

# LAMPIRAN

## AGRICULTURE

### PERSPECTIVE AND ISSUES

Over most of its existence, the former IASC was focused on the task of developing or endorsing existing standards that are pertinent to general-purpose financial reporting. In the more recent of those years, completion of the core set of standards, which too was oriented toward general-purpose financial statement needs, was of paramount importance. The special needs of individual industries, of necessity, received very little attention during this period.

However, the IASC was able, before its existence ended when the restructuring (described in Chapter 1) took place and IASB became the standard-setting body, to complete its project on accounting for agricultural activities. This was a major project having widespread implications, particularly for those many nations which rely heavily on their agricultural sectors.

Agriculture, the first set of specialized financial reporting issues to be given a comprehensive financial reporting model (banking was given only expanded disclosure rules), received a great deal of attention from IASC. When the IASC's draft statement of position was issued, it marked the first real attention paid to one of the world's most prominent economic activities by any of the accounting rule-making bodies. For developing nations, agriculture is indeed disproportionately significant, and given the IASC's role in establishing financial reporting standards for those nations, the focus on agriculture was perhaps to be expected.

IAS 41, Agriculture, became effective for financial statements covering periods beginning on after January 1, 2003.

#### Sources of IFRS

#### IAS 41

### DEFINITIONS OF TERMS

**Active market.** Market for which all these conditions exist: the items traded within the market are homogeneous; willing buyers and sellers can normally be found at any time; and prices are available to the public.

**Agricultural activity.** Managed biological transformation of biological assets into agricultural produce for sale, consumption, further processing, or into other biological assets.

**Agricultural land.** Land used directly to support and sustain biological assets in agricultural activity; the land itself is not a biological asset, however.

**Agricultural produce.** The harvested product of the enterprise's biological assets awaiting sale, processing, or consumption.

**Bearer biological assets.** Those which bear agricultural produce for harvest. The biological assets themselves are not the primary agricultural produce, but rather are self-regenerating (such as sheep raised for wool production; fruit trees).

**Biological assets.** Living plants and animals controlled by the enterprise as a result of past events. Control may be through ownership or through another type of legal arrangement.

**Biological transformation.** The processes of growth, degeneration, production and procreation, which cause qualitative and quantitative changes in living organisms and the generation of new assets in the form of agricultural produce or additional biological assets of the same class.

**Carrying amount.** Amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation or amortization and accumulated impairment losses thereon.

**Consumable biological assets.** Those which are to be harvested as the primary agricultural produce, such as livestock intended for meat production, annual crops, and trees to be felled for pulp.

**Fair value.** The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction.

**Group of biological assets.** A herd, flock, etc., that is managed jointly to ensure that the group is sustainable on an ongoing basis, and is homogeneous as to both type of animal or plant and activity for which the group is deployed.

**Harvest.** The detachment of agricultural produce from the biological asset, the removal of a living plant from agricultural land for sale and replanting, or the cessation of a biological asset's life processes.

**Immature biological assets.** Those that are not yet harvestable or able to sustain regular harvests.

**Mature biological assets.** Those which are harvestable or able to sustain regular harvest. Consumable biological assets are mature when they have attained harvestable specifications; bearer biological assets are mature when they are able to sustain regular harvests.

**Net realizable value.** Estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

## CONCEPTS, RULES, AND EXAMPLES

### Background

Historically, agricultural activities received scant, if any, attention from the world's accounting standard setters. This may have been due to the fact that the major national and international accounting standard setters have been those of the US and the UK, whose economies are far less dependent upon agriculture than those of many lesser-developed nations of the world. The IASC, in seeking to become the world's preeminent accounting standard setter, has until very recently had its greatest impact on the financial reporting standards of the developing nations, many of which have adopted IAS as a whole, and many more of which have based their respective national standards on the IAS. Perhaps because of the IASC's sensitivity to this constituency, its agriculture project, begun some five years ago, received a good deal of serious attention. The culmination of this lengthy project, the newly issued standard IAS 41, is by far the most comprehensive addressing of this financial reporting topic ever undertaken.

The earlier exclusion of agriculture from most established accounting and financial reporting rules can best be understood in the context of certain unique features of the industry. These include biological transformations (growth, procreation, production, degeneration) which alter the very substance of the biological assets; the wide variety of characteristics of the living assets which challenge traditional classification schemes; the nature of management functions in the industry; and the predominance of small, closely held ownership. On the other hand, since in many nations agriculture is a major industry, in some cases accounting for over 50% of gross national product, logic would suggest that comprehensive systems of financial reporting for business enterprises cannot be deemed complete while excluding so large a segment of the economy.

In the past, the general lack of urgency in dealing with this subject has been abetted by the fact that much of agriculture is controlled by closely held or

family held businesses, with the few, if any, outside owners who might have demanded formal financial statements prepared in accordance with agreed-upon accounting principles. Also grantors of farm credit have historically looked to the character of the borrower, usually a longtime resident with deep roots in the community, rather than to financial statements. While some of these factors continue to be valid, the IASC concluded that the time had long since arrived to give financial reporting concerns their due attention.

In the realm of previously established international accounting standards, most of the rules which logically could have addressed agricultural issues (IAS 2 on inventories; IAS 16 on plant, property, and equipment; and IAS 18 on revenue recognition) deliberately excluded most or all agriculture-related applications. A review of published financial statements for agriculture-related enterprises would have revealed the consequences of this neglect: a wide range of methods and principles have been applied to such businesses as forest products, livestock, and grain production.

For example, some forest products companies have accounted for timberlands at original cost, charging depreciation only to the extent of net harvesting, with reforestation costs charged to expense as incurred. Others in the same industry capitalized reforestation costs and even carrying costs, and charged depletion on a units-of-production basis. Still others have been valuing forest lands at the net present value of expected future cash flows. This wide disparity obviously has impaired user's ability to gauge the relative performance of enterprises operating within a single industry group, hindering investment and other decision making by them.

For this reason, the IASC concluded in the mid-1990s that excluding agriculture from the scope of IAS was no longer appropriate. At the same time, it also accepted the need for a relatively simple, uniform, and coherent set of principles applicable to this industry group because the preponderance of small, less sophisticated businesses. The IASC concluded that embracing fair value in addition to, or instead of, the historical cost model, which had already been applied by existing IAS (e.g., to plant and equipment and to investments), offered best solution to this problem. The new standard will apply only to biological assets, as those are the aspects of agriculture that have unique characteristics; the accounting for assets such as inventories and plant and equipment will be guided by such existing standards as IAS 2 and 16. In other words, once the biological transformation process is complete (e.g., when grain is harvested, animals are slaughtered, or trees are cut down), the specialized accounting principles imposed on agriculture will cease to apply.

## Defining Agriculture

Agriculture is to be defined as essentially the management of the biological transformation of plants and animals to yield produce for consumption or further processing. The term agriculture encompasses livestock, forestry, annual and perennial cropping, orchards, plantations, and aquaculture. Agriculture is distinguished from "pure exploitation", where resources are simply removed from the environment (e.g., by fishing or deforestation) without management initiatives such as operation of hatcheries, reforestation, or other attempts to manage their regeneration. IAS 41 does not apply to pure exploitation activities, nor does it apply; agricultural produce, which is harvested and is thus a nonliving product of the biological assets. The standard furthermore does not govern accounting for agriculture produce which is incorporated in further processing, as occurs in integrated agribusiness enterprises that involve activities which are not unique to agriculture.

IAS 41 sets forth a three-part test or set of criteria for agricultural activities. First, the plants or animals which are the object of the activities must be alive and capable of transformation. Second, the change must be managed, which implies a range of activities (e.g., fertilizing the soil and weeding in the case of crop growing; feeding and providing health care in the instance of animal husbandry; etc.). Third, there must be a basis for the measurement of change, such as the ripeness of vegetables, the weight of animals, circumference of trees, and so forth. If these three criteria are all satisfied, the activity will be impacted by the financial reporting requirements imposed by IAS 41.

Biological assets are the principal assets of agricultural activities, and they are held for their transformative potential. This results in two major types of outcomes: the first may involve asset changes—as through growth or quality improvement, degeneration, or procreation. The second involves the creation of separable products initially qualifying as agricultural produce. The management of the biological transformation process is the distinguishing characteristic of agricultural activities.

Biological assets often are managed in groups, as exemplified by herds of animals, groves of trees, and fields of crops. To be considered a group, however, the components must be homogeneous in nature and there must further be homogeneity in the activity for which the group is deployed. For example, cherry trees maintained for their production of fruit are not in the same group as cherry trees grown for lumber.

IAS 41 applies to forest and similar regenerative resources excluded from IAS 16; producers' inventories of livestock, agriculture, and forest products, including those excluded from IAS 2, to the extent they are to be measured at net realizable value; and natural increases in herds and agricultural and forest products excluded from IAS 18. It also addresses financial statement presentation and disclosure (which is the primary province of IAS 1). Furthermore, it establishes that, unless explicit exclusions are provided, all international accounting standards are meant to apply equally to agriculture.

### **Basic Principles of IAS 41: Fair Value Accounting Is Necessary**

IAS 41 applies to all enterprises which undertake agricultural activities. Animals or plants are to be recognized as assets when it is probable that the future economic benefits associated with the asset will flow to the reporting entity, and when the cost or value to the enterprise can be measured reliably. There is a strong presumption that any enterprise entering into agricultural activities on a for-profit basis will have an ability to measure cost and/or fair value. The new standard also governs the initial measurement of agricultural produce. Which is the end product of the biological transformation process; it furthermore guides the accounting for government grants pertaining to agricultural assets.

The most important feature of the new standard is the requirement that biological assets are to be measured at each balance sheet date at their respective fair values. This departure from historical cost is the most significant facet of IAS 41, and is one which has generated a good deal of debate during the drafting and exposure draft stages. The imperative to deploy fair value accounting, springs from the fact that there are long production periods for many crops (an extreme being forests under management for as long as thirty years before being harvested) and, even more typically, for livestock. In the absence of fair value accounting with change in value being reported in operating results, the entire earnings of a long-term production process might only be reported at lengthy intervals, which would not faithfully represent the underlying activities being carried out. This is entirely analogous to long-term construction projects, for which percentage-of-completion accounting is commonly prescribed, for very similar reasons.

Historical cost based accounting, with revenue to be recognized only upon ultimate sale of the assets, would often result in gross distortion of reported results of operations, with little or no earnings being reflected in some periods, or even losses being reported to the extent that production expense are not inventoried. Other periods—when trees are harvested, for example—would reflect substantial

reported profits. Thus, the use of historical costs based on completed transactions is no longer deemed meaningful in the case of agricultural activities.

Not only are such periodic distortions seen as being misleading, but it also has been concluded that each stage of the biological transformation process has significance. Each stage (growth, degeneration, procreation, and production) is now seen as contributing to the expected economic benefits to be derived from the biological assets. Unless a fair value model were employed for financial reporting, there would be a lack of explicit recognition (in effect, no matching) of the benefits associated with each of these discrete events. Furthermore, this recognition underlines the need to apply the same measurement concept to each stage in the life cycle of the biological assets; for example, for live weight change, fleece weight change, aging, deaths, lambs born, and wool shorn, in the case of a flock of sheep.

The obvious argument in favor of historical cost based measures derives from the superior reliability of that mode of measurement. With completed transactions, there is no imprecision due to the inherently subjective process of making or obtaining fair value assessments. By contrast, superior relevance is the strongest argument for current value measurement schemes. The IASC evaluated various measures, including current cost and net realizable value, as well as market value, as alternatives to historical cost, but ultimately identified fair value (ironically, the one approach not addressed in the IASC's seminal document, the Framework for the Preparation and Presentation of Financial Statements) as having the best combination of attributes for the determination of agriculture-related earnings. The IASC was particularly influenced by the market context in which agriculture takes place and the transformative characteristics of biological assets, and it concluded that fair value would offer the best balance of relevance, reliability, comparability, and understandability.

The IASC also concluded that annual determinations of fair value would be necessary to properly portray the combined impact of nature and financial transactions for any given reporting period. Less frequent measurements were rejected because of the continuous nature of biological transformations, the lack of direct correlation between financial transactions and the different outcomes arising from biological transformation (thus, the former could not serve as surrogate indicators of the latter during off periods), the volatilities which often characterize natural and market environments affecting agriculture, and the fact that market-based measures are in fact readily available.

The idea of maintaining historical cost as an allowed alternative was rejected, essentially because historical cost is not viewed as meaningful in the



context of biological assets. But also due to concerns about the extreme lack of comparability that would result from permitting two so disparate methodologies to coexist. Notwithstanding the fact that historical cost is rejected as being meaningful in this context, the IASC agreed that an exception should exist for those circumstances when fair value cannot be reliably estimated. In such instances, historical costs will continue to be employed instead.

### **Determining Fair Values**

The primary determinant of fair value is market value, just as it is for financial instruments having active markets (as defined in IAS 32, discussed at length in Chapter 5). The required use of "farm gate" market prices will reflect both the "as is" and "where is" attributes of the biological assets. That is, the value is meant to pertain to the assets as they exist, where they are located, in the condition they are in as of the measurement (balance sheet) date. They are not hypothetical values, as for instance hogs when delivered to the slaughter house. Where these "farm gate" prices are not available, market values will have to be reduced by transaction costs, including transport, to arrive at net market values which would equate to fair values as intended by IAS 41.

In the case of products for which market values might not be readily available, other approaches to fair value determination will have to be employed. This is most likely to become an issue where market values exist but, due to market imperfections, are not deemed to be useful. For example, when access to markets is restricted or unduly influenced by temporary monopoly or monopsony conditions, or when no market actually exists as of the balance sheet date, alternative measures will be called for. In such circumstances, it might be necessary to refer to such indicators as the most recent market prices for the class of asset at issue, market prices for similar assets (e.g., different varieties of the same crop), sector benchmarks (e.g., relating value of a dairy farm to the kilograms of milk solids or fat produced), net present value of expected future cash flows discounted at a risk-class rate, or net realizable values for short-cycle products for which most growth has already occurred. Last and probably least useful would be historical costs, which might be particularly suited to biological assets that have thus far experienced little transformation.

One practical problem arises when an indirect method of valuation implicitly values both the crop and the land itself, taken together as a whole. IAS 41 indicates that such valuations must be allocated to the different assets to give a better indication of the future economic benefits each will confer. If a combined

market price, for example, can be obtained for the land plus the immature growing crops situated there on, and a quotation for the land alone can also be obtained, this will permit a fair value assessment of the immature growing crops (while the land itself will generally be presented on the balance sheet at cost, not fair value, under IAS 16). Another technique would involve the subdivision of the assets into classes based on age, quality, or other traits, and the valuation of each subgroup by reference to market prices. While these methods may involve added effort, IAS 41 concludes that the usefulness of the resulting financial statements will be materially enhanced if this is done.

Increases in fair value due to the growth of the biological asset is only one-half of the accounting equation, of course since there will normally have been cost inputs incurred to foster the growth (e.g., applications of fertilizer to the fields, etc.). Under the provisions of IAS 41, cost of producing and harvesting biological assets are to be charged to expense as incurred. This is necessary, since if costs were added to the assets' carrying value (analogous, to interest on borrowings in connection with long-term construction projects) and the assets were then also adjusted to fair value, there would be risk of double-counting cost or value increases. As mandated, however, value increases due to either price changes or growth, or both, will be taken into current income, where costs of production will be appropriately matched against them, resulting in a meaningful measure of the net result of periodic operations.

### **Recognition of Changes in Biological Assets**

When the IASC's agriculture project was undertaken, the presumption was that changes resulting from fluctuations in fair value were generically distinct from physical changes due to growth and other natural phenomena. Accordingly, the 1996 DSOP proposed that the change in carrying amount for a group of biological assets would be so allocated. The original intent was, to have the former, which corresponds to revaluations of plant and equipment assets under the alternative treatment permitted by IAS 16, reported directly in equity, while the latter would be included in current period operating results. However, even if this bifurcation strategy was conceptually sound, the practical difficulties of allocating such value changes soon became obvious.

By 1999, when the Exposure Draft was issued, the IASC's position had shifted to the inclusion of both of these value changes in current period results of operations. The draft did urge separate disclosure of the fair value changes and the effects of growth, either on the face of the income statement or in the notes there

to; this was not to be made an actual requirement. The final standard, IAS 41, has dropped this suggestion entirely, probably because it would have proven to be unpopular and therefore rarely complied with.

The actual recognition and measurement requirements of IAS 41 areas follows:

1. Biological assets are to be measured at their fair value, less estimated point-of-sale costs, except where fair value can not be measured reliably. In the latter instance, historical cost is to be used.
2. Agricultural produce harvested from an enterprise's biological assets should be measured at fair value less estimated point-of-sale costs at the point of harvest. That amount effectively becomes the cost basis, to which further processing costs may be added, as the conditions warrant, with accounting thereafter guided by IAS 2, Inventories, or other applicable standard.
3. The presumption is that fair value can be measured reliably for a biological asset. That presumption can be rebutted, only at the time of initial recognition, for a biological asset for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. Once the fair value of such a biological asset becomes reliably measurable, it must be measured at its fair value less estimated point-of-sale costs.
4. If an active market exists for a biological asset or for agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, however, the reporting entity should use market-determined prices or values, such as the most recent market transaction price, when available.
5. Under certain circumstances, market-determined prices or values may not be available for an asset, as it exists in its current condition. In these circumstances, the entity should use the present value of expected net cash flows from the asset discounted at current market-determined pretax rate, in determining fair value.
6. The gain or loss which is reported upon initial recognition of biological assets, and also those arising from changes in fair value less estimated point-of-sales costs, should be included in net profit or loss for the period in which the gain or loss arises. That is, these are reported in current period results of operations, and not taken directly into equity.
7. The gain or loss arising from the initial recognition of agricultural produce should be included in net profit or loss for the period in which it arises.

8. Land is to be accounted for under IAS 16, Property, Plant, and Equipment, or IAS 40, Investment Property, as is appropriate under the circumstances. Biological assets that are physically attached to land are recognized and measured at their fair value less estimated point-of-sales costs, separately from the land.
9. If the entity receives an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sales costs, the grant should be recognized as income when it first becomes receivable. If the grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including grants which require an entity not to engage specified agricultural activity, the grant should be recognized in income when the conditions attaching to it are first met.
10. For government grants pertaining to biological assets which are measured at cost less accumulated depreciation and any accumulated impairment losses. IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, should be applied. (See Chapter 26.)
11. Some contracts for the sale of biological assets or agricultural produce are not within the scope of IAS 39, Financial Instruments: Recognition and Measurement, because the reporting entity expects to deliver the commodity, rather than settle up in cash. Under IAS 41, such contracts are to be measured at fair value until the biological assets are sold or the produce is harvested.

### **Agricultural Produce**

Agricultural produce is distinguished from biological assets and is not to be measured at fair value other than at the point of harvest, which is the point where biological assets become agricultural produce. For example, when crops are harvested they become agricultural produce and are initially valued at the fair value as of the date of harvest, at the location of harvest (i.e., the value of harvested crops at a remote point of delivery would not be a pertinent measure). If there has been a time interval between the last valuation and the harvest, the value as of the harvest date should be determined or estimated; any increase or decrease since the last valuation would be taken into earnings.

## Financial Statement Presentation

**Balance sheet.** Official thinking about the level of detail required when the reporting entity has biological assets has evolved since the DSOP first issued. At that time, it was suggested that biological assets should be set forth as a distinct class of assets, being part of neither current nor noncurrent assets. By the time the Exposure Draft was issued, inclusion of biological assets in current and noncurrent assets, as appropriate, either in the aggregate or by major groups of biological assets, was proposed. The ED furthermore encouraged that biological assets be categorized according to class of animal or plant, nature of activities (e.g., being maintained for harvesting or as breeding stock), and the maturity or immaturity for the intended purpose. It suggested that if the plant or animal is being maintained for consumption (to be harvested, etc.), maturity would be gauged by attainment of harvestable specifications. If the plant or animal is for bearing purposes, the maturity criterion would be the attainment of sufficient maturity to sustain economics harvests.

When IAS 41 was promulgated, however, it only established a requirement that the carrying amount of biological assets be presented separately on the face of the balance sheet i.e., not included with other, nonbiological assets). Preparers were encouraged to describe the nature and stage of production of each group of biological assets in narrative format in the notes to the financial statements, optionally quantified. Consumable biological assets are to be differentiated from bearer assets, with further subdivisions into mature and immature subgroup for each of these broad categories. The purpose of these disclosures is to give the users of the financial statements some insight into the timing of future cash flows. Since the mature subgroups will presumably be realized through market transactions in the near future, and the pattern of cash flows resulting from bearer assets differs from those deriving from consumables.

**Income statement.** The changes in fair value should be presented on the face of the income statement, ideally broken down between groups of biological assets. However, group level detail may be reserved to the notes to the financial statements.

Also, while separate disclosure of the components of fair value change (i.e., that due to growth and that due to price changes) had been encouraged in the exposure draft, this is no longer being promoted, while of course not being prohibited either. Clearly, the change in fair value which is consequence of price changes (whether general inflation or specific changes in the market prices of given commodities, such as wheat, due to factors such as the expectations regarding the harvest) is generically distinct from the growth which has occurred

during the period being reported on. Distinguishing between these two factors would be important in making the financial reporting process more meaningful, and several examples of how this dichotomizing of fair value changes can be accomplished and presented in the financial statements was included in the Exposure Draft preceding IAS 41's issuance.

IAS 1 permits the presentation of expenses in accordance with either a natural classification (e.g., materials purchase, depreciation, etc.) or a functional basis (cost of sales, administrative, selling, etc). The draft statement on agriculture had urged that the natural classification of income and expenses be adopted for the income statement. Sufficient detail is to be included in the face of the income statement to support an analysis of operating performance. However, these are recommendations, not strict requirements.

**Disclosures.** IAS 41 establishes new disclosure requirements for biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses (i.e., for those exceptional biological asset which are not being carried at fair value). The new disclosures are follows:

1. A separate reconciliation of changes in the carrying amount of those biological assets
2. A description of those biological assets
3. An explanation of why fair value can not be measured reliably
4. A statement of the range of estimates within which fair value is highly likely to lie (if this is possible to give)
5. The amount of any gain or loss recognized on disposal of the biological assets
6. The depreciation method used
7. The useful lives or the depreciation rates used; and
8. The gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period.

In addition to the foregoing, these disclosures are required

1. If the fair value of biological assets previously measured at cost less any accumulated depreciation and any accumulated impairment losses subsequently becomes reliably measurable, the reporting entity must disclose a description of the biological assets, and explanation of how fair value has become reliably measurable, and the effect of the change in accounting method; and
2. Information about any significant decreases in the expected level of government grants related to agricultural activity covered by IAS 41 .

The normally anticipated disclosures regarding the nature of operations, which are necessary to comply with IAS 1, also apply to entities engaging in biological and agricultural operations. These disclosures could incorporate, either in narrative form or as quantified terms, information about the groups of biological assets, the nature of activities regarding each of these groups, the maturity or immaturity for intended purposes of each group, the relative significance of different groups by reference to nonmonetary amounts (e.g., numbers of animals, acres of trees) dedicated to each, and nonfinancial measures or estimates of the physical quantities of each groups of assets at the balance sheet date and the output of agricultural produce during the reporting period.

Good practice, necessary to make the financial statements meaningful for users, would dictate that disclosures be made of the measurement bases used to derive fair values; whether an independent appraiser was utilized; where relevant, the discount rate employed to compute net present values, along with the number of years' future cash flows assumed; additional details about the changes in fair value from the prior period, where needed; any restrictions on title and any pledging of biological assets as security for liabilities; commitments for further development or acquisitions of biological assets; specifics about risk management strategies employed by the entity (note that the use of hedging is widespread; the futures market, now heavily employed to control financial risks, was developed originally for agricultural commodities); and activities which are unsustainable, along with estimated dates of cessation of those activities. Other possible disclosures include the carrying amount of agricultural land (at either historical cost or revalued amount) and of agricultural produce (governed by IAS 2, and subject to separate classification in the balance sheet).

### **Agricultural Land**

Agricultural land is not deemed a biological asset; thus, the principles espoused in IAS 41 for biological and agricultural assets not apply to land. The requirements of IAS 16, which are applicable to other categories of plant, property, and equipment, apply to agricultural land. The use of the allowed alternative method (i.e., revaluation), particularly for land-based systems such as orchards, plantations, and forests, where the fair value of the biological asset was determined from net realizable values which included the underlying land, would be logical and advisable, but is not actually a requirement. It would also enhance the usefulness of the financial statements if land held by entities engaged in agricultural activities is further classified in the balance sheet according to

specific uses. Alternatively, this information can be conveyed in the notes to the financial statements.

### **Intangible Assets Related to Agriculture**

Under IAS 38, intangible assets may be carried at cost (the benchmark treatment) or at revalued amounts (the allowed alternative treatment), but only to the extent that active markets exist for the intangibles. In general, it is not expected that such markets will exist for commonly encountered classes of intangible assets. On the other hand, agricultural activities are expected to frequently involve intangibles such as water rights, production quotas, and pollution rights, and it is anticipated that for these intangibles active markets may in fact exist.

To enhance the internal consistency of financial statements of entities engaged in biological and agriculture operations, if intangibles which pertain to the entity's agricultural activities have active markets, these should be presented in the balance sheet at their fair values. This is not, however, an actual requirement.

### **Government Grants**

IAS 20 addresses the accounting for government grants, whether received with conditions attached or not, and whether received in cash or otherwise. As noted above, IAS 41 effectively amends this in the case of reporting by entities an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs. It also provides that, for grants which are conditional, recognition in income will occur when there is reasonable assurance that the conditions have been met. If conditional grants are received before the conditions have been met, the grant should be recognized as a liability, not as revenue. For grants received in the form of nonmonetary assets, fair value is to be assessed in order to account for the grant. IASB intends to replace or amend IAS 20 (see discussion in Chapter 26).