CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Accounting Standards for Private Enterprises Briefing on Section 3041, *Agriculture*

May 2020

CHANGE TO EFFECTIVE DATE OF SECTION 3041, *AGRICULTURE*

In November 2019, Section 3041, *Agriculture* was issued in the *CPA Canada Handbook – Accounting* effective for years beginning on or after January 1, 2021. As a result of the COVID-19 health pandemic, the Accounting Standards Board is deferring the effective date of the new Section by one year to be effective for years beginning on or after January 1, 2022. Early application is permitted. Further details on this and decisions related to other amendments to the *CPA Canada Handbook – Accounting* can be found in the Accounting Standards Board April 15, 2020 Decision Summary.

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Introduction and Project Background

On November 1, 2019, the Accounting Standards Board (AcSB) released Section 3041, *Agriculture*, in Part II of the *CPA Canada Handbook – Accounting* (*Handbook*) (Accounting Standards for Private Enterprises (ASPE)). Prior to the introduction of Section 3041, there was no specific authoritative guidance for agricultural producers included in Part II of the *Handbook*. Accordingly, there was significant diversity in accounting by private enterprises for biological assets and harvested products of biological assets. The purpose of Section 3041 is to provide authoritative guidance on accounting for biological assets and to eliminate this diversity.

The agricultural sector is an important part of the Canadian economy, and it spans a wide range of activities. Statistics Canada reported that in 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,[1] and that there were 193,492 farm businesses.[2]

This CPA Canada Briefing (*Briefing*) will summarize the accounting guidance included in Section 3041 and provide illustrative examples on its application. *Illustrative Examples 1-1* to *1-13* (below) in this *Briefing* provide examples of the application of the accounting guidance included in Section 3041 using ABC Farm Ltd. ("the Farm"), a family farm located in Richmond Hill, Ontario, that raises cattle for both beef and milk production. The Farm also processes milk into secondary products (such as cheese, yogurt and butter) for sale to retailers throughout Canada. Each of *Illustrative Examples 1-1* to *1-13* in this *Briefing* is independent of each other unless indicated otherwise.

Section 3041 is applicable to annual financial statements relating to fiscal years beginning on or after January 1, 2021, with earlier application permitted.

Scope and Definitions

What types of entities and transactions are within the scope of Section 3041?

Section 3041 establishes standards for the recognition, measurement, presentation and disclosure of an agricultural producer's agricultural inventories and productive biological assets. It applies to transactions or events related to agricultural production, including the purchase of the harvested product of biological assets for use in agricultural production. An enterprise must be an agricultural producer in order to apply the guidance in Section 3041.

1 Source: Government of Canada (www.agr.gc.ca/eng/about-our-department/publications/economic-publications/an-overview-of-the-canadian-agriculture-and-agri-food-system-2017/?id=1510326669269). These figures include business activity conducted by both public and private enterprises. However, the majority of agricultural producers in Canada are privately held.

2 Source: Statistics Canada (www150.statcan.gc.ca/n1/daily-quotidien/170510/dq170510a-eng.htm). These figures include business activity conducted by both public and private enterprises.

"Agricultural producers" are defined in Section 3041 as enterprises that undertake agricultural production, such as those that engage in agriculture, apiculture, aquaculture, floriculture or horticulture. "Agricultural production" is defined as the development and harvest of biological assets for sale or for use in a productive capacity. For the purposes of Section 3041, agricultural production covers a diverse range of activities, such as:

(a) annual or perennial cropping;

(b) raising livestock or aquatic organisms; and

(c) cultivating orchards and plantations.

KEY CONCEPT

A private enterprise must be an agricultural producer as defined in Section 3041 in order to apply the guidance contained that section. If the enterprise is not an agricultural producer, it does not apply Section 3041 and, instead, accounts for all of its transactions in accordance with other sections in Part II of the *Handbook*.

"Biological assets" are defined as living animals or plants, and can be either agricultural inventories or productive biological assets. "Agricultural inventories" are defined as biological assets, or the harvested products[3] of biological assets, that meet one of the following criteria:

(i) held for use in the ordinary course of business;

(ii) in the process of agricultural production to be held for sale or 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 captivity with short productive lives.[4]

Finally, "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.

3 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.

4 Examples of animals and plants with short operating cycles of production include poultry and tomato vines.

What types of entities and transactions are not within the scope of Section 3041?

The following activities are not considered agricultural production under Part II of the *Handbook*; therefore, they are not within the scope of Section 3041:

(a) forestry;

(b) harvesting from sources that are not owned or controlled by an agricultural producer (e.g., ocean fishing, hunting and trapping); and

(c) raising or purchasing animals for competitive sport.

Section 3041 also 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 in Part II of the *Handbook*, such as Section 3031, *Inventories*.

In addition, Section 3041 does not deal with:

(a) agricultural inventories held by enterprises that are not agricultural producers;[5]

(b) land;[6]

(c) intangible assets such as production quotas and fishing licenses;[7]

(d) government grants;[8] or

(e) contracts to buy or sell non-financial items such as forward contracts and exchange-traded future contracts.[9]

Many agricultural producers have both grown and purchased products of biological assets that are not separately tracked. The harvested products of biological assets of an agricultural producer are within the scope of Section 3041, irrespective of whether such harvested products are grown or purchased. However, an agricultural producer may purchase harvested products of biological assets for reasons other than use in agricultural production (e.g., to combine with its own agricultural inventories held for sale to achieve grade or volume specifications). Judgment must be applied in determining whether such purchases are necessary to complete the agricultural production process, or whether these activities are within the scope of another section in Part II of the *Handbook*, such as Section 3031, because they more closely resemble the activities of commodity brokers, for example. In addition, as the scope of Section 3041 applies only to enterprises that undertake agricultural production, enterprises that acquire harvested products of biological assets that are

5 See Section 3031, *Inventories*, in Part II of the *Handbook*.

6 See Section 3061, *Property, Plant and Equipment*, in Part II of the *Handbook*.

7 See Section 3064, *Goodwill and Intangible Assets*, in Part II of the *Handbook*.

8 See Section 3800, *Government Assistance*, in Part II of the *Handbook*.

9 See Section 3856, *Financial Instruments*, in Part II of the *Handbook*.

not agricultural producers (such as secondary processors, retailers and broker-dealers) will continue to account for such assets in accordance with other sections in Part II of the *Handbook*.

KEY CONCEPT

While a private enterprise must be an agricultural producer to apply the guidance in Section 3041, not all of the transactions entered into by an agricultural producer will be accounted for in accordance with Section 3041. Refer to Appendix 1 for a decision tree to help an enterprise apply the scope of Section 3041 for the particular circumstances of the enterprise.

What are some examples of biological assets, agricultural inventories and assets that result from secondary production?

Assets Within the Scope of Section 3041		Assets Not Within the Scope of Section 3041
Biological Assets[10]	**Agricultural Inventories**	**Assets That Result From Secondary Production**
Sheep	Wool	Yarn and carpet
Wheat	Harvested wheat	Flour
Dairy cattle	Milk	Cheese
Sow	Weaner	Sausages and cured hams
Sturgeon	Roe	Caviar
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Jam
Beef cattle	Beef	Ground beef

10 Such biological assets could be either productive biological assets or agricultural inventories (as described under the heading "Recognition and Change in Use" below in this *Briefing*).

Which of the activities of a vertically integrated enterprise are within the scope of Section 3041?

A vertically integrated enterprise undertakes both agricultural production and secondary production. Some of the assets of a vertically integrated enterprise will be accounted for in accordance with Section 3041, while some of its assets will be accounted for in accordance with other sections in Part II of the *Handbook* (based on when its agricultural production process is complete and when its secondary production process commences). When the secondary production process commences to transform an item of agricultural inventories into a different asset, that item is accounted for in accordance with other sections in Part II of the *Handbook*, such as Section 3031.

EXAMPLE 1

A vintner that has developed and harvested its own grapes would apply the 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 Section 3041 is the deemed cost when initially applying Section 3031.

ILLUSTRATIVE EXAMPLE 1-1

Based on the description of the Farm's operations above, it engages in at least three distinct activities:

1. raising cattle for beef production
2. raising cattle for milk production
3. processing milk into secondary products

Cattle meet the definition of biological assets, as they are living animals. Raising cattle for beef production involves developing cattle for the purpose of harvesting beef. Accordingly, raising cattle for beef production involves the development of beef cattle for sale or slaughter, which therefore meets the definition of agricultural production. Similarly, the development of cattle for use in producing milk involves the development of cattle for use in a productive capacity, which therefore meets the definition of agriculture production.

The processing of milk (agricultural inventories) into different assets (cheese, yogurt and butter) is secondary production. It does not meet the definition of agricultural production, as milk is not a biological asset; therefore, the production of cheese from milk does not consist of the development and harvest of a biological asset

for sale or for use in a productive capacity. Accordingly, the processing of milk into cheese, yogurt and butter would be accounted for in accordance with other sections in Part II of the *Handbook*. As the Farm's operations involve both agricultural production as well as secondary production, it would be considered a vertically integrated enterprise. A portion of its operations (raising of cattle for beef and milk production) would be accounted for in accordance with Section 3041, and a portion of its operations (processing of milk into cheese, yogurt and butter) would not be accounted for in accordance with Section 3041.

Recognition and Change in Use

When can an agricultural producer recognize agricultural inventories and productive biological assets?

Section 1000, *Financial Statement Concepts*, in Part II of the *Handbook* includes the definition of, and recognition criteria for, an asset. Section 1000 defines "assets" as economic resources controlled by an enterprise as a result of past transactions or events and from which future economic benefits may be obtained. Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, in the case of profit-oriented enterprises, to contribute directly or indirectly to future net cash flows;

(b) the enterprise can control access to the benefit; and

(c) the transaction or event giving rise to the enterprise's right to, or control of, the benefit has already occurred.

In order for an asset to be recognized in accordance with Section 1000, the following three characteristics must be met:

1. the asset must have an appropriate basis of measurement
2. a reasonable estimate must be able to be made of the amount involved
3. it must be probable that such benefits will be obtained by the enterprise

For the purposes of Section 3041, to qualify for recognition, agricultural inventories and productive biological assets must meet the definition of assets and the recognition criteria in Section 1000. An agricultural producer may incur costs prior to the agricultural production process related to the development and harvest of biological assets. For example, costs relating to veterinary services or soil preparation may be incurred prior to breeding

animals or planting crops. Agricultural producers would apply judgment to determine when a productive biological asset or item of agricultural inventories can be recognized because it meets the definition of an asset and the recognition criteria in Section 1000.

ILLUSTRATIVE EXAMPLE 1-2

The Farm raises cattle for both beef and milk production. The Farm purchases calves from other producers, and calves are also born from heifers and cows held by the Farm. For purchased calves, the Farm must determine whether and when the three essential characteristics of an asset are met in order to determine whether, and at what date, a calf can be recognized as an asset. Regardless of whether the calf will be used for beef or milk production, it is expected to contribute to the future net cash flows of the Farm through sales of beef or milk; therefore, it embodies a future benefit. The Farm can control access to that future benefit at the point in time that ownership of the calf is transferred to the Farm and, once ownership of the calf is transferred to the Farm, the transaction giving the Farm access to the benefit has occurred. Accordingly, purchased calves likely meet the definition of an asset in Section 1000 and would be recognized at the date that ownership of the calves is transferred to the Farm. Similarly, calves that are born from heifers or cows held by the Farm also likely meet the definition of an asset based on the same rationale, except that the date the Farm can control access to the future benefit is likely the date of first conception rather than the date that ownership of a purchased calf is transferred to the Farm.

How does an agricultural producer account for a biological asset when its use is unknown at the date of initial recognition?

There is a rebuttable presumption that biological assets not used in a productive capacity are agricultural inventories. This presumption can be rebutted only on initial recognition when the intention is to develop the biological asset into a productive biological asset. In such cases, the biological asset is deemed to be a productive biological asset.

KEY CONCEPT

Applying the definitions of agricultural inventories and productive biological assets will require an agricultural producer to consider the use of its biological assets. However, when the biological asset's expected use is unknown upon initial recognition, the biological asset is classified as an item of agricultural inventories.

A biological asset initially recognized by an agricultural producer as an item of agricultural inventories can be subsequently reclassified to productive biological assets when an agricultural producer commences using it in a productive capacity. The carrying amount of the item of agricultural inventories is the deemed cost of the productive biological asset on reclassification. A productive biological asset, however, cannot be subsequently reclassified to agricultural inventories. Further, an item of agricultural inventories is reclassified to an asset within the scope of another section in Part II of the *Handbook* when the agricultural producer commences a secondary production process to transform the item into a different asset. The carrying amount of the item on the date of reclassification is the deemed cost when applying another section in Part II of the *Handbook*.

ILLUSTRATIVE EXAMPLE 1-3

The Farm raises cattle for both beef and milk production. When the Farm purchases a calf, or when one of the Farm's heifers or cows gives birth to a calf, it may be unknown whether that particular calf is to be used in the production of beef or milk until it matures. As described in *Illustrative Example 1-1* above, calves meet the definition of biological assets, as they are living animals.

A calf that an agricultural producer intends to use in the production of milk may be classified as a productive biological asset for the following reasons:

1. It is held for use in the production of milk (agricultural inventories).
2. It is acquired or developed for use on a continuing basis with an other than short production life (cows are generally used for more than one lactation cycle, each of which can last as long as 10 months).
3. It is not intended for sale in the ordinary course of business.

A calf that is raised for beef production, however, would likely be classified as agricultural inventories, since such a calf is in the process of agriculture production as described in *Illustrative Example 1-1* above, which will result in beef to be held for sale.

Therefore, the question of whether a particular calf that is purchased or born is being developed for use in the production of agricultural inventories on a continuing basis determines whether it may be classified as a productive biological asset. As described under the heading "Recognition and Change in Use" above, there is a rebuttable presumption that biological assets not used in a productive capacity at initial recognition are agricultural inventories. As a result, these calves would be accounted for as agricultural inventories upon initial recognition unless these calves will be developed to be used to produce milk at maturity, in which case the Farm can rebut this presumption and recognize the calves as productive biological assets.

The Farm may classify a particular calf as an item of agricultural inventories, as the initial intention may be to raise the calf for beef production. However, upon determining that the cow has superior milk production, the Farm may decide to use the cow in milk production instead. This would result in a reclassification of the cow from agricultural inventories to productive biological assets. The carrying amount of the cow at the date of transfer would be its deemed cost on reclassification. The cow's carrying amount will be impacted by the Farm's accounting policy in accounting for its agricultural inventories (as described under the heading "Measurement of Agricultural Inventories – Accounting Policy Choice" below).

Measurement of Agricultural Inventories – Accounting Policy Choice

How are agricultural inventories measured?

The initial measurement of agricultural inventories by an agricultural producer depends on the accounting policy chosen by the enterprise. An agricultural producer makes an accounting policy choice to use either the cost model or the net realizable value model in measuring its agricultural inventories. The net realizable value model, however, can only be used when all of the following three conditions are met:

(i) the product has a readily determinable and realizable market price;

(ii) the product has reliably measurable and predictable costs of disposal; and

(iii) the product is available for immediate delivery.

How is the determination made as to whether the conditions for use of the net realizable value model are met?

Determining whether the conditions for use of the net realizable value model are met requires careful consideration of each of the three conditions. The objective of the conditions is to ensure that agricultural inventories are measured at net realizable value only when such measurement would provide relevant information to users. Section 3041 contains the following additional guidance on each of the three conditions:

1. 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 trade publications; or
   (b) the price is based on a firm sales contract.

A market price may be readily available for a product with a specific grade classification. Alternatively, if the price of a 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 determinable market price.

2. A product's costs of disposal are reliably measurable when:
   (a) the variability in the range of reasonable estimates of costs of disposal is not significant (i.e., a number of estimates are available, but are all similar); or
   (b) the probabilities of various estimates within the range can be reasonably assessed and used in estimating costs of disposal (i.e., a number of dissimilar estimates are available, but the probability of each being the best estimate can be reasonably assessed, in which case the probabilities may be used to determine the expected costs of disposal).
3. A product is available for immediate delivery when:
   (a) it could be sold to a buyer in its present condition (e.g., an active market exists in which the product could be sold, regardless of whether the product will be sold in its present condition); or
   (b) only relatively insignificant activities remain to bring the product to a location and condition in which it could be sold.

   Prior to this condition being met, information about quantities and qualities are not reliable or verifiable; therefore, net realizable value would not provide predictive information about future income and cash flows. There may be instances, however, 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 is 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.

How is the accounting policy choice for measurement of agricultural inventories applied to different types of such inventories held by the same agricultural producer?

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 useful information for some agricultural inventories, while measurement at net realizable value may be more appropriate for others. Accordingly, the accounting policy choice to use either the cost model or the net realizable value model must be applied consistently to all agricultural inventories having a similar nature and use. Therefore, an agricultural producer could choose to apply a different accounting policy

for agricultural inventories with different natures and uses. This is similar to the accounting policy choice a private enterprise makes in measuring the cost of its inventories of a similar nature and use in accordance with Section 3031.

ILLUSTRATIVE EXAMPLE 1-4

The Farm has agricultural inventories of immature beef cattle, beef produced from such cattle and milk that has been produced from the Farm's milking herd. The Farm must make an accounting policy choice to measure its agricultural inventories using either the cost model or the net realizable value model (if the conditions for use of the net realizable value model are met). This accounting policy choice would be made for each type of agricultural inventories with a similar nature and use. Therefore, the Farm's accounting policy choice for its inventories of immature cattle does not need to be the same as its accounting policy choice for its inventories of beef or milk. For example, the Farm could make an accounting policy choice to recognize its inventories of beef and milk using the net realizable value model and its inventories of immature beef cattle using the cost model.

What happens when an agricultural producer makes an accounting policy choice to measure its agricultural inventories using the net realizable value model but the required conditions are not met on initial recognition or subsequently?

When an agricultural producer has chosen to measure its agricultural inventories using the net realizable value model but the conditions for use of that model are not met at initial recognition or subsequently, the agricultural producer applies the cost model to measure the agricultural inventories. When the conditions are met, the agricultural producer applies the net realizable value model to measure the agricultural inventories.

Whenever events or changes in circumstances indicate that the conditions for using the net realizable value model are no longer met, the carrying amount of the item of agricultural inventories becomes its deemed cost. The item of agricultural inventories is measured using the cost model until the conditions are met again, at which point the item of agricultural inventories is measured using the net realizable value model. The change in the carrying amount of the item of agricultural inventories consists of any reversals of previous write-downs (limited to the amount of the original write-down) and any additional change resulting from the measurement at net realizable value.

EXAMPLE 2

A political trade dispute that affects whether there is a readily available, reliable and realizable market price for a specific product, which subsequently gets resolved, is an example of a temporary event that might result in the conditions required for use of the net realizable value model to not be met. If this is the case, the cost model would be used on a prospective basis during the trade dispute. When the trade dispute is resolved, the conditions for use of the net realizable value model may be met again, in which case the net realizable value model would then be applied on a prospective basis.

Appendix 2 provides a decision tree to assist an agricultural producer in determining its accounting policy choice for its agricultural inventories.

Measurement of Agricultural Inventories – Cost Model

How does an agricultural producer determine cost when applying the cost model?

An agricultural producer that applies the cost model measures its agricultural inventories at the lower of cost and net realizable value, and makes an accounting policy choice to determine the cost of its agriculture inventories using either: (a) full cost; or (b) only input costs. This accounting policy choice is applied consistently to all agricultural inventories measured using the cost model that have a similar nature and use. "Net realizable value" is defined as 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. Net realizable value is an entity-specific value and differs from fair value.[11]

The full cost of agricultural inventories comprises:

(i) all input costs; and

(ii) other costs of agricultural production incurred in bringing the agricultural inventories to their present location and condition.

Can an agricultural producer change its accounting policy choice for the determination of the cost of agricultural inventories from the full cost method to only input costs or vice versa?

While agricultural producers are permitted to make an accounting policy choice to determine the cost of agricultural inventories using only input costs, determining cost using full cost ultimately provides users with the most decision-useful information. Accordingly, to

11 "Fair value" is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compilation to act.

make it easier for an agricultural producer that determines the cost of agricultural inventories using only input costs to change its accounting policy to full cost, Section 3041 permits such a change in accounting policy to be applied on a prospective basis.

An agricultural producer that determines the cost of agricultural inventories using full cost is permitted, in accordance with Section 1506, *Accounting Changes*, to change its accounting policy to determine the cost of agricultural inventories using only input costs. However, this change in accounting policy must be applied on a retrospective basis.

What costs are considered 'input costs'?

Input costs of agricultural inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the enterprise from taxation authorities), transport, handling, and other costs directly attributable to the acquisition of materials and services used in the development and harvest of biological assets. Trade discounts, rebates and similar items are deducted in determining input costs.

EXAMPLE 3

Input costs for plants would include seeds or seedlings, fertilizer and pesticides. Input costs for animals would include feed, vaccinations and other veterinary costs.

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.

EXAMPLE 4

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 directly related to the items of agricultural inventories produced. As a result, the cost of the hired labour is included in input costs of agricultural inventories. However, in the case of an owner-managed business, if the owner and/or 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. If a salary is not drawn from the business or if the time spent on the field is not tracked specifically to each crop, for example, the cost of labour is excluded from the input costs.

What costs are considered 'other costs of agricultural production'?

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 to the extent that they are only incurred in the development and harvest of biological assets, such as direct labour costs not included in input costs.

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 compensation 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.

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, however, does not include interest costs.

KEY CONCEPT

As described under the heading "Measurement of Agricultural Inventories – Cost Model" above, the main difference between the measurement of cost using full cost and only input costs is that full cost comprises input costs plus other costs of agricultural production, including an allocation of fixed and variable overheads as well as all other costs incurred in the development and harvest of biological assets. Accordingly, the full cost of an item of agricultural inventories is theoretically a more accurate reflection of the true cost of producing the item. However, to use full cost requires sophisticated systems for tracking and allocating costs to items of agricultural inventories. Depending on the nature of the enterprise, this can result in the cost of measuring agricultural inventories using the full cost method to exceed the benefits. As a result, enterprises should perform a cost-benefit analysis in determining whether to make an accounting policy choice to measure the costs of agricultural inventories using full cost or only input costs.

ILLUSTRATIVE EXAMPLE 1-5

If the Farm makes an accounting policy choice to measure its inventories of beef using the cost model, it has a further accounting policy choice to measure its inventories of beef using full cost or only input costs.

Input costs of the Farm's inventories of beef might include the purchase cost of the calf, the cost of feeding the calf until maturity, vaccinations and other veterinary costs, and other direct costs to develop and care for the calf until it is ready for sale or slaughter. If the Farm hires labourers to care for the developing beef cattle, the cost of the hired labour may be included in the input costs of the Farm's beef inventories.

Other costs of agricultural production might include an allocation of the amortization of property, plant and equipment used in raising the beef cattle (such as trailers used for hauling the beef cattle or the buildings and corrals used to house them) and an allocation of farm management and administration costs. Further, as it can take up to 18 months for a calf to mature and be slaughtered for beef, if the Farm's accounting policy is to capitalize interest costs, interest costs would be included in the full cost of the beef inventories.

What cost formulas can an agricultural producer use in measuring its agricultural inventories?

The techniques for the measurement of cost and the cost formulas that an agricultural producer can use in assigning the cost of its agricultural inventories in accordance with Section 3041 are consistent with the comparative concepts in Section 3031. When items of agricultural inventories are not ordinarily interchangeable, and goods are produced and segregated for specific projects, the cost of the items is assigned by using specific identification of their individual costs. On the other hand, when items of agricultural inventories are ordinarily interchangeable, the cost of agricultural inventories is assigned by using the first-in, first-out (FIFO) formula or the weighted average cost formula. In addition, techniques for approximating 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. An agricultural producer uses the same cost formula for all inventories having a similar nature and use by the enterprise. For agricultural inventories with a different nature or use, different cost formulas may be justified.

ILLUSTRATIVE EXAMPLE 1-6

The Farm's agricultural inventories of milk, beef and immature beef cattle are likely interchangeable. Accordingly, determining the cost of the items by using specific identification of their individual costs may not be feasible or appropriate. Instead, the Farm might assign the cost of agricultural inventories using the FIFO formula or weighted average cost formula. The cost formula used by the Farm to assign cost to the three types of its agricultural inventories would not have to be the same.

What happens when the cost of agricultural inventories may not be recoverable?

As described above, when an agricultural producer measures its agricultural inventories using the cost model, those inventories are measured at the lower of cost and net realizable value. When the cost of agricultural inventories exceeds their net realizable value, the agricultural inventories are written down to their net realizable value. The cost of agricultural inventories may not be recoverable if those inventories are damaged or their 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 costs of agricultural inventories may also not be recoverable if the estimated costs to be incurred to make the sale have increased.

A new assessment is made of net realizable value each 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. However, 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.

ILLUSTRATIVE EXAMPLE 1-7

The Farm holds inventories of immature beef cattle (agricultural inventories) and cows held for milk production (productive biological assets). During the year ended December 31, 2021, two of the Farm's cows held for milk production contracted bovine spongiform encephalopathy, commonly known as mad cow disease, and perished. Based on the close proximity of the beef cattle and cows held by the Farm, some of the Farm's inventories of immature beef cattle may have become infected with mad cow disease. If they are infected, they will not be saleable, and the cost of these agricultural inventories may not be recoverable. Accordingly, the Farm will need to estimate the net realizable value of its immature beef cattle and recognize a write-down of these agricultural inventories to their net realizable value if their cost exceeds their net realizable value.

If, in a subsequent period, it is determined that none of the beef cattle were infected with mad cow disease and, accordingly, the circumstances that previously caused the write-down of inventories to their net realizable value no longer exist, the write-down may be reversed but only such that the new carrying value of the inventories of immature beef cattle does not exceed their cost prior to the write-down.

When is the cost of agricultural inventories recognized as an expense?

The carrying amount of agricultural inventories is recognized as an expense in the period in which they are sold. The amount of any write-down of agricultural inventories from cost to net realizable value and all losses of agricultural inventories is 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, is recognized as a reduction in the amount of agricultural inventories recognized as an expense in the period in which the reversal occurs.

Costs that are excluded from the cost of agricultural inventories are recognized as expenses in the period in which they are incurred. Examples of such costs include:

(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 agriculture 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.

Measurement of Agricultural Inventories – Net Realizable Value Model

How does an agricultural producer apply the net realizable value model?

An agricultural producer that applies the net realizable value model (when the conditions described under the heading "Measurement of Agricultural Inventories – Accounting Policy Choice" above are met) measures its agricultural inventories at net realizable value each period. 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. Finally, the carrying amount of agricultural inventories is recognized as an expense in the period in which they are sold, and all losses of agricultural inventories are recognized as an expense in the period the loss occurs.

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. Net realizable value also takes into consideration the purpose for which the agricultural inventories are held, including the market in which the agricultural producer expects to transact. For example, the net realizable value of the quantity of agricultural inventories

held to satisfy firm sales contracts is based on the contract price. If no firm sales contract is in place or if sales contracts are for less than the quantities of agricultural inventories held, the net realizable value of the excess is based on realizable market prices from the market in which the agricultural producer expects to transact. Provisions may arise from firm sales contracts in excess of the quantities of agricultural inventories held or from firm purchase contracts.

ILLUSTRATIVE EXAMPLE 1-8

The Farm holds agricultural inventories of immature beef cattle for production into beef for sale to wholesalers. In this example, the Farm has chosen to measure its inventories of immature beef cattle using the net realizable value model. During the year ended December 31, 2022, the Farm sold 12 of its immature beef cattle to another farm for $40,000. As at January 1 and December 31, 2021, the net realizable value of the 12 immature beef cattle, based on realizable market prices, was $36,000 and $38,000, respectively. Although the immature beef cattle were not sold until the year ended December 31, 2022, a gain of $2,000 resulting from the change in the net realizable value of the inventories of immature beef cattle during the year ended December 31, 2021, would be recognized during that year.

Assuming that the net realizable value of the immature beef cattle was $40,000 at the date that they were sold, a further gain of $2,000 would be recognized for the change in net realizable value from January 1, 2022, to the date of sale.

Measurement of Productive Biological Assets

How does an agricultural producer initially measure its productive biological assets?

In the context of an agricultural producer, productive biological assets are akin to property, plant and equipment of a manufacturing enterprise. Accordingly, the accounting guidance included in Section 3041 on measuring productive biological assets is consistent with the accounting guidance included in Section 3061, *Property, Plant and Equipment*, on measuring property, plant and equipment. Productive biological assets held by an agricultural producer are initially measured at cost.

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 costs accounted for in accordance with Section 3110, *Asset Retirement Obligations*.

Examples of acquisition costs include commissions, legal fees, freight charges, transportation insurance and duties. Development costs are those costs incurred during the period that a biological asset is maturing to become productive, and they include direct costs (such as feed, fertilizer and direct labour) and 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.

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, the associated operating costs are lowered, the life or useful life is extended, or the quality or output is improved. The cost incurred in maintaining the service potential of productive biological assets is a maintenance expenditure, not a betterment.

How should productive biological assets be subsequently measured?

Productive biological assets held by an agricultural producer are subsequently measured at cost less accumulated amortization. Amortization is recognized in a rational and systematic manner appropriate to the nature of the productive biological asset with a limited life and its use by the agricultural producer. The amount of amortization that is 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.

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. This relief from individually tracking the components of such productive biological assets reduces the complexity of applying the amortization guidance in Section 3041. When productive biological assets are determined to have an indefinite useful life, they are not amortized until their life is determined to no longer be indefinite.

EXAMPLE 5

An example of productive biological assets managed on a collective basis would be a herd managed collectively to meet a production quota indefinitely. Such a herd is considered to have an indefinite useful life and is not subject to amortization. The costs incurred in the maintenance of the service potential of the herd is a maintenance expenditure, not a betterment.

The amortization method and estimates of the life and useful life of productive biological assets are reviewed on a regular basis. 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 that 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.

ILLUSTRATIVE EXAMPLE 1-9

Assuming that the Farm has rebutted the presumption that calves purchased or born are agricultural inventories and, instead, has classified these calves as productive biological assets on initial recognition because they are to be used in the production of milk at maturity, the Farm must determine how such productive biological assets should be initially and subsequently measured.

Productive biological assets are initially measured at cost, which is the amount of consideration given up to acquire, develop or better the assets. In the case of purchased calves, the initial cost would include the actual cost to purchase the calf as well as any legal fees, freight charges, transportation insurance costs and duties incurred in acquiring the calf. If the calf were born from one of the cows held by the Farm, the initial cost of the calf would include the development costs incurred in producing the calf, such as the cost of feed, vaccinations and other veterinary costs, and direct labour costs incurred in caring for the calf before birth. If cows held to produce calves are determined to have finite lives and not to be managed on a

collective basis to maintain their collective productive capacity indefinitely, the initial cost of a calf born to one of the cows held by the Farm might also include amortization of the cow (productive biological asset) from which it was born.

The subsequent measurement of productive biological assets depends on whether the assets are determined to have a finite or indefinite useful life. Despite the fact that each individual cow in the Farm's milking herd has a finite life (i.e., an individual cow does not live forever), the Farm could determine that it manages them on a collective basis to maintain their collective production capacity indefinitely (i.e., over time, as cows perish, additional cows are born and mature to take their place such that the overall productive capacity of the herd remains the same). If this is the case, then such cows would be considered to have an indefinite useful life and would not be amortized. These cows would be subsequently measured at cost and assessed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

If, on the other hand, the Farm determines that it does not manage its milking herd on a collective basis, then such cows would be subsequently measured at cost less accumulated amortization. The cows would be amortized on a rational and systematic manner appropriate to the nature of the cows and their use by the Farm. For example, the Farm could determine that the cows will produce a certain quantity of milk over their useful life and therefore amortize the cost of each cow over its estimated lifetime milk production on a units-of-production basis. Such a method of amortization may make it easier for the Farm to determine the cost of milk (agricultural inventories) on a full-cost basis, as the amount of amortization expense per unit of milk produced will be known, and no further allocations of such amortization will need to be made. Alternatively, the Farm could determine that the cows will produce milk over a certain number of years on a consistent basis each year and therefore amortize the cost of each cow over its estimated useful life in years on a straight-line basis.

When is a productive biological asset determined to be impaired?

A productive biological asset that is subject to amortization is tested for impairment in accordance with the guidance contained in Section 3063, *Impairment of Long-Lived Assets*, in Part II of the *Handbook*. A productive biological asset that is not subject to amortization is tested for impairment in accordance with the guidance contained in Section 3041. Both sections require a productive biological asset to be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. 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 the productive biological asset at the date it is tested for recoverability, whether it is in use or under development.

An impairment loss is recognized when the carrying amount of a productive biological asset, or a group of productive biological assets, is not recoverable and exceeds its fair value. Productive biological assets that are managed on a collective basis are grouped for the purposes of impairment testing. The resulting impairment loss is 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. For a productive biological asset subject to amortization, the new cost basis is amortized in accordance with the guidance above. An impairment loss recognized on a productive biological asset is not reversed if the fair value subsequently increases.

How is the disposal of a productive biological asset accounted for?

When an agricultural producer ceases to use a productive biological asset in a productive capacity, the asset is 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 is not amortized. A loss is recognized for any initial or subsequent write-down to fair value less costs to sell. A gain is recognized for any subsequent increases 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. 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.

Appendix 3 provides a decision tree to assist an agricultural producer in accounting for its productive biological assets.

Presentation and Disclosure Considerations

How should agricultural inventories and productive biological assets be presented and classified in the balance sheet of an agricultural producer?

An agricultural producer presents agricultural inventories and productive biological assets as separate line items in its balance sheet. Section 3041 does not contain any specific guidance on the classification of biological assets (i.e., as current or non-current assets). Accordingly, an agricultural producer would refer to the guidance contained in Section 1510, *Current Assets and Current Liabilities*, in Part II of the *Handbook*. As defined in Section 1510, current assets include those assets ordinarily realizable within one year from the date of the

balance sheet or within the normal operating cycle of the enterprise when it is longer than a year. Accordingly, agricultural producers will need to exercise judgment in determining whether agricultural inventories and productive biological assets should be classified as current or non-current assets, depending on the relevant facts and circumstances.

ILLUSTRATIVE EXAMPLE 1-10

The Farm holds agricultural inventories of immature beef cattle, beef and milk. It holds productive biological assets in the form of its milking herd. In its balance sheet, the Farm would present its agricultural inventories separately from its productive biological assets. As the Farm's milking herd is expected to be used for more than one year, such productive biological assets would likely be presented as non-current assets.

Judgment must be exercised in classifying the Farm's agricultural inventories as current or non-current assets. The Farm's inventories of milk and beef would likely be classified as current assets, as they would be expected to be sold (and therefore realized) within one year from the balance sheet date. On the other hand, the Farm's inventories of immature beef cattle may be classified as current or non-current assets depending on the length of time remaining in the life cycle of the beef cattle before the beef can be harvested. If the beef cattle were purchased or born very close to the period end, it may take more than one year from the balance sheet date for the beef cattle to mature and for the beef to be harvested. In such a case, it may be appropriate to classify this portion of the Farm's inventories of immature beef cattle as a non-current asset, with the remainder of the Farm's inventories of immature beef cattle that will mature within one year from the balance sheet date being classified as current assets.

How should gains and losses due to changes in net realizable value be presented in the income statement of an agricultural producer?

Section 3041 contains no specific guidance on the presentation of gains and losses due to changes in the net realizable value of agricultural inventories in the income statement of agricultural producers. Although there is significant diversity in practice regarding where such gains and losses are recorded in the income statement, there is also no specific guidance in other sections in Part II of the *Handbook* on the presentation of similar gains and losses in the income statement for enterprises that are not agricultural producers. Accordingly, the presentation of gains and losses due to changes in net realizable value in the income statement of agricultural producers will continue to be an area of professional judgment.

Amendments to Section 1520, *Income Statement*, in Part II of the *Handbook* include additional presentation requirements related to agricultural inventories and productive biological assets. An agricultural producer is required to either present separately on the face of the income statement or disclose in the notes to the financial statements (with the income statement caption that contains the item identified) 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.

In addition, an agricultural producer is required to either present separately on the face of the income statement, or disclose in the notes to the financial statements (with the income statement caption that contains the item identified), 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.

What are the disclosure requirements for agricultural inventories?

The objective of the disclosure requirements in Section 3041 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 detail. This objective is based on the premise that users of private enterprise financial statements can ask for, and generally receive, additional information from the enterprise when needed.

The following information is required to be disclosed in the financial statements of an agricultural producer that has agricultural inventories:

(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.

The quantitative description of an 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.

Additional disclosures are required for an agricultural producer that accounts for its agricultural inventories using the cost model, including:

(a) the accounting policy adopted in determining the cost of inventories, including the techniques used for measuring cost (i.e., full cost or only input costs);

(b) the cost formulas used;

(c) the total carrying amount for each major category of agricultural inventories; and

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

In addition, when an agricultural producer determines the cost of agricultural inventories using only input costs, it is required to disclose a description of the input costs included in the measurement of agricultural inventories.

Similarly, additional disclosures are required for an agricultural producer that accounts for its agricultural inventories using the net realizable value model, including:

(a) a description of the methodology used to determine net realizable value;

(b) the carrying amount of 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 the gain or loss; and

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

What are the disclosure requirements for productive biological assets?

The following information is required to be disclosed in the financial statements of an agricultural producer that has productive biological assets:

(a) a qualitative description of each major category of productive biological assets;

(b) the quantities held of each major category of productive biological assets,[12] when readily determinable;[13]

(c) for each major category being amortized:

12 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.

13 An agricultural producer is required to disclose the quantities of productive biological assets and agricultural inventories only when such information is readily available. This allows an agricultural producer to disclose quantity information but does not require this disclosure if the cost of doing so outweighs the benefits of the information provided.

(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 because the productive biological assets are managed on a collective basis to maintain their collective productive capacity indefinitely, 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.

ILLUSTRATIVE EXAMPLE 1-11

In this example, the Farm has chosen to measure its agricultural inventories of immature beef cattle using the cost model (with cost determined using full cost) and its agricultural inventories of beef using the net realizable value model. Further, the Farm has determined that its milking herd meets the definition of productive biological assets and is managed on a collective basis to maintain its collective productive capacity indefinitely. The following significant accounting policies may be included in the notes to the Farm's financial statements:

Significant Accounting Policies

[a] Agricultural Inventories Measured at Cost

The Farm's agricultural inventories of immature beef cattle are measured at the lower of cost and net realizable value, with cost determined using full cost and assigned using the FIFO cost formula. The full cost of agricultural inventories comprises all input costs and other costs of agricultural production incurred in bringing the agricultural inventories to their present location and condition.

Input costs of the Farm's inventories of immature beef cattle include the purchase cost of the calf, the cost of feeding the calf until maturity, vaccinations and other veterinary costs, and the cost of hired labour to care for the beef cattle until maturity. Other costs of agricultural production include an allocation of the amortization of trailers used for hauling the cattle and the buildings and corrals used to house them, and an allocation of farm management and administration costs.

[b] Agricultural Inventories Measured at Net Realizable Value

The Farm's agricultural inventories of beef are measured using the net realizable value model when all of the following conditions are met:

1. The product has a reliable, readily determinable and realizable market price.
2. The product has reliably measurable and predictable costs of disposal.
3. The product is available for immediate delivery.

Under the net realizable value model, such inventories are measured at net realizable value each period, and changes in their carrying amount resulting from changes in net realizable value are recognized in net income in the period in which they arise. The Farm determines the net realizable value of its agricultural inventories using a net realizable value model based on the contract price of firm sales contracts in place at the end of the period. Net realizable value is assigned using the weighted average cost formula.

When all of the conditions for measurement using the net realizable value model are not met, the Farm's agricultural inventories of beef are measured at the lower of cost and net realizable value, with cost determined using full cost and assigned using the weighted average cost formula. The full cost of agricultural inventories comprises all input costs and other costs of agricultural production incurred in bringing the agricultural inventories to their present location and condition.

Input costs of the Farm's inventories of beef include the purchase cost of the calf, the cost of feeding the calf until maturity, vaccinations and other veterinary costs, other costs to bring the calf to the condition in which it will be sold or slaughtered, and the cost of hired labour to care for the developing beef cattle. Other costs of agricultural production include an allocation of the amortization of trailers used for hauling the cattle, the buildings and corrals used to house them, and an allocation of farm management and administration costs.

[c] Productive Biological Assets

The Farm holds productive biological assets in the form of its milking herd. The Farm manages its milking herd on a collective basis to meet the Farm's milk production quota indefinitely. Accordingly, these assets are considered to have an indefinite useful life and are not subject to amortization. The Farm's milking herd is tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. As these assets are managed on a collective basis, they are grouped for the purpose of impairment testing.

An impairment loss is recognized when the carrying amount of the Farm's milking herd is not recoverable and exceeds its fair value. The carrying amount of the group of assets is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss, if any, is measured as the amount by which the carrying amount of the group of assets exceeds their fair value.

ILLUSTRATIVE EXAMPLE 1-12

This example provides sample notes to the financial statements of the Farm. In this example, the Farm's agricultural inventories consist of its inventories of immature beef cattle, beef and milk. Its productive biological assets consist of its milking herd, which is managed on a collective basis to maintain its collective production capacity indefinitely.

Notes to the Financial Statements

1. Agricultural Inventories

The Farm's agricultural inventories consist of the following:

	2022	2021
Immature beef cattle – at cost	$650,000	$593,000
Beef – at net realizable value	25,000	32,000
Milk – at net reliazable value	19,000	17,000
	$694,000	$642,000

As at December 31, 2022, the Farm held 313 immature beef cattle (2021 – 297), approximately 2,500 kilograms of beef (2021 – 3,200) and approximately 25,000 litres of milk (2021 – 23,000).

During the year ended December 31, 2022, the amount of agricultural inventories recognized as an expense by the Farm was as follows:

	2022	2021
Immature beef cattle	$5,000	$12,000
Beef	1,800,000	1,900,000
Milk	3,200,000	2,750,000
	$5,005,000	$4,662,000

During the year ended December 31, 2022, the Farm recognized the following gains (losses) from changes in the net realizable value of its agricultural inventories:

	2022	2021
Beef	$10,000	$(6,000)
Milk	(2,000)	19,000
	$8,000	$13,000

2. Productive Biological Assets

The Farm's productive biological assets consist of the following:

	2022		2021	
	Quantity of Animals	Carrying Value	Quantity of Animals	Carrying Value
Milking herd:				
Heifer calves	58	$70,000	59	$66,000
Mature cows	303	420,000	304	486,000
Herd bulls	12	36,000	12	52,000
	373	$526,000	375	$604,000

EXAMPLE 6

This example provides sample notes to the financial statements of Rose Family Hog Farm Inc. ("the Hog Farm"), located in Calgary, Alberta, to illustrate the disclosure requirements for its productive biological assets. The Hog Farm's productive biological assets include its breeding herd, which consists of sows and boars. The Hog Farm does not manage its breeding herd on a collective basis to maintain its collective production capacity indefinitely. Accordingly, each animal within its breeding herd is amortized over its estimated useful live on a straight-line basis.

Significant Accounting Policies

[a] Productive Biological Assets

The Hog Farm holds productive biological assets in the form of its breeding herd. Each animal within the Hog Farm's breeding herd is measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis over the estimated useful lives of the animals within the breeding herd as follows:

Sows	6 years
Boars	31 months

The Hog Farm's breeding herd is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of the breeding herd is not recoverable if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss, measured as the amount by which the carrying amount of the breeding herd exceeds its fair value, is recognized when the carrying amount of the breeding herd is not recoverable and exceeds its fair value. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

Notes to the Financial Statements

1. Productive Biological Assets

The Hog Farm's productive biological assets consist of the following:

		2022			2021
	Quantity of Animals	**Cost**	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
Sows:					
Open gilts	12	$12,000	$-	$12,000	$13,000
Bred gilts	15	15,000	2,500	12,500	14,000
One litter	19	19,000	6,333	12,667	9,600
Two litters	17	17,000	8,500	8,500	11,500
Three litters	32	32,000	21,333	10,667	12,300

		2022			2021
	Quantity of Animals	**Cost**	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
Four litters	27	27,000	22,500	4,500	5,000
Total sows	122	122,000	61,166	60,834	65,400
Boars:					
Up to 12 months	5	5,000	968	4,032	3,200
13 to 16 months	6	6,000	2,710	3,290	5,400
17 to 20 months	4	4,000	2,323	1,677	2,200
21 to 24 months	9	9,000	6,387	2,613	3,600
25 to 28 months	3	3,000	2,516	484	950
29 to 31 months	10	10,000	9,677	323	450
Total boars	37	37,000	24,581	12,419	15,800
	159	$159,000	$85,747	$73,253	$81,200

During the year ended December 31, 2022, the Hog Farm recognized amortization expense of $27,000 (2021 – $19,000) on its productive biological assets.

Effective Date and Transition

Section 3041 applies to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

What are the transition requirements, including any transition relief, upon applying Section 3041 for the first time?

An agricultural producer is required to apply Section 3041 retrospectively, with the following transitional provisions,[14] which are meant to facilitate the adoption of Section 3041 in a cost-effective manner:

14 Such transitional provisions are applied electively by the agricultural producer. An agricultural producer could choose to apply Section 3041 on a full retrospective basis with no transition relief.

1. An agricultural producer may choose to measure agricultural inventories or productive biological assets, on an asset-by-asset basis, at their net realizable value at the beginning of the fiscal year in which Section 3041 is applied for the first time (e.g., January 1, 2021, if an agricultural producer applies Section 3041 as of its effective date).[15] 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 is recorded as an adjustment to opening retained earnings at the date at which Section 3041 is first applied.
2. 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 Section 3041 is first applied; or
   (b) the fiscal year immediately preceding the date at which Section 3041 is first applied (e.g., if an agricultural producer applies Section 3041 for the first time as of its effective date, no retrospective adjustments would need to be made in respect of agricultural inventories that were derecognized during the fiscal years ended December 31, 2020 or December 31, 2021).

If an agricultural producer applies the transitional provision to measure its 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 Section 3041 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.

ILLUSTRATIVE EXAMPLE 1-13

This example provides sample notes to the financial statements of the Farm in the year of adoption of Section 3041. The Farm has adopted Section 3041 as of its effective date of January 1, 2021. Therefore, the sample note disclosure below would appear in its financial statements for the year ended December 31, 2021.

Prior to the adoption of Section 3041, the Farm measured all of its agricultural inventories at cost, with cost determined using only input costs. Upon adoption of Section 3041, the Farm made an accounting policy choice to measure its agricultural inventories of immature beef cattle at cost (with cost determined using full cost) and its agricultural inventories of beef and milk at net realizable value each period.

15 This transitional provision is meant to provide relief for agricultural producers that do not have the historical records necessary to determine cost for agricultural inventories and productive biological assets acquired or developed in prior periods.

Also prior to the adoption of Section 3041, the Farm measured its milking herd at net realizable value each period with gains and losses due to changes in the net realizable value of assets recognized in net income. Upon adopting Section 3041, the Farm must measure its milking herd at cost. In addition, since the Farm has determined that it manages its milking herd on a collective basis to maintain its collective production capacity indefinitely, its milking herd will not be subject to amortization.

The Farm will apply Section 3041 retrospectively. However, in applying the transitional provisions in Section 3041, the Farm has elected to measure its milking herd at its net realizable value as at January 1, 2021. Accordingly, the Farm will use that net realizable value as the milking herd's deemed cost at that date.

Notes to the Financial Statements

1. Change in Accounting Policy

On January 1, 2021, the Farm adopted Section 3041, *Agriculture*, under Canadian Accounting Standards for Private Enterprises. Section 3041 provides specific authoritative guidance on the accounting for biological assets and the harvested products of biological assets for private enterprises that undertake agricultural production. Previously, such biological assets were accounted for in accordance with other applicable sections of ASPE.

Under Section 3041, biological assets are segregated into agricultural inventories and productive biological assets. Agricultural inventories are measured using either the cost model (with cost determined using full cost or only input costs) or the net realizable value model (when specific conditions are met). Productive biological assets are measured at cost less accumulated amortization and impairment losses, if any, unless such 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.

The Farm has applied Section 3041 retrospectively, with restatement of its prior period financial statements. However, in accordance with the transitional provisions of Section 3041, the Farm has elected to measure its milking herd at its net realizable value of $590,000 as at January 1, 2021. The Farm's milking herd is included in the "productive biological assets" balance sheet caption. As the Farm's milking herd was previously measured at net realizable value, the adoption of Section 3041 had no impact on the carrying value of the Farm's productive biological assets as at December 31, 2020.

Prior to the adoption of Section 3041, the Farm measured all of its agricultural inventories at cost, with cost determined using only input costs. Upon the adoption of Section 3041, the Farm has made an accounting policy choice to measure its agricultural inventories of immature beef cattle at cost (with cost determined using full cost) and its agricultural inventories of beef and milk at net realizable value each period.

The impact of the adoption of Section 3041 on the Farm's financial statements as at, and for the year ended, December 31, 2020, is as follows:

	Previously Reported Amount	Adjustment	Restated Amount
Balance Sheet			
Agricultural inventories*	$663,000	$35,000	$698,000
Retained earnings	1,500,000	42,000	1,542,000
Statement of Income			
Increase in net realizable value of agricultural inventories	-	15,000	15,000
Cost of sales	490,000	55,000	545,000
Production costs	250,000	(75,000)	175,000
Net income	450,000	35,000	485,000
Statement of Retained Earnings			
Retained earnings – beginning of year	1,050,000	7,000	1,057,000
Retained earnings – end of year	1,500,000	42,000	1,542,000
Statement of Cash Flows			
Net income	450,000	35,000	485,000
Increase in net realizable value of agricultural inventories	-	(15,000)	(15,000)
Net changes in non-cash working capital	$1,300,000	$(20,000)	$1,280,000

*The adjustment to agricultural inventories consists of the following:

1. $20,000 increase due to the measurement of the Farm's agricultural inventories of immature beef cattle at full cost rather than only input costs
2. $15,000 increase due to the measurement of the Farm's agricultural inventories of beef and milk at net realizable value rather than at cost

Consequential Amendments

Minor consequential amendments were made to several sections in Part II of the *Handbook*. The most significant consequential amendment was removal of the exemption in Section 3031, which previously allowed 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. For annual reporting periods beginning after Section 3041 is effective, living animals and plants and the harvested product of biological assets held by agricultural producers that meet the definition of agricultural inventories will be included in the scope of Section 3041.

Consequential amendments were also made to Section 1500, *First-Time Adoption*, which allows a first-time adopter to apply the transitional provisions described above when applying ASPE for the first time.

Applicability of Section 3041 to Not-for-Profit Organizations

Private sector not-for-profit organizations (NFPOs) are given the choice of applying either the accounting standards in Part III (Accounting Standards for Not-for-Profit Organizations) or Part I (International Financial Reporting Standards) of the *Handbook*. A NFPO applying the accounting standards in Part III of the *Handbook* also applies the standards for private enterprises in Part II of the *Handbook* to the extent that the standards in Part II address topics not addressed in Part III. Accordingly, NFPOs that are agricultural producers are required to apply the guidance in Section 3041.

Potential Impact of Adopting Section 3041

The impact of the adoption of Section 3041 on a given agricultural producer will depend on the accounting policies applied by that agricultural producer prior to adopting Section 3041. As noted previously, prior to the introduction of Section 3041, there was no specific authoritative guidance for agricultural producers included in Part II of the *Handbook*. The main purpose of Section 3041 is to provide authoritative guidance on accounting for biological assets.

As a result, the impact of the adoption of Section 3041 on agricultural producers is expected to range from minor to significant (depending on the accounting policies followed by the agricultural producer), and could result in significant changes to the balance sheet and income statement of agricultural producers. Accordingly, agricultural producers should start their analysis of the impact of Section 3041 as soon as possible to determine the impact on their financial statements. Any changes should be communicated to all financial statement users affected.

Other Resources

CPA Canada

- Accounting Standards for Private Enterprises: Summary Resource Guide

AcSB

- Agriculture, Section 3041 – Background Information and Basis for Conclusions

Contact

Comments on this *Briefing* or suggestions for future Briefings should be sent to:

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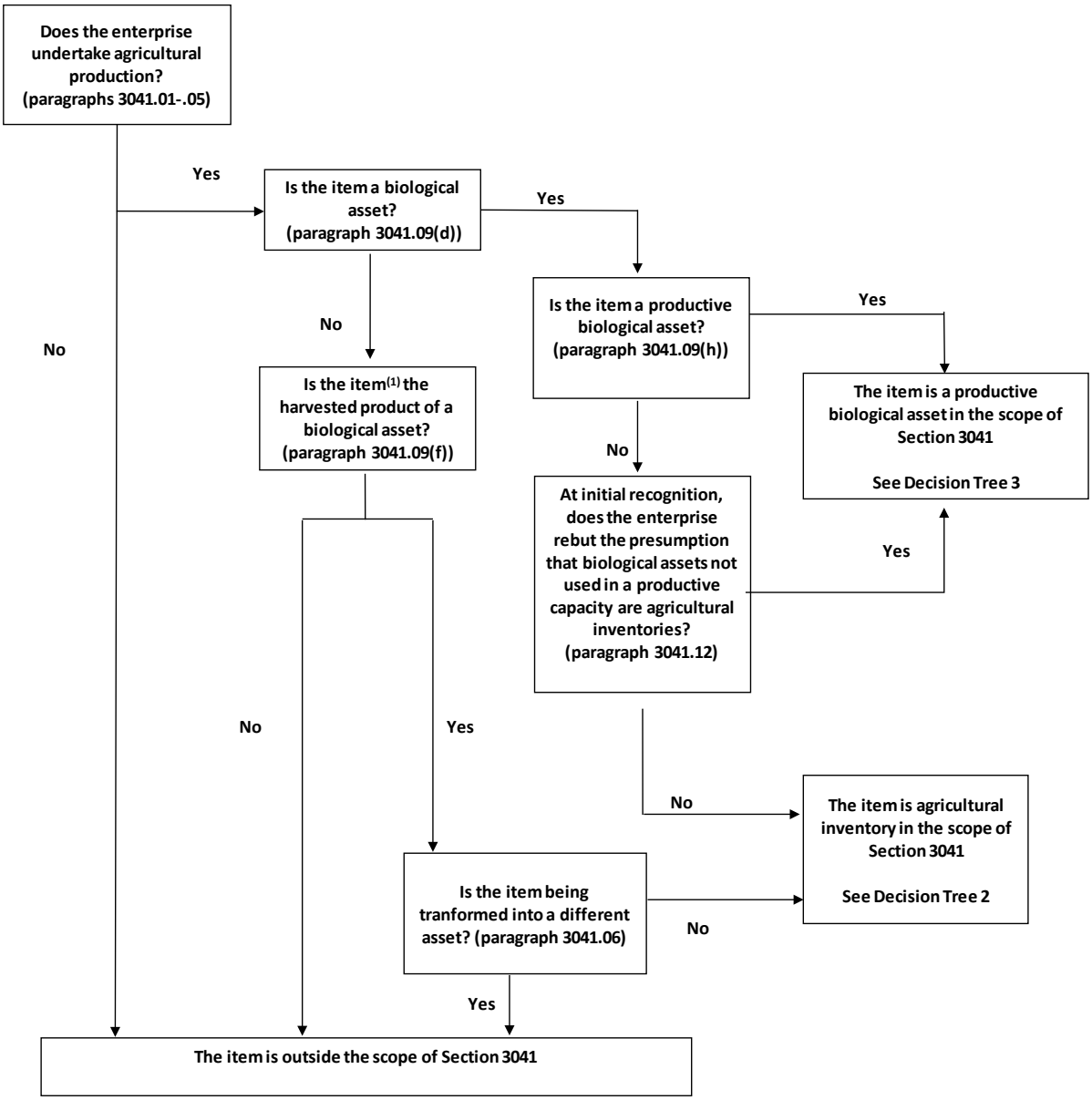
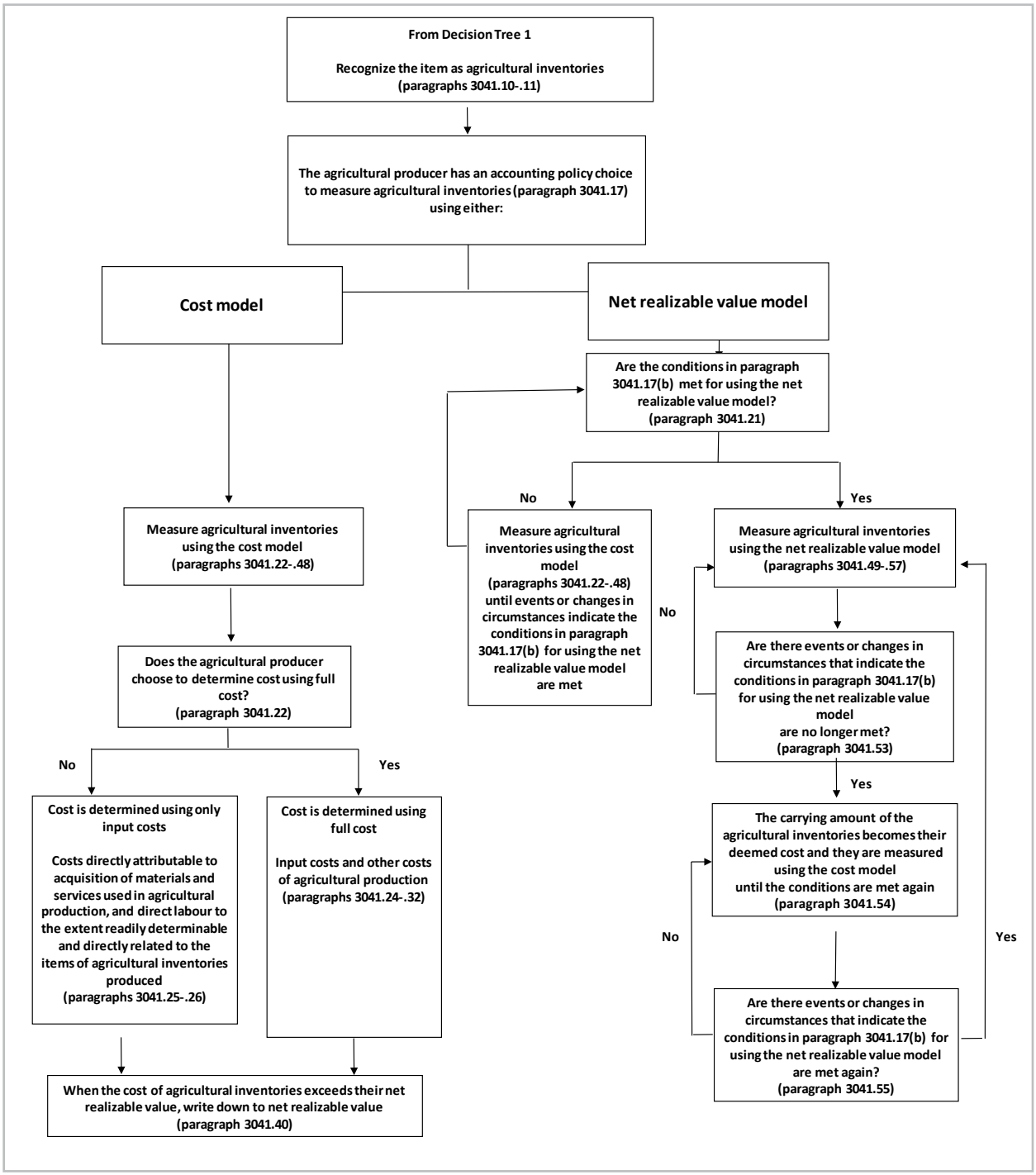
Appendix 1: Decision Tree 1 – Scope of Section 3041

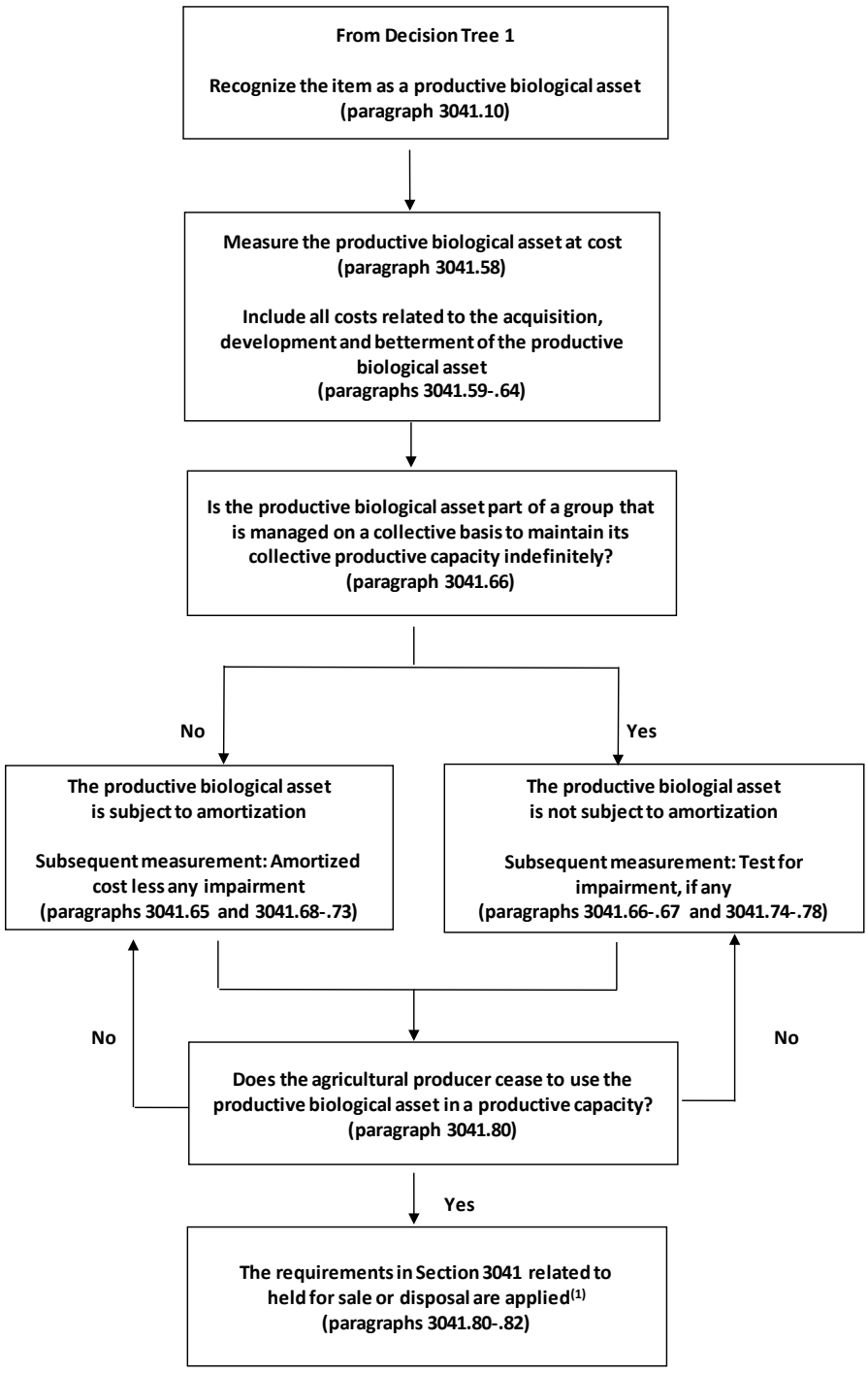


(1) Including purchased harvested product for use in agricultural production (paragraph 3041.02)

Appendix 2: Decision Tree 2 – Recognition and Measurement of Agricultural Inventories



Appendix 3: Decision Tree 3 – Recognition and Measurement of Productive Biological Assets



(1) An agricultural producer shall not reclassify productive biological assets to agricultural inventories (paragraph 3041.16).