



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 3 of 4: Recognition and Measurement of Productive Biological Assets

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). 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 third in the series, looks at the recognition and measurement of productive biological assets. The other publications in this series address the following topics:

- Part 1: Scope and Key Definitions
- Part 2: Recognition and Measurement of Agricultural Inventories; 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 this standard should also refer to the original text of Section 3041 to assess and understand the implications for their specific situation.

Productive biological assets – recognition

Productive biological assets are recognized when they meet: 1) the definition of an asset and 2) the recognition criteria outlined in Section 1000 *Financial Statement Concepts*. Professional judgment may be required in certain circumstances to determine when the asset should be recognized. For example, an agricultural producer needs to determine the point at which it is probable that an unharvested crop will generate future economic benefits (e.g., at the time it is planted, when it reaches a certain height, immediately before it is ready for harvest).

Productive biological assets – measurement

Productive biological assets are initially measured at cost and are amortized over their useful lives. The cost of productive biological assets includes all 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. Any asset retirement costs are also included in the cost of the productive biological asset.



Example

Entity A operates an apple orchard. Entity A grows some of its apple trees in its greenhouse from seed and it purchases others when they are approximately 2 years old. The table below provides details of the cost of Entity A's five-year-old apple trees: one which was grown from seed and the other which was purchased at two years old.

	Five-year-old tree grown from seed	Five-year-old tree purchased at two years
Acquisition cost	\$ 0	\$ 1,000
Development costs, including direct costs (e.g., fertilizer and direct labour) and directly attributable overhead costs (e.g., equipment amortization)	500	300
Betterment costs (e.g., horticultural services)	100	100
Total	\$ 600	\$ 1,400

Although the net realizable value of the apple trees would likely be the same (they are both five-year-old trees in the same orchard), since they have a different cost base, they will also have different carrying amounts in Entity A's ASPE financial statements.

Productive biological assets are amortized to income over their estimated useful lives, with one exception: if an agricultural producer manages a group of productive biological assets on a collective basis to indefinitely maintain the group's collective productive capacity, the group of productive biological assets is assumed to have an indefinite useful life and is not subject to amortization. For example, a herd of dairy cattle that is managed collectively to meet a production quota indefinitely (i.e., calves are bred in order to replace old/dying animals) would not be amortized. This exception allows agricultural producers to avoid tracking amortization for components of productive biological assets (e.g., each animal in a herd).

A productive biological asset is tested for impairment based on:

- the guidance in Section 3063 *Impairment of Long-lived Assets* if it is amortized; or
- specific guidance in Section 3041 if it is deemed to have an indefinite useful life and is not amortized.

Any impairment is recognized in net income in the period recorded.

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. Enterprises will need to determine which accounting policy to apply and may need to design or procure a system to track the cost of productive biological assets. Additionally, enterprises should consider how the new guidance will impact their financial statements prepared in accordance with ASPE or ASNPO, and financial covenants, debt agreements and/or other key metrics. If the enterprise will be affected, talking to the users of the financial statements early will help to avoid last minute surprises. Some banking agreements may need to be revised or waivers need to be obtained if the new guidance will/may create violations.

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

- Part 1: Scope and Key Definitions;
- Part 2: Recognition and Measurement of Agricultural Inventories
- 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 new 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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