AcSB
Accounting Standards Board

Exposure Draft

Proposed Accounting Standards for Private Enterprises

Amendments to Section 3041, *Agriculture*

March 2025

Comments to the AcSB must be received by May 12, 2025.

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this online form.

Please address your response to:

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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 amend AGRICULTURE, Section 3041 in Part II of the CPA Canada Handbook – Accounting. The proposed narrow-scope amendments remove certain disclosure requirements for agricultural inventories and clarify the amortization requirement for productive biological assets managed on a collective basis. The proposals also clarify the accounting for when there is a change to the useful life of productive biological assets. The amendments will apply to private enterprises applying the standards in Part II of the Handbook and to not-for-profit organizations applying the standards in Part III of the Handbook, as relevant.

Background

In November 2019, the AcSB issued Section 3041. The standard was effective for fiscal years beginning on or after January 1, 2022, with earlier application permitted. The Board typically decides whether to conduct a post-implementation review after a two-year period from when a new standard becomes effective based on its Standard-setting Due Process Manual. The objectives of a post-implementation review are to determine whether the standard is understandable and is being applied as intended, and whether preparers are able to report the information reliably.

Through discussions with its Agriculture Advisory Group (the Group) and questions received from some interested and affected parties, the AcSB has become aware that preparers are encountering operational challenges with providing information required by certain disclosure requirements under the cost and net realizable value models for agricultural inventories. One of these disclosure requirements also applies to inventories accounted for under INVENTORIES, Section 3031. Some interested and affected parties have also raised questions about the accounting for productive biological assets managed on a collective basis, including:

- the scope of this amortization requirement (i.e., whether the requirement not to amortize such collective assets can only be applied to animals); and
- the concept of productive capacity and when the cost of such collective assets can be increased.

The AcSB decided not to conduct a post-implementation review of Section 3041 given the limited issues raised by the Group and other relevant parties, which suggest the standard is generally understandable and is being applied as intended. Instead, the Board commenced this standard-setting project to respond more quickly to the issues identified by interested and affected parties. A post-implementation review is not a standard-setting project.

Accordingly, the AcSB proposes amendments to remove certain disclosure requirements in Section 3041 and clarify the scope of the amortization requirement for productive biological assets managed on a collective basis. In clarifying the amortization requirement in Section 3041, the Board also thought it would help to add guidance on accounting for when there is a change in useful life of productive biological assets.

The AcSB would also like to take this opportunity to gather input from interested and affected parties to inform whether any additional guidance, being authoritative or non-authoritative, is needed to help with applying Section 3041.

Main features of the Exposure Draft

The proposals in this Exposure Draft:

(a) remove the disclosure requirements in paragraphs 3041.88(c) and 3041.88(d) so that agricultural producers applying the net realizable value model would not have to disclose the aggregate of gains and losses arising from changes in the carrying amount of agricultural inventories and the amount of agricultural inventories recognized as an expense during the period;

(b) remove the disclosure requirement in paragraph 3041.86(d) so that agricultural producers applying the cost model would not have to disclose the amount of agricultural inventories recognized as an expense during the period;

(c) clarify the scope of paragraph 3041.66 regarding productive biological assets managed on a collective basis; and

(d) add paragraphs 3041.67A and 3041.68A to provide guidance on accounting for when the useful life of productive biological assets changes from indefinite to no longer indefinite, and vice versa.

Timing of adoption and transitional provisions

The AcSB expects to issue the final amendments in the fourth quarter of 2025. The proposals would apply retrospectively for annual periods beginning on or after January 1, 2027, unless otherwise stated. Earlier application is permitted.

Consequential amendments

The Exposure Draft proposes to amend INCOME STATEMENT, Section 1520, to remove the requirement to present separately on the face of the income statement, or disclose in the notes to the financial statements or supporting schedules, certain amounts pertaining to agricultural inventories.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's Agriculture Advisory Group, Private Enterprise Advisory Committee and Medium and Small Practitioners Advisory Committee.[1] The Group and Committees assist the Board in maintaining and improving accounting standards for private enterprises. The Board will also consult with other interested and affected parties through targeted outreach activities.

The AcSB 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 the amendments are carried out, the Board plans to issue the final amendments in the fourth quarter of 2025 if no significant changes are required to the proposals.[2]

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 AcSB welcomes comments on all aspects of the proposal in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. The AcSB proposes to remove the disclosure requirements in paragraphs 3041.88(c) and 3041.88(d) that are applicable to agricultural producers applying the net realizable value model. Do you agree with this proposal? If not, why not?

2. The AcSB proposes to remove the disclosure requirement in paragraph 3041.86(d) that is applicable to agricultural producers applying the cost model. Do you agree with this proposal? If not, why not?

3. The AcSB is aware that the requirement to disclose the amount of inventories recognized as an expense is consistent between Section 3031 and Section 3041. Given mixed feedback received to date regarding removing the disclosure requirement from Section 3031, the Board decided

1 The AcSB's Medium and Small Practitioners Advisory Committee was formerly the Small Practitioners Working Group.

2 Refer to the Due Process Specifically Related to Domestic Standards in the AcSB Standard-setting Due Process Manual.

to explore any potential amendments to Section 3031 separately from this project on agriculture (see paragraphs 17-18 in the Basis for Conclusions). If the Board proceeds to finalize the proposals in Section 3041, do you have any significant concerns with the disclosure requirement remaining in Section 3031 until the Board reviews disclosures in Section 3031 more holistically? If so, please explain your concerns.

4. The AcSB proposes to amend paragraph 3041.66 to clarify that the requirement to not amortize productive biological assets that are managed on a collective basis can be applied to any type of productive biological asset. Do you agree with this proposal? If not, why not?

5. The AcSB proposes to add new paragraphs 3041.67A and 3041.68A to clarify the accounting for when the useful life of productive biological assets changes from indefinite life to no longer indefinite, and vice versa. Do you agree with this proposal? If not, why not?

6. The AcSB proposes not to add authoritative guidance in Section 3041 on how to determine productive capacity as this is an area that requires the use of judgment (see paragraphs 21-22 in the Basis for Conclusions). Do you agree with this proposal? If not, why not?

7. The AcSB proposes that the amendments to Section 3041 are effective for fiscal years beginning on or after January 1, 2027, with earlier application permitted. The Board also proposes that the amendments are to be applied retrospectively, except for new paragraphs 3041.67A and 3041.68A that are to be applied prospectively. Do you agree with these proposals? If not, why not?

8. The AcSB decided not to conduct a post-implementation review on Section 3041 but instead commence a standard-setting project to quickly address the few narrow-scope issues raised by interested and affected parties. Are there issues with Section 3041 not addressed in this Exposure Draft that you think the Board should consider when it discusses its future standard-setting priorities? If so, please describe the issues and the requirements in Section 3041 that are causing challenges in practice, and how the requirements should be changed.

9. Are there any topics for which you think non-authoritative guidance is needed to help with applying the requirements in Section 3041 (see paragraph 24 in the Basis for Conclusions)? If so, please describe the topic and the different views or challenges in accounting that you see in practice.

The deadline for providing your comment letter to the AcSB is May 12, 2025. Comment on this document by uploading your response letter via this online form.

PROPOSALS

Amendments would be made to the following Section as indicated below. The Exposure Draft denotes additional text by underlining and deleted text by strikethrough.

AGRICULTURE, SECTION 3041

MEASUREMENT OF PRODUCTIVE BIOLOGICAL ASSETS

Cost

.58 *Productive biological assets shall be measured at cost.*

.59 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.

…

Development costs

.61 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.

.62 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.

.63 Net revenue or expense derived from a biological asset prior to the asset becoming productive is included in the cost.

Betterment

.64 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 maintaining the service potential of productive biological assets is a maintenance expenditure, 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 maintenance and a betterment, only the portion considered to be a betterment is included in the cost of the productive biological asset.

Amortization

.65 *Amortization shall be recognized in a rational and systematic manner appropriate to the nature of a productive biological asset with a limited life and its 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 asset; and

(b) the cost less residual value over the useful life of the asset.

.66 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 e~~Examples ~~would be~~ include animals in a herd or fruit trees in an orchard that are managed collectively to meet ~~a~~ an expected level or range of production units ~~production quota~~ indefinitely.~~, and t~~The cost incurred in the maintenance of the service potential of such productive biological assets ~~a herd~~ is a maintenance expenditure, not a betterment.

.67 *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.*

.67A When productive biological assets that are not being amortized are subsequently determined to no longer have an indefinite useful life, the assets are tested for impairment in accordance with 3041.74. An impairment loss recognized in accordance with this paragraph is included in earnings for the current period. A productive biological asset that is no longer managed on a collective basis in accordance with 3041.66 is then amortized over its estimated remaining useful life and accounted for in the same manner as other productive biological assets that are subject to amortization. Applying paragraph 3041.67A is not a change in accounting policy.

.68 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 3041.66 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.

.68A When a productive biological asset that is being amortized is subsequently determined to have an indefinite useful life by applying paragraph 3041.66, the asset is tested for impairment in accordance with paragraph 3041.74, ceases being amortized and is accounted for in the same manner as other productive biological assets not subject to amortization. An impairment loss recognized in accordance with this paragraph is included in earnings for the current period. Applying paragraph 3041.68A is not a change in accounting policy.

…

.74 *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.)

…

DISCLOSURE

Agricultural inventories

.84 *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.

…

Cost model

.86 *In addition to the disclosures required by paragraph 3041.84, 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; and*

(c) *the total carrying amount for each major category.~~; and~~*

(d) (deleted)~~*the amount of inventories recognized as an expense during the period.*~~

…

Net realizable value model

.88 *In addition to the disclosures required by paragraph 3041.84, 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; and*

(b) *the total carrying amount for each major category.~~;~~*

(c) (deleted)~~*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) (deleted)~~*the amount of inventories recognized as an expense during the period.*~~

…

EFFECTIVE DATE AND TRANSITION

.91 Except as specified in paragraphs 3041.95-.96, ~~T~~this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2022. An agricultural producer applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 3041.92-.93. Earlier application is permitted.

…

.95 Amendments to paragraphs 3041.66, 3041.86 and 3041.88 issued in [Month 2025] apply to annual financial statements relating to fiscal years beginning on or after January 1, 2027. An agricultural producer applies these amendments retrospectively, as defined in ACCOUNTING CHANGES, Section 1506.05(d), unless paragraph 3041.68A applies. Earlier application is permitted.

.96 New paragraphs 3041.67A and 3041.68A, issued in [Month 2025] apply to annual financial statements relating to fiscal years beginning on or after January 1, 2027. An agricultural producer applies these new paragraphs prospectively, as defined in ACCOUNTING CHANGES, Section 1506.05(g).

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.

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 or supporting schedules:*

…

(w) (deleted)~~*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.)*

When the items are disclosed in the notes to the financial statements or supporting schedules, a cross-reference is provided in the corresponding income statement line item.

EFFECTIVE DATE AND TRANSITION

.05 Except as specified in paragraphs 1520.06-~~.13~~14, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

…

.14 Amendments to paragraph 1520.04(w), issued in [Month 2025], apply to annual financial statements related to fiscal years beginning on or after January 1, 2027. Earlier application is permitted.

BASIS FOR CONCLUSIONS

TABLE OF CONTENTS **Paragraph**

Introduction

1 This document summarizes considerations that were deemed significant by the Accounting Standards Board (AcSB) in reaching its conclusions to develop narrow-scope proposals to amend AGRICULTURE, Section 3041, in Part II of the CPA Canada Handbook – Accounting. This document sets out the reasons the Board undertook to develop the proposals, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.

2 In developing these proposals, the AcSB sought the advice of its Agriculture Advisory Group (the Group). The 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 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).

3 The AcSB also obtained input from its Private Enterprise Advisory Committee and its Medium and Small Practitioners Advisory Committee. The Private Enterprise Advisory Committee includes financial statement users, auditors and preparers, with a range of backgrounds and experience from across Canada. Members include representatives from organizations of differing sizes and in a variety of industries. The Medium and Small Practitioners Advisory Committee includes auditors and practitioners from smaller firms across Canada.

Background

4 In November 2019, the AcSB issued Section 3041. The standard was effective for fiscal years beginning on or after January 1, 2022, with earlier application permitted. The Board typically decides whether to conduct a post-implementation review after a two-year period from when a new standard becomes effective based on its Standard-setting Due Process Manual. The objectives of the post-implementation review are to determine whether the standard is understandable and it is being applied as intended, and whether preparers are able to report the information reliably.

5 In gathering information on whether to conduct a post-implementation review on Section 3041, the AcSB heard that agricultural producers are encountering operational challenges with disclosing certain information about agricultural inventories. For agricultural inventories measured using net realizable value model, agricultural producers are required to disclose, among other information, the aggregate of gains and losses arising during the current period from changes in the carrying amount

of agricultural inventories and the amount of inventories recognized as an expense during the period. The requirement to disclose the amount of inventories recognized as an expense during the period also exists for agricultural inventories measured using the cost model, as well as for enterprises applying INVENTORIES, Section 3031.

6 Furthermore, some interested and affected parties have raised questions about applying paragraphs 3041.64 and 3041.66 relating to productive biological assets. Paragraph 3041.64 provides guidance in determining whether a cost incurred related to a productive biological asset after the asset becomes productive is a maintenance expenditure or a betterment. Paragraph 3041.66 specifies that productive biological assets that are managed on a collective basis to maintain their collective productive capacity indefinitely are considered to have an indefinite useful life and are not subject to amortization. Paragraph 3041.66 provides an example of a herd. The questions raised relate to whether paragraph 3041.66 can be applied to any type of productive biological asset and whether the cost base of these assets can be increased.

7 The AcSB thinks that the limited issues raised since Section 3041 has been effective suggest a post-implementation review is not required. Consequently, the Board decided to conduct a standard-setting project to quickly address the disclosure concerns and clarify the scope of paragraph 3041.66 so that it is clear the requirement can be applied to any type of productive biological asset. In clarifying paragraph 3041.66, the Board also thought it would be helpful to add guidance on accounting for when there is a change in useful life of productive biological assets.

8 The AcSB continues to be interested in any other comments about the application of Section 3041. Consequently, the Board is also seeking input through this Exposure Draft on whether any further amendments to Section 3041 or non-authoritative guidance are needed to apply the agriculture standard.

Applicability to not-for-profit organizations

9 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.

Effects analysis

10 The proposals to remove certain disclosures from Section 3041 aim to reduce the cost of preparing financial statements. In the agricultural sector, interested and affected parties have told the AcSB that financial statement users do not need information on the aggregate of gains or losses arising from changes in the carrying amount of agricultural inventories measured using the net realizable value model, nor the amount of inventories expensed during the period. Consequently, the costs of preparing these disclosures outweigh the benefits financial statement users are deriving from having this information in the notes.

11 The proposal to clarify that paragraph 3041.66 can be applied to any type of productive biological asset managed collectively to maintain productive capacity indefinitely is expected to improve the consistency in application. In clarifying paragraph 3041.66, the AcSB also considered the effect of proposing guidance on accounting for a change in useful life of productive biological assets. The Board understands that it is expected to be uncommon for agricultural producers to change the way they manage their productive biological assets, and therefore, change their determination of such assets' useful life from indefinite to no longer indefinite, and vice versa. However, the proposal is expected to improve consistency in application should such a situation arise. The AcSB expects that financial statement users will benefit from an increase in comparability of financial information across the different industries in the agricultural sector as consistency in application is improved.

12 Having considered the effects of the proposed amendments, the AcSB thinks that the proposals will result in improvements to financial reporting of private enterprises and NFPOs.

Amendments

Agricultural inventories

13 The AcSB heard from interested and affected parties that when measuring agricultural inventories using the net realizable value model, it is challenging to provide the disclosures required in paragraphs 3041.88(c) and 3041.88(d)—that is, the aggregate of gains and losses arising from changes in the carrying amount of agricultural inventories and the amount of inventories recognized as an expense during the period.

14 The Group noted that operational challenges arise because many of the smaller agricultural producers only prepare financial statements once a year. They often do not have the resources to track their costs up to the point when the net realizable value conditions are met. A year-end adjustment is made to recognize the amount of agricultural inventories on the balance sheet at net realizable value as long as the conditions are met. Without changing record-keeping practices, it may not be possible to gather the information needed to compute the disclosures required under paragraphs 3041.88(c) and 3041.88(d), or a lot of time is needed to recreate the data at year end. This operational complexity makes it difficult to comply with these disclosures. Furthermore, interested and affected parties have told the AcSB that financial statement users in the agricultural sector do not find this information useful. Some agricultural producers are currently choosing to not disclose this information based on materiality or other reasons.

15 The Group also commented that the same issue exists for agricultural inventories measured using the cost model—that is, operational challenges and lack of usefulness in disclosing the amount of inventories recognized as an expense during the period that is required by paragraph 3041.86(d).

16 The AcSB considered this feedback and proposes to amend the disclosure requirements in Section 3041 by removing paragraphs 3041.86(d), 3041.88(c) and 3041.88(d) given the concerns expressed about how agricultural producers are unable to report the information reliably and the cost/benefit trade-off associated with providing the information.

17 The AcSB is aware that the requirement to disclose the amount of inventories recognized as an expense during the period is consistent between Section 3031 and Section 3041. The Board heard through feedback on its Scalability Consultation Paper and preliminary research on its Detailed Review of Accounting Standards for Private Enterprises project that there are also concerns with this disclosure requirement in Section 3031. The Board discussed this disclosure with its Private Enterprise Advisory Committee, Medium and Small Practitioners Advisory Committee, and Agriculture Advisory Group and received mixed feedback on whether to remove the disclosure requirement and related guidance from Section 3031. Although there are challenges in practice with preparing the information required by this disclosure requirement, views were mixed as to whether the requirement provides useful information.

18 The Private Enterprise Advisory Committee suggested that the AcSB also consider adding new disclosure requirements on cost of sales (e.g., providing a detailed breakdown of what is included in cost of sales). Cost of sales can be different from the amount of inventories recognized as an expense during the period as some circumstances may warrant the inclusion of other amounts, such as distribution costs. Having more information on cost of sales would help financial statement users better understand an enterprise's gross margins. Given the mixed feedback received on removing the disclosure requirement from Section 3031 and the need to explore additional disclosures to provide better information to financial statement users, the Board decided that any potential changes to Section 3031 are outside the scope of this project focused on agriculture. However, the Board would like to seek interested and affected parties' views on whether there would be any significant concerns with removing the requirement to disclose inventories recognized as an expense from Section 3041 and not Section 3031. Both sections address the accounting for inventories, with Section 3041 being specific to agricultural inventories.

Productive biological assets

19 The AcSB received questions about the accounting for productive biological assets, particularly those that are managed on a collective basis. Interested and affected parties have asked whether paragraph 3041.66 can be applied to productive biological assets that are not animals and whether the cost base of these assets can be increased. The Board discussed these questions with the Group and considered its feedback when developing the proposals.

20 The question about the scope of paragraph 3041.66 has arisen in practice likely because the only example referenced in the paragraph is a herd and that the herd is managed collectively to meet a production quota indefinitely. Some interested and affected parties are uncertain whether productive biological assets that do not have production quotas or for which productive capacity varies can meet the requirement in paragraph 3041.66 to be considered to have an indefinite useful life. The AcSB's intention when developing paragraph 3041.66 was that it could be applied to any type of productive biological asset. Therefore, the Board decided to clarify paragraph 3041.66 by adding an example of another type of productive biological asset and removing the reference to production quota.

21 Regarding the question about whether the cost of productive biological assets managed on a collective basis can be increased, the AcSB notes that it would depend on whether there are costs incurred to better the assets. Paragraph 3041.64 provides guidance on betterment. If costs are incurred to enhance the service potential of productive biological assets, such costs would be considered a betterment and added to the cost of productive biological assets. 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. Conversely, if costs are incurred to maintain the service potential of productive biological assets, those are considered maintenance expenses. Paragraph 3041.64 applies to all productive biological assets, even those that are managed on a collective basis.

22 The AcSB considered whether to develop authoritative guidance to help agricultural producers determine productive capacity to make it easier to apply paragraph 3041.64 in determining when there is an increase in service potential. However, the Group thought that it is not necessary to develop authoritative guidance because determining when a biological asset has become productive requires the use of judgment (as explained in paragraph 3041.62). The Group also noted that determining whether an expenditure is considered a betterment or maintenance would depend on facts and circumstances. The Board decided not to propose adding authoritative guidance in Section 3041 on how to determine productive capacity and is seeking views from interested and affected parties in this Exposure Draft on this decision. If feedback on this Exposure Draft indicates that adding authoritative guidance to Section 3041 is required, the Board would consider this issue through a separate standard-setting project in the future.

23 The AcSB understands that prior to the introduction of Section 3041, some productive biological assets were measured at cost and others at net realizable value. However, Section 3041 now requires all productive biological assets to be measured at cost. Given the cost to replace productive biological assets is typically increasing in the current environment, some interested and affected parties have asked whether it is reasonable that the cost of such productive biological assets managed on a collective basis remains unchanged over time. The Board thinks that agricultural producers need to consider the concepts like betterment and impairment, and whether the productive biological assets continue to be managed in a way that is considered to have an indefinite useful life to determine whether there are changes to the cost of such assets. Although the Board expects it to be uncommon for agricultural producers to change the way they manage their productive biological assets that would affect the determination of useful life, the Board thought it would be helpful to include guidance in Section 3041 that is consistent with GOODWILL AND INTANGIBLE ASSETS, Section 3064, to address this situation should it arise. Therefore, the Board decided to propose new guidance in Section 3041 to clarify the accounting for when the useful life of productive biological assets changes from indefinite to no longer indefinite, and vice versa.

24 As noted in paragraph 8, the AcSB continues to be interested in any other comments about the application of Section 3041. In addition to asking whether there are any issues requiring further standard setting in Section 3041, the Board is also seeking input from interested and affected parties on whether there are topics for which non-authoritative guidance would help with applying the requirements in Section 3041. One topic that the Board has had preliminary discussions about is whether non-authoritative guidance is needed to explain how the requirements in Section 3041 affect the cost of productive biological assets (e.g., considering the requirements relating to the rebuttable presumption on initial recognition, change in use, betterment, useful life changes, impairment, and held for sale or disposal). The Board has a guidance framework outlining criteria that it uses to assist in assessing when to develop guidance. Guidance could be non-authoritative or authoritative. The Board will apply this framework to decide whether, and if so on which topics, to develop non-authoritative guidance based on feedback to this Exposure Draft.

Effective date and transition

25 The AcSB plans to issue the narrow-scope amendments into Part II of the Handbook in the fourth quarter of 2025 if no significant changes are required following feedback on the Exposure Draft.

26 Determining an effective date is an important step in the AcSB's due process. The Board considered the importance of allowing agricultural producers sufficient time to apply the amendments and to educate users on changes to their financial statements. However, the Board also recognizes that agricultural producers may want to apply the proposals as soon as they are available since the proposals reduce the cost of reporting and provide clarifications to help with application. Consequently, the Board decided to propose an effective date of January 1, 2027, with earlier application permitted.

27 The AcSB proposes that an agricultural producer applying Section 3041 would apply the amendments retrospectively, except as discussed in paragraph 29. The Board thought the proposed amendments relating to disclosures would not be onerous to apply as they would result in removing information from the notes to the financial statements. The Board also thought that the proposals to clarify the scope of paragraph 3041.66 would not be too onerous to apply retrospectively. Given Section 3041 has only been effective since January 1, 2022, agricultural producers should have the information to compute the opening retained earnings adjustment and restate comparative figures.

28 Consequently, the AcSB decided that retrospective application would not be too costly for agricultural producers and would be more beneficial to users as they would be able to compare the financial statements of an agricultural producer over time to identify trends in its financial position, financial performance and cash flows.

29 The AcSB considered that the proposed amendments to add new paragraphs 3041.67A and 3041.68A should not be subject to retrospective application because those paragraphs provide guidance on when there is a change in accounting estimate—that is, the useful life of productive biological assets. Paragraphs 1506.19 to 1506.25 in ACCOUNTING CHANGES, Section 1506, explain the accounting for changes in accounting estimates and when revisions of estimates are not considered to be a correction of an error. Consequently, the Board decided that paragraphs 3041.67A and 3041.68A should be applied prospectively. If an agricultural producer determines that there was a change in useful life of productive biological assets managed on a collective basis in the year when the amendments to paragraph 3041.66 are first applied, such change would be treated as a change in accounting estimate applying paragraph 3041.68A provided the change is not a correction of an error.