ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Agriculture

This publication will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) related to agriculture.

References

ASPE	IFRS
• Section 3041 - Agriculture	• IAS 41 – Agriculture • IAS 2 – Inventories • IAS 16 – Property, Plant and Equipment • IAS 37, Provisions, Contingent Liabilities and Contingent Assets • IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

Overview of Major Differences

ASPE and IFRS contain significant differences concerning agriculture. A critical difference is that under ASPE, a biological asset can be classified as either a productive biological asset or an agricultural inventory, depending on its intended use and the length of its productive life. This is not converged with IFRS, which only distinguishes between biological assets and agricultural produce.

Under ASPE, productive biological assets are measured at cost less accumulated amortization and impairment. Agricultural inventories have an accounting policy choice to be measured using either the cost model or the net realizable value model. There is another accounting policy choice within the cost model to measure inventories using either full cost or input costs only.

Under IFRS, biological assets are initially measured at fair value less estimated point-of-sale costs; unless no reliable measurement of fair value can be found, they can be measured at cost less accumulated depreciation and impairment. Agricultural produce is measured at fair value less cost to sell at the point of harvest. This measurement is then the deemed cost when recognizing the inventory in accordance with IAS 2, Inventories.

Another significant difference exists between the two standards concerning contracts to sell agricultural produce at a future date. While ASPE considers a firm contract price to supersede fair value in measuring the net realizable value of inventories, IFRS does not adjust the value because of the existence of a contract. In cases where the contract price is less than fair value, an onerous contract would have to be considered per *IAS 37, Provisions, Contingent Liabilities and Contingent Assets.*

ASPE-IFRS differential rating scale

Both ASPE and IFRS converge in the following scenarios:

1) Under IFRS, if the fair value of a biological asset cannot be measured reliably, the biological asset is measured at cost less accumulated amortization; however, as an industry practice, this treatment under IFRS is presumed to be rare and exceptional. Also, neither standard deals with products resulting from processing after harvest (i.e. transforming harvested grapes into wine).
2) Under ASPE, agricultural inventories may be measured using the cost or net realizable value models. When the cost model is applied, cost is assigned using the specific identification, first-in, first-out ("FIFO") or weighted average cost formulas. This is converged with IFRS, where the carrying amounts of agricultural produce post harvest are measured per IAS 2, which is converged with ASPE's cost model.

Scope

The scope of agriculture under IAS 41 and Section 3041 are similar except with two key items: bearer plants and government assistance.

Bearer plants

A bearer plant is a living plant used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce. IAS 41 scopes out bearer plants. Bearer plants are accounted for in accordance with IAS 16 – *Property, plant and equipment*. Section 3041 scopes in bearer plants. They are classified as agricultural inventories until they are put into productive use (begin bearing fruit), at which point they are reclassified to productive biological assets.

Government assistance

IAS 41 scopes in government assistance for biological assets (except for bearer plants), while Section 3800 – *Government assistance* provides guidance on the accounting for government grants.

The classification of agricultural assets are under ASPE and IFRS are significantly different:

ASPE	IFRS
Productive biological assets are biological assets that meet **all** of the following criteria: • Held for use in the production or supply of agricultural inventories or other productive biological assets; • Acquired or developed for use on a continuing basis with other than short productive lives; and • Not intended for sale in the ordinary course of business	Biological assets are living animals or plants.
Examples of productive biological assets: • Dairy cattle • Bearer plants • Laying hens	Examples of biological assets: • Dairy cattle • Beef cattle • Laying hens • Meat chickens
Agricultural inventories are biological assets **or** the harvested products of biological assets that meet **one** of the following criteria: • Held for sale in the ordinary course of business; • In the process of agricultural production to be held for sale or use in a productive capacity;	Agricultural produce is the harvested produce of the entity's biological assets.

• In the form of raw materials or supplies to be consumed in the enterprise's agricultural production process; or • Held for use in a productive capacity with short productive lives.	
Examples of agricultural inventories: • Milk • Picked fruit • Beef cattle • Meat chickens • Eggs	Examples of agricultural inventories: • Milk • Picked fruit • Eggs

Recognition

The initial recognition requirements are significantly different between ASPE and IFRS.

ASPE	IFRS
Productive biological assets and agricultural inventories are recognized when: • They embody a future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash flows; • The entity can control access to the benefit; and • The transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.	Biological assets or agricultural produce are recognized when: • The entity controls the asset as a result of a past event • 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.
There is a presumption on initial recognition that any biological assets not used in productive capacity are agricultural inventories. This presumption can be rebutted, and an asset shall be deemed a productive biological asset only if, on initial recognition, there is an intention to develop the biological asset into a productive one.	

Under ASPE, some facts and circumstances can change the use of the biological asset or agricultural inventory, which results in a reclassification of the asset and a change in its initial recognition.

In some instances, an agricultural producer will need to reclassify an item of agricultural inventory as a productive biological asset when they begin using it in a productive capacity. The carrying amount of the agricultural inventory is the deemed cost of the productive biological asset.

> *For example, if a farm raises dairy cattle and beef cattle, all calves would be classified as agricultural inventory on initial recognition. However, once a calf has matured and is determined to be a milker, it would be reclassified as a productive biological asset.*

An item that is initially or subsequently classified as a productive biological asset cannot be reclassified as agricultural inventory in the future.

When an agricultural producer commences a secondary process to transform the agricultural inventory into a different asset, the item is reclassified per *Section 3031 – Inventories*. The carrying amount of the agricultural inventory on the date of reclassification is the deemed cost.

IFRS does not have a change in use, and assets are classified solely based on their form, not their function.

Measurement – Biological Assets (IFRS) and Productive Biological Assets (ASPE)

The measurement requirements are significantly different between ASPE and IFRS.

ASPE	IFRS
Productive biological assets are stated at cost less accumulated amortization and impairment losses. If productive biological assets are managed on a collective basis to maintain their collective productive capacity indefinitely (such as a herd of livestock managed collectively to meet a production quota indefinitely). These assets have an indefinite life and are not subject to amortization until their life is determined to no longer be indefinite.	Biological assets (excluding bearer plants, which are outside of the scope of the standard) are measured at fair value less estimated point-of-sale costs, except where fair value cannot be estimated reliably. If no reliable fair value measurement exists, biological assets are stated at cost less accumulated amortization and impairment losses. Once the fair value of the biological asset becomes reliably measurable, the fair value must be used to measure the biological asset.
An impairment loss is recognized when the carrying amount of a biological asset or group of biological assets is not recoverable and is greater than its fair value. The impairment loss is measured as the difference between the carrying amount and the fair value and is included in net income in the period it arises. The impairment loss is not reversed if the fair value subsequently increases.	The gain or loss on changes in fair value is included in profit or loss in the period it arises.
When a productive biological asset is no longer being used in a productive capacity, it must be measured at the lower of its carrying amount and the fair value less cost to sell until it is sold or disposed of. The asset is no longer amortized. A loss is recognized for the initial and subsequent write-downs to fair value less cost to sell. Any gains due to subsequent increases in fair value less costs to sell are recognized up to the cumulative loss previously recognized. Any gain or loss not previously recognized that results from a sale is recognized at the sale date.	When a biological asset meets the criteria to be classified as held for sale (or is included in a disposal group classified as held for sale) per IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably. The asset must be measured at its fair value less costs to sell until disposal.

Cost Method

Under both standards, when the cost method is applied to biological assets or productive biological assets, cost is defined as the amount of consideration given up to acquire, develop or better the productive biological assets. Costs would also include any asset retirement obligation costs.

- Acquisition costs include commissions, legal fees, freight charges, transportation insurance costs, and duties.
- Development costs are incurred during the period where the biological assets are maturing to become productive. These include direct costs for items such as feed, fertilizer, and direct labour, directly attributable overheads costs, and carrying costs such as interest when the entity's accounting policy is to capitalize interest. Capitalization of development costs ceases when the asset becomes productive.
- Net revenues or expenses derived from biological assets before they become productive are included in the cost calculation.
- Any costs incurred that enhance the service potential of a biological asset measured at cost are considered a betterment and included in the asset costs.

Amortization is recognized in a rational and systemic manner appropriate to the nature of the biological asset with a limited life and its use by the agricultural producer.

Measurement – Agricultural Produce (IFRS) and Agricultural Inventories (ASPE)

The measurement requirements are significantly different between ASPE and IFRS.

ASPE	IFRS
An accounting policy choice is made to measure agricultural inventories using either the cost or net realizable value models. The net realizable value model can only be applied when all of the following conditions are met: • The product has a reliable, readily determinable and realizable market price (i.e. the price is quoted in an active market such as a commodity exchange or auction, by a local dealer or in a trade publication, or the price is based on a firm sales contract); • The product has reliably measurable and predictable costs of disposal; and • The product is available for immediate delivery (i.e. the product could be sold to a buyer in its present condition (e.g. an active market exists), or only relatively insignificant activities remain to bring the product to a location and condition in which it could be sold). Once an accounting policy choice is made, the policy must be applied consistently to all agricultural inventories of a similar nature and use.	Agricultural produce, harvested from biological assets, is measured at fair value less costs to sell at the point of harvest. The fair value less costs to sell at the point of harvest is considered the "deemed cost" or carrying value, and the inventory is then measured by applying IAS 2 – *Inventories*.
When the cost model is applied, the cost of agricultural inventories is assigned using the specific identification, first-in, first-out ("FIFO") or weighted average cost formulas. The carrying amount of the agricultural inventories is recognized as an expense in the period of sale.	The carrying value of agricultural produce is assigned using the specific identification, first-in, first-out ("FIFO") or weighted average cost formulas. The carrying amount of the agricultural inventories is recognized as an expense in the period of sale.
Changes in the carrying amount of inventories under the cost model or net realizable value model are recognized in net income in the period they arise.	The gain or loss on changes in fair value is included in profit or loss in the period it arises.

Cost Model

Agricultural inventories are measured at the lower cost and net realizable value when the cost method is used. An agricultural producer makes an accounting policy choice to determine the cost of its inventories using either the full cost **or** input cost method. Once an accounting policy choice is made, it is applied consistently to all agricultural inventories measured using the cost model that has a similar nature and use.

The full cost of agricultural inventories includes all input costs and other costs of production incurred to bring the agricultural inventories to their present location and condition.

- **Input costs** include the purchase price, import duties and other taxes (other than recoverable from taxing authorities), transport handling and other costs directly attributable to the acquisition of materials and services used in the development and harvest of biological assets. Trade discounts, rebates and other similar items are dedicated to determining input costs. Direct labour is also included to the extent that it is readily determinable and directly relates to the agricultural inventories produced.
- **Other costs incurred** to develop a systematic allocation of fixed and variable production overheads incurred to develop and harvest biological assets and all other costs incurred to develop and harvest biological assets.

Write-downs

When the cost of agricultural inventories exceeds their net realizable value, the agricultural inventories are written down to their net realizable value.

When the circumstances that previously caused agricultural inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the write-down amount is reversed.

The reversal is limited to the amount of the original write-down so that the new carrying amount does not exceed the cost of the agricultural inventories before the write-down.

Net Realizable Value Model

Reliable sources for determining net realizable value are third-party, verifiable and publicly available sources of prices that are regularly updated and published close to the end of the reporting period.

Net realizable value also considers the market in which the transactions occur. If the agricultural inventories are held to satisfy firm sales contracts, net realizable value is based on the contract price. If there are no firm sales contracts in place or sales contracts are for less than the quantities of the inventories held, the net realizable value of the excess is based on realizable market prices from the market in which the agricultural producer expects to transact.

If a company has opted to apply the net realizable value model, but events occur or circumstances change which indicate that the conditions for using the net realizable value model are no longer met. In that case, the carrying amount of the agricultural inventories becomes its deemed cost, and the cost method must be applied until the events or circumstances reverse.

> *For example, suppose a trade dispute or international conflict occurs that eliminates the majority of the farmer's active market and product cannot be readily sold. Therefore, the cost method would need to be applied with the net realizable value becoming the deemed cost.*

The inventory should be remeasured each period, and the changes in the carrying amount are recognized in net income in the period they arise.

Derecognition

Agricultural inventories/produce are derecognized when sold, according to the applicable standard within ASPE or IFRS. Please refer to our Comparison Series document on revenue recognition for further guidance.

Conclusion

Section 3041 is significantly different from IFRS with respect to the classification and measurement of biological assets and agricultural produce. If you require further guidance on accounting for agriculture under ASPE or IFRS, please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Accounting Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.