



# Advisor alert

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

June 2020

## Part 4 of 4: Presentation, Disclosure and Transition Requirements

### 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 fourth in the series, looks at the presentation, disclosure and transition requirements. 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 3: Recognition and Measurement of Productive Biological Assets.

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.

### Presentation requirements

An agricultural producer must present the amounts of agricultural inventories and productive biological assets as separate line items on the balance sheet. The assets will be presented as either current or non-current based on the guidance in Section 1510 *Current Assets and Current Liabilities*.



#### Practical insight

Based on the guidance in Section 1510 *Current Assets and Current Liabilities*, many agricultural producers will likely present their agricultural inventories as current assets and productive biological assets as non-current assets. If the agricultural producer is required to maintain certain financial ratios as a result of debt covenants, it should consider if these presentation requirements will impact its ability to comply with those covenants. If necessary, an enterprise should consider renegotiating certain aspects of its debt agreement with its lender before Section 3041 is effective.

### Disclosure requirements

The objective of financial statement disclosures is to provide users with enough information to understand the financial statements and to be able to make informed inquiries regarding financial statement items or transactions when they require further details. Therefore, a number of disclosures related to both agricultural inventories and productive biological assets will

be required. Overall, the disclosure requirements are similar to those in Section 3031 *Inventories* and Section 3061 *Property, Plant and Equipment*.



#### Practical insight

Users of financial statements indicated that information regarding quantities of agricultural inventories and productive biological assets would be useful. As such, agricultural producers will be required to disclose such information when it is readily determinable. For example, an agricultural producer with a cattle herd may track and, therefore, have the information available to disclose the number of cattle in its herd. Alternatively, if an aquaculture producer is not able to readily determine the number of fish in its pools, it would be exempt from providing this disclosure.

## Transition requirements

Section 3041 is effective for fiscal periods beginning on or after January 1, 2022,<sup>1</sup> and early adoption is permitted. The amendments must be applied retrospectively, which means that the agricultural producer will need to restate the comparative information in its financial statements. As a result, an agricultural producer will apply the new standard at the beginning of the comparative fiscal period (i.e. for an enterprise with a calendar year end that does not early adopt the amendments, the date of initial application will be January 1, 2021).

To reduce the burden of retrospectively applying the new guidance, an agricultural producer may choose to apply one or both of the following transition provisions:

- 1 An enterprise may choose, on an asset-by-asset basis, to measure any item of agricultural inventories or productive biological assets at net realizable value at the beginning of the fiscal year in which this Section is applied for the first time. For example, an enterprise with a calendar year end (that does not early adopt the amendments) could measure one or more of its assets at net realizable value as at January 1, 2022 and would not remeasure the asset(s) at the beginning of its comparative period.



#### Practical insight

Many of the agricultural producers that currently measure items of agricultural inventory and/or productive biological assets at net realizable value will likely elect to measure these items at their net realizable value at the beginning of the fiscal year in which Section 3041 is applied for the first time as it will reduce the burden of transitioning to the new guidance.

- 2 An enterprise may choose not to restate its comparative financial information to remeasure any items of agricultural inventories or productive biological assets that it derecognizes either during:
  - the fiscal year in which Section 3041 is first applied; or
  - the comparative period.

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<sup>1</sup> 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.



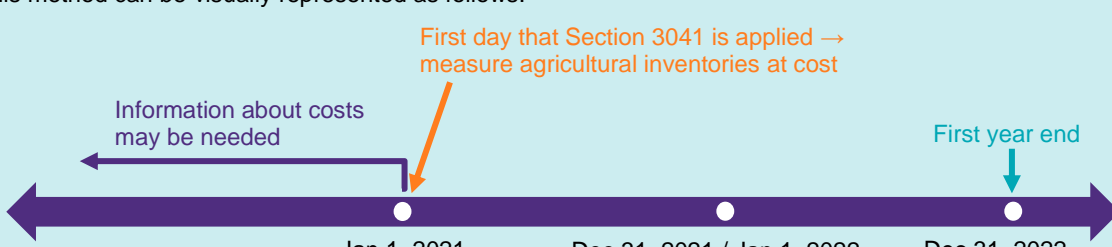
**Example**

Entity A operates a nursery and grows all of the plants and trees that it sells from seed. Currently, Entity A has an accounting policy whereby it capitalizes only certain of the costs incurred to develop its agricultural inventories. After adopting Section 3041, Entity A will measure its agricultural inventories (i.e., plants and trees) at full cost.

Entity A will adopt Section 3041 for its fiscal year ending December 31, 2022 and has two options:

**1 Apply Section 3041 fully retrospectively (i.e., without applying any transition provisions)**

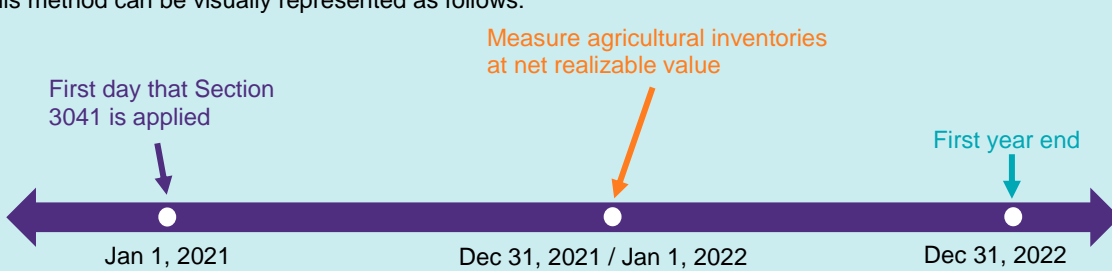
- Under this option, Entity A will apply Section 3041 for the first time as at January 1, 2021 (which is the first day of its comparative period).
- Entity A will need to gather information about the full cost of each of the plants and trees (i.e., items of agricultural inventory) it has on hand at January 1, 2021.
  - In order to determine the cost of its agricultural inventory at January 1, 2021, Entity A would also need to gather information from before January 1, 2021. For example, if Entity A had a sapling in its inventory at January 1, 2021, it would need to calculate all of the costs incurred to grow the sapling up to January 1, 2021.
- This method can be visually represented as follows:



The diagram shows a horizontal timeline with three points: Jan 1, 2021; Dec 31, 2021 / Jan 1, 2022; and Dec 31, 2022. An orange arrow points to Jan 1, 2021, with the text 'First day that Section 3041 is applied → measure agricultural inventories at cost'. A purple arrow points left from Jan 1, 2021, with the text 'Information about costs may be needed'. A blue arrow points down to Dec 31, 2022, with the text 'First year end'.

**2 Use either or both of the transition provisions available**

- Under this option, Entity A will still apply Section 3041 for the first time as at January 1, 2021 (which is the first day of its comparative period). However, Entity A can choose to measure any of its plants and/or trees (i.e., items of agricultural inventory) at net realizable value at the beginning of the fiscal year in which it applies Section 3041 for the first time (which in this case is January 1, 2022).
  - This transition provision may be attractive for Entity A since it has not tracked the full cost of its plants and trees in the past and may not have the information needed to determine the full cost of its agricultural inventory readily available.
  - Entity A may need to arrange for a specialist to assist with determining the net realizable value of the items of agricultural inventories on hand as at January 1, 2022. Given that the trees and plants change over time, the valuation will need to be completed on (or very close to) January 1, 2022.
- This method can be visually represented as follows:



The diagram shows a horizontal timeline with three points: Jan 1, 2021; Dec 31, 2021 / Jan 1, 2022; and Dec 31, 2022. A purple arrow points down to Jan 1, 2021, with the text 'First day that Section 3041 is applied'. An orange arrow points to Dec 31, 2021 / Jan 1, 2022, with the text 'Measure agricultural inventories at net realizable value'. A blue arrow points down to Dec 31, 2022, with the text 'First year end'.

- Entity A could also choose not to remeasure any of its agricultural inventory (i.e., its plants and trees) that were sold on or before December 31, 2021. This would prevent Entity A from having to determine the cost of its agricultural inventories as at January 1, 2021 and January 1, 2022.

## Next Steps: Adopting Section 3041

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. In particular, an enterprise should consider how the amendments 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, discussing the impact with the users of the financial statements early will help to avoid last minute surprises. Some banking agreements may need to be revised or waivers may need to be obtained if the new guidance creates violations. Lastly, an enterprise should take steps to understand the transition provisions available and decide whether it intends to take advantage of one or both.

For further information about the new standard, please refer to the other publications in this series:

- Part 1: Scope and Key Definitions;
- Part 2: Recognition and Measurement of Agricultural Inventories
- Part 3: Recognition and Measurement of Productive Biological Assets.

## 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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