



# Exposure Draft

## Proposed Accounting Standards for Private Enterprises

### Agriculture

July 2018

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**COMMENTS TO THE AcSB MUST BE RECEIVED BY  
OCTOBER 31, 2018**

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Respondents are asked to email their comment letters (in a Word file) to:  
[info@acsbcanada.ca](mailto:info@acsbcanada.ca)

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**This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB).**

**Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.**

**Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.**

## Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to issue AGRICULTURE, Section 3041 in Part II of the CPA Canada Handbook – Accounting. This new Section provides agricultural producers with guidance on the accounting for agricultural inventories and productive biological assets. This new Section would also apply to not-for-profit organizations (NFPOs) using the standards in Part III of the Handbook, as relevant.

## Background

Part II of the Handbook does not include specific guidance for the agricultural sector. The AcSB has been informed that there is significant diversity in the accounting in this sector due to the absence of this guidance. In December 2015, the Board issued a [Discussion Paper](#) to obtain input from stakeholders regarding whether the Board should develop authoritative guidance and the issues such guidance should address. In response to stakeholder input, this Exposure Draft proposes a new section in Part II of the Handbook to provide accounting guidance to agricultural producers.

## Main features of the Exposure Draft

The key features of the proposals are as follows:

### *Scope*

- Section 3041 would apply to an agricultural producer's agricultural inventories and productive biological assets, including harvested products of biological assets that have been purchased by an agricultural producer.
- Activities that transform an item of agricultural inventory into a different asset are considered secondary production. Assets that result from secondary production would be within the scope of other Sections, such as INVENTORIES, Section 3031.

### *Recognition*

- Biological assets not used in a productive capacity would be presumed to be agricultural inventories on initial recognition. An agricultural producer could choose to rebut this presumption on initial recognition when its intention is to develop the asset into a productive biological asset.

### *Change in use*

- When an agricultural producer starts using an item of agricultural inventory in a productive capacity, it would reclassify the item from agricultural inventories to productive biological assets. The carrying amount of the item of agricultural inventory would be the deemed cost of the productive biological asset on reclassification.

### *Measurement of agricultural inventories*

- An agricultural producer would make an accounting policy choice to measure agricultural inventories using the cost model, or the net realizable value model when specified conditions are met. This accounting policy choice would be applied to all agricultural inventories of a similar nature and use.
- An agricultural producer that measures agricultural inventories using the cost model would make another accounting policy choice to determine cost using either full cost, or only the input costs directly attributable to the inventories. This accounting policy choice would be applied consistently to all agricultural inventories measured using the cost model.

- Guidance on determining cost using full cost or only input costs would be provided in this new Section.
- Agricultural inventories measured using the cost model would be written down to net realizable value when the cost of the inventories exceeds their net realizable value.
- For agricultural inventories measured using the net realizable value model, changes in net realizable value after initial recognition would be recognized in net income.
- An agricultural producer that makes an accounting policy choice to measure agricultural inventories using the net realizable value model when specified conditions are met would be provided guidance on accounting for changes in circumstances that indicate a change in whether the conditions are met.

### *Measurement of productive biological assets*

- Productive biological assets would be measured at cost less accumulated amortization and impairment, if any.
- Guidance on determining the cost of productive biological assets would be provided in this new Section.
- Productive biological assets managed on a collective basis to maintain their collective productive capacity indefinitely would not be amortized, but would be subject to impairment.
- The impairment requirements of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, would apply to productive biological assets subject to amortization. Guidance on the impairment of productive biological assets not subject to amortization would be provided in this new Section.
- When a productive biological asset is no longer used in a productive capacity, it would be measured at the lower of its carrying amount and fair value less costs to sell until it is sold or disposed of other than by sale.
- Productive biological assets would not be reclassified to agricultural inventories.

### *Disclosure*

- An agricultural producer would be required to disclose the following for its agricultural inventories and productive biological assets:
  - A qualitative description of the assets, the quantities of assets held, and the measurement methodologies used.
  - The carrying amount of the assets and the related amounts recognized in profit or loss during the period.

### *Transition*

- Retrospective application of Section 3041 would be required in accordance with ACCOUNTING CHANGES, Section 1506, except that the transitional provisions would provide the following relief:
  - Agricultural producers would be able to choose on an asset-by-asset basis to measure agricultural inventories or productive biological assets using their net realizable value as their deemed cost at the beginning of the fiscal year in which Section 3041 is first applied.

- Agricultural producers would not be required to make retrospective adjustments for agricultural inventories or productive biological assets that are derecognized during the fiscal year in which Section 3041 is first applied or during the fiscal year immediately preceding the date at which Section 3041 is first applied.

## Consequential amendments

As required, consequential amendments would be made to other standards in Parts II and III of the Handbook.

## Plans for finalizing the proposals

The Board will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's Agriculture Advisory Group and Private Enterprise Advisory Committee. The Agriculture Advisory Group was established to provide advice and recommendations to the Board regarding the development of accounting guidance for the agricultural sector. The Private Enterprise Advisory Committee assists the Board in maintaining and improving accounting standards for private enterprises. The Board will also consult with other stakeholders through outreach activities, such as holding roundtables and conducting additional field testing.

In addition, the Board will consult with its Not-for-Profit Advisory Committee for input on circumstances that are unique to NFPOs when applying the new Section.

The Board will provide updates about its deliberations in its [decision summaries](#) and on the [project page](#).

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the Board plans to issue the final standard in the fourth quarter of 2019 if no significant changes are required to the proposals.<sup>1</sup> In that case, the proposed effective date of the amendments would be for fiscal years beginning on or after January 1, 2021, with earlier application permitted.

## Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

While the Board welcomes comments on all of the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree with the following regarding the scope of Section 3041:
  - (a) Purchased harvested product of biological assets held by an agricultural producer should be included within the scope of Section 3041? If not, why not?
  - (b) Aquaculture and forestry should be included within the scope of Section 3041? If not, why not?
2. Do you agree that referring to the general recognition guidance in FINANCIAL STATEMENT CONCEPTS, Section 1000, is sufficient (see paragraph 3041.10)? If not, what other recognition guidance would be required and why?
3. Do you agree that the rebuttable presumption, whereby biological assets not used in a productive capacity are agricultural inventories on initial recognition (see paragraph 3041.11), will reduce the effort of applying Section 3041? If not, why not?

<sup>1</sup> Refer to the [AcSB's Standard-Setting Due Process Manual](#) – Due Process Specifically Related to Domestic Standards

4. An agricultural producer would be provided an accounting policy choice to measure agricultural inventories of a similar nature and use using either the cost model, or the net realizable value model when specified conditions are met (see paragraph 3041.16).
  - (a) Do you agree that an agricultural producer should be provided a choice to measure agricultural inventories using either the cost model, or the net realizable value model when specified conditions are met? If not, why not?
  - (b) Do you agree that an agricultural producer should be required to apply this accounting policy choice to agricultural inventories of a similar nature and use? If not, why not?
5. The Board proposes that specified conditions must be met in order for agricultural inventories to be measured using the net realizable value model (see paragraph 3041.16(b)).
  - (a) Do you agree with the guidance provided to assist in determining if a product has a reliable, readily determinable and realizable market price (see paragraph 3041.17)? If not, why not?
  - (b) Do you agree that the conditions should require relatively insignificant costs of disposal? If not, why not?
  - (c) Do you agree that the conditions should require predictable costs of disposal? If not, why not?
  - (d) Do you agree with the guidance provided to assist in determining if a product is available for immediate delivery (see paragraph 3041.18)? If not, why not?
6. Do you agree that when an agricultural producer chooses to measure its agricultural inventories using the net realizable value model but the conditions are not met, the agricultural producer should be required to apply the cost model to measure its agricultural inventories until the conditions are met (see paragraph 3041.19)? If not, why not?
7. An agricultural producer would be required to make an accounting policy choice to measure agricultural inventories using either the cost model, or the net realizable value model when specified conditions are met. A change in accounting policy would need to meet the requirements in ACCOUNTING CHANGES, paragraph 1506.06. If these requirements are met, then the change in accounting policy would be applied retrospectively.
  - (a) Do you foresee circumstances when an agricultural producer may want or need to change this accounting policy? If so, what are they?
  - (b) Do you agree that the requirements in ACCOUNTING CHANGES, paragraph 1506.06 would permit both a change in accounting policy from measuring agricultural inventories using the cost model to the net realizable value model and vice versa? If not, please state whether you think that both changes in accounting policy should be permitted and if there are factors that could prevent such changes.
8. An agricultural producer that measures agricultural inventories using the cost model would be provided an accounting policy choice to determine cost for all agricultural inventories using only input costs or full cost (see paragraph 3041.20).
  - (a) Do you agree with the components of input costs proposed in Section 3041 (see paragraphs 3041.24-.25)? If not, why not?
  - (b) Do you agree that an agricultural producer should be provided a choice to determine cost using only input costs or full cost? If not, why not?
  - (c) Do you agree that an agricultural producer should be required to apply this accounting policy choice consistently to all agricultural inventories measured using the cost model? If not, why not?

9. The Board proposes that an agricultural producer that changes its accounting policy for the determination of cost for agricultural inventories from only input costs to full cost may do so prospectively, as defined in ACCOUNTING CHANGES, Section 1506, to encourage more enterprises to account for agricultural inventories at full cost. A change in accounting policy from full cost to only input costs would be prohibited under Section 1506 because it would not meet the criterion in paragraph 1506.06(b). Do you foresee circumstances when an agricultural producer may want or need to change its accounting policy from full cost to only input costs? If so, what are they?
10. Do you agree that productive biological assets managed on a collective basis to maintain their collective productive capacity indefinitely should not be amortized, but should be subject to impairment? If not, why not?
11. Do you agree that a productive biological asset to be disposed of by sale, or other than by sale, should be measured at the lower of its carrying amount and fair value less costs to sell, to be consistent with the measurement guidance in DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475? If not, why not?
12. The Board proposes that Section 3041 be applied retrospectively in accordance with ACCOUNTING CHANGES, Section 1506, with transitional provisions.
  - (a) Do you agree that Section 3041 should be applied retrospectively (see paragraph 3041.90)? If not, why not?
  - (b) Do you agree with the proposed transitional provision that, on an asset-by-asset basis, an agricultural producer may choose to use net realizable value as the deemed cost for agricultural inventories or productive biological assets (see paragraph 3041.91)? If not, why not?
13. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2021? If not, why not?
14. Do you agree that agricultural producers that are NFPOs would be required to apply Section 3041 to account for their agricultural inventories and productive biological assets? If not, why not?
15. Paragraphs 13-22 of the Basis for Conclusions set out the Board's assessment of the effects of the proposals, including a cost-benefit analysis. Do you agree with the Board's assessment of the effects of the proposals? If not, why not?

The deadline for providing your comment letter to the Board is October 31, 2018. You may email your comments (Word format preferred) to [info@acsbcanada.ca](mailto:info@acsbcanada.ca).

## Basis for Conclusions

### Introduction

- 1 The Board has heard that there is diversity in accounting by private enterprises for biological assets and the harvested product of biological assets. This diversity is a result of a lack of specific authoritative guidance for agricultural producers, and is causing difficulties for stakeholders in the agricultural sector. To address this diversity, the Board developed proposals after considering extensive input from stakeholders on how to account for agricultural inventories and productive biological assets.
- 2 The agricultural sector is an important part of the Canadian economy and spans a wide range of activities. Statistics Canada reported that “[i]n 2016, agricultural and agri-food sectors generated \$111.9 billion in gross domestic product (GDP) and accounted for 6.7% percent of Canada’s GDP,” and that there were 193,492 farm businesses.<sup>2</sup>
- 3 The Board issued an Agriculture Discussion Paper (Discussion Paper) in December 2015. The objective of this Discussion Paper was to obtain more input from agriculture stakeholders on whether to develop authoritative guidance for the sector. The Discussion Paper also sought feedback from stakeholders on the issues that authoritative guidance on agriculture should address and how they could be addressed. The Board received 19 comment letters in response to the Discussion Paper.
- 4 The Board carried out extensive consultations with agricultural stakeholders, including 14 cross-country roundtables that reached 127 stakeholders. To determine where to hold the roundtables, the Board identified the location of major agricultural centres in Canada. The Board also held additional discussions with interested groups, including outreach with users of agricultural financial statements. This outreach focused on users who worked closely with agricultural producers, such as lenders at local financial institutions and credit groups, as well as users within government agencies.
- 5 The Board also established the Agriculture Advisory Group (Advisory Group) to provide expertise and input to the Board when developing the guidance for the sector. The Advisory Group comprises preparers, financial statement users and auditors, representing a range of industries in the agricultural sector from across the country. The breadth of the Advisory Group’s experience provides the Board with insight into the major industries in Canada’s agricultural sector (e.g., dairy, cattle, wheat and other grains, fruit and vegetables, hogs, poultry and egg production). The Advisory Group also provides the Board with insight into less common industries (e.g., fish and other aquatic organisms, mink and ginseng). This breadth enabled the Board to develop the proposals in consideration of a large variety of agricultural producers.
- 6 The Board also obtained input from its Private Enterprise Advisory Committee (Committee) on the development of this Exposure Draft. The Committee’s input was primarily sought regarding the consistency of the proposals compared with the other principles in Part II of the Handbook.
- 7 To test the viability of the proposals in this Exposure Draft, the Board conducted field tests with preparers and auditors covering nine industries in the agricultural sector (dairy, cattle, hogs, poultry, berries, field crops, maple syrup, orchard and nursery plants). The Board plans to continue conducting field tests in industries such as aquaculture and forestry during the comment period.
- 8 The field-test participants were asked to answer a series of questions using the facts and circumstances of a specific agricultural producer. The questions were designed to gauge whether the proposals can be applied in practice and whether the Board has achieved the appropriate balance between the costs versus the anticipated benefits of applying the proposals. Specifically, the questions were designed to assess whether:

<sup>2</sup> These figures include business activity conducted by both public and private enterprises. However, the AcSB understands that the vast majority of agricultural producers in Canada are privately held.

- (a) field-test participants were able to apply the definitions of agricultural inventories and productive biological assets to classify their assets;
  - (b) the various classification and measurement simplifications the Board provided in new Section 3041 were easy to apply without undue use of professional judgment; and
  - (c) the accounting outcome of applying the proposals reflected the Board's intent.
- 9 The Board also asked the Advisory Group and the Committee members to perform a fatal-flaw review of the proposals to ensure the proposed principles were:
- (a) clear in reflecting the Board's intent; and
  - (b) written in a manner that was consistent with other principles in Part II of the Handbook.
- 10 The Board considered whether to include guidance for the agricultural sector through amendments to existing sections in Part II of the Handbook, or by issuing a new Section. The Board proposes to issue a new section because it thinks having the guidance for the agricultural sector in one location would be simpler for stakeholders.
- 11 In developing the proposals, the Board considered the consequences of adopting new guidance relative to the objective of financial statements and the benefit versus cost constraint. As described in FINANCIAL STATEMENT CONCEPTS, paragraph 1000.12 the purpose of financial reporting is to “communicate information that is useful to investors, creditors and other users in making their resource allocation decisions and/or assessing management stewardship.” Also, as described in paragraph 1000.13, the Board considers the benefit versus cost constraint which states: “In developing accounting standards, the Board weighs the anticipated costs and benefits of its proposals in general terms to assess whether they are justified on cost/benefit grounds.”

## Applicability to not-for-profit organizations

- 12 Not-for-profit organizations (NFPOs) apply the standards for private enterprises in Part II of the Handbook to the extent that the Part II standards address topics not addressed in Part III. Therefore, NFPOs that are agricultural producers would be required to follow these proposals. Accordingly, while developing the proposed guidance, the Board gave updates on the project to its Not-for-Profit Advisory Committee and provided members of this committee opportunities to highlight any unique considerations for NFPOs applying these proposals.

## Effects analysis

- 13 Many stakeholders advised the Board that there is significant diversity in practice regarding the accounting for biological assets and the harvested product of biological assets. Accordingly, the Board acknowledges that reducing this diversity would result in a change in practice for some enterprises. The following paragraphs highlight the effects of the proposed amendments.

### *Agricultural inventories*

- 14 Many agricultural producers currently apply the scope exemption in INVENTORIES, Section 3031, to measure living animals and plants (biological assets) and the harvested product of biological assets (agricultural produce) at net realizable value rather than at cost. The Board understands that this scope exemption results in diversity in practice. For agricultural producers that apply this scope exemption, net realizable value may vary based on the markets in which their products are sold, the physical attributes of their products, or their geographical locations.
- 15 The proposals introduce conditions that must be met for agricultural inventories to be measured using the net realizable value model, which would limit the circumstances when agricultural inventories can be measured at net realizable value. These conditions may result in a change in

practice for some agricultural producers. However, introducing these conditions would improve the quality of the information provided to financial statement users and ensure consistency among agricultural producers regarding when net realizable value is used.

- 16 The Board acknowledges that there could be agricultural inventories currently measured at net realizable value that will not meet the conditions in the proposals. Agricultural producers may have to incur additional preparation costs associated with determining the cost of such inventories compared with their current accounting treatment. However, the Board has heard from its outreach that cost is a more relevant measure for agricultural inventories that do not have immediate marketability at quoted prices. As a result, the Board thinks it is important that agricultural producers are provided with an option to determine the cost of agricultural inventories either using full cost or only input costs (see [Determination of cost](#) below).
- 17 The Board notes that the option to use only input costs would reduce the costs associated with applying the proposals, because it eliminates the need for enterprises to develop methodologies for allocating indirect costs. For agricultural producers that choose to determine the cost of agricultural inventories using full cost, the Advisory Group indicated that a one-time cost would likely be incurred when the guidance is applied to establish methodologies to allocate costs. However, in subsequent years, the methodologies could continue to be applied at little additional cost. In addition, to limit the costs associated with applying new Section 3041 to existing assets that meet the definition of agricultural inventories, agricultural producers would be allowed, on an asset-by-asset basis, to use the asset's net realizable value as its deemed cost on initial application.

### *Productive biological assets*

- 18 The Board understands that in practice, some productive biological assets are measured at cost and others at net realizable value. Therefore, the requirement to measure all productive biological assets at cost would result in a change in practice for some agricultural producers.
- 19 The Board has heard from users that cost is a more relevant measure for productive biological assets. Therefore, a primary effect of this proposal is to enhance the relevance of financial information provided to users. Further, the proposal is expected to improve the comparability in financial reporting by agricultural producers, as all productive biological assets would be measured on the same basis.
- 20 The Board also understands that an agricultural producer may not initially know whether it will use a biological asset in a productive capacity. To reduce the complexity of applying new Section 3041 in this situation, the Board included a rebuttable presumption that would allow agricultural producers to account for their biological assets not used in a productive capacity as agricultural inventories. To further reduce the preparation costs involved when the biological asset is subsequently used in a productive capacity, an agricultural producer would use the asset's carrying amount as its deemed cost when reclassifying the asset to productive biological assets.
- 21 The Board acknowledges that for agricultural producers with productive biological assets previously measured at net realizable value, there could be additional preparation costs incurred associated with determining the cost of productive biological assets. However, the Board thinks the additional costs to preparers would be outweighed by the benefits that users would receive from an increase in the relevance and comparability of financial information across the different industries in the agricultural sector. Further, to limit the costs associated with applying new Section 3041 to existing assets that meet the definition of productive biological assets, agricultural producers would be allowed, on an asset-by-asset basis, to use the asset's net realizable value as its deemed cost on initial application.

*Conclusion on effects analysis*

- 22 Having considered the effects of the proposals in Section 3041, as discussed above, the Board thinks that the proposals would result in significant improvements to the financial reporting of enterprises in the agricultural sector.

**Scope***Measurement principle underlying Section 3041*

- 23 To develop the agriculture guidance, the Board considered the principles and concepts in other accounting frameworks. In doing so, the Board observed that the measurement principles underlying International Accounting Standards (IAS) 41 *Agriculture* and U.S. Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 905, *Agriculture*, are quite different. IAS 41 measures the biological transformation of assets with a fair value measurement principle that is applied to all biological assets within the scope of the standard, up to the point of harvest. Conversely, ASC 905 applies to the transactions and activities of agricultural producers, and while some choice is provided, the guidance primarily results in measuring biological assets and the harvested product of biological assets at historical cost.
- 24 The Board's Discussion Paper did not contain an underlying principle regarding the transactions or events that the agricultural guidance proposes to measure. As a result, some respondents indicated that the lack of a clear principle was causing confusion. In response to this feedback, the Board thinks it is important for Section 3041 to articulate a clear underlying measurement principle.
- 25 FINANCIAL STATEMENT CONCEPTS, paragraphs 1000.48-.49, state: "Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. However, financial statements are prepared primarily using the historical cost basis of measurement whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used but only in limited circumstances."
- 26 Users consulted, including the user members of the Advisory Group, supported a principle that measures the transactions and events of an agricultural producer. Users indicated that they think financial statements are more useful when they provide information about transactions that are realized or realizable, and that information on the biological transformation of an asset is not predictive of an agricultural producer's operating results or productivity.
- 27 Accordingly, the Board proposes the guidance contain an underlying principle to measure an agricultural producer's transactions and events, similar to ASC 905. This guidance would be more consistent with the concepts underlying Part II of the Handbook, and provide users with information they consider to be more relevant (see [Underlying measurement basis](#) below).

*Assets within the scope of Section 3041*

- 28 The Board also looked to other frameworks when considering which assets should be within the scope of the agriculture guidance. Through its preliminary research on this project, the Board heard from stakeholders that IAS 41 *Agriculture* would provide a useful starting point for the agriculture guidance. Many stakeholders observed that having a similar scope to IAS 41 would reduce confusion among stakeholders who work across both Parts I and II of the Handbook. However, the Board also observed that IAS 41 excludes from its scope some biological assets and harvested products of biological assets, and therefore requires stakeholders to apply multiple standards in accounting for their agricultural activities. Consequently, the Board thought that directly aligning the scope of Section 3041 to IAS 41 would result in guidance that is overly complex for stakeholders.

- 29 Therefore, while IAS 41 was used as a starting point for determining the scope of Section 3041, the Board proposes the scope of Section 3041 should be expanded beyond the scope of IAS 41 to also include:
- (a) bearer plants; and
  - (b) the harvested product of biological assets, until a secondary production process commences to transform the harvested product into another asset.

As a result, the harvested product of biological assets purchased by an agricultural producer for use in its agricultural production is within the scope of Section 3041 because unlike IAS 41, the scope of Section 3041 is beyond the point of harvest (see [Purchased harvested product of biological assets](#) below).

- 30 The Board thinks including the harvested product of biological assets, irrespective of whether it is grown or purchased, and bearer plants would be simpler for stakeholders to apply because the guidance would all be within one standard.
- 31 As noted in paragraph 1 above, new Section 3041 proposes to account for an agricultural producer's agricultural inventories and productive biological assets. Assets that result from the secondary production of transforming agricultural inventories, would be outside the scope of the new Section. Such assets are accounted for in accordance with other Sections, such as INVENTORIES, Section 3031. In the new Section, the Board provides examples of productive biological assets used in the production of agricultural inventories and assets that result from secondary production, to illustrate which assets are within or outside the scope of the proposals.
- 32 The Board also considered whether the forestry industry should be within the scope of Section 3041, specifically considering the unique aspects of Canada's forest lands when making its assessment. The Board understands that there are both privately owned forest lands that are managed for timber production, and Crown lands for which timber rights are granted by the government. Timber rights are accounted for in accordance with GOODWILL AND INTANGIBLE ASSETS, Section 3064. The Board did not identify any factors that would suggest that the proposed guidance in Section 3041 would not be appropriate for the forestry industry when the forest land is privately owned. Accordingly, the Board proposes that forestry, when the land is privately owned and is managed for timber production, should be within the scope of Section 3041. This would be consistent with the scope of IAS 41.

### *Purchased harvested product of biological assets*

- 33 The Board's preliminary view in the Discussion Paper was that only the harvested product of an agricultural producer's own biological assets should be within the scope of the agriculture guidance. Discussion Paper respondents indicated that many agricultural producers have both grown and purchased harvested product of biological assets that are not separately tracked, and therefore applying a different accounting treatment would present practical difficulties. Respondents also noted that applying separate guidance to grown and purchased harvested product of biological assets could result in each being measured on different bases for the same or similar items of agricultural inventory. This would not result in relevant information for users of the financial statements.
- 34 Therefore, the Board proposes to include the harvested product of biological assets, if it has been purchased by an agricultural producer for use in agricultural production, within the scope of Section 3041 to reflect practical business operations. However, as the proposed scope of Section 3041 applies only to enterprises that undertake agricultural production, enterprises that acquire harvested products of biological assets that are not agricultural producers, such as secondary processors, retailers and broker-dealers, would continue to account for such assets in accordance with other Sections, such as INVENTORIES, Section 3031.

*Vertically integrated enterprises*

- 35 For a vertically integrated enterprise that undertakes both agricultural production and secondary production, the Board expects that some of its assets will be accounted for in accordance with either the new Section 3041, or other Sections, such as INVENTORIES, Section 3031, based on when its agricultural production process is complete and when its secondary production process commences.
- 36 When the secondary production process commences to transform an item of agricultural inventory into a different asset, that item is accounted for in accordance with other Sections, such as INVENTORIES, Section 3031. For example, a vintner that has developed and harvested its own grapes would apply the proposed guidance for agricultural producers to its grapes. When the vintner commences the secondary production of transforming the grapes into wine, it has a new asset because the grapes are consumed when the wine is produced. On the date at which the vintner commences secondary production, the carrying amount of the grapes under the new Section 3041 is its deemed cost when initially applying Section 3031.

**Recognition**

- 37 FINANCIAL STATEMENT CONCEPTS, paragraph 1000.24 defines assets as “economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained.” Paragraphs 1000.39(a)-(b) state that assets are recognized when “the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and for items involving obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up.” Consistent with the preliminary view included in the Discussion Paper, the Board thinks that agricultural inventories and productive biological assets should be recognized in the financial statements when they meet the definition of assets and the recognition criteria in Section 1000. Accordingly, recognition guidance is not proposed in Section 3041 beyond referring to the guidance in Section 1000.
- 38 Some respondents to the Discussion Paper raised concerns regarding the recognition of some assets when there may be uncertainty regarding the future economic benefits that will flow to the enterprise, such as unharvested crops and unborn animals. These respondents suggested that additional guidance should be provided in these areas. The Advisory Group suggested, and the Board agreed, that enterprises would need to apply judgment in determining when the recognition criteria are met for such assets. Accordingly, no additional recognition guidance is proposed. However, the Board observes that agricultural producers that plant crops or breed animals would typically do so with a reasonable expectation that future economic benefits will be obtained from the assets.
- 39 The Board acknowledges that there could be costs incurred during the very early stages of agricultural production, such as soil preparation for crops prior to planting. The Board thinks that agricultural producers would also apply judgment to determine when these costs would be recognized as agricultural inventories or productive biological assets by considering the definition of assets and the recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section 1000. When considering how to account for these costs, an agricultural producer would take into consideration the accounting policy choice it made to use either full cost or only input costs in measuring agricultural inventories.

*Categories of agricultural inventories and productive biological assets*

- 40 The Discussion Paper classified biological assets and agricultural produce (i.e., the harvested product of biological assets) into five categories and proposed separate measurement guidance for each. Feedback on the Discussion Paper indicated that each of the five categories would fit into two broad categories: agricultural inventories and productive biological assets. Further, respondents observed that if the agriculture standard was to include five categories, complex guidance would be needed on the accounting treatment when there is a change in the classification of assets.

Stakeholders, particularly users, emphasized that it was important that the agriculture guidance not be overly complex as to discourage enterprises from preparing their financial statements in accordance with the guidance. The Board agreed with this feedback, noting that having only two categories would simplify the guidance for stakeholders. As a result, the Board proposes two categories for biological assets and the harvested product of biological assets, with separate guidance for each. The following table sets out the two categories being proposed in this Exposure Draft and how each corresponds to the five original categories from the Discussion Paper:

Categories proposed in Section 3041	Original categories proposed in Discussion Paper
Agricultural inventories	Agricultural produce (grown or purchased)
	Animals held for sale (including animals developing for sale)
	Unharvested crops
Productive biological assets	Bearer animals (including animals developing to be bearer – see <a href="#">Developing biological assets</a> below)
	Bearer plants (including plants developing to be bearer – see <a href="#">Developing biological assets</a> below)

- 41 The Board notes that productive biological assets are akin to property, plant and equipment. Therefore, when developing the proposed definition of productive biological assets, the Board considered the definition of property, plant and equipment in PROPERTY, PLANT AND EQUIPMENT, Section 3061. Similarly, agricultural inventories are akin to inventories. Therefore, the definition of agricultural inventories is similar to the definition of inventory in INVENTORIES, Section 3031.
- 42 The Board proposes that an agricultural producer would apply these proposed definitions in Section 3041 to determine the appropriate category for each of its biological assets and harvested product of biological assets. Specifically, applying the definitions would require an agricultural producer to consider the use of its assets.

### *Developing biological assets*

- 43 Stakeholders noted that when a biological asset is initially acquired or produced, its intended use may not be known to the enterprise. To address this situation, the Board proposes to include a presumption that biological assets not used in a productive capacity are agricultural inventories on initial recognition. The agricultural producer may choose to rebut this presumption when the intention is to develop the asset into a productive biological asset. Advisory Group members supported this rebuttable presumption, noting that in many cases this approach would allow the agricultural producer to choose an accounting treatment that is consistent with its current practice when the use of an asset is not yet known. For example, when an agricultural producer chooses as its accounting policy to measure agricultural inventories using the net realizable value model when the specified conditions are met, a heifer could be measured at net realizable value until it is either sold or used in a productive capacity. When an agricultural producer commences using the heifer in a productive capacity, the change in use guidance applies and the heifer is reclassified from agricultural inventories to productive biological assets using the net realizable value as its deemed cost (see [Change in use](#) below).

### *Change in use*

- 44 Many Discussion Paper respondents noted that a change in use of a biological asset may arise that results in a change of its category under the proposed guidance in new Section 3041. Therefore, stakeholders suggested it would be important that the Board provide guidance on how to account for such a change.

- 45 In respect of a change from agricultural inventories to productive biological assets, the Advisory Group observed that this could result in a change in measurement of the assets (i.e., from net realizable value to cost). Many agricultural producers may not have the information available to determine the cost of the biological assets, or obtaining such information may be onerous. In response to this concern, the Board proposes that when a biological asset is reclassified from agricultural inventories to productive biological assets because the asset is now used in a productive capacity, the carrying amount of the item of agricultural inventory at the date of reclassification becomes the deemed cost of the productive biological asset. This proposal would eliminate the complexity that would be associated with determining the cost of the productive biological asset when its use changes.
- 46 The Board noted that if an agricultural producer was permitted to change from agricultural inventories to productive biological assets and vice versa on a recurring basis, this would potentially open up the financial statements to manipulation. Specifically, an agricultural producer could take advantage of the accounting policy choice to measure agricultural inventories at net realizable value when such measurement would have a positive effect on net income, and conversely reclassify from agricultural inventories to productive biological assets measured at cost when the net income effect would be negative. Therefore, the Board proposes that once a biological asset is used in a productive capacity and is determined to be a productive biological asset, the enterprise is prohibited from subsequently reclassifying the asset to agricultural inventories.

## Underlying measurement basis

- 47 In developing Section 3041, the Board considered the underlying measurement basis for the measurement of agricultural inventories and productive biological assets. The Board proposes that the underlying measurement basis is cost, for the following reasons:
- (a) Users consulted noted that they make lending decisions for agricultural producers based on normal operating cash flows and earnings, and for this purpose cost is typically more useful. Specifically, cost is quantifiable and verifiable, and therefore provides confirmatory information about past transactions which then has predictive value about future transactions. Users also noted that financial statement information based on cost helps them evaluate an agricultural producer's efficiency, productivity and working capital.
  - (b) Users have indicated that they have access to net realizable value information for agricultural inventories and productive biological assets. Therefore, if an agricultural producer tells them the qualities and quantities of assets, they can use the net realizable value information to determine current value, if they think it is a relevant measure. Conversely, they would not have access to cost information if it was not provided by the agricultural producer. Therefore, measurement at cost provides users with additional information that otherwise would not be available to them.
  - (c) FINANCIAL STATEMENT CONCEPTS, paragraph 1000.48, indicates that financial statements prepared in accordance with Part II of the Handbook are primarily prepared on a historical cost basis.
- 48 The feedback from many stakeholders is that current value is a relevant measurement basis for agricultural inventories, but only under specific conditions (see [Conditions for measurement at net realizable value](#) below). The Board acknowledges that when such specific conditions are met, current value can also provide relevant information to users.

## Measurement of agricultural inventories

### *Accounting policy choice*

- 49 As discussed above, the Board thinks that cost is a relevant and reliable measurement basis for agricultural inventories and productive biological assets. However, many stakeholders have noted that in some circumstances current value can also be a relevant measurement basis for agricultural inventories. The Board observed that agricultural inventories are often interchangeable, and their prices can be quoted in active markets. Because of these characteristics, agricultural inventories are unlike most other non-financial assets. Therefore, the Board agrees with stakeholders who note that in some circumstances the characteristics of agricultural inventories support measurement at current value.
- 50 The Discussion Paper included a preliminary view that the harvested product of biological assets should be measured at current value when specific conditions are met, and at cost when those conditions are not met. Many respondents did not support this view, noting that current value measurement should not be required, in part because doing so may force a change in practice for enterprises currently measuring biological assets and the harvested product of biological assets at cost. The Board agrees with stakeholders. Accordingly, the Board proposes that an agricultural producer should have an accounting policy choice to measure the agricultural inventories using either a cost model, or a current value model when the current value conditions are met. The Board proposes that the type of current value would be net realizable value (see [Type of current value](#) below).
- 51 Agricultural producers may undertake a diverse range of agricultural activities and may have different types of agricultural inventories. There may be circumstances when measurement at cost would provide relevant information for some agricultural inventories, while measurement at current value may be more appropriate for others. Accordingly, the Board proposes that agricultural producers apply the accounting policy choice to measure agricultural inventories of a similar type using either the cost model or the net realizable value model by considering both their nature and use.
- 52 The Board acknowledges that this accounting policy choice may result in a lack of comparability across agricultural producers. However, it will reduce the complexity of the guidance for agricultural producers because an enterprise can choose an accounting policy for agricultural inventories of a similar nature and use based on the measurement that would be most appropriate for each (e.g., an agricultural producer with both swine and corn could choose to account for one at cost, and the other at net realizable value). This approach would also result in more consistency in the treatment of different types of agricultural inventories across agricultural producers. Further, applying the accounting policy choice at this level would be consistent with the approach in INVENTORIES, Section 3031, which requires an enterprise to use the same cost formula for inventories of a similar nature and use.
- 53 The Board notes that an agricultural producer may subsequently want to change its accounting policy for agricultural inventories, from using the net realizable value model to the cost model, or vice versa. ACCOUNTING CHANGES, paragraph 1506.06, sets out criteria that must be met in order for an enterprise to change its accounting policy. Specifically, paragraph 1506.06(b) states that the change can be made only if it “results in the financial statements providing reliable or more relevant information about the effects of the transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.” As discussed above, the Board thinks cost is a relevant and reliable measurement basis for the measurement of agricultural inventories. Therefore, an agricultural producer would be permitted under paragraph 1506.06(b) to change its accounting policy from using the net realizable value model to the cost model. In accordance with Section 1506, such a change would be accounted for retrospectively.

- 54 The Board also thinks that if an agricultural producer wants to change its accounting policy from using the cost model to the net realizable value model, and is able to demonstrate that net realizable value would provide reliable and more relevant information, it would also be permitted to do so under paragraph 1506.06(b). Such a change in accounting policy would be accounted for retrospectively.
- 55 The Board acknowledges that there may be circumstances when an agricultural producer has chosen as its accounting policy to measure agricultural inventories using the net realizable value model when conditions are met, but the conditions are not met (see [Conditions for measurement at net realizable value](#) below). In such a circumstance, an agricultural producer would account for its agricultural inventories using the cost model until the conditions are met and apply the guidance for determining cost (see [Determination of cost](#) below). Once the conditions are met, an agricultural producer would measure its agricultural inventories using the net realizable value model in accordance with its accounting policy.

#### *Type of current value*

- 56 The Board assessed various options for measuring agricultural inventories at current value when conditions are met, including net realizable value and fair value. The Board thinks that net realizable value is well understood by stakeholders as many agricultural producers are currently measuring their biological assets and harvested products of biological asset at net realizable value. Further, net realizable value is an entity-specific value, and therefore provides predictive information for users. Fair value is a market-based measure, and therefore is not as useful for predicting the cash flows and net income of a specific enterprise. Accordingly, the Board proposes that agricultural producers be permitted to measure agricultural inventories at net realizable value when the current value conditions are met.

#### *Conditions for measurement at net realizable value*

- 57 The objective of the conditions is to ensure agricultural inventories are measured at net realizable value only when such measurement would provide relevant information to users. While the Discussion Paper did propose that some agricultural inventories be measured at current value, it did not include a preliminary view of the specific conditions that need to be met for using a current value measurement basis. Respondents to the Discussion Paper were asked to provide input on which conditions should be met to measure agricultural inventories at current value. The Board also sought feedback on the conditions that should be met during subsequent discussions with stakeholders and the Advisory Group. The following conditions, contained in U.S. Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 905, *Agriculture*, for measurement at net realizable value, were used as the basis for the discussions:
- (a) The product must have a readily available, reliable and realizable market price;
  - (b) The product must have relatively insignificant and predictable costs of disposal; and
  - (c) The product must be available for immediate delivery.
- 58 Stakeholders, including Advisory Group members, largely supported using conditions consistent with those contained in ASC 905. However, the Board received some specific feedback on the conditions.
- 59 Regarding condition (a) above, many stakeholders agreed that it is important for market prices to be readily available in order for the net realizable value measure to be predictive of future cash flows. Further, when market prices are readily available, net realizable value can typically be determined with less effort than measurement at cost. A market price may be readily available for a product with a specific grade classification. If the price of the product with a different grade class has an observable correlation to the price quoted for the specific grade classification, such product would also be considered to have a readily available market price.

- 60 Regarding condition (b) above, some Advisory Group members thought that the requirement for costs of disposal to be relatively insignificant would be overly restrictive for some agricultural producers. For example, enterprises that sell agricultural inventories to overseas markets would have more significant costs of disposal. In this case, costs may be predictable but not relatively insignificant. The Board notes that when costs are not relatively insignificant, stakeholders may have difficulty estimating these amounts, which would reduce the predictive value of measurement at net realizable value. However, the Board acknowledges that requiring relatively insignificant costs of disposal may limit the extent to which measurement at net realizable value would be permitted for some agricultural inventories. The Board notes that this would be consistent with the objective of the conditions, which is to ensure that net realizable value is only used to measure agricultural inventories when it would provide users with relevant information. Accordingly, the Board decided to expose for comment that agricultural inventories must have relatively insignificant costs of disposal to be measured at net realizable value. The Board is seeking input from stakeholders on whether they agree with this condition.
- 61 Regarding condition (c) above, many stakeholders observed that net realizable value information is primarily relevant when the agricultural inventories are ready for sale. Prior to this point, information about quantities and qualities are not reliable or verifiable, and therefore net realizable value would not provide predictive information about future income and cash flows. However, the Advisory Group questioned whether the product being available for immediate delivery is the appropriate condition to assess whether assets are ready for sale. For example, some harvested products of biological assets may be subject to additional steps, such as drying, prior to delivery to a customer.
- 62 The Board understands that such steps may be undertaken by an agricultural producer to:
- (a) obtain a better price for the product, but are not always mandatory prior to delivery; or
  - (b) bring the product to the condition in which the customer will purchase it.
- 63 The Board's intent behind condition (c) is that if there are still significant steps that need to be undertaken before the product is available for delivery, the product is not in its location and condition in which it could be sold. The Board understands that there may be instances in which additional activities are undertaken after harvest to complete the agricultural production process of producing a product. An agricultural producer will need to apply judgment in determining whether the product would be available for immediate delivery based on the expected activities, and the significance of such activities, that still need to be undertaken before the product can be delivered to the customer.
- 64 Considering the feedback from stakeholders and the Advisory Group, the Board proposes that the conditions for measurement at net realizable value in Section 3041 be consistent with the conditions in U.S. Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 905, *Agriculture*. The new Section includes guidance on determining sources of readily available, reliable and realizable market prices to assist stakeholders with applying the criteria, and also additional guidance to assist stakeholders in applying judgment to determine whether the product is available for immediate delivery.

### *Assessing whether the conditions for measurement at net realizable value are met*

- 65 When a change in circumstances occurs that results in a change in whether the current value conditions are met, an agricultural producer would account for such a change in accordance with ACCOUNTING CHANGES, paragraph 1506.08(a). Specifically, paragraph 1506.08(a) addresses such a circumstance, indicating that conditions differing in substance from those previously occurring are not changes in accounting policies. As a result, the Board thinks that when a change in circumstances causes an agricultural producer to no longer meet the current value conditions, a change to the measurement basis of its agricultural inventories from using the net realizable value model to the cost model would be applied prospectively. Conversely, if and when the current value conditions are met again, the agricultural producer would change the measurement basis of its

agricultural inventories from using the cost model to the net realizable value model in accordance with its accounting policy. For example, a political trade dispute might affect whether there is a readily available, reliable and realizable market price for a specific product, but subsequently the trade dispute gets resolved.

### *Determination of cost*

- 66 The Board's preliminary view in the Discussion Paper was that some agricultural inventories should be measured at cost. However, the Discussion Paper did not specifically address the determination of cost. Rather, it sought stakeholder feedback on how cost should be determined. The majority of respondents indicated that determining the direct materials associated with agricultural inventories would be relatively straightforward. However, for many less sophisticated agricultural producers, the measurement and allocation of indirect costs to the units of production would be onerous. Many stakeholders thought that the cost of preparing this information would not exceed the benefit provided by it, particularly for annual crops.
- 67 These stakeholders specifically noted that the measurement and allocation of direct labour would be onerous for many agricultural producers, particularly owner-managed businesses. For example, the owner and/or family members might be the individuals who carry out the agricultural production activities on several fields of crops and their time is not tracked specifically to each field of crops, or their labour cost may not be measureable if salary is not drawn from the business. As a result, determining the cost of direct labour, and/or identifying a method of allocating direct labour, may be onerous.
- 68 In response to this feedback, the Board considered several options that would provide agricultural producers with relief from undertaking an allocation of all direct and indirect costs for its agricultural inventories. Specifically, the Board considered direct cost, and the costs of purchase, as alternatives to full cost. As noted above, stakeholders indicated that in some cases allocating direct labour would be challenging, and therefore measuring agricultural inventories at direct cost would not be a practical alternative to full cost. Conversely, the costs of purchase would be simpler for agricultural producers to determine, but would exclude a significant portion of the full cost of agricultural inventories and therefore may not provide meaningful information to users. Therefore, the Board observed that a measure of cost that included all direct materials and direct labour to the extent such costs and an allocation method were readily determinable, would balance the cost of preparing the information with the benefit provided to users.
- 69 Accordingly, the Board proposes that agricultural producers should be provided with an accounting policy choice to determine the cost of agricultural inventories using either full cost or only input costs. The Board proposes that input costs should comprise direct materials and direct labour only to the extent direct labour is readily determinable and can be directly related to the items of agricultural inventories produced. For example, labour hired to assist with harvest would be included in input costs.
- 70 In the case of an owner-managed business, if the owner and/or family members' time are not tracked specifically to items of agricultural inventories produced, or their labour costs are not readily determinable, the cost of their labour would be excluded from input costs of agricultural inventories. Users consulted by the Board indicated that while cost is the most decision-useful measure for agricultural inventories, it was not necessary that the measurement of cost incorporate all elements of cost to be useful. Specifically, users indicated that input costs would provide a reasonable approximation of cost, and would be more verifiable than a current value measure based on quantities and qualities that are not yet realizable or observable. Therefore, users were supportive of allowing agricultural producers to determine costs using only input costs.
- 71 The Board uses the cost model from INVENTORIES, Section 3031, in this new Section by allowing agricultural producers to choose the option of full cost. The techniques for the measurement of cost, whether using full cost or only input costs, are also consistent with INVENTORIES, Section 3031,

in that the standard cost method or the retail method may be used for convenience if the results approximate cost. Consistent with the Board's decision to use net realizable value because it is an entity-specific value, the technique for the measurement of cost reflects entity-specific costs and not industry standards. The Board observes that using sources such as published industry estimates of standard costs provides less predictive information about an agricultural producer's operations because the costs are not entity-specific.

- 72 The Board notes that while agricultural producers would be permitted to make an accounting policy choice to determine the cost of agricultural inventories using only input costs, determining cost using full cost would ultimately provide users with the most decision-useful information. Therefore, to make it easier for an agricultural producer that determines the cost of agricultural inventories using only inputs costs to change its accounting policy to full cost, the Board proposes that this accounting policy change may be applied prospectively as defined in ACCOUNTING CHANGES, Section 1506.
- 73 The Board also considered whether an agricultural producer should be permitted to change its accounting policy from full cost to only input costs. As noted above, ACCOUNTING CHANGES, paragraph 1506.06, sets out criteria that must be met in order for an enterprise to change its accounting policy, including consideration of whether the change results in the financial statements providing reliable or more relevant information. The Board cannot foresee a scenario when a change from full cost to only input costs would result in reliable or more relevant information about the effects of an agricultural producer's transactions or events. Accordingly, the Board thinks that an enterprise that chooses to account for its agricultural inventories at full cost would not qualify under the guidance in Section 1506 to change its accounting policy to only input costs.

### *Consequential amendments to Section 3031*

- 74 Currently, INVENTORIES, Section 3031, includes an exemption that allows living animals and plants and the harvested product of biological assets held by agricultural producers to be measured at net realizable value in accordance with well-established practices in the industry, instead of applying the measurement requirements in Section 3031. The Board proposes that living animals and plants and the harvested product of biological assets held by agricultural producers that meet the definition of agricultural inventories be included in the scope of Section 3041. As discussed above, new Section 3041 proposes conditions that must be met to measure agricultural inventories at net realizable value. Accordingly, the Board proposes to remove the current exemption from Section 3031 that allows living animals and plants and the harvested product of biological assets held by agricultural producers to be measured at net realizable value.

## **Measurement of productive biological assets**

### *Measurement at cost*

- 75 As noted above, stakeholders have indicated, and the Board agrees, that productive biological assets are akin to property, plant and equipment. Accordingly, the Board proposes that the accounting treatment for productive biological assets be consistent with the guidance in PROPERTY, PLANT AND EQUIPMENT, Section 3061, and to not provide any specific relief options for determining cost as compared to agricultural inventories. Therefore, such assets would be measured at cost less accumulated amortization. This is consistent with the Board's preliminary view in the Discussion Paper for bearer animals and bearer plants.
- 76 Many respondents to the Discussion Paper raised concerns with requiring bearer animals and bearer plants to be measured at cost, noting that there would be significant complexity involved in measuring such assets at cost. Further, stakeholders observed that for many bearer animals, current values would be widely available and therefore measurement at net realizable value would be less onerous to determine than cost. Some respondents also noted that measurement at cost could result in a difference in the measurement of animals born on a farm compared with animals

purchased, or similar animals used for different purposes, despite the animals having the same market value.

- 77 The Board acknowledges the challenge that some stakeholders would face in measuring productive biological assets at cost. However, the Board thinks that cost is an appropriate measurement basis for productive biological assets because such assets are held for use in the production process and not intended for sale in the ordinary course of business. Users supported this view, noting that their focus is on the output of productive assets since current value is not relevant information for assets that would not be sold. Users think measuring productive biological assets at current value creates unnecessary volatility in the income statement. Therefore, while respondents indicated that current value may be simpler to determine for some productive biological assets, ultimately such measurement would not provide users with relevant information.

### *Amortization*

- 78 The Board proposes that productive biological assets should be subject to amortization over their useful lives, consistent with the guidance in PROPERTY, PLANT AND EQUIPMENT, Section 3061. This is consistent with the Board's preliminary view in the Discussion Paper.
- 79 Some Discussion Paper respondents thought that the amortization of productive biological assets would be too complex, specifically citing concerns regarding assets that are measured and tracked on a group basis (e.g., an orchard or a herd). To address this concern, the proposed guidance in Section 3041 contemplates a scenario when productive biological assets are managed on a collective basis such that the productive capacity of the group does not diminish. In this scenario, an enterprise would not need to amortize the productive biological assets because they are considered to have an indefinite useful life. The Board thinks this should reduce the complexity of applying the amortization guidance as amortization would not need to be individually tracked for components of productive biological assets (e.g., each animal in a herd).
- 80 Some Advisory Group members also questioned whether amortization is necessary if the productive biological assets are subject to impairment. The Board notes that the purpose of amortization is to reflect the asset's pattern of use in the income statement, which is different than the purpose of impairment. Therefore, the Board thinks that subjecting productive biological assets to impairment would not eliminate the need to recognize amortization for the assets.
- 81 The Board proposes that when an agricultural producer decides to dispose of a productive biological asset, through either sale or other than by sale, or otherwise ceases to use it in a productive capacity, the asset should be measured at the lower of cost and fair value less costs to sell. This proposal would be consistent with the measurement guidance in DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475; however, the productive biological asset would not be classified as held for sale, to simplify the application of the new Section.

### **Impairment**

- 82 The Board's preliminary view in the Discussion Paper was that the impairment model applicable to long-lived assets in Part II of the Handbook would be used for bearer assets and other long-term assets, and the impairment model applicable to inventories (referred to as write-down of inventories in INVENTORIES, Section 3031) would be used for current assets. Respondents to the Discussion Paper generally supported this view. As a result, the Board proposes that the impairment guidance for agricultural inventories should be similar to the guidance in Section 3031. Therefore, agricultural inventories carried at cost would be measured at the lower of cost and net realizable value. For productive biological assets subject to amortization, it is proposed that the impairment guidance in IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, would be applicable. For productive biological assets not subject to amortization, as discussed in paragraph 79 above, the new Section includes specific impairment guidance.

## Classification and presentation

### *Current assets and liabilities*

- 83 CURRENT ASSETS AND CURRENT LIABILITIES, paragraph 1510.03, states the following regarding classification of current assets: “As a balance sheet classification, current assets shall include those assets ordinarily realizable within one year from the date of the balance sheet or within the normal operating cycle, when that is longer than a year. The current asset classification shall also include the current portion of future income tax assets (see INCOME TAXES, paragraphs 3465.80-.84).” In developing the Discussion Paper, the Board considered whether the nature of biological assets differed from assets in other sectors, and therefore whether additional guidance was required for agricultural producers regarding the classification of biological assets. Based on the research performed, the Board’s preliminary view in the Discussion Paper was that the current asset classification guidance in Section 1510 would be sufficient.
- 84 The Advisory Group expressed concerns regarding the suitability of the guidance in CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510, for agricultural producers, particularly the use of the term “normal operating cycle”. Advisory Group members questioned how this term would be applied by some agricultural producers (e.g., those that have biological assets with growth periods significantly longer than one year). The Board thinks that this issue is not unique to the agricultural sector, as there are other sectors that would have assets with normal operating cycles in excess of one year (e.g., aerospace manufacturers). Therefore, the Board proposes to not provide additional guidance to agricultural producers regarding the classification of assets as current or long-term beyond what is available in Part II of the Handbook for other private enterprises.

### *Gains and losses on changes in net realizable value*

- 85 Advisory Group members and other stakeholders noted that there is currently significant diversity in practice regarding where gains and losses arising from changes in the net realizable value of agricultural inventories are recorded in the income statement. It was suggested that the Board should provide clear guidance in Section 3041 on the presentation of such amounts in order to reduce diversity in this area.
- 86 The Board notes that both within Part II of the Handbook and in other frameworks, such as IFRS® Standards and U.S. GAAP, guidance is not provided on the presentation of similar measurement gains and losses. Therefore, including such guidance in Section 3041 would set a precedent. Further, because the lack of guidance on the presentation of gains and losses arising from a change in current value is not unique to the agriculture proposals, addressing it would be beyond the scope of the agriculture project. Therefore, the Board proposes to not include guidance on the presentation of gains and losses arising from changes in net realizable value of agricultural inventories in Section 3041 and, accordingly, would continue to leave this as an area of professional judgment.

## Disclosure

- 87 The Discussion Paper noted that the objective of the disclosure requirements in the agriculture guidance is to provide enough information for users to understand the financial statements and be able to make informed inquiries regarding financial statement items or transactions when they require further details. This objective was derived on the premise that disclosure requirements in Part II of the Handbook are developed on the basis that users of private enterprise financial statements can ask for, and generally receive, additional information from the enterprise when needed. The Discussion Paper further noted that the specific objective of the agriculture disclosures would be to require an agricultural producer to provide information that enables users to understand the nature of, and the risks associated with, its biological assets and harvested product of biological assets.

- 88 Considering these objectives, the Discussion Paper included a preliminary view on the disclosures that should be required by agricultural producers. This preliminary view was formed consistent with the Board's process for developing disclosure requirements, which focuses on identifying the information that is useful to users of financial statements, and assessing whether the cost of preparing the information would exceed the benefit provided to users. Generally, the disclosure requirements proposed for productive biological assets and agricultural inventories were consistent with the disclosure requirements in PROPERTY, PLANT AND EQUIPMENT, Section 3061, and INVENTORIES, Section 3031, respectively. This meant that agricultural producers would not be required to disclose the amount of write-downs, or reversals of write-downs, of agricultural inventories recognized during the period, consistent with Section 3031. Discussion Paper respondents generally supported the Board's preliminary view regarding disclosure requirements. Similarly, users consulted as part of the project, which included not only lenders but also creditors and government agency representatives, agreed with the Board's preliminary view regarding disclosure requirements.
- 89 The Discussion Paper also included a preliminary view that an agricultural producer should not be required to provide information regarding the quantities of its biological assets and harvested product of biological assets. Several Advisory Group members disagreed with this preliminary view, noting that the disclosure of quantities would not be onerous for many agricultural producers, particularly for enterprises with agricultural inventories measured at net realizable value. Some Discussion Paper respondents similarly noted that information regarding quantities would be useful, and the benefit of providing this information would typically outweigh the cost of providing it. Many stakeholders indicated that quantity information was already being provided, and therefore inclusion of quantities as a disclosure requirement would allow agricultural producers to continue their current practice. Conversely, some stakeholders agreed with the Board's preliminary view in the Discussion Paper and thought that agricultural producers should not have disclosure requirements more onerous than other private enterprises that apply Part II of the Handbook.
- 90 After considering the feedback from stakeholders, the Board proposes to require an agricultural producer to disclose the quantities of productive biological assets and agricultural inventories when such information is readily available. This allows an agricultural producer to disclose quantity information, but would not require this disclosure if the cost of doing so would outweigh the benefits the information provided. For example, an agricultural producer with a cattle herd may track and, therefore, have the information available to disclose the quantity of cattle in its herd, whereas an aquaculture producer may not be able to readily determine the number of fish in its pools.

## Transition

- 91 In the absence of specific transitional provisions, ACCOUNTING CHANGES, Section 1506, requires amendments to be applied retrospectively, except if impracticable. The Board thinks retrospective application of Section 3041 would be useful since it would provide comparable information for the prior period. However, the Board recognizes the challenges of retrospective application, particularly when an agricultural producer changes its measurement basis from net realizable value under its current accounting treatment, to cost when applying the new Section. The Board acknowledges that some agricultural producers may not have the historical records necessary to determine cost for agricultural inventories and productive biological assets acquired or developed in prior periods.
- 92 Therefore, the Board thinks it is important to provide agricultural producers with relief on transition to Section 3041 for agricultural inventories and productive biological assets measured at cost. Accordingly, the Board proposes to allow agricultural producers to elect to measure agricultural inventories or productive biological assets at the date the Section is first applied using net realizable value as deemed cost. This election may be applied on an asset-by-asset basis.
- 93 The Board further acknowledges that some agricultural inventories or productive biological assets may be derecognized, through either sale or disposal, during the fiscal year in which this new Section is first applied or during the fiscal year immediately preceding the date at which this new

Section is first applied. In such cases, the Board notes it could be onerous to determine the effect of applying Section 3041, particularly for those assets held at the beginning of the earliest period presented, only for the assets to be derecognized during either of the periods presented in the first financial statements prepared in accordance with Section 3041. Therefore, the Board proposes to provide relief by not requiring an agricultural producer to make retrospective adjustments for any agricultural inventories or productive biological assets derecognized during the fiscal year in which this new Section is first applied or during the fiscal year immediately preceding the date at which this new Section is first applied. While this would result in a lack of comparability between the current and comparative periods in the first financial statements prepared in accordance with Section 3041, the Board thinks the cost of applying Section 3041 for the first time should not outweigh the benefit of comparative information provided to users.

- 94 Some agricultural producers that have not previously measured their productive biological assets or agricultural inventories at cost may have the information to determine retrospectively the cost of their assets in accordance with Section 3041. The transitional relief provided to agricultural producers is not mandatory. Therefore, an agricultural producer will have the choice to apply the Section 3041 guidance fully retrospectively if it thinks the benefit of providing full comparative information would outweigh the cost of doing so.

### Effective date

- 95 The Board's view is that the proposed effective date, being fiscal years beginning on or after January 1, 2021, would allow sufficient time for preparers to implement the proposed changes, and to educate users on the proposals. The Board acknowledges that this proposed effective date would deviate from its usual approach of setting the effective dates for Part II of the Handbook on a two-year cycle. However, the Board thinks it is appropriate to deviate from its usual approach given the proposed transitional provisions, and to provide timely resolution to the diversity faced in the agricultural sector.

### Consequential amendments

- 96 The proposed changes would have an effect on other Sections. The rationale for some of the more significant amendments are described throughout the Basis as well as below.

#### *FIRST-TIME ADOPTION, Section 1500, and FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501 in Part III*

- 97 The Board proposes to allow a first-time adopter to measure agricultural inventories and productive biological assets using net realizable value at the date of transition as deemed cost. Without such a provision in Sections 1500 and 1501, first-time adopters would be required to apply Section 3041 retrospectively without any relief, which may be difficult for an agricultural producer that does not have the historical records to determine the cost of its agricultural inventories and productive biological assets.

### Conclusion

- 98 Having considered the effects of the proposed changes discussed above, the Board's view is that the benefits of the proposals will outweigh any costs and that the proposals will result in significant improvements to financial reporting for agricultural producers.

## Agriculture, Section 3041

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**Decision trees**

**PURPOSE AND SCOPE**

- .01 This Section establishes standards for the recognition, measurement, presentation and disclosure of an agricultural producer’s agricultural inventories and productive biological assets.
- .02 This Section applies to a transaction or event related to agricultural production, including the purchase of the harvested product of biological assets for use in agricultural production.
- .03 Agricultural production covers a diverse range of activities, such as:
  - (a) growing crops, plants or trees;
  - (b) raising livestock or aquatic organisms; and
  - (c) cultivating for purposes of harvesting.
- .04 Activities such as harvesting from sources that are not owned or controlled by an agricultural producer (for example, ocean fishing and forestry on Crown lands) and raising or purchasing animals for competitive sport are not agricultural production.
- .05 Activities may be undertaken after harvest to bring an item of agricultural inventory to the location and condition in which it could be sold. Such activities complete the agricultural production process.
- .06 This Section does not apply to a transaction or event related to secondary production that transforms agricultural inventories into different assets. Assets that result from secondary production are accounted for in accordance with other Sections, such as INVENTORIES, Section 3031.
- .07 The table below provides examples of biological assets used or consumed in the production of agricultural inventories, and assets that result from secondary production of agricultural inventories:<sup>3</sup>

<sup>3</sup> Biological assets could be either agricultural inventories or productive biological assets based on the definitions in paragraphs 3041.09(b) or 3041.09(h), taking into account the presumption in paragraph 3041.11.

Biological assets	Agricultural inventories	Assets that result from secondary production
Sheep	Wool	Yarn, carpet
Wheat	Harvested wheat	Flour
Dairy cattle	Milk	Cheese
Sow	Weaner	Sausages, cured hams
Sturgeon	Roe	Caviar
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Jam
Beef cattle	Carcass	Ground beef

.08 This Section does not deal with:

- (a) agricultural inventories held by enterprises that are not agricultural producers (see INVENTORIES, Section 3031);
- (b) land (see PROPERTY, PLANT AND EQUIPMENT, Section 3061);
- (c) intangible assets such as timber rights, milk quotas and fishing licenses (see GOODWILL AND INTANGIBLE ASSETS, Section 3064);
- (d) government grants (see GOVERNMENT ASSISTANCE, Section 3800); or
- (e) contracts to buy or sell non-financial items such as forward contracts and exchange-traded future contracts (see FINANCIAL INSTRUMENTS, Section 3856).

## DEFINITIONS

.09 The following terms are used in this Section with the meanings specified:

- (a) **Agricultural production** is the development and harvest of biological assets for sale or for use in a productive capacity.
- (b) **Agricultural inventories** are biological assets, or the harvested products of biological assets, that meet one of the following criteria:
  - (i) held for sale in the ordinary course of business;
  - (ii) in the process of agricultural production to be held for sale or for use in a productive capacity;
  - (iii) in the form of raw materials or supplies to be consumed in the enterprise's agricultural production process; or
  - (iv) held for use in a productive capacity with short productive lives.
- (c) **Agricultural producers** are enterprises that undertake agricultural production, such as those that engage in agriculture, apiculture, aquaculture, floriculture, horticulture and silviculture.
- (d) **Biological assets** are living animals or plants.
- (e) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

- (f) **Harvest** is the detachment of product from a biological asset (including the birth of progeny) or the cessation of a biological asset's life processes.
- (g) **Net realizable value** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
- (h) **Productive biological assets** are biological assets that meet all of the following criteria:
  - (i) held for use in the production or supply of agricultural inventories or other productive biological assets;
  - (ii) acquired or developed for use on a continuing basis with other than short productive lives; and
  - (iii) not intended for sale in the ordinary course of business.
- (i) **Residual value** is the estimated net realizable value of productive biological assets at the end of their useful life to an enterprise.
- (j) **Salvage value** is the estimated net realizable value of productive biological assets at the end of their life.
- (k) **Useful life** is the period over which a productive biological asset, singly or in combination with other productive biological assets, is expected to contribute directly or indirectly to the future cash flows of an enterprise.

## RECOGNITION

- .10 *To qualify for recognition, agricultural inventories and productive biological assets must meet the definition of assets and the recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section 1000.*
- .11 *On initial recognition in accordance with paragraph 3041.10, there is a presumption that biological assets not used in a productive capacity are agricultural inventories. That presumption can be rebutted only on initial recognition when the intention is to develop the biological asset into a productive biological asset. In such a case, that biological asset shall be deemed to be a productive biological asset.*
- .12 *A gain arising on initial recognition of an item of agricultural inventory that is measured using the net realizable value model in accordance with paragraph 3041.16(b) shall be included in net income in the period in which it arises.*

## CHANGE IN USE

- .13 *When an agricultural producer commences using an item of agricultural inventory in a productive capacity, it shall reclassify the item from agricultural inventories to productive biological assets. The carrying amount of the item of agricultural inventory shall be the deemed cost of the productive biological asset on reclassification.*
- .14 *An agricultural producer shall reclassify an item of agricultural inventory to an asset within the scope of another Section when it commences a secondary production process to transform the item into a different asset. The carrying amount of the item of agricultural inventory on the date of reclassification is the deemed cost when applying another applicable Section, such as INVENTORIES, Section 3031.*
- .15 *An agricultural producer shall not reclassify productive biological assets to agricultural inventories.*

## MEASUREMENT OF AGRICULTURAL INVENTORIES

### Accounting policy

- .16 *An agricultural producer shall make an accounting policy choice to measure agricultural inventories using either:*
- (a) *the cost model (see paragraphs 3041.20-.47); or*
  - (b) *the net realizable value model (see paragraphs 3041.48-.56), when all of the following conditions are met:*
    - (i) *the product has a reliable, readily determinable and realizable market price;*
    - (ii) *the product has relatively insignificant and predictable costs of disposal; and*
    - (iii) *the product is available for immediate delivery.*

*This accounting policy choice shall be applied consistently to all agricultural inventories having a similar nature and use.*

- .17 *A product has a reliable, readily determinable and realizable market price when:*
- (a) *the price is quoted in an active market such as a commodity exchange or auction, or by a local dealer or in trade publications (see paragraph 3041.49); or*
  - (b) *the price is based on a firm sales contract (see paragraph 3041.50).*
- .18 *A product is available for immediate delivery when:*
- (a) *it could be sold to a buyer in its present condition (for example, an active market exists); or*
  - (b) *only relatively insignificant activities remain to bring the product to a location and condition in which it could be sold.*
- .19 *When an agricultural producer has chosen, under paragraph 3041.16(b), to measure its agricultural inventories using the net realizable value model but the conditions are not met, the agricultural producer is required to apply the cost model to measure the agricultural inventories (see paragraph 3041.20). When the conditions are met, the agricultural producer is required to apply the net realizable value model to measure the agricultural inventories (see paragraph 3041.48).*

### Cost model

#### *Determination of cost*

- .20 *An agricultural producer that applies the cost model shall measure its agricultural inventories at the lower of cost and net realizable value, and shall make an accounting policy choice to determine the cost of agricultural inventories using either:*
- (a) *full cost (see paragraphs 3041.23-.31); or*
  - (b) *only input costs (see paragraphs 3041.24-.25).*

*This accounting policy choice shall be applied consistently to all agricultural inventories using the cost model.*

- .21 *An agricultural producer that has previously chosen to determine the cost of agricultural inventories using only input costs is permitted to change its accounting policy to determine the cost of agricultural inventories using full cost, and it may apply this change in accounting policy prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g).*

- .22 *An agricultural producer that has previously chosen to determine the cost of agricultural inventories using full cost is prohibited from changing its accounting policy to determine the cost of agricultural inventories using only input costs.*
- .23 *The full cost of agricultural inventories shall comprise all input costs and other costs of agricultural production incurred in bringing the agricultural inventories to their present location and condition.*

### Input costs

- .24 Input costs of agricultural inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and 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 deducted in determining input costs. Examples of input costs for plants would include the cost of seeds or seedlings, fertilizer and pesticides, and for animals, the cost of feed, vaccinations and other veterinary costs.
- .25 Input costs of agricultural inventories also comprise direct labour, to the extent the cost of labour is readily determinable and is directly related to the items of agricultural inventories produced. For example, when an agricultural producer hires a labourer to carry out an activity related to the development and harvest of its biological assets, the cost of the labour hired is readily determinable and is directly related to the items of agricultural inventories produced. As a result, the cost of the labour hired is included in input costs of agricultural inventories. In the case of an owner-managed business, if the owner and/or the family members carry out the harvesting activity for several field crops, the cost of their labour may not be readily determinable and directly related to the items of agricultural inventories produced. For example, if salary is not drawn from the business or the time spent on field is not tracked specifically to each crop, the cost of labour is excluded from input costs of agricultural inventories.

### Other costs of agricultural production

- .26 Other costs of agricultural production include:
- (a) a systematic allocation of fixed and variable agricultural production overheads that are incurred in the development and harvest of biological assets; and
  - (b) all other costs only to the extent they are incurred in the development and harvest of biological assets, such as direct labour costs not included in input costs.
- .27 Fixed production overheads are those indirect costs of agricultural production that remain relatively constant regardless of the volume of production, such as amortization and maintenance of productive biological assets, agricultural production facilities and equipment, and the cost of farm management and administration. Variable production overheads are those indirect costs of agricultural production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.
- .28 The allocation of fixed production overheads to the full cost of agricultural inventories is based on the normal capacity of the agricultural production facilities. Normal capacity is the agricultural production expected to be achieved on average over a number of periods or seasons under normal circumstances. The actual level of agricultural production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production, for example, as a result of extreme weather. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that agricultural inventories are not measured above full cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the agricultural production facilities.

- .29 The full cost of agricultural inventories that require a substantial period of time to get them ready for their intended use or sale includes interest costs when the enterprise's accounting policy is to capitalize interest costs. The full cost of agricultural inventories that are ready for their intended use or sale when acquired does not include interest costs.
- .30 An agricultural producer may purchase agricultural inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.
- .31 An agricultural production process may result in more than one product being produced simultaneously. For example, this is the case when joint products are produced or when there is a main product and a by-product. When the costs of producing each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. For example, the allocation may be based on the relative sales value of each product either at the stage in the agricultural production process when the products become separately identifiable, or at the completion of production.<sup>4</sup>

#### *Techniques for the measurement of cost*

- .32 Techniques for the measurement of the cost of agricultural inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.
- .33 Under the retail method, the cost of agricultural inventories is determined by reducing the sales value of the inventories by the appropriate percentage gross margin. The percentage used takes into consideration agricultural inventories that have been marked down to below their original selling price. The retail method would typically not be an appropriate approximation of cost for agricultural inventories with significant price or gross margin volatility.

#### *Cost formulas*

- .34 *When items of agricultural inventories are not ordinarily interchangeable, and goods are produced and segregated for specific projects, the cost of the items shall be assigned by using specific identification of their individual costs.*
- .35 Specific identification of cost means that specific costs are attributed to identified items of agricultural inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of agricultural inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in agricultural inventories could be used to obtain predetermined effects on net income.
- .36 *The cost of agricultural inventories, other than those dealt with in paragraph 3041.34, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An agricultural producer shall use the same cost formula for all inventories having a similar nature and use to the enterprise. For agricultural inventories with a different nature or use, different cost formulas may be justified.*
- .37 Agricultural inventories used in one business segment may have a use to the enterprise that is different from the same type of agricultural inventories used in another business segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

<sup>4</sup> This paragraph applies to agricultural producers that determine the cost of inventories using either full cost or only input costs.

- .38 The FIFO formula assumes that the items of agricultural inventory that were purchased or developed first are sold first and, consequently, the items remaining in agricultural inventory at the end of the period are those most recently purchased or developed. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or developed during the period. The average may be calculated on a periodic basis depending upon the circumstances of the enterprise.

### *Write-down*

- .39 *When the cost of agricultural inventories exceeds their net realizable value, the agricultural inventories shall be written down to their net realizable value.*
- .40 The cost of agricultural inventories may not be recoverable if those inventories are damaged or quality has deteriorated over time, if they have perished due to climate conditions, disease or natural disasters, or if their selling prices have declined. The cost of agricultural inventories may also not be recoverable if the estimated costs to be incurred to make the sale have increased.
- .41 Estimates of net realizable value are based on the most reliable evidence available, at the time the estimates are made, of the amount the agricultural inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.
- .42 Estimates of net realizable value also take into consideration the purpose for which the agricultural inventory is held. For example, the net realizable value of the quantity of agricultural inventory held to satisfy firm sales contracts is based on the contract price. If the sales contracts are for less than the agricultural inventory quantities held, the net realizable value of the excess is based on realizable market prices. Provisions may arise from firm sales contracts in excess of agricultural inventory quantities held or from firm purchase contracts.
- .43 A new assessment is made of net realizable value in each subsequent period. 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 amount of the write-down 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 prior to the write-down.

### *Recognition as an expense*

- .44 *The carrying amount of agricultural inventories shall be recognized as an expense in the period in which they are sold.*
- .45 *The amount of any write-down of agricultural inventories from cost to net realizable value and all losses of agricultural inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of agricultural inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of agricultural inventories recognized as an expense in the period in which the reversal occurs.*
- .46 *Costs excluded from the cost of agricultural inventories shall be recognized as expenses in the period in which they are incurred.*
- .47 Examples of costs excluded from the cost of agricultural inventories are:
- (a) abnormal amounts of wasted materials, labour or other agricultural production costs;

- (b) storage costs, unless those costs are necessary in the agricultural production process before a further stage of agricultural production;
- (c) administrative overheads that do not contribute to bringing agricultural inventories to their present location and condition;
- (d) selling costs; and
- (e) all other costs of agricultural production when an agricultural producer determines the cost of agricultural inventories using only input costs in accordance with paragraph 3041.20(b).

### **Net realizable value model**

- .48 *An agricultural producer that applies the net realizable value model when the conditions in paragraph 3041.16(b) are met shall measure its agricultural inventories at net realizable value.*
- .49 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 period.
- .50 Net realizable value also takes into consideration the purpose for which the agricultural inventory is held. For example, the net realizable value of the quantity of agricultural inventory held to satisfy firm sales contracts is based on the contract price. If the sales contracts are for less than the agricultural inventory quantities held, the net realizable value of the excess is based on realizable market prices. Provisions may arise from firm sales contracts in excess of agricultural inventory quantities held or from firm purchase contracts.
- .51 *Changes in the carrying amount of agricultural inventories resulting from changes in net realizable value are recognized in net income in the period in which they arise.*

### **Changes to the conditions**

- .52 *Changes to the conditions in paragraph 3041.16(b) that result in a change to the measurement basis of agricultural inventories are not changes in accounting policies in accordance with ACCOUNTING CHANGES, paragraph 1506.08(a).*
- .53 Whenever events or changes in circumstances indicate that the conditions in paragraph 3041.16(b) for using the net realizable value model are no longer met, the carrying amount of the item of agricultural inventory becomes its deemed cost. The item of agricultural inventory is measured using the cost model until the conditions are met again.
- .54 Whenever events or changes in circumstances indicate that the conditions in paragraph 3041.16(b) for using the net realizable value model are met again, the item of agricultural inventory is measured using the net realizable value model. The change in the carrying amount of the item of agricultural inventory consists of any reversals of previous write-downs, limited to the amount of the original write-down, and any additional change resulting from measurement at net realizable value.

### **Recognition as an expense**

- .55 *The carrying amount of agricultural inventories shall be recognized as an expense in the period in which they are sold.*
- .56 *All losses of agricultural inventories shall be recognized as an expense in the period the loss occurs.*

## MEASUREMENT OF PRODUCTIVE BIOLOGICAL ASSETS

### Cost

- .57 *Productive biological assets shall be measured at cost.*
- .58 The cost of productive biological assets is the amount of consideration given up to acquire, develop, or better the assets. The cost of productive biological assets includes costs directly attributable to the acquisition, development or betterment of the assets, including delivering and establishing them at the location and in the condition necessary for their intended use. Cost includes any asset retirement cost accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.

### Acquisition costs

- .59 Examples of acquisition costs include commissions, legal fees, freight charges, transportation insurance costs and duties. In addition, if the cost of productive biological assets acquired other than through a business combination is different from their tax basis on acquisition, cost would be adjusted to reflect the related future income tax consequences if the future income taxes method is chosen (see INCOME TAXES, Section 3465).

### Development costs

- .60 Development costs are the costs incurred during the period that a biological asset is maturing to become productive. Development costs include direct costs (such as feed, fertilizer and direct labour) as well as overhead costs directly attributable to the development of the asset. The cost of productive biological assets that are developed over time includes carrying costs directly attributable to the development activity, such as interest costs when the enterprise's accounting policy is to capitalize interest costs.
- .61 An agricultural producer ceases the capitalization of development costs when the biological asset becomes productive. Determining when a biological asset has become productive requires the use of judgment and the consideration of factors such as productive capacity, maturity or the passage of time.
- .62 Net revenue or expense derived from a biological asset prior to the asset becoming productive is included in the cost.

### Betterment

- .63 The cost incurred to enhance the service potential of productive biological assets is a betterment. Service potential may be enhanced when there is an increase in the previously assessed productive capacity or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of productive biological assets is a repair, not a betterment. An example of a maintenance expenditure would include feeding a productive biological asset to maintain its service potential. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the productive biological asset.

### Amortization

- .64 *Productive biological assets shall be amortized over their useful life to an agricultural producer, unless the life is determined to be indefinite. When productive biological assets are determined to have an indefinite life, they shall not be amortized until their life is determined to be no longer indefinite.*
- .65 Some productive biological assets are managed on a collective basis to maintain their collective productive capacity indefinitely. Productive biological assets of this type are considered to have

an indefinite useful life and are not subject to amortization. An example would be a herd managed collectively to meet a production quota indefinitely, and the cost incurred in the maintenance of the service potential of a herd is a repair, not a betterment.

- .66 *Amortization shall be recognized in a rational and systematic manner appropriate to the nature of productive biological assets with a limited life and their use by the agricultural producer. The amount of amortization that shall be charged to income is the greater of:*
- (a) *the cost less salvage value over the life of the assets; and*
  - (b) *the cost less residual value over the useful life of the assets.*
- .67 Productive biological assets are acquired or developed to earn income or supply a service over their useful life. Productive biological assets normally have a limited life, except if paragraph 3041.65 applies. The useful life of a productive biological asset is normally the shortest of its physical, commercial and legal life. Amortization is the charge to income that recognizes that a productive biological asset's life is finite and that the cost less salvage value or residual value of a productive biological asset is allocated to the periods of service provided by the asset. Amortization may also be termed depreciation or depletion.
- .68 Different methods of amortizing a productive biological asset result in different patterns of charges to income. The objective is to provide a rational and systematic basis for allocating the amortizable amount of a productive biological asset over its estimated life and useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations.
- .69 Factors to be considered in estimating the life and useful life of a productive biological asset include expected future usage, expected biological deterioration from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable items.

#### *Review of amortization*

- .70 *The amortization method and estimates of the life and useful life of productive biological assets shall be reviewed on a regular basis.*
- .71 Significant events that may indicate a need to revise the amortization method or estimates of the life and useful life of a productive biological asset include:
- (a) a change in the extent the asset is used;
  - (b) a change in the manner in which the asset is used;
  - (c) removal of the asset from production for an extended period of time;
  - (d) disease or physical injury; or
  - (e) a change in the law, environment, or consumer preferences and tastes affecting the period of time over which the asset can be used.

### **Impairment**

#### *Productive biological assets subject to amortization*

- .72 *Productive biological assets subject to amortization shall be tested for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.*

## *Productive biological assets not subject to amortization*

- .73 *Productive biological assets that are not subject to amortization shall be tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. (Examples of such events or changes in circumstances are listed in IMPAIRMENT OF LONG-LIVED ASSETS, paragraph 3063.10. There may be other indications that productive biological assets not subject to amortization are impaired).*
- .74 *The carrying amount of a productive biological asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. This assessment is based on the carrying amount of a productive biological asset at the date it is tested for recoverability.*
- .75 *Productive biological assets that are managed on a collective basis are grouped for purposes of impairment testing.*
- .76 *An impairment loss shall be recognized when the carrying amount of a productive biological assets, or a group of productive biological assets, is not recoverable and exceeds its fair value.*
- .77 *An impairment loss shall be measured as the amount by which the carrying amount of a productive biological asset exceeds its fair value. If an impairment loss is recognized, the adjusted carrying amount becomes the new cost basis. An impairment loss shall not be reversed if the fair value subsequently increases.*

## **Asset retirement obligations**

- .78 *Obligations associated with the retirement of productive biological assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.*

## **Held for sale or disposal**

- .79 *When an agricultural producer ceases to use a productive biological asset in a productive capacity, the asset shall be measured at the lower of its carrying amount and fair value less costs to sell until it is sold or disposed of other than by sale. A biological asset no longer used in a productive capacity shall not be amortized.*
- .80 *When a productive biological asset is to be disposed of by sale or other than by sale, a loss shall be recognized for any initial or subsequent write-down to fair value less costs to sell. A gain shall be recognized for any subsequent increase in fair value less costs to sell, but not in excess of the cumulative loss previously recognized for a write-down to fair value less costs to sell.*
- .81 *A gain or loss not previously recognized, that results from the sale of a productive biological asset or a group of productive biological assets, is recognized at the date of sale.*

## **PRESENTATION**

- .82 *The amounts of agricultural inventories and productive biological assets shall be presented as separate line items in an agricultural producer's balance sheet.*

## **DISCLOSURE**

### **Agricultural inventories**

- .83 *The financial statements shall disclose the following information:*
  - (a) *a qualitative description of each major category of agricultural inventories;*

- (b) *the quantities held of each major category of agricultural inventories, when readily determinable; and*
  - (c) *the accounting policies adopted in measuring agricultural inventories of similar nature and use.*
- .84 The quantitative description of the agricultural producer's major categories of agricultural inventories should include information regarding the number of units comprising each category. For example, this quantitative description could include the weight of a harvested crop, or the number of acres of an unharvested crop.

#### **Cost model**

- .85 *In addition to the disclosures required by paragraph 3041.83, the financial statements shall disclose the following information for agricultural inventories measured using the cost model:*
- (a) *the accounting policy adopted in determining the cost of inventories, including the techniques used for measuring cost;*
  - (b) *the cost formulas used;*
  - (c) *the total carrying amount for each major category; and*
  - (d) *the amount of inventories recognized as an expense during the period.*
- .86 *When an agricultural producer determines the cost of agricultural inventories using only input costs in accordance with paragraph 3041.20(b), it shall disclose a description of the input costs included in the measurement of agricultural inventories.*

#### **Net realizable value model**

- .87 *In addition to the disclosures required by paragraph 3041.83, the financial statements shall disclose the following information for agricultural inventories measured using the net realizable value model:*
- (a) *a description of the methodology used to determine net realizable value;*
  - (b) *the total carrying amount for each major category;*
  - (c) *the aggregate of gains and losses arising during the current period from changes in the carrying amount, and, if not separately presented, the caption in the income statement that includes that gain or loss; and*
  - (d) *the amount of inventories recognized as an expense during the period.*

#### **Productive biological assets**

- .88 *The financial statements shall disclose the following information:*
- (a) *a qualitative description of each major category of productive biological assets;*
  - (b) *the quantities held of each major category of productive biological assets, when readily determinable;*
  - (c) *for each major category being amortized:*
    - (i) *the cost;*
    - (ii) *the accumulated amortization, including the amount of any impairment loss;*
    - (iii) *the amortization method used, including the amortization period or rate; and*

- (iv) the amount of amortization charged to income for the period;*
  - (d) for each major category not being amortized in accordance with paragraph 3041.65, the carrying amount;*
  - (e) for any impairment loss recognized, a description of the facts and circumstances leading to the impairment;*
  - (f) the amount of any impairment loss recognized and, if not separately presented, the caption in the income statement that includes that loss; and*
  - (g) the aggregate of gains and losses recognized on sale or disposal and, if not separately presented, the caption in the income statement that includes that gain or loss.*
- .89 The quantitative description of the agricultural producer's major categories of productive biological assets should include information regarding the number of units comprising each category. For example, this quantitative description could include the number of animals in a herd.

## **EFFECTIVE DATE AND TRANSITION**

- .90 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2021. An agricultural producer applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 3041.91-.92. Earlier application is permitted.
- .91 An agricultural producer may choose on an asset-by-asset basis to measure agricultural inventories or productive biological assets at their net realizable value at the beginning of the fiscal year in which this Section is applied for the first time. The agricultural producer uses that net realizable value as the asset's deemed cost at that date. Any difference between the asset's deemed cost at that date, and the prior year's closing balance sheet is recorded as an adjustment to opening retained earnings at the date at which this Section is first applied.
- .92 An agricultural producer is not required to make retrospective adjustments in respect of agricultural inventories or productive biological assets that were derecognized during:
- (a) the fiscal year in which this Section is first applied; or
  - (b) the fiscal year immediately preceding the date at which this Section is first applied.
- .93 If an agricultural producer applies the transitional provision in paragraph 3041.91 to measure agricultural inventories or productive biological assets at net realizable value as deemed cost, the enterprise discloses in its financial statements for the fiscal year in which this Section is first applied:
- (a) a description of the assets for which the deemed cost option has been applied;
  - (b) the net realizable value of the assets at the date the option is applied; and
  - (c) the caption(s) in the balance sheet that includes the assets.

## **DECISION TREES**

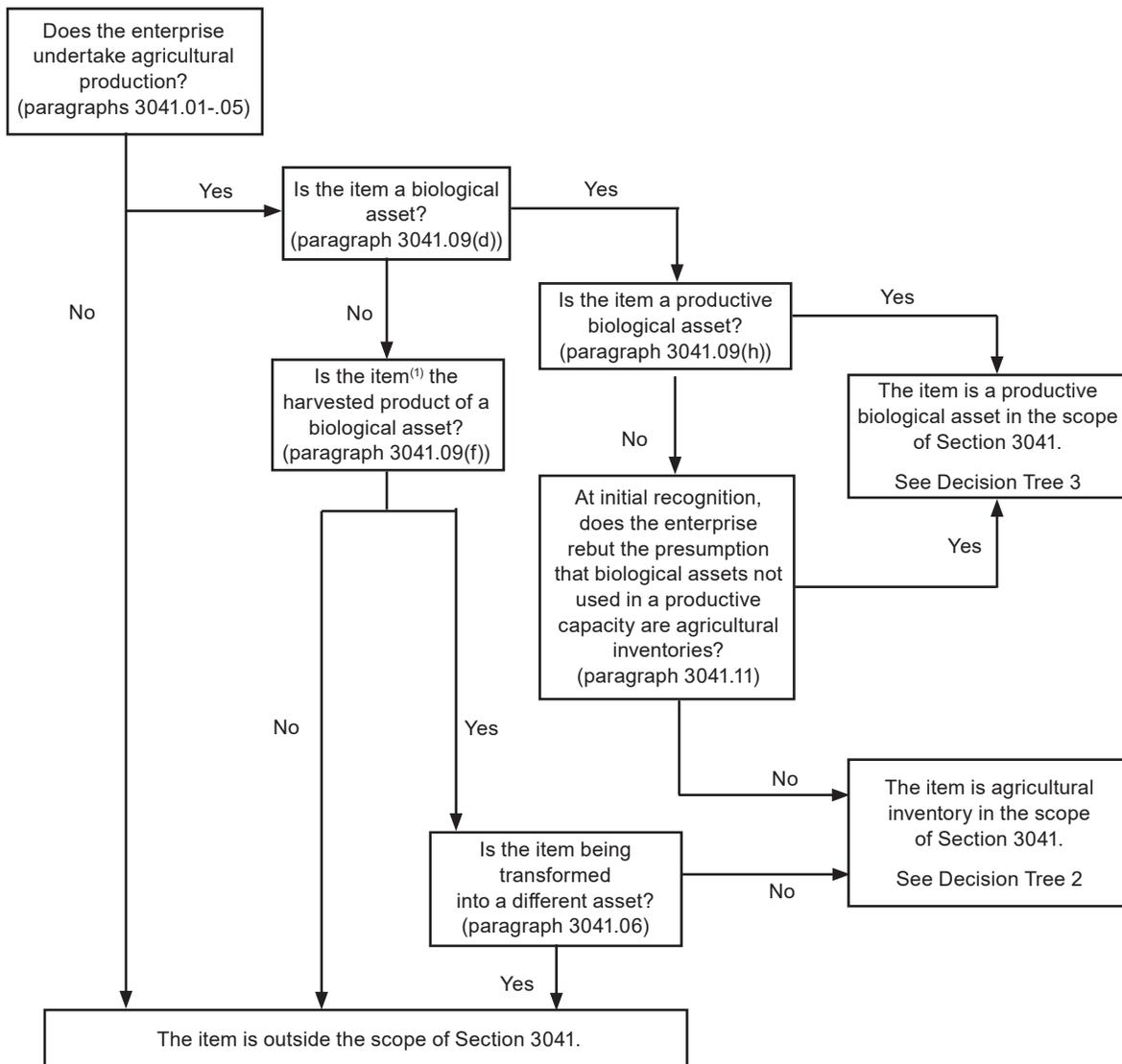
These Decision Trees are illustrative only.

Decision Tree 1 – Scope of Section 3041

Decision Tree 2 – Recognition and measurement of agricultural inventories

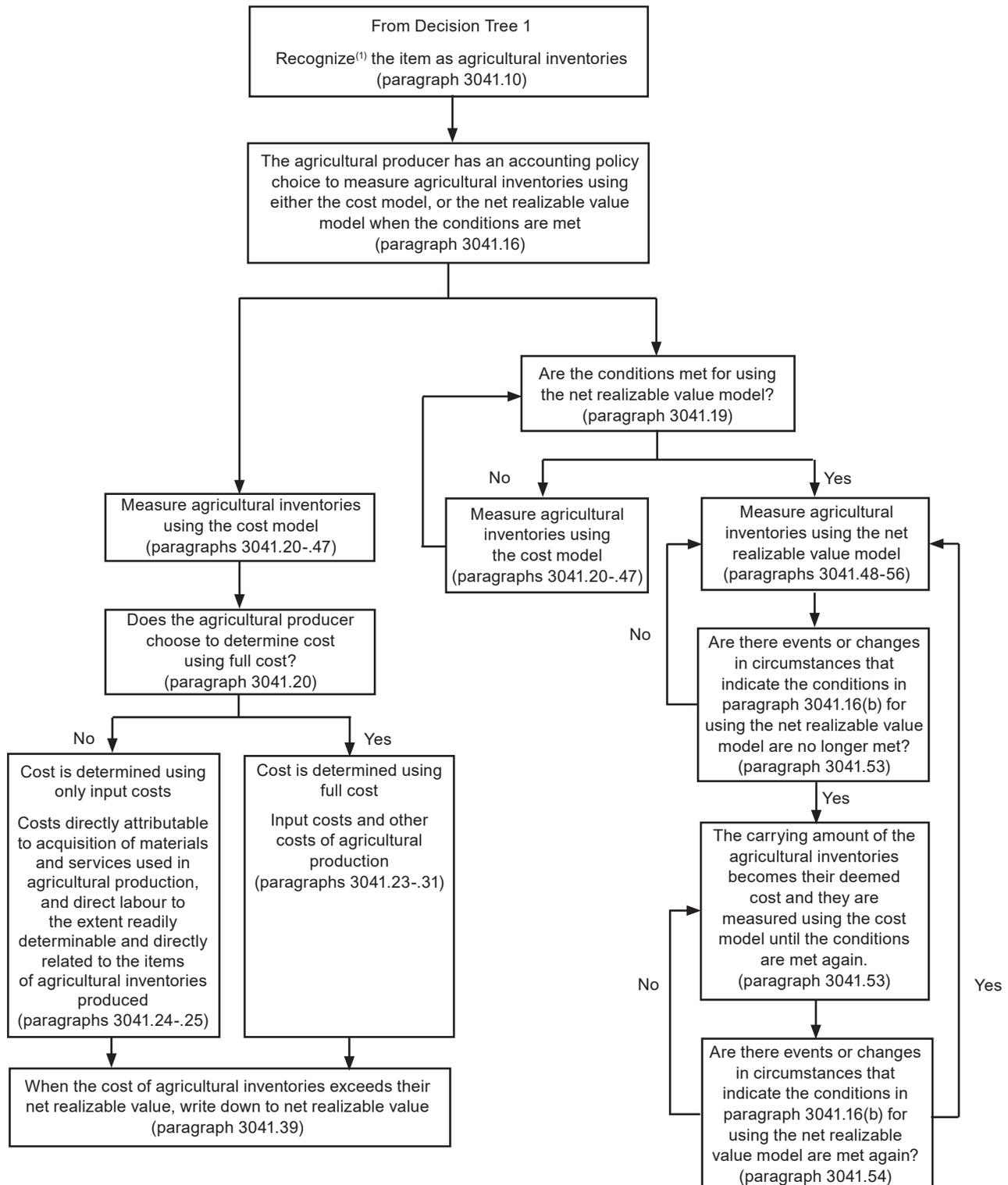
Decision Tree 3 – Recognition and measurement of productive biological assets

**Decision Tree 1 – Scope of Section 3041**



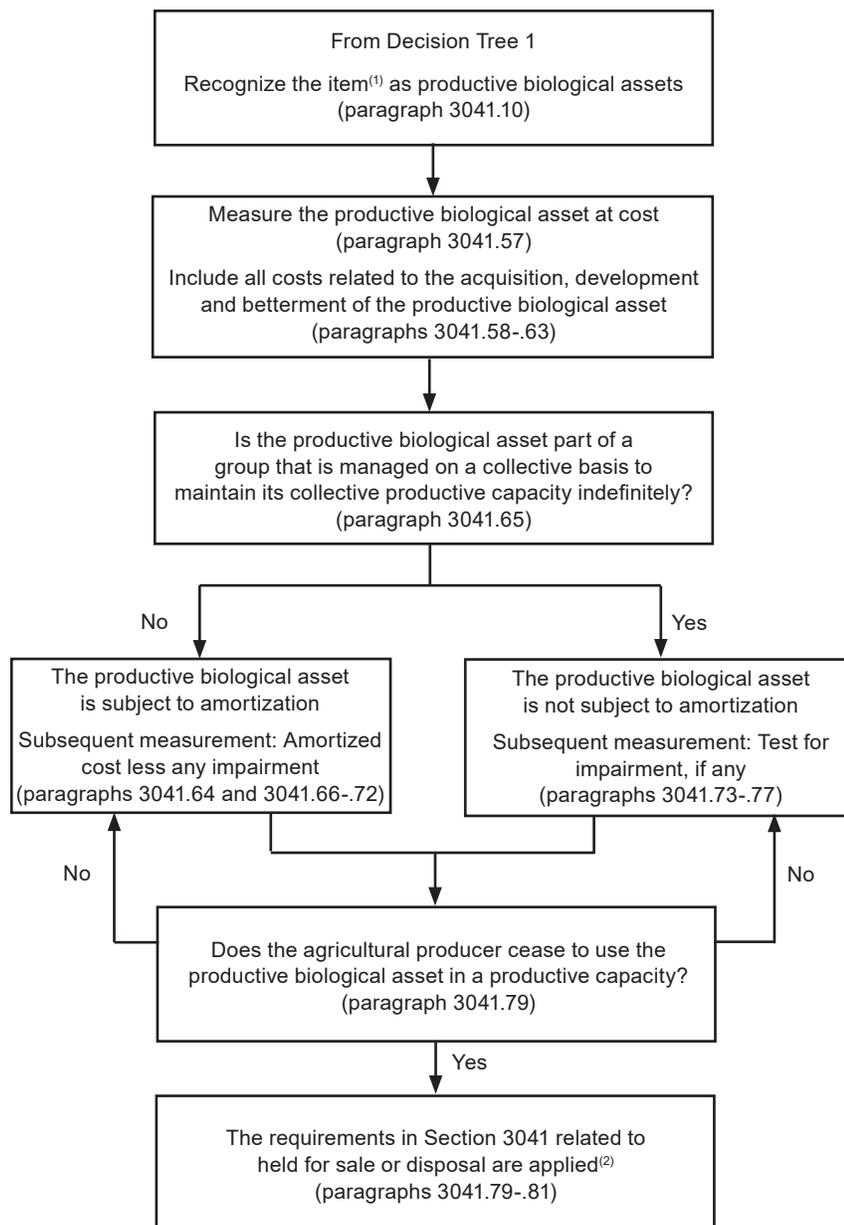
(1) Including purchased harvested product for use in agricultural production (paragraph 3041.02).

Decision Tree 2 – Recognition and measurement of agricultural inventories



(1) There could be costs incurred prior to the agricultural production process related to the development and harvest of biological assets. For example, costs relating to soil preparation for crops may be incurred prior to planting. Agricultural producers would apply judgment to determine when an item of agricultural inventory can be recognized because it meets the definition of an asset and the recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section 1000.

**Decision Tree 3 – Recognition and measurement of productive biological assets**



(1) There could be costs incurred prior to the agricultural production process related to the development and harvest of biological assets. For example, costs relating to veterinary services may be incurred prior to conception. Agricultural producers would apply judgment to determine when a productive biological asset can be recognized because it meets the definition of an asset and the recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section 1000.

(2) An agricultural producer shall not reclassify productive biological assets to agricultural inventories (paragraph 3041.15).

## CONSEQUENTIAL AMENDMENTS TO ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES IN PART II OF THE CPA CANADA HANDBOOK – ACCOUNTING

The following significant consequential amendments to Part II of the Handbook have been identified. Additional text is denoted by underlining and deleted text by strikethrough.

### FIRST-TIME ADOPTION, Section 1500

#### RECOGNITION, MEASUREMENT AND PRESENTATION

##### Exemptions from other standards

- .09 An entity may elect to use exemptions related to one or more of the following:
- (a) business combinations (see paragraphs 1500.10-.11);
  - (b) subsidiaries (see paragraph 1500.11A);
  - (c) assets and liabilities of subsidiaries, and joint arrangements (see paragraphs 1500.11B-.11E);
  - (d) joint arrangements (see paragraph 1500.11F);
  - (e) investments (see paragraph 1500.11G);
  - (f) fair value (see paragraphs 1500.12-.13);
  - ~~(ff) agricultural inventories or productive biological assets (see paragraph 1500.13A);~~
  - (g) employee future benefits (see paragraphs 1500.16-.16A);
  - (h) cumulative translation differences (see paragraphs 1500.17-.18);
  - (i) financial instruments (see paragraphs 1500.19-.21);
  - (j) share-based payment transactions (see paragraphs 1500.22-.23);
  - (k) asset retirement obligations (see paragraph 1500.24); and
  - (l) related party transactions (see paragraph 1500.25).

...

##### *Agricultural inventories or productive biological assets*

- .13A A first-time adopter may apply the transitional provisions in AGRICULTURE, Section 3041.

...

#### EFFECTIVE DATE AND TRANSITION

- .38 Except as specified in paragraphs 1500.39-.44~~2~~, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

- .42 New paragraph 1500.13A, issued in [TBD 2019], applies to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## ACCOUNTING CHANGES, Section 1506

### APPLYING CHANGES IN ACCOUNTING POLICIES

.10 Subject to paragraph 1506.14:

- (a) an entity shall account for a change in accounting policy resulting from the initial application of a primary source of GAAP in accordance with the specific transitional provisions, if any, in that primary source of GAAP; ~~and~~
- (b) when an entity changes an accounting policy upon initial application of a primary source of GAAP that does not include specific transitional provisions applying to that change, ~~or changes an accounting policy voluntarily~~; it shall apply the change retrospectively; and
- (c) when an entity changes an accounting policy voluntarily, it shall apply the change retrospectively, except as permitted by AGRICULTURE, paragraph 3041.21.

...

### Retrospective application

.13 Subject to paragraph 1506.14, when a change in accounting policy is applied retrospectively in accordance with paragraphs 1506.10(a)-(c) ~~or (b)~~, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

### Limitations on retrospective application

.14 When retrospective application is required by paragraphs 1506.10(a)-(c) ~~or (b)~~, a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

...

## DISCLOSURE

### Changes in accounting policies

.34 When initial application of a primary source of GAAP has an effect on the current period or any prior period or would have such an effect except that it is impracticable to determine the amount of the adjustment, an entity shall disclose:

- (a) the title of the primary source of GAAP;
- (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- (c) the nature of the change in accounting policy;
- (d) when applicable, a description of the transitional provisions;
- (e) for each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- (f) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

- (g) *if retrospective application required by paragraphs 1506.10(a)-(c) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.*

...

## EFFECTIVE DATE AND TRANSITION

- .38 Except as specified in paragraphs 1506.39-~~4243~~, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

- .43 Amendments to paragraphs 1506.10, 1506.13-14 and 1506.34(g) issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## INCOME STATEMENT, Section 1520

### PRESENTATION

- .04 *The following items shall either be presented separately on the face of the income statement or disclosed in the notes to the financial statements with the income statement caption that contains the item identified:*
  - (a) *Major categories of revenue recognized (see REVENUE, Section 3400).*
  - (b) *(deleted)*
  - (c) *Government assistance credited directly to income (see GOVERNMENT ASSISTANCE, Section 3800).*
  - (d) *The amount charged for amortization of property, plant and equipment (see PROPERTY, PLANT AND EQUIPMENT, Section 3061).*
  - (e) *The amount charged for amortization of intangible assets subject to amortization (see GOODWILL AND INTANGIBLE ASSETS, Section 3064).*
  - (f) *The amount of long-lived asset impairment losses, except for losses associated with discontinued operations that are included in the results of discontinued operations (see IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063).*
  - (g) *The amount of goodwill impairment losses, except for losses associated with discontinued operations that are included in the results of discontinued operations (see GOODWILL AND INTANGIBLE ASSETS, Section 3064).*
  - (h) *The amount of intangible asset impairment losses, except for losses associated with discontinued operations that are included in the results of discontinued operations (see GOODWILL AND INTANGIBLE ASSETS, Section 3064).*
  - (i) *Total compensation cost recognized in income for stock-based employee compensation awards (see STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870).*

- (j) *The amount of exchange gain or loss included in net income (see FOREIGN CURRENCY TRANSLATION, Section 1651). An entity may exclude from this amount those exchange gains or losses arising on financial instruments measured at fair value in accordance with FINANCIAL INSTRUMENTS, Section 3856.*
- (k) *The following amounts in respect of financial instruments:*
- (i) *net gains or losses recognized;*
  - (ii) *total interest income;*
  - (iii) *total interest expense on current financial liabilities;*
  - (iv) *interest expense on long-term financial liabilities, separately identifying amortization of premiums, discounts and financing fees; and*
  - (v) *the amount of any impairment loss or reversal of a previously recognized impairment loss.*
- (See FINANCIAL INSTRUMENTS, Section 3856).
- (l) *Interest expense related to capital lease obligations. The amount shall be disclosed separately or as part of interest expense on indebtedness initially incurred for a term of more than one year (see LEASES, Section 3065).*
- (m) *Revenue, expenses, gains or losses resulting from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities of the entity (see GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1400).*
- (n) (deleted)
- (o) *The amount of inventories recognized as an expense during the period (see INVENTORIES, Section 3031).*
- (p) *The amount of gains or losses recognized on a long-lived asset (or disposal group) that has been sold, classified as held for sale or disposed of other than by sale (see DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475).*
- (q) *The amount of any gain recognized in a bargain purchase (see BUSINESS COMBINATIONS, Section 1582).*
- (r) *The amount of gains or losses recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before a business combination (see BUSINESS COMBINATIONS, Section 1582).*
- (s) *The amount of remeasurements and other items arising from defined benefit plans (see EMPLOYEE FUTURE BENEFITS, Section 3462).*
- (t) *The amount of termination benefits (see EMPLOYEE FUTURE BENEFITS, Section 3462).*
- (u) *The amount of any impairment loss or reversal of a previously recognized impairment loss on subsidiaries, investments and interests in joint arrangements accounted for using the cost or equity method that is included in net income (see SUBSIDIARIES, Section 1591, INVESTMENTS, Section 3051, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056).*
- (v) *The amount of any impairment loss or reversal of a previously recognized impairment loss on a lease asset, or group of similar lease assets that is included in net income (see LEASES, Section 3065).*

*(w) The following amounts in respect of agricultural inventories:*

- (i) the aggregate of gains and losses arising during the current period from changes in the carrying amount of agricultural inventories measured using the net realizable value model; and*
- (ii) the amount of agricultural inventories recognized as an expense during the period using either the cost model or the net realizable value model.*

*(See AGRICULTURE, Section 3041).*

*(x) The following amounts in respect of productive biological assets:*

- (i) the amount charged for amortization of productive biological assets subject to amortization;*
- (ii) the amount of any impairment loss recognized in the period; and*
- (iii) the amount of aggregate gains and losses recognized on productive biological assets that have been sold or disposed of other than by sale.*

*(See AGRICULTURE, Section 3041).*

## **EFFECTIVE DATE AND TRANSITION**

.05 Except as specified in paragraphs 1520.06-.412, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.12 New paragraphs 1520.04(w)-(x), issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## **BALANCE SHEET, Section 1521**

### **PRESENTATION**

.04 *The following assets shall be separately presented on the face of the balance sheet:*

- (a) main classes of current assets in accordance with CURRENT ASSETS AND CURRENT LIABILITIES, paragraph 1510.04;*
- (b) (deleted)*
- (c) (deleted)*
- (d) (deleted)*
- (e) (deleted)*
- (f) (deleted)*
- (g) investments in non-consolidated subsidiaries and joint arrangements accounted for using the cost or equity method (see SUBSIDIARIES, Section 1591, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056) showing separately:*
  - (i) investments measured using the cost method;*
  - (ii) investments measured using the equity method; and*
  - (iii) investments measured at fair value;*

- (h) *investments subject to significant influence and all other investments (see INVESTMENTS, Section 3051) showing separately:*
  - (i) *investments measured using the cost method;*
  - (ii) *investments measured using the equity method; and*
  - (iii) *investments measured at fair value;*
- (i) (deleted)
- (j) *intangible assets (see GOODWILL AND INTANGIBLE ASSETS, Section 3064);*
- (k) *goodwill (see GOODWILL AND INTANGIBLE ASSETS, Section 3064);*
- (l) *assets for current income taxes (see INCOME TAXES, Section 3465);*
- (m) *assets for future income taxes<sup>5</sup> (see INCOME TAXES, Section 3465); and*
- (n) *long-lived assets and disposal groups classified as held for sale (see DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475);*
- (o) (deleted)
- (p) *agricultural inventories (see AGRICULTURE, Section 3041); and*
- (q) *productive biological assets (see AGRICULTURE, Section 3041).*

...

## EFFECTIVE DATE AND TRANSITION

- .07 Except as specified in paragraphs 1521.08-4011, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

- .11 New paragraphs 1521.04(p)-(q), issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## INVENTORIES, Section 3031

### PURPOSE AND SCOPE

...

- .02 This Section applies to all inventories, except:
- (a) contracts accounted for using the percentage of completion method (see REVENUE, Section 3400); and
  - (b) financial instruments; and
  - (c) agricultural inventories held by agricultural producers (see AGRICULTURE, Section 3041).

...

<sup>5</sup> This disclosure is only applicable if the future income taxes method is chosen.

- .04 This Section does not apply to the measurement of inventories:
- (a) held by producers of ~~agricultural and forest products, agricultural produce after harvest, and~~ minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in ~~these that~~ industries; when such inventories are measured at net realizable value, changes in that value are recognized in net income in the period of the change; and
  - (b) held by commodity broker-traders who measure their inventories at fair value less costs to sell; when such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in net income in the period of the change; and
  - ~~(c) of living animals and plants (biological assets) and the harvested product of the entity's biological assets (agricultural produce). This Section does apply to products that are the result of processing after harvest such as processed foods, thread and lumber.~~
- .05 The inventories referred to in paragraph 3031.04(a) are measured at net realizable value at certain stages of production. For example, this occurs when ~~agricultural crops have been harvested or~~ minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Section.

...

## EFFECTIVE DATE

- .39 Except as specified in paragraph 3031.40, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- ~~.40 New paragraph 3031.02(c), and amendments to paragraphs 3031.04-.05, issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.~~

## INVESTMENTS, Section 3051

### PURPOSE AND SCOPE

- .03 Except as specified by paragraph 3051.02, this Section does not apply to:
- (a) subsidiaries or interests in joint arrangements;
  - (b) financial instruments within the scope of FINANCIAL INSTRUMENTS, Section 3856; or
  - (c) investments held by investment companies (see ACCOUNTING GUIDELINE AcG-18, Investment Companies); or
  - (d) biological assets within the scope of AGRICULTURE, Section 3041.

...

### EFFECTIVE DATE AND TRANSITION

- .39 Except as specified in paragraphs 3051.40-~~4344~~, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.44 New paragraph 3051.03(d), issued in [TBD 2019], applies to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## **PROPERTY, PLANT AND EQUIPMENT, Section 3061**

### **PURPOSE AND SCOPE**

.02A This Section does not apply to productive biological assets (see AGRICULTURE, Section 3041).

...

.05 The cost of an item of property, plant and equipment includes the purchase price and other acquisition costs such as option costs when an option is exercised, brokers' commissions, installation costs including architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges. In addition, if the cost of the asset acquired other than through a business combination is different from its tax basis on acquisition, the asset's cost would be adjusted to reflect the related future income tax consequences if the future income taxes method is chosen (see INCOME TAXES, Section 3465). It may be appropriate to group together individually insignificant items of property, plant and equipment.

...

### **EFFECTIVE DATE**

.29 Except as specified in paragraphs 3061.30-.31, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.31 New paragraph 3061.02A and amendments to paragraph 3061.05, issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## **IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063**

### **PURPOSE AND SCOPE**

- .02 This Section applies to non-monetary long-lived assets, including productive biological assets, property, plant and equipment, intangible assets with finite useful lives, and long-term prepaid assets. It does not apply to:
- (a) goodwill and intangible assets with indefinite useful lives (see GOODWILL AND INTANGIBLE ASSETS, Section 3064);
  - (b) investments, including equity method accounted investments (see INVESTMENTS, Section 3051);
  - (c) defined benefit assets (see EMPLOYEE FUTURE BENEFITS, Section 3462);
  - (d) future income tax assets (see INCOME TAXES, Section 3465);
  - (e) financial assets, financial liabilities and contracts to buy or sell non-financial items accounted for in accordance with FINANCIAL INSTRUMENTS, Section 3856;
  - (f) oil and gas assets accounted for using the full cost method (see ACCOUNTING GUIDELINE AcG-16, Oil and Gas Accounting — Full Cost);~~or~~

- (g) unproved oil and gas properties accounted for using the successful efforts method; or:
- (h) productive biological assets not subject to amortization (See AGRICULTURE, Section 3041).

...

## **EFFECTIVE DATE**

- .25 Except as specified in paragraph 3063.26, tThis Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .26 New paragraph 3063.02(h), issued in [TBD 2019], applies to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## **ASSET RETIREMENT OBLIGATIONS, Section 3110**

### **PURPOSE AND SCOPE**

- .02 This Section applies to legal obligations associated with the retirement of a tangible long-lived asset, including productive biological assets, that result from its acquisition, construction, development or normal operation. This Section covers the obligations of both lessors and lessees in connection with leased assets, whether imposed by a lease agreement or by a party other than the lessor, except for those obligations of a lessee that meet the definition of either minimum lease payments or contingent rentals in LEASES, Section 3065, and are accounted for in accordance with that Section. This Section also covers obligations arising in connection with leasing and other agreements concerning the rights to explore for or exploit natural resources, to which LEASES, Section 3065, does not apply. This Section does not apply to:
  - (a) obligations that arise solely from a plan to sell or otherwise dispose of a long-lived asset subject to DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475; and
  - (b) obligations that result from the improper operation of an asset.

...

### **EFFECTIVE DATE**

- .25 Except as specified in paragraph 3110.26, tThis Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .26 Amendments to paragraph 3110.02, issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## **DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475**

### **PURPOSE AND SCOPE**

- .02 This Section applies to the disposal of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and long-term prepaid assets. It does not apply to:
  - (a) the disposal of goodwill (see GOODWILL AND INTANGIBLE ASSETS, Section 3064);
  - (b) investments, including equity method accounted investments (see INVESTMENTS, Section 3051);

- (c) financial assets, financial liabilities and contracts to buy or sell non-financial items accounted for in accordance with FINANCIAL INSTRUMENTS, Section 3856;
- (d) oil and gas assets accounted for using the full cost method (see ACCOUNTING GUIDELINE AcG-16, Oil and Gas Accounting — Full Cost);~~or~~
- (e) unproved oil and gas properties accounted for using the successful efforts method; or:
- (f) the disposal of productive biological assets (see AGRICULTURE, Section 3041).

### Measurement

- .13 *A long-lived asset classified as held for sale shall be measured at the lower of its carrying amount ~~or~~ and fair value less costs to sell. A long-lived asset shall not be amortized while it is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.*

...

### EFFECTIVE DATE AND TRANSITION

- .39 Except as specified in paragraphs 3475.40-~~4243~~, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .43 New paragraph 3475.02(f) and amendments to paragraph 3475.13, issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

## CONSEQUENTIAL AMENDMENTS TO ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS IN PART III OF THE CPA CANADA HANDBOOK – ACCOUNTING

The following significant consequential amendments to Part III of the Handbook have been identified. Additional text is denoted by underlining and deleted text by strikethrough.

### FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501

#### RECOGNITION, MEASUREMENT AND PRESENTATION

##### Exemptions from other standards

- .10 An organization may elect to use exemptions related to one or more of the following:
- (a) business combinations (see paragraph 1501.12);
  - (b) fair value (see paragraphs 1501.13-.14);
  - (bb) agricultural inventories or productive biological assets (see paragraph 1501.14A);
  - (c) employee future benefits (see paragraphs 1501.17-.17A);
  - (d) cumulative translation differences (see paragraphs 1501.18-.19);
  - (e) financial instruments (see paragraphs 1501.20-.21);
  - (f) asset retirement obligations (see paragraph 1501.22); and

- (g) collections (see paragraph 1501.22A).

An organization shall not apply these exemptions by analogy to other items.

...

*Agricultural inventories or productive biological assets*

.14A A first-time adopter may apply the transitional provisions in AGRICULTURE, Section 3041.

...

**EFFECTIVE DATE AND TRANSITION**

- .35 Except as specified in paragraphs 1501.36–~~37~~.38, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

...

.38 New paragraphs 1501.10(bb) and 1501.14A, issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

**INVENTORIES HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3032**

**PURPOSE AND SCOPE**

- .01 This Section prescribes the accounting treatment for inventories of a not-for-profit organization. Except as otherwise provided for in this Section:

- (a) ~~inventories are accounted for in accordance with, a not-for-profit organization applies INVENTORIES, Section 3031 in Part II of the Handbook; and~~

- (b) agricultural inventories are accounted for in accordance with AGRICULTURE, Section 3041 in Part II of the Handbook.

...

**EFFECTIVE DATE**

- .07 Except as specified in paragraph 3032.08, tThis Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

- .08 Amendments to paragraph 3032.01, issued in [TBD 2019], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

**TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433**

**PURPOSE AND SCOPE**

- .01 This Section deals with accounting for tangible capital assets held by not-for-profit organizations. Except as otherwise provided in this Section:

- (a) tangible capital assets are accounted for in accordance with PROPERTY, PLANT AND EQUIPMENT, Section 3061 in Part II of the Handbook;

- (aa) productive biological assets are accounted for in accordance with AGRICULTURE, Section 3041 in Part II of the Handbook;
- (b) disclosures for impairments of tangible capital assets are provided in accordance with IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063 in Part II;
- (c) obligations associated with the retirement of capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110 in Part II;
- (d) intangible assets acquired or developed by not-for-profit organizations are accounted for in accordance with INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434; and
- (e) items held as part of a collection are accounted for in accordance with COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4441.

...

### **EFFECTIVE DATE AND TRANSITION**

- .27 Except as specified in paragraph 4433.31, †This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2019. A not-for-profit organization applies this Section prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g)(i) in Part II of the Handbook, except as specified in paragraphs 4433.29-.30. Earlier application is permitted.

...

- .31 New paragraph 4433.01(aa), issued in [TBD 2019], applies to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

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