COMMENT ON EXPOSURE DRAFT: AGRICULTURE:
BEARER PLANTS (PROPOSED AMENDMENTS TO IAS 16 AND IAS 41)

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Question 1—Scope of the amendments

The IASB proposes to restrict the scope of the proposed amendments to bearer plants. The proposals define a bearer plant as a plant that is used in the production or supply of agricultural produce that is expected to bear produce for more than one period and that is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Under the proposals, if an entity grows plants both to bear produce and for sale as living plants or agricultural produce, apart from incidental scrap sales, it must continue to account for those plants within the scope of IAS 41 at fair value less costs to sell in their entirety (for example, trees that are cultivated for their lumber as well as their fruit).

Do you agree with the scope of the amendments? If not, why and how would you define the scope?

Our Comment:

Yes. We agree on the scope of the proposed amendments to bearer plants. However, we highly feel that plants both to bear produce and for sale as living plants or agricultural produce, apart from incidental scrap sales, for example, trees that are cultivated for their lumber as well as their fruit should be termed as ‘Consumable bearer biological asset’ instead of ‘bearer biological asset’. We propose that IAS 41 should introduce and make use of this new term. The introduction of this new term would results in the emergence of three types of biological asset namely, bearer biological asset, consumable biological asset and consumable bearer biological asset. The reason for a more detailed definition of biological asset is to prescribe distinct accounting treatment particularly on bearer biological asset with the aim of providing information that is useful for the investors and other users in their economic and resource allocation decisions.

Question 2—Accounting for bearer plants before maturity

The IASB proposes that before bearer plants are placed into production (ie before they reach maturity and bear fruit) they should be measured at accumulated cost. This would mean that bearer plants are accounted for in the same way as self-constructed items of machinery.
Do you agree with this accounting treatment for bearer plants before they reach maturity? If not, why and what alternative approach do you recommend?

Our Comment:

Yes. We agree that the costs of bearer plants that have yet to reach maturity and bear fruits should be accounted at accumulated cost. However, we strongly feel that such plants should be accounted under IAS 41 and not under IAS16.

We are in the opinion that such plants are not appropriate to be treated similar to self-constructed items of machinery under IAS 16 due to:

a. Different nature between bearer plants and self constructed machine. When a machine is self constructed, the likelihood of the machine being completed is very high. This is not the case for bearer plants, where although effort in terms of water and fertility has been expended, the possibility of the bearer plants not to grow according to our plan would still exist. Therefore, the risk for bearer plants not being fully grown as expected is higher than self-constructed machine to be fully completed.

b. The life span and the productivity of the machine could be extended or improved by incurring capital expenditure such as installing additional spare parts. This is not the same for bearer plant since this form of asset is a living thing and therefore, the production capacity depends highly on the nature of the bearer plant. For example: The life span of palm oil trees on average is 25 years with 3 to 5 initial years at the immature stage and the next 20 years of mature and production stage/period. There is no way for the planters to install some form of improvement tool to increase the life span of the palm oil trees. In actual fact, the productivity of the palm oil trees will increase at the beginning of the production period and decrease at the end of production period. This happens naturally without incurring any capital expenditure.

Question 3—Accounting for bearer plants before maturity

Some crops, such as sugar cane, are perennial plants because their roots remain in the ground to sprout for the next period’s crop. Under the proposals, if an entity retains the roots to bear produce for more than one period, the roots would meet the definition of a bearer plant.

The IASB believes that in most cases the effect of accounting for the roots separately under IAS 16 would not be material and the IASB does not therefore believe that specific guidance is required.

Do you think any additional guidance is required to apply the proposals to such perennial crops? If so, what additional guidance should be provided and why?
Our Comment:

No. We think no additional guidance is required in applying the proposal of perennial crops since the cost of the roots is immaterial.

Question 4—Accounting for bearer plants after maturity

The IASB proposes to include bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the cost model or the revaluation model for mature bearer plants subject to the requirements in IAS 16. All other biological assets related to agricultural activity will remain under the fair value model in IAS 41.

Do you agree that bearer plants should be accounted for in accordance with IAS 16? Why or why not? If not, what alternative approach do you recommend?

Our Comment:

No. We do not agree that bearer plants be accounted for in accordance with IAS 16 due to the following reasons:

i. Apart from the nature of the bearer plant being different from a machine as explained in comment 2, the productivity and subsequent capital expenditure for these two types of asset are different. The productivity of the machine will be about the same over the initial years and reduces towards the end of its life cycle. Subsequent capital expenditure on the machine will increase the lifespan and productivity of the machine. This is not the case for biological plant as during the initial years, productivity increases over a period of time but decreases toward the end of its lifespan. Any subsequent expenditure on the bearer plant would not be able to increase the lifespan nor increase the productivity.

ii. The second reason is on the depreciation method for biological plant. As for machine, it is often being depreciated based on either straight line method or reducing balance method which is depreciated over the number of its useful life. However, we highly feel that it is impossible to use these depreciation methods for bearer plant due to the nature of the asset. For example: we would use reducing balance method to depreciate a machine because the productivity of the machine reduces as it aged. On the other hand, we may use straight line method based on the argument that the number of productivity for a machine is consistent. However, for bearer plant, the productivity increases as it grows and subsequently, reduces as it reaches its life cycle. The question is what would be the most suitable depreciation method to be used for bearer plant. Should it be based on the number of productivity?
We therefore feel that bearer plant is more appropriate to be placed under IAS 41 with similar accounting treatment as proposed which is to accumulate the cost as it started to bear fruits and subsequently treated similar to IAS 16 of either at cost model or revaluation model (with some modification on depreciation method). Other biological assets (consumable biological asset and consumable bearer biological asset) would apply the fair value model.

**Question 5—Additional guidance**

The IASB proposes that the recognition and measurement requirements of IAS 16 can be applied to bearer plants without modification.

Are there any requirements in IAS 16 that require additional guidance in order to be applied to bearer plants? If so, in what way is the current guidance in IAS 16 insufficient and why?

**Our Comment:**

We feel that there is no need for additional guidance under the requirement of IAS 16 because bearer plant should be placed under IAS 41 with similar accounting treatment to IAS 16 as proposed in comment 4.

**Question 6—Fair value disclosures for bearer plants**

Do you think either of the following types of disclosures about bearer plants should be required if they are accounted for under the cost model in IAS 16—why or why not?

(a) disclosure of the total fair value of the bearer plants, including information about the valuation techniques and the key inputs/assumptions used; or

(b) disclosure of the significant inputs that would be required to determine the fair value of bearer plants, but without the need to measure or disclose the fair value of them?

**Our Comment:**

We agree that the requirement of cost model for bearer plant should follow IAS 16 but be placed under IAS 41 with additional fair value disclosures as stated in question 6 (a) above. This would enhance relevancy for the users in making decision.
Question 7—Additional disclosures

Many investors and analysts consulted during the user outreach said that instead of using the fair value information about bearer plants they use other information, for example, disclosures about productivity, including age profiles, estimates of the physical quantities of bearer plants and output of agricultural produce. They currently acquire this information via presentations made to analysts, from additional information provided by management in annual reports (for example, in the Management Commentary) or directly from companies.

Do you think any disclosures for bearer plants, apart from those covered in Question 6, should be required in addition to those in IAS 16? If so, what and why?

Our Comment:

Yes. We agree that a more comprehensive disclosure should be provided to the users of financial information since it will provide indications on the quality of agricultural produce of the bearer plant. The quality of the products of the bearer plant can vary depending on the type of fertilisers being used or where the bearer plants are being planted. These eventually may affect the fair value of the bearer plants.

Question 8—Transition provisions

The IASB proposes to permit an entity to use the fair value of an item of bearer plants as its deemed cost at the start of the earliest comparative period presented in the first financial statements in which the entity applies the amendments to IAS 16. The election would be available on an item-by-item basis. The IASB also plans to permit early application of the amendments to IAS 16 and IAS 41.

Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

Our Comment:

Yes. We agree.

Question 9—First-time adopters

The IASB proposes that the deemed cost exemption provided for an item of property, plant and equipment in IFRS 1 First-time Adoption of International Financial Reporting Standards should also be available for an item of bearer plants.

Do you agree with the proposed transition provisions for first-time adopters? If not, why and what alternative do you propose?
Our Comment:

Yes. We agree

Question 10—Other comments

Do you have any other comments on the proposals?

Our Comment:

We strongly feel that bearer plants should be maintained under IAS 41 in order to be consistent with other agricultural components. This would avoid confusion among the users of financial information. The cost model or the revaluation model should be used for bearer plants with additional information on fair value to be placed in the notes to the accounts for relevance purpose. A new term for bearer plants that also become agricultural produce to be named as 'consumable bearer biological asset' instead of 'bearer biological asset' as proposed in the Exposure Draft.