

A composite image showing agricultural activities. In the background, several workers are in a field with rows of young plants and blue water containers. In the middle ground, a person is plowing a field with two oxen. In the foreground, a large, golden ear of corn is shown in detail. The text 'Sri Lanka Accounting Standard -41 (LKAS 41)' is overlaid in the center, and 'Agriculture' is written in large yellow letters at the bottom left.

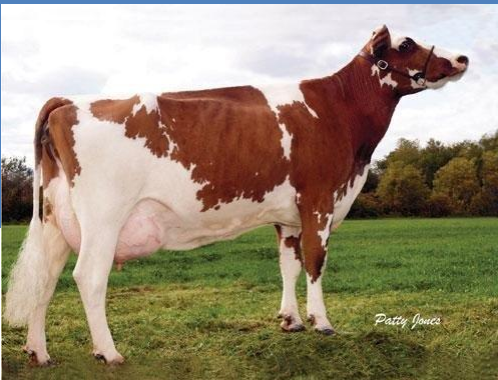
# Sri Lanka Accounting Standard -41 (LKAS 41)

**Agriculture**

# LKAS 41 Agriculture

(Activities only Manage by an entity)

Biological  
Assets



Agricultural  
Products



Government  
Grants

# This Standard does not apply to:

- **Land related to agricultural activity**  
(see LKAS 16 Property, Plant and Equipment and LKAS 40 Investment Property); and
- **Intangible assets related to agricultural activity**  
(see LKAS 38 Intangible Assets).
- **Agricultural produce – Subsequent Measurement** after the point of harvest (LKAS 2 Inventories or another applicable Standard is applied)
- **Processing of agricultural produce after harvest**
- **Agricultural Activities not managed by the entity** – Deforestation / Fishing in the deep sea.

## The Table Below Provides Examples

<b>Biological Assets</b>	<b>Agricultural Product</b>	<b>Product that are the result of Processing after Harvest</b>
Sheep	Wool	Yarn / Carpet
Trees in a Plantation forest	Felled trees	Logs / Lumber
Plants	Cotton / Harvested Cane	Thread/Clothing/Sugar
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages/Cured hams
Bushes	Leaf	Tea/Cured Tobacco
Vines	Grapes	Wine
Fruit trees	Picked Fruit	Processed Fruit

# Agriculture-related definitions

- **Agricultural activity** is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.
- **Agricultural produce** is the harvested product of the entity's biological assets.
- **A biological asset** is a living animal or plant.

## **Certain common features exist within this diversity:**

**(a) Capability to change.** Living animals and plants are capable of biological transformation;

**(b) Management of change.**

Management facilitates biological transformation by enhancing, or at least stabilising, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light).

Such management distinguishes agricultural activity from other activities. **Harvesting from unmanaged sources is not agricultural activity.** (For example ocean fishing and deforestation)

**(c) Measurement of change.**

The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

**Agricultural activity covers a diverse range of activities,**  
**for example:**

- raising livestock
- forestry
- annual & perennial cropping
- cultivating orchards
- Plantations
- Floriculture
- aquaculture (including fish farming)

- **Biological transformation** comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.
- **Costs to sell** are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.
- **A group of biological assets** is an aggregation of similar living animals or plants.
- **Harvest** is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.



# Accounting for a biological asset

## Recognition

- A biological asset is recognised when, and only when:
- the entity controls the asset as a result of past events;
  - it is probable that future economic benefits associated with the asset will flow to the entity; and
  - the fair value or cost of the asset can be measured reliably.

## Initial measurement

- Fair value less costs to sell.
- The difference between cost and initial measurement is recognised in profit or loss.

## Subsequent measurement

- Re-measure to fair value less costs to sell
- Gain or loss recognised in profit or loss immediately

➤ A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and, (newly born animals)

➤ From a change in fair value less costs to sell of a biological asset in subsequent measurement

shall be included in profit or loss for the period in which it arises.

## ***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.

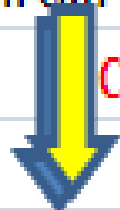
(Such measurement is the cost at that date when applying LKAS 2 Inventories or another applicable Standard.)

A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

# How to Measure Biological Assets

Fair value less cost to sell can be measured Reliably



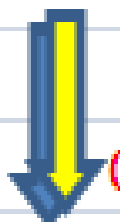
CAN NOT

\* The most recent market transaction price

\* Market prices for similar assets

\* Sector benchmarks

Most reliable estimate



CAN NOT

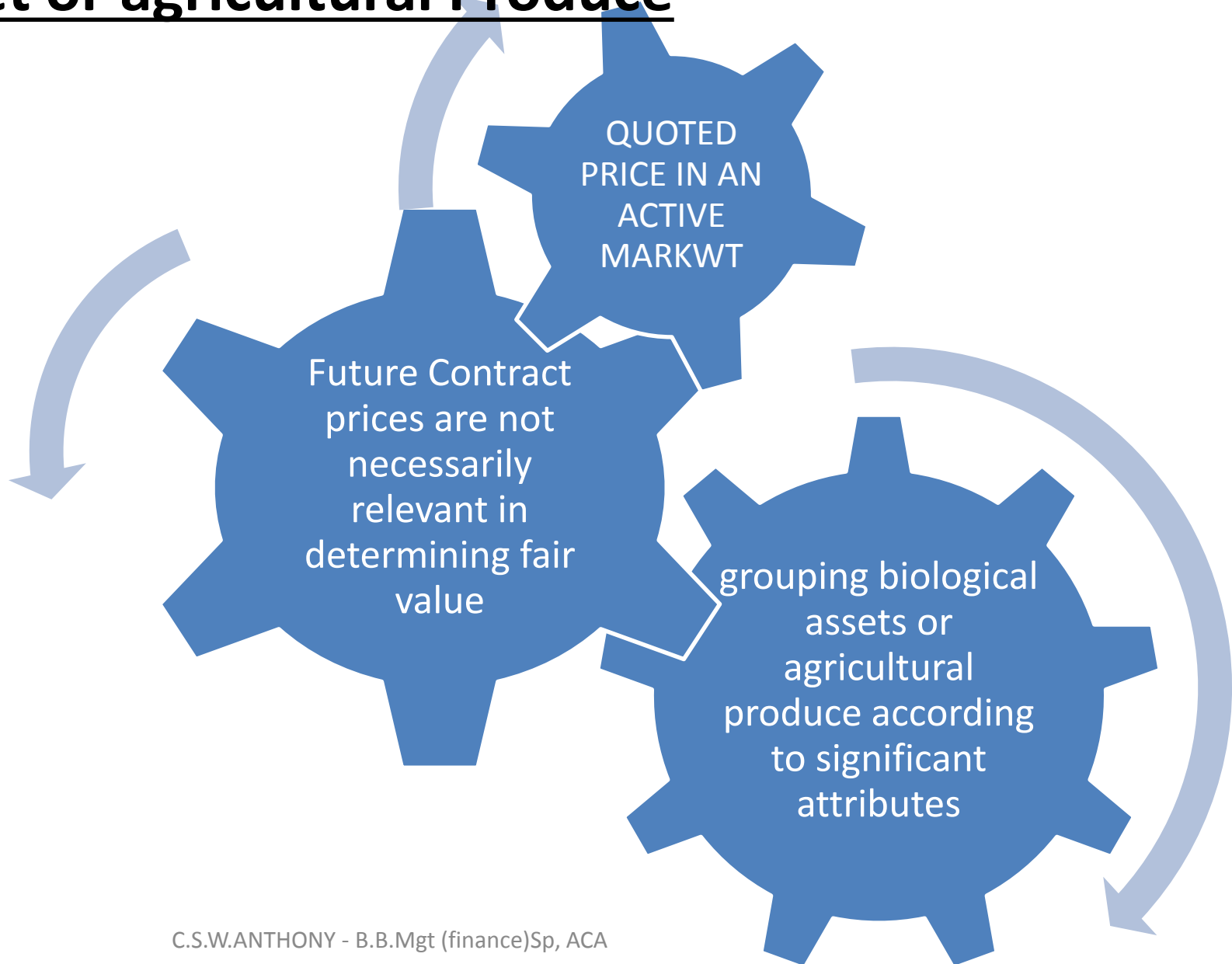
present value of expected net cash flows from the asset



CAN NOT

cost less -(accumulated depreciation and any accumulated impairment losses.)

# At the determination of fair value for a biological asset or agricultural Produce



If an active market does not exist, an entity uses one or more of the following.

*most reliable estimate.*

most recent  
market  
transaction  
price

market prices for  
similar assets

sector  
benchmarks

Does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest

(For example, the cost of replanting trees in a plantation forest after harvest).

Market-determined prices or values may not be available for a biological asset in its present condition

present value of expected net cash flows from the asset discounted at a current market-determined rate

Biological assets are often physically attached to land (for example, trees in a plantation forest). Active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package.

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 biological assets

*This presumption can be rebutted only on initial recognition*

If Market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable,

Biological asset shall be measured at

Cost - (accumulated depreciation + accumulated impairment losses.)

Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell.

## Government Grants relating to Biological Assets

Measured at its fair value less costs to sell

Measured at its cost less any accumulated depreciation and any accumulated impairment losses

According to the LKAS 20

### Unconditional

Shall be recognized in profit or loss when, and only when, the government grant becomes receivable.

### Conditional

An entity shall recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met



## **Disclosure of biological assets**

In respect of biological assets, an entity must disclose:

- (a) The aggregate gain or loss in the period on initial recognition of biological assets and from the change in fair value less costs to sell of biological assets;
- (b) A description of each group of biological assets;
- (c) A description of the nature of activities involving each group of biological assets;
- (d) Non-financial measures or estimates of physical quantities of each group of biological assets at the end of the period;
- (e) Details of biological assets whose title is restricted and commitments for the acquisition of biological assets.
- (f) A reconciliation of changes in the carrying amount of biological assets between the beginning and end of the current period.

### **Example 01**

Purijjala Dairies (Pvt) Ltd acquired 1,000 milk cattle on 31 December 20X1 at a cost of Rs. 12,000 each. Relevant information about fair value and costs to sell is as follows.

	20X1	20X2	20X3
Rs Rs Rs			
Fair value per unit	12,000	13,500	14,800
Selling fee	5%	5.5%	5.5%

### **Required**

**Record** the amounts recognised in Purijjala Dairies' financial statements in each of the years ended 31 December 20X1, 20X2 and 20X3.

## Example 02

The company uses quarterly reporting for its farms as they grow short-lived crops such as maize. Yanong planted the maize fields during the quarter to 31 October 2014 at an operating cost of \$10 million. The fields originally cost \$20 million. There is no active market for partly grown fields of maize and therefore Yanong proposes to use a discounted cash flow method to value the maize fields. As at 31 October 2014, the following were the cash flow projections relating to the maize fields:

	3 months to 31 January 2015 \$ million	3 months to 30 April 2015 \$ million	Total \$ million
Cash inflows		80	80
Cash outflows	(8)	(19)	(27)
Notional rental charge for land usage	(1)	(1)	(2)

In the three months to 31 January 2015, the actual operating costs amounted to \$8 million and at that date Yanong revised its future projections for the cash inflows to \$76 million for the three months to April 2015. At the point of harvest at 31 March 2015, the maize was worth \$82 million and it was sold for \$84 million (net of costs to sell) on 15 April 2015. In the measurement of fair value of the maize, Yanong includes a notional cash flow expense for the 'rent' of the land where it is self-owned.

The directors of Yanong wish to know how they should have accounted for the above biological asset at 31 October 2014, 31 January 2015, 31 March 2015 and when the produce was sold. Assume a discount rate of 2% per quarter as follows:

	Factor
Period 1	0.980
Period 2	0.961

## **Current developments**

For accounting periods starting on or after 1 January 2016, LKAS 41 will no longer apply to bearer plants, which will instead fall within the scope of LKAS 16.

A bearer plant is defined as a living plant that:

- (i) is used in the production or supply of agricultural produce,
- (ii) is expected to bear produce for more than one period, and
- (iii) has a remote likelihood of being sold as agricultural produce except for incidental scrap sales.

An example of a bearer plant is therefore a fruit tree. Annual crops such as wheat or maize and plants cultivated to be themselves harvested (eg trees for lumber) are not bearer plants.