



Advisor alert

The Canadian Accounting Standards Board released new ASPE Section 3041 *Agriculture*. How will your enterprise's financial statements be impacted?

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Part 1 of 4: Scope and Key Definitions

Overview

The Canadian Accounting Standards Board recently released new Section 3041 *Agriculture* which sets out principles for the recognition, measurement and disclosure of biological assets and the harvested product of biological assets which are held by an agricultural producer. The new guidance is expected to be transformational for many agricultural producers that prepare financial statements in accordance with Accounting Standards for Private Enterprises (ASPE) or Accounting Standards for Not for Profit Organizations (ASNPO) as they may need to:

- revise their existing accounting policies for recognizing and measuring biological assets and the harvested products of biological assets; and/or
- track information that was not previously retained in order to apply the new accounting requirements.

The new guidance is effective for fiscal periods beginning on or after January 1, 2022.¹

Grant Thornton LLP has released a series of publications which explain some of the new guidance contained in Section 3041 and provide practical insights and examples to help financial statement preparers and users evaluate the impact on an enterprise's financial statements. This publication, which is the first in the series, looks at some key definitions and the scope of the new standard. The other publications in this series address the following topics:

- Part 2: Recognition and Measurement of Agricultural Inventories;
- Part 3: Recognition and Measurement of Productive Biological Assets; and
- Part 4: Presentation, Disclosure and Transition Requirements.

Readers are encouraged to read the publications in order. Furthermore, enterprises that expect to be impacted by Section 3041 should also refer to the original text of the Standard to assess and understand the implications for their specific situation.

Background

There is significant diversity in how enterprises currently account for biological assets and the harvested product of biological assets. Historically, ASPE did not contain any guidance on accounting for biological assets, so while some enterprises apply the scope exemption in Section 3031 *Inventories* and measure biological assets and the harvested product of biological assets at net realizable value, others measure these items at cost based on the general principles in ASPE and/or ASNPO. Section 3041 will promote consistency in how agricultural producers account for biological assets and the harvested product of biological assets.

¹ As a result of the COVID-19 pandemic, the AcSB decided to offer some relief to enterprises that apply ASPE or ASNPO. On April 15, 2020 the AcSB decided that Section 3041 would be effective for fiscal periods beginning on or after January 1, 2022 rather than fiscal periods beginning on or after January 1, 2021 as initially established. Early adoption of the standard will still be permitted.

Key definitions

The recognition and measurement guidance in Section 3041 is based on the following key definitions:

- An *agricultural producer* is an enterprise that undertakes agricultural production, such as those that engage in agriculture, apiculture, aquaculture, floriculture or horticulture.
- *Agricultural production* is “the development and harvest of biological assets for sale or for use in a productive capacity” and covers a diverse range of activities such as:
 - annual or perennial cropping;
 - raising livestock or aquatic organisms; and
 - cultivating orchards or plantations.
- A *biological asset* is defined as a living plant or animal. Biological assets can either be productive biological assets or agricultural inventories.
- *Productive biological assets* are:
 - held for use in the production or supply of agricultural inventories or other productive biological assets;
 - acquired or developed for use on a continuing basis with other than short productive lives; and
 - not intended for sale in the ordinary course of business.
- *Agricultural inventories* are biological assets, or the harvested products of biological assets that are:
 - held for sale in the ordinary course of business;
 - in the process of agricultural production to be held for sale or for use in a productive capacity; or
 - held for use in a productive capacity with short productive lives.



Example

Below are some examples of items that fall into each category of assets outlined above:

Biological assets	Productive biological assets	Agricultural inventories	Assets resulting from secondary production*
Sheep	Mature sheep	Wool	Yarn, carpet
Beef cattle	Mature beef cattle	Beef	Ground beef
Wheat	Unharvested wheat	Harvested wheat	Bread
Fruit trees/vines	Producing fruit trees/vines	Harvested fruit	Pie, jam, wine

*Productive biological assets and agricultural inventories will be accounted for using the guidance in Section 3041. However, assets resulting from secondary production will be accounted for using other guidance in ASPE and/or ASNPO (such as Section 3031 *Inventories*).

Scope

An enterprise will account for its biological assets and the harvested products of biological assets used in agricultural production (irrespective of whether the harvested products are grown or purchased) if it:

- prepares financial statements in accordance with ASPE or ASNPO; and
- meets the definition of an agricultural producer.

Enterprises that are not subject to the new guidance will continue to account for biological assets and the harvested product of biological assets using other relevant guidance in ASPE and/or ASNPO (such as Section 3031 *Inventories*).

All enterprises will continue to account for transactions or events related to secondary production (i.e. activities which transform agricultural inventories into different assets) by applying other relevant guidance in ASPE and/or ASNPO (such as Section 3031 *Inventories*).

Finally, the following specific activities are not considered agricultural production:

- forestry;
- harvesting from sources that are not owned or controlled by an agricultural producer (e.g., ocean fishing, hunting and trapping); and
- raising or purchasing animals for competitive sport.

An enterprise that undertakes such activities (regardless of whether it meets the definition of an agricultural producer) will account for the related biological assets and/or harvested products of biological assets in accordance with other guidance in ASPE or ASNPO (such as Section 3031 *Inventories*).



Example

Entity A operates a vineyard. Since growing grapes is considered to be agricultural production, Entity A is an agricultural producer and will account for its vines and harvested grapes in accordance with Section 3041.

Entity B procures grapes and produces wine. Since the act of transforming the harvested product (grapes) into another asset (wine) is not considered agricultural production, Entity B does not meet the definition of an agricultural producer. Therefore, even though the grapes are harvested products of biological assets, Entity B could not account for them in accordance with Section 3041 and would instead apply other guidance in ASPE. Furthermore, since the wine produced is an asset resulting from secondary production, Entity B would account for that asset by applying other guidance in ASPE.

Entity C is a vertically integrated operation that develops and harvests its own grapes and uses them to make wine. Since the act of growing grapes is considered agricultural production, Entity C is an agricultural producer and would account for its vines and harvested grapes in accordance with Section 3041. However, as Entity C transforms the grapes into wine, it creates a new asset (i.e., wine inventory) because the grapes are consumed when the wine is produced. Therefore, when Entity C commences secondary production (i.e., making wine), the carrying amount of the grapes under Section 3041 is the deemed cost when initially applying Section 3031 to account for the wine inventory in production.



Practical insight

It is important to classify a biological asset as either: 1) a productive biological asset or 2) an item of agricultural inventory because the measurement guidance differs for each category of asset. However, an agricultural producer may not know at the time of initial recognition whether it intends to sell the biological asset or use it in a productive capacity. Therefore, on initial recognition, the agricultural producer can assume that any biological asset is an item of agricultural inventory.

For example, an enterprise manages a cow-calf operation. It sells some of the calves born on the farm and retains others as part of its breeding herd. At the time of initial recognition, the enterprise would categorize each calf as:

- a productive biological asset if it intends to develop the animal as part of its herd; or
- an item of agricultural inventory if it either: a) intends to sell the calf or b) does not know whether it intends to sell the calf or retain it as part of its herd.

Next steps

Although Section 3041 is not yet effective, agricultural producers should start to consider how the impending changes will impact their financial statements prepared in accordance with ASPE or ASNPO.

For further information please refer to the other publications in this series:

- Part 2: Recognition and Measurement of Agricultural Inventories;
- Part 3: Recognition and Measurement of Productive Biological Assets; and
- Part 4: Presentation, Disclosure and Transition Requirements.

How can Grant Thornton Help?

At Grant Thornton, our advisors are up-to-date with new Section 3041 and can help enterprises interpret the guidance, assess the impact on their financial statements prepared in accordance with ASPE or ASNPO and determine what information the enterprise needs to gather in advance of applying the new standard for the first time.

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