market for milk (unprocessed). The quoted price throughout 20X0 was CU0.1 per litre and the costs to sell are CU0.01 per litre.

The 580,000 litres of milk collected in 20X0 is agricultural produce (inventory) harvested from the cows (biological assets). At the date of milking (harvest) the entity recognises the milk at its fair value less costs to sell of CU52,200 (ie 580,000 litres × (CU0.1 fair value less CU0.01 costs to sell)).

### Disclosures—cost model

- 34.10 An entity shall disclose the following with respect to its biological assets measured using the cost model:
- (a) a description of each class of its biological assets;
  - (b) an explanation of why fair value cannot be measured reliably without undue cost or effort;
  - (c) the depreciation method used;
  - (d) the useful lives or the depreciation rates used; and
  - (e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

### Example—disclosures—cost model

**Ex 27** Extract from an entity's notes to the financial statements for the year ended 31 December 20X1.

#### Note 1. Operations and principal activities

The entity's operations consist primarily of salmon farming in Country A and sea bream farming in Country B. The entity recently began farming the fast-growing marine species cobia in Country C (also known as 'ling'—a white-meat fish that lives in tropical waters). Cobia is a new species in the fish-farming industry. The entity does not breed fish. It acquires newly hatched fish from a specialist supplier.

#### Note 2. Accounting policies

##### *Biological assets*

Biological assets consist of three species of fish: salmon, sea bream and cobia. Biological assets whose fair value is readily determinable without undue cost or effort are measured at fair value less costs to sell, with changes in fair value less costs to sell recognised in profit or loss in the period of the change. All other biological assets are measured using the cost model.

Mature salmon (4kg and over) and mature sea bream (350g and over) are measured at fair value less costs to sell at the end of each reporting period, with changes in that value recognised in profit or loss in the period of the change. The fair value of these fish is determined with reference to the most advantageous active local market to which the entity has access. In these markets, prices are quoted daily by the size of fish.

## Module 34—Specialised Activities

An active-market price is not readily available for the entity's other fish and management has determined that estimating fair value would involve undue cost. For immature salmon and sea bream this is because the entity would have to incur substantial costs to change its farming methods in order to establish the weight of its immature fish stocks of salmon and sea bream more accurately. Prices can vary significantly with fish size. Cobia, mature and immature, is measured at cost because there is very little historical price information (as cobia has only recently been farmed by any entity). Consequently, the entity measures all other fish at the lower of cost and net realisable value. Cost is determined on an average basis including both direct costs and an allocation of indirect costs.

### Note 3. Biological assets

The entity physically separates fish stocks by breed (salmon, sea bream and cobia) and by size/age. For accounting purposes, the entity differentiates between mature and immature fish stocks for salmon and sea bream. A fish is categorised mature when it reaches the following size:

- Salmon 4kg.
- Sea bream 350g.

Reconciliation of the carrying amounts of mature salmon and sea bream held at fair value (note: the two classes may be combined for disclosure purposes):

	<i>Mature salmon CU</i>	<i>Mature sea bream CU</i>	<i>Total CU</i>
Balance at 1 January 20X1	15,000	4,810	19,810
Reclassification from immature fish measured at cost	1,225	1,380	2,605
Decrease resulting from harvesting	(3,260)	(2,310)	(5,570)
Gains arising from changes in fair value less costs to sell	2,300	800	3,100
Balance at 31 December 20X1	15,265	4,680	19,945

Reconciliation of the carrying amounts of immature salmon, sea bream and cobia held at cost (note: the three classes may be combined for disclosure purposes):

	<i>Immature salmon CU</i>	<i>Immature sea bream CU</i>	<i>Cobia CU</i>	<i>Total CU</i>
Balance at 1 January 20X0	7,865	3,280	2,545	13,690
Fish purchased	800	760	855	2,415
Costs incurred during the year	50	40	45	135
Reclassification to mature fish	(1,000)	(1,220)	0	(2,220)
Decrease resulting from death	(215)	(105)	(45)	(365)
Balance at 31 December 20X0	7,500	2,755	3,400	13,655
Fish purchased	445	662	1,248	2,355
Costs incurred during the year	55	38	52	145
Reclassification to mature fish	(1,225)	(1,380)	0	(2,605)
Decrease resulting from death	(250)	(150)	(50)	(450)
Balance at 31 December 20X1	6,525	1,925	4,650	13,100



## Module 34—Specialised Activities

### Exploration for and evaluation of mineral resources

34.11 An entity using this Standard that is engaged in the exploration for, or evaluation of, mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph 10.4 and apply the policy consistently. An entity is exempt from applying paragraph 10.5 to its **accounting policies** for the recognition and measurement of exploration and evaluation assets.

#### Notes

An entity that is engaged in the exploration for, or evaluation of, mineral resources applies Section 34 in accounting for its exploration and evaluation expenditures. Section 34 does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resource, for example it does not apply to:

- expenditures that take place before the exploration and evaluation stages, such as expenditure incurred before obtaining the legal rights to explore a specific area; and
- expenditures that take place after the exploration and evaluation stage, such as expenditure on the extraction and refining of mineral resources.

Paragraph 34.11 requires an entity to develop an accounting policy for which expenditures are recognised as exploration and evaluation assets in accordance with paragraph 10.4 and to apply the policy consistently. Paragraph 10.4 states that when the *IFRS for SMEs* Standard does not specifically address a transaction, other event or condition, the entity's management uses its judgement in developing an accounting policy that results in information that is relevant to the economic decision-making needs of users and is reliable.

However, paragraph 34.11 states that an entity is exempt from applying paragraph 10.5 to its accounting policies for the recognition and measurement of exploration and evaluation assets. Paragraph 10.5 would otherwise require that management considers the requirements and guidance in the *IFRS for SMEs* Standard dealing with similar and related issues or the concepts and pervasive principles in Section 2 *Concepts and Pervasive Principles*.

Paragraphs 34.11A–to 34.11F were added by the 2015 amendments. The requirements introduced by these paragraphs align the main recognition and measurement requirements for exploration and evaluation assets with those contained in full IFRS Standards (*IFRS 6 Exploration for and Evaluation of Mineral Resources*). The new requirements respond to a need for clarity and constitute a simplification, particularly for entities making the transition to the *IFRS for SMEs* Standard.

## Module 34—Specialised Activities

34.11A The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

- (a) acquisition of rights to explore;
- (b) topographical, geological, geochemical and geophysical studies;
- (c) exploratory drilling;
- (d) trenching;
- (e) sampling; and
- (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.

### Notes

Paragraph 35.11A provides a non-exhaustive list of examples of expenditures that may be within the scope of the section. The list is not definitive nor complete and should be considered as an indication of types of expenditures to consider. The paragraph also makes clear that development activities are not part of exploration and evaluation activities. development activities would typically be accounted for applying either Section 2 or Section 18 *Intangible Assets other than Goodwill*.

### Examples—scope: extractive activities

**Ex 28 An entity is granted a licence to a specified location. The licence allows the entity to undertake efforts to establish whether, and to what extent commercially extractable crystals are present.**

This is a type of extractive activity addressed by Section 34. The entity determines an accounting policy for which exploration and evaluation expenditures are recognised as exploration and evaluation assets in accordance with paragraph 34.11.

**Ex 29 An entity is a multinational company involved in the exploration for, and extraction and refining of, oil and gas in the Pacific Ocean.**

Exploration for oil and gas is a type of extractive activity covered by Section 34. The entity determines an accounting policy for which exploration and evaluation expenditures are recognised as exploration and evaluation assets in accordance with paragraph 34.11.

However, Section 34 does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources (see Example 31).

**Ex 30 An entity formed by three mining engineers provides consulting services to entities that explore for mineral resources. The consulting entity itself does not explore for or extract minerals.**

Although the entity provides consulting services to the mining business, it is not engaged in extractive activities. Consequently, the entity does not account for the services it provides, or any of its expenditures, in accordance with paragraph 34.11.

## Module 34—Specialised Activities

**Ex 31 An entity is a multinational company involved in the exploration for, and extraction and refining of, oil and gas in the Pacific Ocean. Due to low oil and gas prices, the entity has in recent years ceased its exploration activities to concentrate on the extraction of its already identified reserves.**

Exploration for oil and gas is a type of extractive activity covered by Section 34. However, Section 34 does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources; for example, it does not apply to expenditures involved in the extraction and refining of oil and gas after the exploration and evaluation stage. Even though the entity has previously engaged in exploration activities, since it has not done so in the current period, it would not apply Section 34.

**34.11B** Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an entity shall apply Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs 34.11D–34.11F. If an entity has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

### Notes

This paragraph stipulates the initial measurement requirements for assets within the scope of paragraph 34.11. The assets are measured at cost.

Section 34 does not provide requirements on how to measure the initial cost of an exploration or evaluation asset. Consequently, in accordance with paragraph 10.4, management uses its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users (eg owners who are not involved in managing the business, potential owners, existing and potential lenders and other creditors) and that is reliable. In doing so, management refers to, and considers the applicability of the requirements and guidance in the *IFRS for SMEs* Standard that deal with similar and related issues (see paragraph 10.5).

If an entity has an item of property, plant and equipment, such as a drilling rig that it has purchased or constructed, the entity would classify that asset as property, plant and equipment applying Section 17. If that asset were to be used, for example, for two years on an exploration and evaluation project and then be used on another project, the depreciation of that asset during the two years would be exploration and evaluation expenditure and the entity would apply its accounting policy (determined applying paragraph 34.11) to determine whether it was capitalised as part of the exploration and evaluation asset.

After initial recognition, paragraph 34.11B requires that an entity apply Section 17 and Section 18 to the exploration and evaluation assets according to the nature of the assets acquired (ie tangible versus intangible) subject to the requirements in paragraphs 34.11D–34.11F. Some exploration and evaluation assets are clearly tangible in nature and others are clearly intangible in nature (eg drilling rights and exploration licenses). For other assets, judgement may be required as to whether the costs relate to

# Module 34—Specialised Activities

a physical item (ie property, plant or equipment) or an intangible item (eg might relate to obtaining information about the site).

The classification of exploration and evaluation assets as either tangible or intangible will form the basis for the subsequent measurement, presentation and disclosure of those assets, ie in accordance with Section 17 or Section 18.

Many entities engaged in the exploration for, or evaluation of, mineral resources will incur an obligation in relation to site restoration and decommissioning as a result of their exploration and evaluation activities. If an entity has an obligation to dismantle or remove an item (such as a drilling rig) or restore the exploration site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

### Example—initial measurement of exploration and evaluation assets

**Ex 32** Entity A operates in the extraction and refining of oil and gas. The entity operates upstream activities which comprise the exploration for and extraction of crude oil and natural gas and midstream/downstream activities which include the transportation of crude oil and gas, the refining of crude oil and the sales of the refined products.

On 1 January 20X1, Entity A acquired a five-year exploration licence at a cost of CU5,000,000 to explore for new oil deposits in a region under the Pacific Ocean. Initial surveys of the licence area indicate that there are oil deposits present but further surveys are required in order to establish the extent of the deposits and whether they will be commercially viable.

Entity A incurred the following additional costs in the year ended 20X1:

	CU'000
Rentals for an operating lease of a drilling rig	5,000
Exploratory drilling costs probing the extent of potential oil fields	20,000
Administrative expenses directly attributable to exploration of the Pacific Ocean	3,000

In 20X1 the entity also constructed an offshore loading platform for CU30,000,000 close to producing fields. Local legislation requires it to dismantle the platform at the end of production.

**How should an entity consider these costs when determining an accounting policy for which expenditures are recognised as exploration and evaluation assets?**

In determining its accounting policy, Entity A would first need to evaluate whether and which of its activities are within the scope of paragraph 34.11, paragraph 34.11A provides additional guidance. In this case the entity determines that:

- The cost of the licence are within the scope of exploration and evaluation expenditure as it is incurred by the entity to acquire rights to explore (see paragraph 34.11A(a)).
- The operating lease rentals for the drilling rig are within the scope of exploration and evaluation expenditure.
- Exploratory drilling costs are within the scope of exploration and evaluation expenditure (see paragraph 34.11A(c)).

## Module 34—Specialised Activities

- Administrative expenses directly attributable to exploration of the Pacific Ocean incurred during the period of exploration and evaluation are within the scope of exploration and evaluation expenditure.
- The offshore loading platform is close to producing fields, and is used in the entities normal production activities. It is consequently not within the scope of exploration and evaluation expenditure.

Having identified that some of its activities are within the scope of paragraph 34.11, the entity must then decide on an accounting policy that specifies which of those qualifying expenditures are recognised as exploration and evaluation assets. In determining that policy, an entity should apply the requirements of paragraph 10.4, namely the policy should result in information that is relevant to the economic decision-making needs of users (eg owners who are not involved in managing the business, potential owners, existing and potential lenders and other creditors). In making this determination, an entity would consider for example whether the capitalisation some expenditure, which while scoped into paragraph 34.11, would nonetheless result in less useful information.

Paragraph 34.11 requires that once developed, such a policy be consistently applied.

The cost of the offshore loading platform is not exploration or evaluation expenditure and so it is not included in the measurement of exploration and evaluation assets. The offshore loading platform would be accounted for in accordance with Section 17 and the obligation to dismantle the platform would be accounted for in accordance with Section 17 and Section 21 *Provisions and Contingencies*.

34.11C Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its **recoverable amount**. An entity shall measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of Assets*, except as provided by paragraph 34.11F.

34.11D For the purposes of exploration and evaluation assets only, paragraph 34.11E shall be applied instead of paragraphs 27.7–27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph 34.11E uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a **cash-generating unit**.

34.11E One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

- (a) the period for which the entity has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;
- (b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned;
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or
- (d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The entity shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.

## Module 34—Specialised Activities

34.11F An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

### Notes

Paragraph 34.11C requires exploration and evaluation assets to be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount; this is similar to the requirements for the impairment assessment in Section 27 *Impairment of Assets*. Paragraph 34.11E provides a list of facts and circumstances that indicate that an entity should test exploration and evaluation assets for impairment. This list is tailored to exploration and evaluation assets and so differs from the indicators listed in Section 27 that apply more broadly to other assets (see paragraph 27.9). However, like the list in paragraph 27.9, the list in paragraph 34.11E is not intended to be exhaustive and so the entity should consider if there are any other indicators that the exploration and evaluation assets are impaired.

### Service concession arrangements

34.12 A **service concession arrangement** is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

### Notes<sup>(1)</sup>

In many countries, infrastructure for public services—such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks—has traditionally been constructed, operated and maintained by the public sector and financed through public budget appropriation.

In some countries, governments have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of such infrastructure. The infrastructure may already exist or may be constructed during the period of the service arrangement. An arrangement within the scope of Section 34 typically involves a private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices and arrangements for arbitrating disputes. Such an arrangement is often described as a 'build-operate-transfer', a 'rehabilitate-operate-transfer', or a 'public-to-private' service concession arrangement. The arrangements are mostly long-term contracts but are typically shorter than the life of

<sup>(1)</sup> The background information in this note has been taken from paragraphs 1-3 of IFRIC 12 *Service Concession Arrangements*.  
IFRS Foundation: Supporting Material for the *IFRS for SMEs*<sup>®</sup> Standard (version 2019-02)

## Module 34—Specialised Activities

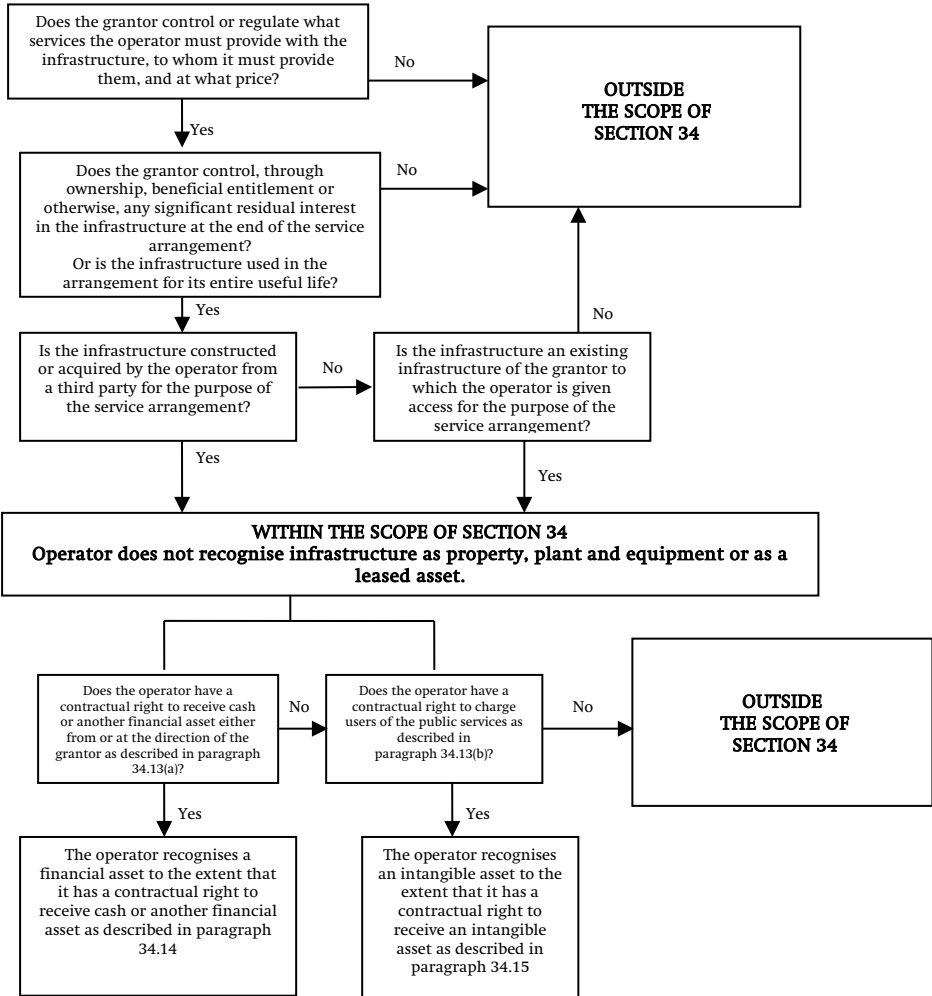
the asset being provided. The asset normally reverts, fully operational, to the grantor at little or no cost at the end of the contract.

A feature of these service arrangements is the public service nature of the obligation undertaken by the operator. Public policy is for the services related to the infrastructure to be provided to the public, irrespective of the identity of the party that operates the services. The service arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features are:

- (a) the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a public sector entity to which the responsibility for the service has been devolved.
- (b) the operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
- (c) the contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.
- (d) the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

# Module 34—Specialised Activities

The diagram below is based on material accompanying IFRIC 12 *Service Concession Arrangements*. The diagram provides guidance on how to identify service concession arrangements and therefore determine whether an arrangement should be accounted for under Section 34. It also shows how to determine the appropriate accounting under Section 34.





## Module 34—Specialised Activities

### Examples—scope: service concession arrangements

**Ex 33** An entity won a competitive bidding process and was consequently contracted by a local authority to build and operate a 100-kilometre road. In accordance with the terms of the arrangement, the entity is responsible for maintaining the road in conformity with specified quality standards and, when necessary, providing breakdown assistance to the users of the road. The local authority regulates the fee that the entity can charge the users of the road.

The entity is the operator in a service concession arrangement. The entity accounts for the service concession arrangement in accordance with Section 34.

**Ex 34** An entity provides guarding and security services to a central bank. The responsibilities of each party are stated in a contract that clearly presents the terms of the service agreement.

Although the entity is engaged in an arrangement to provide services, and the other party to the contract is a public sector body, the services provided are not to develop, operate and maintain the public sector infrastructure assets. Consequently, the entity is not an operator in a service concession arrangement and the entity does not account for those services in accordance with Section 34.

34.13 There are two principal categories of service concession arrangements:

- (a) in one, the operator receives a **financial asset**—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.
- (b) in the other, the operator receives an **intangible asset**—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

### Accounting—financial asset model

34.14 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* in accounting for the financial asset.

## Module 34—Specialised Activities

### Example—service concession arrangements—financial asset model

**Ex 35** An entity (operator) enters into an arrangement with the local government (grantor). The terms of the arrangement require the operator to construct a hospital within three years and maintain and operate the hospital for 27 years (ie years 4–30), subject to certain standards set by the government. The terms of the arrangement also require the operator to give the hospital to the grantor at the end of year 30. The hospital must be operational at the end of year 30 when the arrangement ends.

**The payment terms of the arrangement require the grantor to pay the operator CU100,000 in year four growing at a 3% annual rate in years 5–30 for making the hospital available to the public.**

The operator recognises contract revenue and costs in accordance with Section 23 *Revenue* (see paragraph 23.8). The costs and revenues of each activity—first the construction of the hospital and then the operation of the hospital—are recognised as expenses and income by reference to the stage of completion of that activity. The hospital is not shown as property of the operator.

Although the grantor makes payments to the operator only while the operator is operating the hospital in years 4 to 30, those payments in substance represent remuneration for both the construction and operation services.

The amounts due from the grantor are an unconditional contractual right to receive a specified or determinable amount of cash from the grantor in return for constructing and operating the hospital. The amount attributable to the construction service in the year is recognised as a financial asset and is measured initially at fair value and subsequently at amortised cost in accordance with Section 11.

Example 37 below expands on this example and illustrates the detailed workings and resulting accounting in each of the 30 years.

### Accounting—intangible asset model

**34.15** The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

### Example—service concession arrangements—intangible asset model

**Ex 36** The facts are the same as in Example 35. However, in this example the payment terms of the arrangement allow the operator to charge the patients for hospital services, with prices regulated by the grantor. The operator forecasts revenue from patients of CU100,000 in year four and this revenue will grow at a rate of 3% annually in years 5–30.

The operator constructs and operates the hospital for the grantor in exchange for a right to charge the clients for the hospital services in years 4–30. The right is an intangible asset. It is not an unconditional right to receive cash because the income depends on use by the patients. The operator recognises the intangible asset at fair value.

# Module 34—Specialised Activities

After initial recognition the intangible asset is accounted for in accordance with Section 18.

Example 38 below expands on this example and illustrates the detailed workings and resulting accounting in each of the 30 years.

### Example—service concession arrangements—hybrid model

**Ex 37** The facts are the same as in Example 35. However, in this example the payment terms of the arrangement allow the operator to charge the patients for hospital services, with prices regulated by the grantor. In addition, at the end of year 20 the grantor will pay the operator CU1,080,000 because the prices will be regulated during the entire period and the hospital is located in an area that has a low population density. The operator forecasts receiving revenues from patients of CU70,000 in year four, and this revenue will grow at a rate of 3% annually in years 5–30.

The contract contains contractual rights for the operator to receive cash from the grantor and to charge users for the public services. The construction services therefore give rise to the following components:

- The unconditional cash amount due from the grantor, which meets the definition of a financial asset in Section 11 *Basic Financial Instruments*. The receivable is initially measured at fair value and subsequently measured at amortised cost in accordance with Section 11.
- The operator also recognises an intangible asset for the right to charge patients for the hospital services. To the extent that the operator has to rely on the public using the services, an intangible asset is initially recognised and subsequently measured in accordance with Section 18.

### Operating revenue

34.16 The operator of a service concession arrangement shall recognise, measure and disclose **revenue** in accordance with Section 23 *Revenue* for the services it performs.

### Examples—operating revenue

**Ex 38** An entity (operator) enters into a service concession arrangement. The terms of the arrangement require the operator to construct a hospital within three years and to maintain and operate the hospital subject to certain regulations set by the government for 27 years (ie years 4–30). The terms of the arrangement also require the operator to give the hospital to the grantor at the end of year 30. The hospital must be operational at the end of year 30 when the arrangement ends. The terms of the arrangement require the grantor to pay the operator for making the hospital available to the public. The payment will be CU100,000 for year four and that sum will form the basis for payment in years 5–30, growing at a rate of 3% annually .

The fair value and the cost of the construction services are as follows:

Year	Fair value	Cost
1	CU50,000	CU42,000
2	CU52,000	CU44,000
3	CU80,000	CU69,000

## Module 34—Specialised Activities

**The entity estimates on a weighted average basis that the implicit interest rate in the contract should be 7.37833%.**

**The annual operating costs, including maintenance, are estimated to be CU79,500 in year 4 and it is estimated that they will grow at the rate of 3% annually in years 5–30. The fair value of operation services is estimated to be cost plus 10% based on prices that were charged to customers in an arm's length transaction.**

**All cash flows are assumed to take place at the end of the year.**

The operator recognises contract revenue in accordance with Section 23. The costs and revenues of each activity—first the construction of the hospital and then the operation of the hospital—are recognised as expenses and income by reference to the stage of completion of that activity. The hospital is not shown as property of the operator.

Although the grantor makes payments to the operator only while the operator is operating the hospital in years 4 to 30, those payments in substance represent remuneration for both the construction and operation services.

The amounts due from the grantor (in respect of the construction work) meet the definition of a receivable in Section 11. The receivable is measured initially at fair value. At the end of year 1 it represents the fair value of the construction work done in that year. Subsequently, the receivable is measured at amortised cost. At the end of each of the two remaining years of construction, the receivable is also increased by the fair value of the construction work undertaken in that year.

## Module 34—Specialised Activities

The following table provides information about the revenues and costs in accordance with Section 23:

<i>Year</i>	<i>Receipts</i>	<i>Costs</i>	<i>Revenue</i>	<i>Financial asset at year end</i>	<i>Finance income</i>	<i>Net profit</i>
(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	–	(42,000)	50,000	50,000	–	8,000
2	–	(44,000)	52,000	105,689	3,689	11,689
3	–	(69,000)	80,000	193,487	7,798	18,798
4	100,000	(79,500)	87,450	195,213	14,276	22,226
5	103,000	(81,885)	90,074	196,690	14,403	22,592
6	106,090	(84,342)	92,776	197,888	14,512	22,946
7	109,273	(86,872)	95,559	198,775	14,601	23,288
8	112,551	(89,478)	98,426	199,316	14,666	23,614
9	115,927	(92,162)	101,378	199,473	14,706	23,922
10	119,405	(94,927)	104,420	199,206	14,718	24,211
11	122,987	(97,775)	107,553	198,470	14,698	24,476
12	126,677	(100,708)	110,779	197,216	14,644	24,715
13	130,477	(103,729)	114,102	195,392	14,551	24,924
14	134,392	(106,841)	117,525	192,942	14,417	25,101
15	138,423	(110,047)	121,052	189,807	14,236	25,241
16	142,576	(113,348)	124,683	185,919	14,005	25,340
17	146,853	(116,748)	128,423	181,207	13,718	25,393
18	151,259	(120,251)	132,276	175,594	13,370	25,395
19	155,797	(123,858)	136,244	168,997	12,956	25,342
20	160,471	(127,574)	140,331	161,326	12,469	25,226
21	165,285	(131,401)	144,541	152,485	11,903	25,043
22	170,243	(135,343)	148,877	142,370	11,251	24,785
23	175,351	(139,404)	153,344	130,868	10,505	24,445
24	180,611	(143,586)	157,945	117,858	9,656	24,015
25	186,029	(147,893)	162,682	103,207	8,696	23,485
26	191,610	(152,330)	167,563	86,775	7,615	22,848
27	197,359	(156,900)	172,590	68,409	6,403	22,093
28	203,279	(161,607)	177,768	47,945	5,047	21,208
29	209,378	(166,455)	183,101	25,206	3,538	20,184
30	215,660	(171,449)	188,594	–	1,860	19,005
Total	4,070,963	(3,391,413)	3,742,056		328,907	679,550

- (a) The first column shows the years in the contract period.
- (b) The second column shows the receipts from the grantor, taking into account the 3% annual growth rate. For example, receipts from the grantor in year 5 equal CU103,000 = CU100,000 receipts in year 4  $\times$  (1 + 0.03).
- (c) The first three years in the third column represent the construction costs. From year 4 onwards this column shows the operating costs growing at the rate of 3% annually. For example, the costs in year 5 equal CU81,885 = CU79,500 costs in year 4  $\times$  (1 + 0.03).
- (d) The fourth column shows revenue. The first three years are equal to the fair value of the construction services. From year 4 this column shows the fair value of the operation services (costs plus 10% margin). For example, revenue for year 5 equals CU90,074 = CU81,885 costs in year 5  $\times$  (1 + 0.1).
- (e) The fifth column shows the receivable (financial asset) in respect of the construction services. It is computed as the amount of the previous year multiplied by the effective interest rate (7.37833%) minus receipts from the grantor that relate to the construction services (ie the receipts from the grantor shown in column (b) that exceed the fair value of the operational services for that year shown in column (d)). For example, the carrying

# Module 34—Specialised Activities

amount of the receivable at the end of year 5 is CU196,690 (= CU195,213 (carrying amount of the receivable at the end of year 4) × (1 + 0.0737833) less receipts in respect of the construction services (ie, CU103,000 receipts less revenue of CU90,074 for the operation services for that year)). In each of the years during the construction phase, the financial asset is increased by the fair value of the construction work carried out that year (column (d)); for example, the carrying amount of the receivable at the end of year 2 is CU105,689 (= CU50,000 (carrying amount of the receivable at the end of year 1) × (1 + 0.0737833) less receipts in respect of the construction services (ie nil) plus the fair value of the construction services provided in Year 2 (CU52,000)).

- (f) The sixth column shows the finance income (calculated as the financial asset of the previous year multiplied by the effective interest rate). For example, the finance income for year 5 is CU14,403 (= CU195,213 (carrying amount of the receivable at the end of year 4) × 0.0737833).
- (g) The seventh column shows the net profit computed as the difference between revenue (column (d)) less costs (column c) plus the finance income (column (f)). For example, net profit for year 5 is CU22,592 (= CU90,074 revenue less CU81,885 costs + CU14,403 finance income).

**Note:** Amounts in columns (a)–(g) have been rounded to the nearest CU1.

**Ex 39** The facts are the same as in Example 37. However, in this example, the terms of the arrangement allow the operator to charge the patients for hospital services (with prices regulated by the grantor), instead of receiving income from the grantor. The operator forecasts revenue of CU100,000 in year 4, which will grow at the rate of 3% annually in years 5–30.

During the construction phase, the operator estimates the fair value of the intangible asset to be equal to the fair value of the construction services. The fair value and the cost of the construction services are as follows:

Year	Fair value	Cost
1	CU50,000	CU42,000
2	CU52,000	CU44,000
3	CU80,000	CU69,000

**All cash flows are assumed to take place at the end of the year.**

The operator recognises contract costs and revenue in accordance with Section 23. The costs and revenues of each activity—first construction of the hospital and then operation of the hospital—are recognised as expenses and income by reference to the stage of completion of that activity. The hospital is not shown as property of the entity.

The operator provides construction services to the grantor in exchange for an intangible asset (ie a right to charge the patients for hospital services in years 4–30) and then operates the hospital.

During the construction phase of the arrangement, the operator’s asset (representing its accumulating right to charge the patients for hospital services in the future) is recognised as an intangible asset. The operator recognises the intangible asset at fair value, which is estimated to be equal to the fair value of the construction services delivered. The intangible asset will be amortised over the period in which it is expected to be available for use by the operator (ie years 4–30).

## Module 34—Specialised Activities

The following table provides information about the revenues and costs in accordance with Section 23:

Years	Estimated receipts	Costs	Revenue	Intangible asset at year end	Amortisation	Net profit
(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	–	(42,000)	50,000	50,000	–	8,000
2	–	(44,000)	52,000	102,000	–	8,000
3	–	(69,000)	80,000	182,000	–	11,000
4	100,000	(79,500)	100,000	175,259	(6,741)	13,759
5	103,000	(81,885)	103,000	168,518	(6,741)	14,374
6	106,090	(84,342)	106,090	161,778	(6,740)	15,008
7	109,273	(86,872)	109,273	155,037	(6,741)	15,660
8	112,551	(89,478)	112,551	148,296	(6,741)	16,332
9	115,927	(92,162)	115,927	141,555	(6,741)	17,024
10	119,405	(94,927)	119,405	134,815	(6,740)	17,738
11	122,987	(97,775)	122,987	128,074	(6,741)	18,471
12	126,677	(100,708)	126,677	121,333	(6,741)	19,228
13	130,477	(103,729)	130,477	114,592	(6,741)	20,007
14	134,392	(106,841)	134,392	107,852	(6,740)	20,811
15	138,423	(110,047)	138,423	101,111	(6,741)	21,635
16	142,576	(113,348)	142,576	94,370	(6,741)	22,487
17	146,853	(116,748)	146,853	87,629	(6,741)	23,364
18	151,259	(120,251)	151,259	80,889	(6,740)	24,268
19	155,797	(123,858)	155,797	74,148	(6,741)	25,198
20	160,471	(127,574)	160,471	67,407	(6,741)	26,156
21	165,285	(131,401)	165,285	60,666	(6,741)	27,143
22	170,243	(135,343)	170,243	53,926	(6,740)	28,160
23	175,351	(139,404)	175,351	47,185	(6,741)	29,206
24	180,611	(143,586)	180,611	40,444	(6,741)	30,284
25	186,029	(147,893)	186,029	33,703	(6,741)	31,395
26	191,610	(152,330)	191,610	26,963	(6,740)	32,540
27	197,359	(156,900)	197,359	20,222	(6,741)	33,718
28	203,279	(161,607)	203,279	13,481	(6,741)	34,931
29	209,378	(166,455)	209,378	6,740	(6,741)	36,182
30	215,660	(171,449)	215,660	–	(6,740)	37,471
Total	4,070,963	(3,391,413)	4,252,963		(182,000)	679,550

- (a) The first column shows years in the contract period.
- (b) The second column shows the estimated receipts, taking into account the annual growth rate of 3%. For example, estimated receipts for year 5 are CU103,000 (= CU100,000 in year 4 × (1 + 0.03)).
- (c) The first three years in the third column show the construction costs. From year 4 this column shows the operation costs growing at the rate of 3% annually. For example, costs for year 5 equal CU81,885 (= CU79,500 costs in year 4 × (1 + 0.03)).
- (d) The fourth column shows revenue. The first three years show the fair value of the construction services. From year 4 this column shows payments from hospital customers. The customers pay for services at the same time as they use them, so revenue is recognised when the service is provided. For example, revenue in year 5 equals estimated receipts in year 5 of CU103,000.

## Module 34—Specialised Activities

- (e) The fifth column shows the intangible asset. For the first three years, the intangible asset is computed as the amount of the previous year plus the construction services performed in the [current] year. From year 4, the intangible asset is computed as the value of the previous year minus annual amortisation. For example, the carrying amount of the intangible asset at the end of year 5 is CU168,518 (= CU175,259 carrying amount at the end of year 4 less amortisation for year 5<sup>(f)</sup> of CU6,741).
- (f) The sixth column shows the amortisation of the intangible asset. It is assumed that the intangible asset will be amortised over the period in which it is expected to be available for use by the operator (ie 27 years on a straight-line basis). For example, yearly amortisation is CU6,741 (= CU182,000 gross amount of the intangible asset (ie (CU50,000 fair value of construction service in year 1 + CU52,000 fair value of construction service in year 2 + CU80,000 fair value of construction service in year 3) ÷ 27 years)). Note: as a result of rounding, the annual amortisation for seven of the years is CU6,740, rather than CU6,741.
- (g) The seventh column shows the net profit computed as the difference between revenue less costs and less amortisation. For example, net profit in year 5 is CU14,374 (= CU103,000 revenue less CU81,885 costs less amortisation of CU6,741).

**Note:** Amounts in columns (a)–(g) have been rounded to the nearest CU1.



# Module 34—Specialised Activities

## SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows.

Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties. Some of the judgements in accounting for agriculture, exploration for and evaluation of mineral resources and service concession arrangements are set out below.

### Agriculture

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The determination of the fair value of a biological asset may in some circumstances require significant judgement and estimation, particularly where there is no active market for that biological asset.

For example:

- when the most recent market transaction price is used to measure fair value, judgement may be required to identify the most recent market transaction price and to evaluate whether economic circumstances have changed significantly since that transaction.
- when market prices for similar assets are used, adjustment of those prices to reflect differences between the characteristics of the assets requires judgement and estimation.
- when sector benchmarks such as the value of an orchard expressed per export tray, bushel or hectare, and the value of cattle expressed per kilogram of meat are used, making adjustments to reflect differences in the characteristics of the assets requires judgement and estimation. Also, where the entity has an orchard with many different species of trees, assessing the quantity of particular species (to establish sector benchmarks) may require estimation.
- when the present value of expected net cash flows from the asset is used, estimation of the expected future net cash inflows and the current market-determined discount rate may require significant judgement and estimation. For example, the following list shows where judgement would be necessary when estimating fair value based on discounted cash flows for standing timber:
  - plans for harvesting the growing timber;
  - expected timber prices;
  - expected costs of planting, managing and caring for the forest;
  - growth rates; and
  - discount rates.

## Module 34—Specialised Activities

The assessment of whether the fair value of a biological asset is readily determinable without undue cost or effort may also require significant judgement and estimates.

Entities that account for biological assets under the cost model and determine cost by analogy to Section 13 or 17 should consider the significant estimation and judgement discussed in Modules 13 and 17. The allocation of costs between different biological assets and their offspring may require significant judgement; for example, the allocation of overheads between different animals that are reared together (such as cows held to produce milk or to produce offspring, versus those sold for meat).

### **Exploration for and evaluation of mineral resources**

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Judgement will be required to determine which expenditures are recognised as exploration and evaluation assets. Section 34 refers to Sections 17 *Property, Plant and Equipment*, 18 *Intangible Assets other than Goodwill* and 21 *Provisions and Contingencies*. Consequently, entities should also be aware of the significant estimates and judgements discussed in Modules 17, 18 and 21.

### **Service concession arrangements**

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If a service concession contract contains an intangible asset, that intangible asset is recognised initially at fair value. Judgement may be required to determine the fair value of the intangible asset when fair value is based on uncertain future cash flows from customers.

Similarly if a service concession contract contains a financial asset, judgement may be required to determine whether and which cash flows are unconditional, and then to determine the fair value of the resulting financial asset if the timing of payments from the grantor is uncertain.

Service concessions typically include multiple elements or obligations. Allocating revenue between these will also require judgement, although this is dealt with in Section 23.

# Module 34—Specialised Activities

## COMPARISON WITH FULL IFRS STANDARDS

When accounting for and reporting specialised activities for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 41 *Agriculture*, IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRIC 12 *Service Concession Arrangements*) and the *IFRS for SMEs* Standard (see Section 34 *Specialised Activities*) are:

- The *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards;
- IAS 41 specifies that an entity uses the cost model on initial recognition only for biological assets for which market-determined prices or values are not available and for which alternative estimates of fair value are clearly unreliable (see paragraph 30 of IAS 41). Under the *IFRS for SMEs* Standard an entity uses the cost model for those biological assets whose fair value is not readily determinable without undue cost or effort.
- IAS 41 excludes bearer plants from its scope. Under full IFRS Standards they are in the scope of IAS 16. Bearer plants are in the scope of Section 34.
- IAS 41 applies to biological assets (other than bearer plants) when they are related to agricultural activities, whereas Section 34 applies to all biological assets of an entity engaged in agricultural activity.
- Under IFRS 6 each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*. Under the *IFRS for SMEs* Standard no such requirement exists. Furthermore, IFRS 6 requires reclassification of exploration and evaluation assets when it can be shown that the extraction of a mineral resource is technically feasible and commercially viable. The *IFRS for SMEs* Standard doesn't include a similar requirement.
- IFRIC 12 refers to the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* for financial assets and IAS 38 *Intangible Assets* for intangible assets. In the *IFRS for SMEs* Standard Sections 11, 12 and 18 have requirements that differ from IAS 38 and IAS 39 and, consequently, differences in accounting may arise. These differences are covered in modules 11, 12 and 23. From 1 January 2018 IFRS 9 *Financial Instruments* will be effective and will be applied instead of IAS 39 by full IFRS entities.
- In accordance with IFRIC 12, initial measurement of an intangible asset is at cost (by reference to IAS 38) whereas in accordance with paragraph 34.15 an intangible asset is initially recognised at fair value. However, as the cost of an intangible asset acquired in exchange for a non-monetary asset is generally measured at fair value (by reference to IAS 38) there will usually be no difference in practice.
- In addition, paragraph 22 of IFRIC 12 requires the capitalisation of particular borrowing costs attributable to an arrangement during the construction phase if the operator has a contractual right to receive an intangible asset (a right to charge users of the public service). The *IFRS for SMEs* Standard prohibits the capitalisation of borrowing costs (ie recognition as an asset); in accordance with Section 25, borrowing costs must be recognised as an expense as they are incurred.

# Module 34—Specialised Activities

## TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting and reporting for specialised activities applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

**Mark the box next to the most correct statement.**

### Question 1

A biological asset used in agricultural activity whose fair value is readily determinable without undue cost or effort is accounted for using:

- (a) the fair value model.
- (b) the cost model or the fair value model (an accounting policy choice).
- (c) the cost model.

### Question 2

A fruit-bearing tree of an orange farmer before harvest of the fruit is accounted for:

- (a) as two separate assets—the tree (a biological asset accounted for in accordance with Section 34) and the fruit attached to the tree (inventory accounted for in accordance with Section 13).
- (b) as two different biological assets each accounted for in accordance with Section 34.
- (c) as a single biological asset in accordance with Section 34.

### Question 3

At the point of harvest an entity measures the fruit (agricultural produce) that it picks from its orchards (biological assets):

- (a) at fair value.
- (b) at fair value less costs to sell.
- (c) at cost.
- (d) at the lower of cost and estimated selling price less costs to complete and sell.

### Question 4

At the end of the reporting period, a tomato grower's vines are six months old and bear fully developed ripe tomatoes (ie the tomatoes will soon be harvested). The accumulated cost of the fruit-bearing vines is CU12,500 and their fair value is CU100,000. It is expected to cost the entity CU5,000 to harvest and sell the tomato crop at market. Once the tomatoes have been harvested the then-worthless vines will be abandoned. At the end of the reporting period:

- (a) the entity measures the biological assets (tomato-bearing vines) at CU95,000 and recognises a gain of CU82,500 for the increase from cost to fair value less costs to sell.
- (b) the entity measures the tomatoes at CU82,500 and the tomato vines at CU12,500, and recognises a gain of CU82,500 for the increase from cost to fair value less costs to sell.
- (c) the entity measures the biological assets (tomato-bearing vines) at CU100,000 and recognises a gain of CU87,500 for the increase from cost to fair value less costs to sell.
- (d) the entity measures the tomatoes at CU95,000 and the tomato vines at CU0, and recognises a gain of CU82,500 for the increase from cost to fair value less costs to sell.

## Module 34—Specialised Activities

### Question 5

An entity that breeds exotic birds for sale in the pet trade accounts for its birds:

- (a) in accordance with Section 13 *Inventories*.
- (b) in accordance with Section 17 *Property, Plant and Equipment*.
- (c) in accordance with Section 34 *Specialised Activities*.
- (d) either as property, plant and equipment in accordance with Section 17 or as biological assets in agricultural activity in accordance with Section 34. Management must use its judgement, in the light of all facts and circumstances, to determine which classification best reflects the activities of the entity.

### Question 6

An entity that buys exotic birds for immediate resale in its pet trade outlets accounts for its birds:

- (a) in accordance with Section 13 *Inventories*.
- (b) in accordance with Section 17 *Property, Plant and Equipment*.
- (c) in accordance with Section 34 *Specialised Activities*.
- (d) either as property, plant and equipment in accordance with Section 17 or as biological assets in agricultural activity in accordance with Section 34. Management must use its judgement, in the light of all facts and circumstances, to determine which classification best reflects the activities of the entity.

### Question 7

An entity's business is to buy and hold exotic birds in a zoological garden for viewing by tourists. Any offspring from natural breeding while the birds are in captivity are incidental in the conduct of operations. The entity accounts for the birds:

- (a) in accordance with Section 13 *Inventories*.
- (b) in accordance with Section 17 *Property, Plant and Equipment*.
- (c) in accordance with Section 34 *Specialised Activities*.
- (d) either as property, plant and equipment in accordance with Section 17 or as biological assets in agricultural activity in accordance with Section 34. Management must use its judgement, in the light of all facts and circumstances, to determine which classification best reflects the activities of the entity.

### Question 8

A zoological garden has two main revenue streams from the same group of birds: (i) proceeds from the sale of the progeny of its birds; and (ii) ticket sales to tourists who visit the zoological garden to view its birds. The entity accounts for its birds (biological assets):

- (a) in accordance with Section 13 *Inventories*.
- (b) in accordance with Section 17 *Property, Plant and Equipment*.
- (c) in accordance with Section 34 *Specialised Activities*.
- (d) either as property, plant and equipment in accordance with Section 17 or as biological assets in agricultural activity in accordance with Section 34. Management must use its judgement, in the light of all facts and circumstances, to determine which classification best reflects the activities of the entity.

## Module 34—Specialised Activities

### Question 9

Which of the following expenditures shall not be recognised as exploration and evaluation assets?

- (a) expenditure for acquisition of rights to explore.
- (b) expenditure for exploratory drilling.
- (c) expenditure related to the development of mineral resources.
- (d) expenditure for activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

### Question 10

How are exploration and evaluation assets measured on initial recognition and after initial recognition?

- |                              | <u>Initial recognition</u> | <u>After initial recognition</u>  |
|------------------------------|----------------------------|---|
| <input type="checkbox"/> (a) | Cost                       | Apply Section 17 <i>Property, Plant and Equipment</i> only  |
| <input type="checkbox"/> (b) | Cost                       | Apply Section 17 <i>Property, Plant and Equipment</i> and Section 18 <i>Intangible Assets other than Goodwill</i> according to the nature of the assets |
| <input type="checkbox"/> (c) | Fair value                 | Apply Section 17 <i>Property, Plant and Equipment</i> and Section 18 <i>Intangible Assets other than Goodwill</i> according to the nature of the assets |
| <input type="checkbox"/> (d) | Cost                       | Apply Section 18 <i>Intangible Assets other than Goodwill</i> only  |

### Question 11

When should exploration and evaluation assets be tested for impairment?

- (a) when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.
- (b) at the end of each reporting period.
- (c) at the end of each reporting period and when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.
- (d) they are not required to be tested for impairment.

### Question 12

An entity enters into an arrangement with the local government. The terms of the arrangement require the entity to construct a hospital and maintain and operate the hospital for an unlimited number of years. The government does not regulate the prices and services of the hospital. The terms of the arrangement allow the entity to charge patients for the hospital services.

- (a) this is a service concession arrangement. An intangible asset should be recognised for the right relating to the income under the arrangement.
- (b) this is a service concession arrangement. A financial asset should be recognised for the right relating to the income under the arrangement.
- (c) this arrangement is not a service concession arrangement. The hospital will be accounted for as the entity's own property.

## Module 34—Specialised Activities

### Answers

- Q1 (a) See paragraph 34.2(a).
- Q2 (c) See paragraphs 34.4, 34.5, 34.8 and 34.9.
- Q3 (b) See paragraphs 34.5 and 34.9.
- Q4 (a) See paragraph 34.4.
- Q5 (c) See paragraph 34.2 and the definition of agricultural activity in the *Glossary*.
- Q6 (a) See paragraph 13.1(a). Note: the scope exemption in paragraph 13.2(c) does not apply because the entity is not engaged in agricultural activity (for the definition of agricultural activity see the *Glossary*).
- Q7 (b) See paragraphs 17.1 and 17.2. Note: the scope exemption in paragraph 17.3(a) does not apply because the entity is not engaged in agricultural activity (for the definition of agricultural activity see the *Glossary*). Any natural breeding of the birds is not a managed activity and is incidental to the main activity of providing the birds for viewing in the zoological gardens.
- Q8 (c) See paragraph 34.2 and the definition of agricultural activity in the *Glossary*. If the entity is engaged in agricultural activity, then the entity must account for biological assets in accordance with Section 34. Note: the entity would also consider whether to provide disclosures in accordance with paragraph 8.6 if it considered the decision required judgement and has a significant effect on the amounts recognised in the financial statements.
- Q9 (c) See paragraph 34.11A.
- Q10 (b) See paragraph 34.11B.
- Q11 (a) See paragraph 34.11C.
- Q12 (c) The grantor does not control or regulate the services or prices and it does not control any significant residual interest in the hospital. See paragraph 34.12.

# Module 34—Specialised Activities

## APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting and reporting agricultural activities applying the *IFRS for SMEs* Standard by completing the case study provided.

Once you have completed the case study, check your answers against those set out beneath it.

### Case study—biological assets and agricultural produce in agricultural activity

SME A supplies milk to various supermarkets and live cows by auction to slaughterhouses for their meat.

On 31 December 20X7 SME A held:

- Dairy herd: 850 mature dairy cows (able to produce milk) and 90 immature dairy cows (heifers) being raised to produce milk in the future. The fair value less costs to sell of the dairy herd is CU5,589,000.
- Beef herd: 423 mature beef cattle (the breeding herd) and 890 immature cows (calves) being raised to maintain the breeding herd and to be harvested for meat. The fair value less costs to sell of the beef herd is CU2,975,000.
- Milk inventory: 34,000 litres of milk to be sold to the supermarkets the next day. The fair value less costs to sell of the milk (measured at the time of milking, ie harvest) is CU17,000.

In 20X8:

- 40 dairy heifers and 388 beef calves were born.
- 52 dairy cows and 36 beef cattle died.

In 20X8 SME A:

- purchased 80 dairy cows and 240 beef cattle for CU536,000 and CU1,344,000 respectively.
- sold 200 dairy cows for CU1,072,000 (selling price of CU1,200,000 less auctioneer’s commission of CU128,000).
- sold 600 beef cattle for CU3,450,000 (selling price of CU3,800,000 less auctioneer’s commission of CU350,000).

In 20X8 SME A produced 2,796,200 litres of milk. The table below presents the volume of milk harvested and its respective fair value less costs to sell measured at the time of harvest. Costs to sell the milk are negligible:

<i>Volume of milk harvested</i>	<i>Fair value less costs to sell</i>	<i>Total</i>
360,000 litres	CU0.55/litre	CU198,000
875,150 litres	CU0.60/litre	CU525,090
1,561,050 litres	CU0.65/litre	CU1,014,683
<u>2,796,200 litres</u>		<u>CU1,737,773</u>

In 20X8 SME A sold 2,800,200 litres of milk for CU1,735,273.

SME A measures the cost of inventories of agricultural produce (milk) using the first-in, first-out (FIFO) cost formula. Consequently, the closing balance of milk is CU19,500 (ie 30,000 litres measured at CU0.65 per litre).



## Module 34—Specialised Activities

In 20X8 SME A incurred and paid the following expenses:

- Veterinary: CU62,000
- Water and electricity: CU48,000
- Salaries: CU84,000
- Cattle feed: CU276,000
- Wages: CU78,000

The entity can determine the fair value of all cattle without undue cost or effort. The following table shows the fair values less costs to sell of each group of biological assets and agricultural produce at 31 December 20X8:

		<i>Fair value less costs to sell</i>
808	Dairy herd	CU4,652,400
1,305	Beef herd	CU1,712,200
30,000	Litres of milk	CU19,500

**Prepare:**

1. **Journal entries to record the transactions relating to the biological assets in the accounting records of SME A for the year ended 31 December 20X8 and the reconciliation required by paragraph 34.7(c) of the *IFRS for SMEs* Standard.**
2. **The amounts for biological assets and inventory that would be recognised in SME A's statement of financial position at 31 December 20X8.**
3. **The amounts that would be recognised in SME A's statement of comprehensive income for the year ended 31 December 20X8.**
4. **The amounts that would be presented in the operating activities part of SME A's statement of cash flows for the year ended 31 December 20X8 if it were prepared using the direct method.**

# Module 34—Specialised Activities

## Answer to case study

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### Part 1

One way SME A could prepare the journal entries to account for its biological assets in 20X8 is shown below.

#### In 20X8

Dr	Asset— biological assets (dairy livestock)	CU536,000	
Dr	Asset— biological assets (beef livestock)	CU1,344,000	
Cr	Asset—cash		CU1,880,000

*To recognise livestock purchased in 20X8.*

Dr	Asset—cash	CU1,072,000	
Cr	Asset— biological assets (dairy livestock)		CU1, 072,000

*To recognise the sale of dairy cows in 20X8<sup>(a)</sup>*

Dr	Asset—cash	CU3,450,000	
Dr	Expense—cost of beef cattle sold	CU3,450,000	
	Expense—commissions paid	CU350,000	
Cr	Asset— biological assets (beef livestock)		CU3,450,000
Cr	Income—revenue		CU3,800,000

*To recognise the sale of beef cattle in 20X8.*

Dr	Asset—inventories	CU1,737,773	
Cr	Income—profit or loss: gain on recognition of inventories		CU1,737,773

*To recognise the milk harvested in 20X8 at the point of harvest.*

Dr	Asset—cash	CU1,735,273	
Dr	Expense—cost of milk sold	CU1,735,273	
Cr	Income—revenue		CU1,735,273
Cr	Asset—inventories		CU1,735,273

*To recognise the sale of milk in 20X8.*

Dr	Expense—profit or loss: veterinary expense	CU62,000	
Dr	Expense—profit or loss: water and electricity expense	CU48,000	
Dr	Expense—profit or loss: salaries	CU84,000	
Dr	Expense—profit or loss: cattle feed	CU276,000	
Dr	Expense—profit or loss: wages	CU78,000	
Cr	Asset—cash		CU548,000

*To recognise the payment of the expenses in 20X8.*

## Module 34—Specialised Activities

### 31 December 20X8

Dr	Expense—profit or loss: fair value loss (biological assets)	CU400,600 <sup>(b)</sup>	
	Cr	Asset— biological assets (dairy livestock)	CU400,600

*To recognise the loss on change in fair value of dairy livestock.*

Dr	Asset— biological assets (beef livestock)	CU843,200 <sup>(b)</sup>	
	Cr	Income—profit or loss: fair value gain (biological assets)	CU843,200

*To recognise the gain on beef livestock.*

### Extract from Note X Biological assets

	Dairy livestock CU	Beef livestock CU	Total CU
Balance at start of 20X8	5,589,000	2,975,000	8,564,000
Increase resulting from purchases	536,000	1,344,000	1,880,000
Decrease resulting from sale	(1,072,000)	(3,450,000)	(4,522,000)
Gain (loss) from changes in fair value less costs to sell <sup>(b)</sup>	(400,600)	843,200	442,600
<b>Balance at the end of 20X8</b>	<b>4,652,400</b>	<b>1,712,200</b>	<b>6,364,600</b>

**Note:** It is not a requirement to present biological assets separately by class as shown in this example. They can be shown in aggregate.

**The calculations and explanatory notes below do not form part of the extracts from financial statements that form the answer to this case study:**

- (a) The entity does not recognise revenue from the sale of the dairy livestock because the entity's normal operating activities do not include selling dairy livestock (see paragraph 2.52(b)).
- (a) CU17,000 opening inventory + CU1,737,773 fair value less costs to sell of milk produced in 20X8 less CU19,500 closing inventory = CU1,735,273 cost of milk sold.
- (b) The gain or loss from changes in fair value less costs to sell is calculated as the balancing figure in the reconciliation in note X above.

# Module 34—Specialised Activities

## Part 2

SME A could report its assets in its statement of financial position as follows:

### Amounts in the statement of financial position at 31 December 20X8

(in currency units)

	Notes	31 Dec 20X8	31 Dec 20X7
<b>ASSETS</b>			
<b>Non-current assets</b>			
Biological assets carried at fair value through profit or loss	X	6,364,600	8,564,000
<b>Current assets</b>			
Inventories—milk	Y	19,500	17,000

**Note:** the entity can show a single line for biological assets because they are all measured at fair value less costs to sell. If any biological assets were measured using the cost model they would need to be shown under a separate heading (see paragraph 4.2 of the *IFRS for SMEs Standard*).

## Part 3

SME A could report the amounts relating to biological assets and agricultural produce in its statement of comprehensive income as follows:

### Amounts in the statement of comprehensive income for the year ended 31 December 20X8

(in currency units)

	Notes	20X8	20X7
Revenue—beef cattle and milk sold		5,535,273	X
Cost of beef cattle and milk sold		(5,185,273)	X
Gain from changes in fair value less costs to sell of biological assets	X	442,600	X
Gain on recognition of agricultural produce—milk		1,737,773	X
Commissions		(350,000)	(X)
Cattle feed		(276,000)	(X)
Staff costs		(162,000)	(X)
Veterinary costs		(62,000)	(X)
Water and electricity		(48,000)	(X)

**Note:** the entity could make allocations and aggregations of the above amounts when presenting the statement of comprehensive income in accordance with Section 5 *Statement of Comprehensive Income and Income Statement* of the *IFRS for SMEs Standard*.

## Module 34—Specialised Activities

### Part 4

SME A could report the operating activities part of its statement of cash flows as follows:

**Amounts in the statement of cash flows for the year ended 31 December 20X8**

(in currency units)

	<b>Notes</b>	<b>20X8</b>	<b>20X7</b>
<b>Cash flows from operating activities</b>			
Cash receipts from sales of milk		1,735,273	X
Cash receipts from sale of beef livestock net of auctioneer's commission <sup>(d)</sup>		3,450,000	X
Cash paid to suppliers and employees		(548,000)	(X)
Cash paid for purchases of beef livestock		(1,344,000)	(X)

(a) It is assumed that the cash flows received for selling the livestock were received net of the auctioneer's commission.

**Note:** cash flows associated with the purchase and sale of dairy cows has been classified as investing activities.