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cutting through complexity

Cost accounting for bearer plants

Proposal for simpler accounting

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IN THE HEADLINES

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> Many companies and investors in Asia will welcome the proposal, because they see the current fair value accounting for bearer plants as being subject to too much uncertainty.

– Reinhard Klemmer
KPMG in Singapore

What's the issue?

Constituents have told the IASB that the fair value model is not appropriate for measuring bearer plants that are no longer undergoing biological transformation – e.g. grapevines or palm trees bearing fruit. They believe that the operation of these types of assets is more similar to self-constructed items of property, plant and equipment that will be used to produce an output.

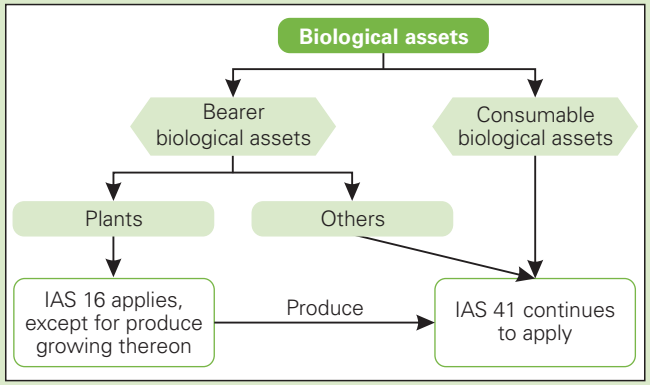
In response to these concerns, the IASB issued its exposure draft *Agriculture: Bearer Plants* (the ED) on 26 June 2013.

Proposal simplifies measurement of bearer plants

Under the proposal, bearer plants would be in the scope of IAS 16 *Property, Plant and Equipment*. Therefore, an entity could elect to measure bearer plants at cost. However, the produce growing on bearer plants would continue to be measured at fair value less costs to sell under IAS 41 *Agriculture*. A bearer plant is a plant that is: used in the supply of agricultural produce; expected to bear produce for more than one period; and not intended to be sold as a living plant or harvested as agricultural produce.

The proposal would be easy to apply and, based on input to the IASB from constituents, would result in information that investors would consider useful – especially in comparing production costs between companies.

How it works



Example

- Company P owns vineyards.
- The vine plants and grapes on the vines together have a fair value of 2,000.
- The historical cost of the vine plants is 700.
- The fair value of the grapes on the vine plants is 100.

Under existing guidance, P measures the vine plants and the grapes growing on them at their combined fair value of 2,000.

However, under the proposal, P would account for the vine plants and the grapes growing on them separately. In this example, the vine plants could be measured at their cost of 700, and the grapes would be measured at their fair value of 100.

> The proposal would simplify the measurement of bearer plants by permitting cost accounting – but future cash flow information would be needed for impairment testing.

– Egbert Eeftink
KPMG's global IFRS valuations and impairment leader

Cash flow estimates still important

Although the proposal withdraws mandatory fair value measurement, an entity would still need information about future cash flows to determine the recoverable amount for impairment testing when an indicator of impairment exists.

Transition

The ED does not propose an effective date, but indicates that early adoption would be allowed.

Under the proposal, an entity could elect to measure bearer plants at fair value as at the beginning of the earliest comparative reporting period. This would make adopting the proposal less burdensome – especially for entities with long-cycle bearer plants – because preparers would not be required to recalculate cost.

Comments are due to the IASB by 28 October 2013.

Next steps

For more information on the ED, please go to the IASB press release or speak to your usual KPMG contact.

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