

ASPE

At a Glance

Section 3041 - Agriculture

Section 3041 - Agriculture

Effective Date
Fiscal years beginning on or after January 1, 2022¹

Scope

Applies to:

- An agricultural producer’s agricultural inventories and productive biological assets.
- Transactions or events that relate to agricultural production, including the purchase of the harvested product of biological assets for use in agricultural production.

Does not apply to:

- Forestry;
- Harvesting from sources that are not owned or controlled by an agricultural producer (e.g. ocean fishing or hunting);
- Raising or purchasing animals for competitive sport;
- Transactions or events related to secondary production that transforms agricultural inventories into different assets. Assets that result from secondary production are accounted for in accordance with other applicable Sections, such as Section 3031, *Inventories*; or
- Agricultural inventories held by enterprises that are not agricultural producers.

Definitions

Agricultural Production

- The development and harvest of biological assets for sale or for use in a productive capacity.

Agricultural Producers

- Enterprises that undertake agricultural production, such as those that engage in agricultural, apiculture, aquaculture, floriculture or horticulture.

Agricultural Inventories

- Are biological assets, or the harvested products of biological assets, that meet one of the following criteria:
 - 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;
 - In the form of raw materials or supplies to be consumed in the enterprise’s agricultural production process; or
 - Held for use in a productive capacity with short productive lives.

Biological Assets

- Are living animals or plants.

Productive Biological Assets

- Are biological assets that meet all of the following criteria:
 - 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

Recognition & Change in Use

- Agricultural inventories and productive biological assets must meet the definition of an asset and the recognition criteria in Section 1000, *Financial Statement Concepts*, in order to be recognized.
- There is a presumption on initial recognition, that any biological assets not used in a productive capacity are agricultural inventories. This presumption can be rebutted and an asset shall be deemed to be a productive biological asset only if, on initial recognition there is intention to develop the biological asset into a productive biological asset.
- In some instances, an agricultural producer will need to reclassify an item of agricultural inventory when they begin using it in a productive capacity or begin a secondary production process.
 - When an item of agricultural inventory starts being used in a productive capacity, an agricultural producer shall reclassify the item as a productive biological asset. The carrying amount of the agricultural inventory is the deemed cost of the productive biological asset on reclassification.
 - When an agricultural producer commences a secondary production process to transform the agricultural inventory into a different asset, the item shall be reclassified to an asset within the scope of another Section once that secondary process commences. The carrying amount of the agricultural inventory on the date of reclassification shall be the deemed cost when applying the other applicable Section.
 - An item initially or subsequently classified as a productive biological asset cannot be reclassified as agricultural inventory in the future.

¹Earlier application is permitted.

Measurement - Agricultural Inventories

- An accounting policy choice shall be made to measure agricultural inventories using either:
 - The Cost Model; or
 - The Net Realizable Value Model.
- The net realizable value model can only be applied when all the following conditions are met:
 - The product has a reliable, readily determinable and realizable market price (i.e. the price is quoted in an active market such as a commodity exchange or auction, or by a local dealer or in trade publications, or the price is based on a firm sales contract);
 - The product has reliably measurable and predictable costs of disposal (i.e. the variability in the range of reasonable estimate of costs of disposal is not significant, or the probabilities of the various estimates within the range can be reasonably assessed and used in estimating costs of disposal); and
 - The product is available for immediate delivery (i.e. the product could be sold to a buyer in its present condition (e.g. an active market exists), or only relatively insignificant activities remain to bring the product to a location and condition in which it could be sold).
- Once an accounting policy choice is made, this accounting policy must be applied consistently to all agricultural inventories of a similar nature and use.

Cost Model

- When the cost method is used, agricultural inventories are measured at the lower of cost and net realizable value. An agricultural producer shall make an accounting policy choice to determine the cost of agricultural inventories using either:
 - Full cost; or
 - Only input costs
- Once an accounting policy choice is made it shall be applied consistently to all agricultural inventories measured using the cost model that have a similar nature and use. If an agricultural producer had previously chosen to determine cost using only input costs, they are permitted to change to the full cost approach with the change being applied prospectively in accordance with Section 1506, *Accounting Changes*.
- Full cost of agricultural inventories shall include all input costs and other costs of production incurred to bring the agricultural inventories to their present location and condition
 - Input costs include the purchase price, import duties and other taxes (other than those, which will be subsequently recoverable from taxing 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 other similar items are deducted to determine input costs. Direct labour is also included to the extent it is readily determinable and directly relates to the agricultural inventories produced.
 - Other costs include a systematic allocation of fixed and variable production overheads incurred to develop and harvest biological assets, and all other costs incurred to develop and harvest biological assets (including direct labour not included as input costs).
- The cost of agricultural inventories are assigned using the first-in, first-out or weight average cost formula unless the items of agricultural inventory are not ordinarily interchangeable and are segregated for specific projects in which case cost will be assigned using specific identification.
- The same cost formula shall be used for all inventories having a similar nature and use.
- The carrying amount of the agricultural inventories are recognized as an expense in the period of sale.

Net Realizable Value

- When the net realizable value model is used, an agricultural producer measures its agricultural inventories at net realizable value.
- Changes in the carrying amount of agricultural inventories due to changes in net realizable value are recognized in net income in the period they arise.
- When changes in events or circumstances suggest that the criteria to apply the net realizable value model are no longer met, the entity must account for the inventories using the cost model. The carrying amount of the inventory at the date circumstances change becomes the deemed cost for the agricultural inventory.
- When changes in events or circumstances suggest that the conditions to apply the net realizable value model are met again, the agricultural inventories are accounted for using the net realizable value model. The change in the carrying amount of the item of agricultural inventory consists of any reversals of previous write-downs, limited to the amount of the original write-down, and any additional changes resulting from measurement at net realizable value.
- The carrying amount of the agricultural inventories are recognized as an expense in the period of sale.

Cost Model - Write-downs

- When the cost of an item of agricultural inventory exceeds its net realizable value, the item shall be written down to its net realizable value.
- A new assessment of net realizable value should be made in each subsequent period. When the circumstances, which caused the inventories to be written down no longer exist or there is evidence of an increase in net realizable value because of changed economic circumstances then the write-down shall be reversed.
- The reversal is limited to the amount of the original write-down such that the new carrying value does not exceed the cost before write-down.
- The amount of any write-down or loss shall be recognized as an expense in the period the write-down or loss occurred. The amount of any reversal of previous write-downs shall be recognized as a reduction of the amount of agricultural inventories expensed, in the period the reversal occurs.

Measurement - Productive Biological Assets

- Productive biological assets are measured at cost.
- Cost is the amount of consideration given up to acquire, develop or better the productive biological assets. Costs would also include any asset retirement costs which are accounted for in accordance with Section 3110, *Asset Retirement Obligations*.
 - Acquisitions costs include commissions, legal fees, freight charges, transportation insurance costs and duties.
 - Development costs are incurred during the period where biological assets are maturing in order to become productive. These include direct costs for items such as feed, fertilizer, and direct labour; directly attributable overhead costs; and carrying costs such as interest when it is the entity's accounting policy to capitalize interest. Capitalization of development costs would cease when the asset becomes productive.
 - Net revenues or expenses that are derived from biological assets before they become productive are included in the calculation of cost.
 - Any costs incurred that enhance the service potential of a production biological asset are considered a betterment and included in the assets cost.



Amortization

- Amortization shall be recognized in a rational and systematic manner appropriate to the nature of a productive biological asset with a limited life and its use by the agricultural producer. The amount of amortization charged to income shall be the greater of:
 - Cost less salvage value over the life of the asset; and
 - Cost less residual value over the useful life of the asset.
- In some cases, productive biological assets will be managed on a collective basis in order to maintain their collective productive capacity indefinitely (such as a herd of livestock managed collectively to meet a production quota indefinitely). These assets have an indefinite life and are not subject to amortization until their life is determined to be no longer indefinite.
- The method and estimates of the life and useful life of a productive biological asset must be reviewed on a regular basis.

Impairment

- Productive biological assets that are subject to amortization, are tested for impairment in accordance with the guidance in Section 3063, *Impairment of Long-lived Assets*
- Productive biological assets not subject to amortization, are tested for impairment when events or circumstances indicate that the asset's carrying amount may not be recoverable.
- Productive biological assets that are managed on a collective basis are grouped for impairment testing purposes.
- The carrying amount of the asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal.
- An impairment loss shall be recognized when the carrying amount of a biological asset or group of biological assets is not recoverable and is greater than its fair value.
- The impairment loss is measured as the difference between carrying amount and fair value.
- An impairment loss shall not be reversed if fair value subsequently increases.

Held for Sale or Disposal

- When a productive biological asset is no longer being used in a productive capacity, the asset must be measured at the lower of its carrying amount and fair value less cost to sell until it is sold or disposed of other than by sale. Such an asset is no longer amortized.
- A loss shall be recognized for the initial and subsequent write-downs to fair value less cost to sell. Any gains due to subsequent increases in fair value less costs to sell, shall be recognized up to the cumulative loss previously recognized.
- Any gain or loss not previously recognized, that results from sale is recognized at the date of sale.

Presentation

- The amounts for agricultural inventories and productive biological assets must be presented as separate line items on the agricultural producer's balance sheet.

About BDO

BDO Canada LLP is a leading provider of professional services to clients across a variety of sectors and segments. For over 100 years, our team has served communities across Canada through a comprehensive range of assurance, tax, and consulting services, complemented by deep industry knowledge. With over 5000 people across 100 offices in Canada, and more than 1,800 offices in 164 countries, BDO is well-positioned to assist clients with both domestic and global needs.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO member Firms.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances.

BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it. BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

