

Amendments to HKAS 16 & 41 - Bearer Plants



Introduction

HKAS 41 "Agriculture" currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits.

The Amendments state that bearer plants should be accounted for in the same way as property, plant and equipment in HKAS 16 "Property, Plant and Equipment", because their operation is similar to that of manufacturing. Consequently, the Amendments include them within the scope of HKAS 16 instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

Effective Date and Transitional Provision

An entity shall apply the Amendments retrospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the Amendments for an earlier period, it shall disclose that fact.

An entity may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity first applies the Amendments and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Summary of Amendments

Agricultural produce is the harvested produce of the entity's biological assets. A bearer plant is a living plant that:

- ➡ is 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, except for incidental scrap sales.

When bearer plants are no longer used to bear produce, they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

The following are not bearer plants:

(a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(b) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(c) annual crops (for example, maize and wheat).



Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of HKAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of HKAS 41.

Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in HKAS 16 should be read as covering activities that are necessary to cultivate the bearer plants before they bear produce.

Bearer plants are subsequently measured using the cost model or revaluation model under HKAS 16.

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