ACCOUNTING FOR AGRICULTURE UNDER IND AS 41

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ABSTRACT

India’s economy is still principally based on its agriculture, as more than 67% of its population is either directly or indirectly depends on agriculture. India deserves to have a standardized accounting approach for its agriculture sector as agriculture being one of the largest contributions to national GDP. Up till now there was no any standards for accounting of agriculture income. So in year 2015, Ministry of corporate affairs has prescribed Ind AS-41, which provides for the accounting for agriculture activity, the management of transformation of biological assets (living plants and animals) into agriculture produce (harvested product of the entity’s biological assets). The accounting standard generally requires the biological assets to be measured at fair value less cost to sell.

Keywords: Accounting standard, AS 41

INTRODUCTION TO TERMS

Agriculture activity: Agriculture activity is the management of biological transformation and harvest of biological assets for sale or for conversion into agriculture produced or additional biological assets by an entity. The main feature of agriculture activity is “management of biological transformation”. Means harvesting from unmanaged sources is not agriculture activity because it does not involved management of resources. For example fishing from Open Ocean is not agriculture activity.

Biological transformation: Any processes which cause quantitative and qualitative changes in biological asset is biological transformation. It includes processes like growth, degeneration, production, and procreation.

Biological Asset: Any living plant or animal on earth is biological asset.

Agriculture produced: It is Harvested product of entities biological asset. Means biological asset before harvesting is not agriculture produced.

Harvest: It is a activity of detachment of produce from biological asset.

OBJECTIVE

1. To explore the provisions Ind AS 41, its applicability, recognition, measurement, gains and losses, disclosures etc.

2. To apply the provisions in practice for farmers and other peoples engaged in agriculture activity.

APPLICABILITY

Ind As 41, accounting for agriculture is applicable to,

1. Biological assets related to agriculture activity,
2. Agriculture produce at a point of harvest,

NON APPLICABILITY OF IND AS 41

1. Land related to agriculture activity as it is accounted as per Ind As 16, property, plant and equipment.
2. Bearer plants related to agriculture incomes as it is accounted as per Ind As 16, property, plant and equipment. However produces from bearer plants will be accounted as per Ind As 41.
3. Government grant related to bearer plants as it is accounted as per Ind As 20 - government grants.
4. Intangible Assets related to Agriculture activity.

POINT OF HARVEST

Ind As 41 deals only with the treatment of biological assets up to the point of harvest. After the process of harvesting, produced is no more being agriculture produced, does not fall into this standards. After the point of harvest it is generally treated as Inventories and accounted as per Ind As 2 inventories. For example, wheat attached to land which are not harvested is agriculture produced, but after harvest it will accounted as inventories.

AGRICULTURE ACTIVITY RELATED TO BEARER PLANTS

Bearer plant is a living plant that
1. Is used in the production or supply of agriculture produced,
2. Is expected to bear produced for more than one period.
3. Has remote likelihood of being sold as agriculture produce.

For example, tea bushes, grape vines, oil palms and rubber trees etc are covered in the definition of bearer plants. Bearer plants are not covered in the definition of agriculture produces. However produces from bearer plants are covered by this Ind As.

RECOGNITION OF BIOLOGICAL ASSETS AND AGRICULTURE PRODUCES

As per the Ind As 41, there are three condition for recognition.
1. Assets are controlled by entity because of past events;
2. Entity will probably get future economic benefits associated with assets;
3. Entity can measure fair value or cost of assets reliably.

If all of these conditions are satisfied, then and only then entity should recognize Agriculture produce and biological assets. It is to be noted that all three conditions must be fulfilled cumulatively.

MEASUREMENT OF BIOLOGICAL ASSETS

As per Ind As, biological assets should be measured on initial recognition and at the end of each reporting period. The standard requires that biological assets should be recognized at its Fair value less cost to sale .However it is not applicable where fair value cannot be measured reliably. Here fair value means value of assets in market in current situations. Entity can make group of biological assets according to their attributes for the measurement purpose and for ease of operations.

Sometimes, in some circumstances where Cost of biological assets may be approximate to fair value, specifically when the biological transformation is taken place since cost was incurred and impact of biological transformation does not affect price materially. For example living plants farmed for the
providing food for cattle have not much market value. so their cost shall be approximately treated as their fair value.

In case, if entity has entered into a sale contract of biological assets at a future date, then those contract price is not material or relevant for measurement of fair value. Because fair value is not entity specific and it will show the price at present market condition at which any entity can entered into transaction.

MEASUREMENT OF AGRICULTURE PRODUCES
Ind As 41, requires that agriculture produces should be also measured at fair value less cost to sale at a point of harvest from entity’s biological assets. However the exception as provided in case of biological assets are not provided in this case, as agriculture produces are marketable commodities, so fair value must be available. Moreover here under this Ind As, measurement is limited up to point of harvest. After harvesting agriculture produce it will be treated as inventory and accordingly accounted as per Ind As-2.

INABILITY TO MEASURE FAIR VALUE RELIABLY
In this Ind As, it is presumed that fair value of most of biological assets can be measured reliably. But if in case this presumption does not work in certain case, then we should measured biological assets at cost less Accumulated depreciation, only and only if following conditions are satisfied:

(a) Quoted market prices are not available for biological assets,

(b) Alternative fair value measurement methods are unreliable.

However on later date if fair value becomes reliably measurable then a switch to fair value less cost to sale model is required to be adopted.

GAINS AND LOSSES
When a biological assets is initially recognized at fair value less cost to sell, any profit or loss on subsequent measurement should be reported in profit and loss account of the period in which such profit and loss arises.

Gain or loss can also arise over the life of biological assets, which reflects the changes in the fair value of assets less cost to sale. For example there will be no fair value of new born baby calf. But as it will grow, there will increase in fair value of calf. Means profits arise on the calf must be reported on the profit and loss account of that period.

DISCLOSURE
Ind As 41 requires extensive disclosure of:

1. Description of biological assets and activities
2. Value of biological assets and agriculture produces
3. Any gain or loss recognized during the period
4. Reconciliation of changes in biological assets
5. Additional disclosures when fair value cannot be measured reliably.

REFERENCES
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