

Exposure Draft

Indian Accounting Standard (Ind AS) 41

Agriculture

(Last date for Comments: November 15, 2011)



Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Indian Accounting Standard (Ind AS) 41

Agriculture

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Exposure Draft

Indian Accounting Standard (Ind AS) 41

Agriculture

The following is the Exposure Draft of the Indian Accounting Standard (Ind AS) 41, Agriculture, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. The Board would particularly welcome answers to the questions set out below. The Board would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than November 15, 2011. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.

*(This Exposure Draft of the Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹)*

Question 1:

The Exposure Draft of Ind AS 41, Agriculture, proposes to scope out bearer agricultural plants as defined in paragraph 8 of this Exposure Draft, which are proposed to be covered by Ind AS 16, Property, Plant and Equipment. It is felt that such plants are of the nature of plant and machinery since they are kept for the purpose of obtaining produce therefrom, e.g., tea bushes, fruit bearing trees in orchards, grapevines etc. Accordingly, to such bearer biological plants, the principles of recognition, measurement and disclosures of Ind AS 16 will apply and not the fair value model as per IAS 41. Ind AS 16 requires componentization of the items covered by this standard. Accordingly, in respect of bearer agricultural plants, for example, in tea gardens, besides the tea bushes, shade

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

trees are planted to provide shade to the tea bushes. Under componentization approach separate depreciation rates may have to be applied for such trees and tea bushes as their lives may be different.

What are the difficulties which you envisage in applying Ind AS 16 to bearer agricultural plants particularly the componentization principle.

Question 2:

Ind AS 16 allows revaluation model as an alternative to cost model. Do you feel that revaluation model should be permitted for bearer agricultural plants keeping in view the fact that such plants have been scoped out from Ind AS 41 as it is felt that fair value model is not appropriate for such plants?

Objective

The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity.

Scope

- 1 **This Standard shall be applied to account for the following when they relate to agricultural activity:**
 - (a) **consumable agricultural plants and animals;**
 - (b) **agricultural produce of biological assets at the point of harvest; and**
 - (c) **government grants covered by paragraphs 34 and 35.**
- 2 This Standard does not apply to:
 - (a) bearer agricultural plants (see Ind AS 16, *Property, Plant and Equipment*).
 - (b) land related to agricultural activity (see Ind AS 16, *Property, Plant and Equipment* and Ind AS 40 *Investment Property*); and
 - (c) intangible assets related to agricultural activity (see Ind AS 38, *Intangible Assets*).
- 3 This Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, Ind AS 2 *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for

example, the processing of tea leaves into black tea by a tea company who has grown the tea leaves. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

- 4 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

| Biological assets | Agricultural produce | Products that are the result of processing after harvest |
|------------------------------|-----------------------------|---|
| Sheep | Wool | Yarn, carpet |
| Trees in a plantation forest | Felled trees | Logs, lumber |
| Plants | Cotton | Thread, clothing |
| | Harvested cane | Sugar |
| | Rice, wheat, oil seed | |
| Dairy cattle | Milk | Cheese |
| Pigs | Carcass | Sausages, cured hams |
| Bushes | Leaf | Tea, cured tobacco |
| Vines | Grapes | Wine |
| Fruit trees | Picked fruit | Processed fruit |

Definitions

Agriculture-related definitions

- 5 The following terms are used in this Standard with the meanings specified:

Agricultural activity is the management by an entity of

(a) the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets; and/or

(b) biological assets for their agricultural produce.

Agricultural produce is the harvested product of the entity's biological assets.

A *biological asset* is a living animal or plant. Plants are further classified into bearer agricultural plants or consumable agricultural plants.

Bearer agricultural plants are the plants that

(a) are cultivated for use in the production or supply of agricultural produce to others, and

(b) are expected to be used during more than one period.

***Consumable agricultural plants* are plants other than bearer agricultural plants.**

***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 consumable agricultural plant's life processes.**

6 Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture and aquaculture (including fish farming). 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. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

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

6A. Bearer agricultural plants are assets held for generation of income from sale of agricultural produce but are not agricultural produce themselves. Examples of bearer agricultural plants are bushes cultivated for tea leaves, plants cultivated for cotton fibres, fruit trees cultivated for fruits such as olives, apples and oil palm fruit bunches and vines cultivated for grapes.

Consumable agricultural plants include:

(a) those that are cultivated to be harvested as agricultural produce, for example trees being grown for lumber; and

(b) those that are cultivated annually for bearing agricultural produce, for example crops such as maize and wheat.

- 7 Biological transformation results in the following types of outcomes:
- (a) asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
 - (b) production of agricultural produce such as latex, tea leaf, wool, and milk.

General definitions

- 8 The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised in the balance sheet.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Ind AS 113, *Fair Value Measurement*).

Government grants are as defined in Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

- 9 [Refer to Appendix 1]

Recognition and measurement

- 10 An entity shall recognise a biological asset that is an animal or a consumable agricultural plant or agricultural produce when, and only when:
- (a) the entity controls the asset as a result of past events;
 - (b) it is probable that future economic benefits associated with the asset will flow to the entity; and
 - (c) the fair value or cost of the asset can be measured reliably.
- 11 In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes.
- 12 A biological asset that is an animal or a consumable agricultural plant shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.

- 13 **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 Ind AS 2 Inventories or another applicable Standard.**
- 14 [Refer to Appendix 1]
- 15 The fair value measurement for a biological asset that is an animal or a consumable agricultural plant or agricultural produce may be facilitated by grouping biological assets that are animals or consumable agricultural plants or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.
- 16 Entities often enter into contracts to sell their biological assets that are animals or consumable agricultural plants or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset that is an animal or a consumable agricultural plant or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset that is an animal or a consumable agricultural plant or agricultural produce may be an onerous contract, as defined in Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Ind AS 37 applies to onerous contracts.
- 17 -21 [Refer to Appendix 1]
- 22 An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets that are animals or consumable agricultural plants after harvest (for example, the cost of replanting trees in a plantation forest after harvest).
- 23 [Refer to Appendix 1]
- 24 Cost may sometimes approximate fair value, particularly when:
- (a) little biological transformation has taken place since initial cost incurrence (for example, seedlings planted immediately prior to the end of a reporting period); or
 - (b) the impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).
- 25 Biological assets that are consumable agricultural plants are often physically attached to land (for example, crops in a field). There may be no separate market for biological assets that are consumable agricultural plants that are attached to the land but an active market may exist for the combined assets, that is, for the

biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets that are consumable agricultural plants. For example, 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 that are consumable agricultural plants.

Gains and losses

- 26 A gain or loss arising on initial recognition of a biological asset that is an animal or a consumable agricultural plant at fair value less costs to sell and from a change in fair value less costs to sell of such a biological asset shall be included in profit or loss for the period in which it arises.**
- 27 A loss may arise on initial recognition of a biological asset that is an animal or a consumable agricultural plant, because costs to sell are deducted in determining fair value less costs to sell of such a biological asset that is an animal or a consumable agricultural plant. A gain may arise on initial recognition of a biological asset that is an animal or a consumable agricultural plant, such as when a calf is born.
- 28 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.**
- 29 A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to measure fair value reliably

- 30 There is a presumption that fair value can be measured reliably for a biological asset that is an animal or a consumable agricultural plant. However, that presumption can be rebutted only on initial recognition for such a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any 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. Once a non-current biological asset that is an animal or a consumable agricultural plant meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.**
- 31 The presumption in paragraph 30 can be rebutted only on initial recognition. An entity that has previously measured a biological asset that is an animal or a consumable agricultural plant at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.

- 32 In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.
- 33 In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers Ind AS 2 Inventories, Ind AS 16 *Property, Plant and Equipment* and Ind AS 36 *Impairment of Assets*.

Government grants

- 34 **An unconditional government grant related to a biological asset that is an animal or a consumable agricultural plant measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.**
- 35 **If a government grant related to a biological asset that is an animal or a consumable agricultural plant measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.**
- 36 Terms and conditions of government grants vary. For example, a grant may require an entity to farm in a particular location for five years and require the entity to return all of the grant if it farms for a period shorter than five years. In this case, the grant is not recognised in profit or loss until the five years have passed. However, if the terms of the grant allow part of it to be retained according to the time that has elapsed, the entity recognises that part in profit or loss as time passes.
- 37 If a government grant relates to a biological asset that is an animal or a consumable agricultural plant measured at its cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), Ind AS 20 is applied.
- 38 This Standard requires a different treatment from Ind AS 20, if a government grant relates to a biological asset that is an animal or a consumable agricultural plant measured at its fair value less costs to sell or a government grant requires an entity not to engage in specified agricultural activity. Ind AS 20 is applied only to a government grant related to a biological asset that is an animal or a consumable agricultural plant measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Disclosure

- 39 [Refer to Appendix 1]

General

- 40** An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets that are animals or consumable agricultural plants and agricultural produce and from the change in fair value less costs to sell of such biological assets.
- 41** An entity shall provide a description of each group of biological assets that are animals or consumable agricultural plants.
- 42 The disclosure required by paragraph 41 may take the form of a narrative or quantified description.
- 43 An entity is encouraged to provide a quantified description of each group of biological assets that are animals or consumable agricultural plants, distinguishing between mature and immature biological assets that are animals or consumable agricultural plants, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.
- 44 [Refer to Appendix1]
- 45 Biological assets that are animals or consumable agricultural plants may be classified either as mature or immature. Mature biological assets that are animals or consumable agricultural plants are those that have attained harvestable specifications.
- 46** If not disclosed elsewhere in information published with the financial statements, an entity shall describe:
- (a)** the nature of its activities involving each group of biological assets that are animals or consumable agricultural plants; and
 - (b)** non-financial measures or estimates of the physical quantities of:
 - (i)** each group of the entity's biological assets that are animals or consumable agricultural plants at the end of the period; and
 - (ii)** output of agricultural produce during the period.
- 47 -48** [Refer to Appendix 1]
- 49** An entity shall disclose:
- (a)** the existence and carrying amounts of biological assets that are animals or consumable agricultural plants whose title is restricted, and the carrying amounts of such biological assets pledged as security for liabilities;

- (b) **the amount of commitments for the development or acquisition of biological assets that are animals or consumable agricultural plants; and**
 - (c) **financial risk management strategies related to agricultural activity.**
- 50 **An entity shall present a reconciliation of changes in the carrying amount of biological assets that are animals or consumable agricultural plants between the beginning and the end of the current period. The reconciliation shall include:**
 - (a) **the gain or loss arising from changes in fair value less costs to sell;**
 - (b) **increases due to purchases;**
 - (c) **decreases attributable to sales and biological assets that are animals or consumable agricultural plants classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105;**
 - (d) **decreases due to harvest;**
 - (e) **increases resulting from business combinations;**
 - (f) **net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and**
 - (g) **other changes.**
- 51 **The fair value less costs to sell of a biological asset that is an animal or a consumable agricultural plant can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in profit or loss due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).**
- 52 **Biological transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits. A change in fair value of a biological asset that is an animal or a consumable agricultural plant due to harvesting is also a physical change.**
- 53 **Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the**

nature and amount of that item are disclosed in accordance with Ind AS 1 *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional disclosures for biological assets that are animals or consumable agricultural plants where fair value cannot be measured reliably

- 54** If an entity measures biological assets that are animals or consumable agricultural plants at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30) at the end of the period, the entity shall disclose for such biological assets:
- (a)** a description of the biological assets;
 - (b)** an explanation of why fair value cannot be measured reliably;
 - (c)** if possible, the range of estimates within which fair value is highly likely to lie;
 - (d)** the depreciation method used;
 - (e)** the useful lives or the depreciation rates used; and
 - (f)** the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- 55** If, during the current period, an entity measures biological assets that are animals or consumable agricultural plants at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:
- (a)** impairment losses;
 - (b)** reversals of impairment losses; and
 - (c)** depreciation.
- 56** If the fair value of biological assets that are animals or consumable agricultural plants previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

- (a) a description of the biological assets;
- (b) an explanation of why fair value has become reliably measurable; and
- (c) the effect of the change.

Government grants

57 An entity shall disclose the following related to agricultural activity covered by this Standard:

- (a) the nature and extent of government grants recognised in the financial statements;
- (b) unfulfilled conditions and other contingencies attaching to government grants; and
- (c) significant decreases expected in the level of government grants.

Effective date and transition

58 [Refer to Appendix 1]

Illustrative examples

These examples accompany, but are not part of, Ind AS 41.

- A1 Example 1 illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less costs to sell of an entity's biological assets that are animals or consumable agricultural plants into physical change and price change. That separation is reflected in Example 1. Example 2 illustrates how to separate physical change and price change.
- A2 The financial statements in Example 1 do not conform to all of the disclosure and presentation requirements of other Standards. Other approaches to presentation and disclosure may also be appropriate.

Example 1 XYZ Dairy Ltd

Balance Sheet

(Amount in Rs.)

| XYZ Dairy Ltd | Notes | 31 December 20X1 | 31 December 20X0 |
|---|-------|---------------------|---------------------|
| Balance Sheet | | | |
| ASSETS | | | |
| Non-current assets | | | |
| Dairy livestock – immature ² | | 52,060 | 47,730 |
| Dairy livestock – mature ² | | 372,990 | 411,840 |
| Subtotal – livestock assets | 3 | 3425,050 | 459,570 |
| Property, plant and equipment | | 1,462,650 | 1,409,800 |
| Total non-current assets | | 1,887,700 | 1,869,370 |
| Current assets | | | |
| Inventories | | 82,950 | 70,650 |
| Trade and other | | 88,000 | 65,000 |

² An entity is encouraged, but not required, to provide a quantified description of each group of biological assets that are animals or consumable agricultural plants, distinguishing between mature and immature, as appropriate. An entity discloses the basis for making any such distinctions.

| | | | |
|-------------------------------------|--|------------------|------------------|
| receivables | | | |
| Cash | | 10,000 | 10,000 |
| Total current assets | | 180,950 | 145,650 |
| Total assets | | 2,068,650 | 2,015,020 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Issued capital | | 1,000,000 | 1,000,000 |
| Retained earnings | | 902,828 | 865,000 |
| Total equity | | 1,902,828 | 1,865,000 |
| Current liabilities | | | |
| Trade and other payables | | 165,822 | 150,020 |
| Total current liabilities | | 165,822 | 150,020 |
| Total equity and liabilities | | 2,068,650 | 2,015,020 |

Statement of changes in equity (presented as a part of Balance Sheet)

(Amount in Rs.)

| XYZ Dairy Ltd Statement of changes in equity | Year ended 31 December 20X1 | | |
|---|-----------------------------|-------------------|------------------|
| | Share capital | Retained earnings | Total |
| Balance at 1 January 20X1 | 1,000,000 | 865,000 | 1,865,000 |
| Profit/comprehensive income for the year | | 37,828 | 37,828 |
| Balance at 31 December 20X1 | 1,000,000 | 902,828 | 1,902,828 |

Statement of profit and loss

(Amount in Rs.)

| XYZ Dairy Ltd | Notes | Year ended |
|--|-------|------------------|
| Statement of profit and loss | | 31 December 20X1 |
| Fair value of milk produced | | 518,240 |
| Gains arising from changes in fair value less costs to sell of dairy livestock | 3 | 39,930 |
| | | 558,170 |
| Inventories used | | (137,523) |
| Staff costs | | (127,283) |
| Depreciation expense | | (15,250) |
| Other operating expenses | | (197,092) |
| | | (477,148) |

| | | |
|---|--|---------------|
| Profit from operations | | 81,022 |
| Income tax expense | | (43,194) |
| Profit/comprehensive income for the year | | 37,828 |

Statement of cash flows³

(Amount in Rs.)

| XYZ Dairy Ltd | Notes | Year ended |
|--|-------|-------------------------|
| Statement of cash flows | | 31 December 20X1 |
| Cash flows from operating activities | | |
| Cash receipts from sales of milk | | 498,027 |
| Cash receipts from sales of livestock | | 97,913 |
| Cash paid for supplies and to employees | | (460,831) |
| Cash paid for purchases of livestock | | (23,815) |
| | | 111,294 |
| Income taxes paid | | (43,194) |
| Net cash from operating activities | | 68,100 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | | (68,100) |
| Net cash used in investing activities | | (68,100) |
| Net increase in cash | | 0 |
| Cash at beginning of the year | | 10,000 |
| Cash at end of the year | | 10,000 |

Notes

1 Operations and principal activities

XYZ Dairy Ltd ('the Company') is engaged in milk production for supply to various customers. At 31 December 20X1, the Company held 419 cows able to produce milk (mature assets) and 137 heifers being raised to produce milk in the future (immature assets). The Company produced 157,584 kg of milk with a fair value less costs to sell of Rs 518,240 (at the time of milking) in the year ended 31 December 20X1.

³ This statement of cash flows reports cash flows from operating activities using the direct method. Ind AS 7 *Statement of Cash Flows* requires that an entity report cash flows from operating activities using either the direct method or the indirect method. Ind AS 7 encourages use of the direct method.

2 Accounting policies

Livestock and milk

Livestock are measured at their fair value less costs to sell. The fair value of livestock is based on quoted prices of livestock of similar age, breed, and genetic merit in the principal (or most advantageous) market for the livestock. Milk is initially measured at its fair value less costs to sell at the time of milking. The fair value of milk is based on quoted prices in the local area in the principal (or most advantageous) market for the milk.

3 Biological assets

(Amount in Rs.)

| Reconciliation of carrying amounts of dairy livestock | 20X1 |
|--|----------------|
| Carrying amount at 1 January 20X1 | 459,570 |
| Increases due to purchases | 26,250 |
| Gain arising from changes in fair value less costs to sell attributable to physical changes ⁴ | 15,350 |
| Gain arising from changes in fair value less costs to sell attributable to price changes ⁴ | 24,580 |
| Decreases due to sales | (100,700) |
| Carrying amount at 31 December 20X1 | 425,050 |

4 Financial risk management strategies

The Company is exposed to financial risks arising from changes in milk prices. The Company does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Company reviews its outlook for milk prices regularly in considering the need for active financial risk management.

Example 2 Physical change and price change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of 10 2 year old animals was held at 1 January 20X1. One animal aged 2.5 years was purchased on 1 July 20X1 for Rs 108, and one animal

⁴ Separating the increase in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard

was born on 1 July 20X1. No animals were sold or disposed of during the period. Per-unit fair values less costs to sell were as follows:

(Amount in Rs.)

| | |
|---|-----|
| 2 year old animal at 1 January 20X1 | 100 |
| Newborn animal at 1 July 20X1 | 70 |
| 2.5 year old animal at 1 July 20X1 | 108 |
| Newborn animal at 31 December 20X1 | 72 |
| 0.5 year old animal at 31 December 20X1 | 80 |
| 2 year old animal at 31 December 20X1 | 105 |
| 2.5 year old animal at 31 December 20X1 | 111 |
| 3 year old animal at 31 December 20X1 | 120 |

| | | |
|--|-------|-------|
| Fair value less costs to sell of herd at 1 January 20X1 (10 x 100) | | 1,000 |
| Purchase on 1 July 20X1 (1 x 108) | | 108 |
| Increase in fair value less costs to sell due to price change: | | |
| 10 x (105 – 100) | 50 | |
| 1 x (111 – 108) | 3 | |
| 1 x (72 – 70) | 2 | 55 |
| Increase in fair value less costs to sell due to physical change: | | |
| 10 x (120 – 105) | 150 | |
| 1 x (120 – 111) | 9 | |
| 1 x (80 – 72) | 8 | |
| 1 x 70 | 70 | 237 |
| Fair value less costs to sell of herd at 31 December 20X1 | | |
| 11 x 120 | 1,320 | |
| 1 x 80 | 80 | 1,400 |

Appendix A

Amendments to other Indian Accounting Standards

Amendments to Ind AS 16 *Property, Plant and Equipment*

Paragraph 3 is amended (new text is underlined). Paragraphs 5A and 79A and a heading after paragraph 79 are added.

Scope

- 3 This Standard does not apply to:
- (a) property, plant and equipment classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*;
 - (b) biological assets that are animals or consumable agricultural plants related to agricultural activity (see Ind AS 41 *Agriculture*);
 - (c) the recognition and measurement of exploration and evaluation assets (see Ind AS 106 *Exploration for and Evaluation of Mineral Resources*); or
 - (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).

- 5A This Standard shall be applied in accounting for bearer agricultural plants as defined in Ind AS 41. Biological assets growing on bearer plants (for example, fruits growing on a tree) are separately recognised and valued at fair value at the point of harvest in accordance with Ind AS 41.

Government grants

- 79A An entity shall disclose the following related to agricultural activity of bearer agricultural plants covered by this Standard:

- (a) the nature and extent of government grants recognised in the financial statements;

- (b) unfulfilled conditions and other contingencies attaching to government grants; and
- (c) significant decreases expected in the level of government grants.

Amendments to Ind AS 2 *Inventories*

Paragraph 2 is amended (new text is underlined).

Scope

- 2 This Standard applies to all inventories, except:
- (a) work in progress arising under construction contracts, including directly related service contracts (see Ind AS 11 *Construction Contracts*);
 - (b) financial instruments; and
 - (c) biological assets (i.e., living animals or plants) related to agricultural activity and agricultural produce at the point of harvest (see Ind AS 16 *Property, Plant and Equipment* and Ind AS 41 *Agriculture*).

Appendix 1

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, between Indian Accounting Standard (Ind AS 41) and the corresponding International Accounting Standard (IAS) 41, Agriculture (amended up to September 2011) issued by the International Accounting Standards Board:

Comparison with IAS 41, Agriculture

1. Exposure Draft of Ind AS 41 scopes out bearer agricultural plants from the application of this standard as it is felt that fair value model as per IAS 41 is not appropriate for such assets. These are proposed to be covered by Ind AS 16, *Property, Plant & Equipment*. Accordingly, this standard is applicable to consumable agricultural plants and animals. In view of this, definitions of bearer agricultural plants and consumable agricultural plants have been added in paragraph 5. Paragraph 6A has been added to explain the consumable and bearer agricultural plants and paragraph 44 has been deleted in this context. However, the deleted paragraph number has been retained to maintain consistency with IAS 41. Keeping in view the aforesaid changes in the scope, relevant changes in other paragraphs have also been made.
2. Accounting Standards Board is in the process of issuing the Exposure Draft of Ind AS 113, *Fair Value Measurement*. It is expected that Ind AS 41 and Ind AS 113 would come into effect on the same date. Accordingly, relevant changes have been made in the Exposure Draft of Ind AS 41 namely the following:
 - (a) Definition of 'active market' has been deleted from paragraph 8 and the definition of the term 'fair value' has been modified.
 - (b) Paragraphs numbering 9, 17-21, 23, 47 and 48 have been deleted. However, the paragraph numbers have been retained to maintain consistency with IAS 41.
 - (c) Changes have been made in other paragraphs wherever relevant to make it consistent with Ind AS 113.
3. The transitional provision given in paragraph 58 of IAS 41 has been omitted in the Exposure Draft of Ind AS 41, since Ind AS 101, *First-time Adoption of Indian Accounting Standard*, provides that transitional provisions in other Ind ASs do not apply to a first-time adopter's transition to Ind ASs, unless otherwise permitted in Ind AS 101. It is noted that Ind AS 101 does not permit use of the transitional provision given in IAS 41. Accordingly, deleting or retaining the said paragraph would have the same effect. However, paragraph number has been retained to maintain consistency with paragraph numbers of IAS 41.

4. Different terminology is used, to make it consistent with existing laws e.g., term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.
5. The following paragraph numbers appear as 'Deleted 'in IAS 41. In order to maintain consistency with paragraph numbers of IAS 41, the paragraph numbers are retained in Ind AS 41:
 - (i) paragraph 14
 - (ii) paragraph 39