INDAS – 41
AGRICULTURE

(TOTAL NO. OF QUESTIONS – 9)

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RTPs QUESTIONS

Q1 (RTP Nov.18 & MTP Oct.19)

As at 31st March, 2017, a plantation consists of 100 Pinus Radiata trees that were planted 10 years earlier. The tree takes 30 years to mature, and will ultimately be processed into building material for house or furniture. The enterprise's weighted average cost of capital is 6% p.a.

Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 logs to market) for a mature tree of the same grade as in the plantation is:

As at 31st March, 2017: 171

As at 31st March, 2018: 165

Assume that there would be immaterial cash flow between now and point of harvest. The present value factor of Rs 1 @ 6% for:

19^{th} year = 0.331

20^{th} year = 0.312

State the value of such plantation as on31st March, 2017 and 2018 and the gain or loss to be recognised as per Ind AS.

SOLUTION

As at 31st March, 2017:

the mature plantation would have been valued at 17,100 (171 x 100).

As at 31st March, 2018:

the mature plantation would have been valued at 16,500 (165 x 100).

Assuming immaterial cash flow between now and the point of harvest, the fair value (and therefore the amount reported as an asset on the statement of financial position) of the plantation is estimated as follows:

As at 31st March, 2017: 17,100 x 0.312 = 5,335.20.

As at 31st March, 2018: 16,500 x 0.331 = 5,461.50.

Gain or loss

The difference in fair value of the plantation between the two-year end dates is 126.30 (5,461.50 – 5,335.20), which will be reported as a gain in the statement or profit or loss (regardless of the fact that it has not yet been realised).

Q2 (RTP May.21)

Analyse whether the following activities fall within the scope of Ind AS 41 with proper reasoning:

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses
- Growing of plants to be used in the production of drugs
- Purchase of 25 dogs for security purpose of the company's premises.

Solution

Activity	Whether in the scope of Ind AS 41?	Remarks
Managing animal related-recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not fall in the purview of considered in the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological

		assets.
Development of living organisms such as cells, bacteria viruses	Analysis required	The development of living organism for research purposes does not qualify as agriculture activity, as those organisms are not being developed for scale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said purposes does not fall under the scope of Ind AS 41. However, if the organisms are being developed for sale or use in dairy products, the activity will be considered as agricultural activity under the scope of Ind AS 41
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.
Purchase of 25 dogs for security purposes of the company's Premises.	No	Ind AS 41 is applied to account for the biological assets when they relate to agricultural activity. Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41

Q3 (April.19 – 4 Marks)

A farmer owned a dairy herd of three years old cattle as at 1 st April, 20X1 with a fair value of Rs. 13,750 and the number of cattle in the herd was 250.

The fair value of three year cattle as at 31st March, 20X2 was Rs. 60 per cattle. The fair value of four year cattle as at 31st March, 20X2 is Rs. 75 per cattle.

Calculate the measurement of group of cattle as at 31st March, 20X2 stating price and physical change separately.

SOLUTION

Particulars	Amount (Rs.)
Fair value as at 1st April, 20X1	13,750
Increase due to Price change [250 x {60 - (13,750/250)}]	1,250
Increase due to Physical change [250 x {75-60}]	3,750
Fair value as at 31st March, 20X2	18,750

QUESTIONS FROM PAST EXAM PAPERS

Q4 (Nov.19 – 4 Marks)

Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1st April, 2018, the company has received a government grant for Rs 20 lakh subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus trees for specified period of five years and accordingly it recognizes proportionate grant for Rs 4 lakh in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Required:

Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

SOLUTION

Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that "Arun Ltd measures its Biological Asset at fair value less cost to sell":

(i) As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e., continuous plantation of eucalyptus tree for coming period of 5 years. In this case, the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.

(ii) However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for Rs 4 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that Arun Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant Rs 4 lakh (20 lakh/5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by Arun Ltd., then Ind AS 20 will be applicable

and not Ind AS 41.

Q5 (January 2021 – 4 Marks – Also added in New ICAI Module)

On 1st November, 20X1, C Agro Ltd. purchased 100 goats of special breed from a market for Rs 10,00,000 with a transaction cost of 2%. Goats fair value decreased from Rs 10,00,000 to Rs 9,00,000 as on 31st March, 20X2.

Determine the fair value on the date of purchase and as on financial year ended 31st March, 20X2 under both the cases viz-

i) the transaction costs are borne by the seller and

ii) the transaction costs are incurred by the seller and purchaser both.

Also pass journal entries under both the situations on both dates.

SOLUTION

As per para 12 of Ind AS 41, a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Therefore, regardless of who bears the transaction costs, the transaction costs of 2% are the costs to sell the goats on 1st November 20X1, and therefore, the goats should be measured at their fair value less costs to sell on initial recognition date, i.e., Rs 9,80,000.

Journal Entry

As on 1st November 20X1:

Where transaction costs are borne by the seller:

Biological assets (Goats) A/c	Dr.	9,80,000	
Loss on purchase of biological assets (Goats) A/c	Dr.	20,000	
To Bank A/c			10,00,000

Where transaction costs are borne by the buyer:

Biological assets (Goats) A/c	Dr.	9,80,000	
Loss on purchase of biological asset (Goats) A/c	Dr.	40,000	
To Bank A/c			10,20,000

As on 31 March 20X2 – under both the scenarios:

Loss on fair valuation of biological assets A/c	Dr.	98,000	
To Biological assets (Goats) A/c			98,000
[9,80,000 - (9,00,000 - 18,000)]			

Q6 (July.21 – 9 Marks)

Sewa Dairy Limited prepares financial statements on 31st March each year. On 1st April 2020 the Company carried out the following transactions:

- Purchased a land for Rs. 60 lakhs.
- Purchased 200 dairy cows (Average age at 1st April 2020 - 2 years) for Rs. 20 lakhs. Received a non-refundable grant of Rs. 10 lakhs towards the acquisition of the cows.

During the year ending 31st March 2021, the Company on its dairy cows incurred

Rs. 8.50 lakh to maintain their condition (food and protection) and Rs. 4.60 lakh as breeding fee to a local farmer.

On 1st October 2020,120 calves were born. There were no other changes in the number of animals during the year ended 31st March 2021. Sewa Dairy Limited had 3,200 liters of unsold milk in inventory as on 31st March 2021. The milk was sold on 1st and 2nd April· 2021 at market prices.

The information regarding fair values is as follows:

Items	Fair values less cost to sell		(All values in Rs.)
	1st April 2020	1st October 2020	31st March 2021
Land	60 Lakhs	70 Lakhs	80 Lakhs
New born calves (per calf)	2,000	2,300	2,500
6 months old calves (per calf)	2.,200	2;500	2,800
2 years old cow (per cow)	10,000	10,250	10,500
3 years old cow (per cow)	10,500	10,800	11,000
Milk per liter	25	27	30

Prepare extracts from the Balance Sheet (assuming land under cost method) and Statement of Profit and Loss that would be reflected in the financial statements of Sewa Dairy Limited for the year ended 31st March 2021. Discuss the relevant Ind AS in support of your workings.

Solution

Extract from the Statement of Profit and Loss of Sewa Diary Limited for the period ended on 31st March, 2021

		WN	Amount
Income			
Change in fair value of purchased dairy cow		WN 2	2,00,000
Government Grant		WN 3	10,00,000
Change in the fair value of newly born calves		WN 4	3,36,000
Fair Value of Milk		WN 5	96,000
Total Income	**(A)**		**16,32,000**
Expenses			
Maintenance Costs		WN 2	8,50,000
Breeding Fee		WN 2	4,60,000
Total Expense	**(B)**		**(13,10,000)**
Net Income	**(A-B)**		**3,22,000**

Extracts from Balance Sheet of Sewa Diary Limited As at 31st March, 2021

			Rs.
Property, Plant and Equipment:			
Land	WN 1		60,00,000
Biological assets other than bearer plants:			
Dairy Cow	WN 2	22,00,000	
Calves	WN 4	3,36,000	25,36,000

Inventory:			
Milk	WN 5		96,000

Working Notes:

1. Land: The purchase of the land is not covered by Ind AS 41. The relevant standard which would apply to this transaction is Ind AS 16. Under this standard, the land would initially be recorded at cost and depreciated over its useful economic life, which is usually considered to be infinite. Hence, no depreciation would be appropriate. Under Cost Model, no recognition would be made for post-acquisition changes in the value of land.
2. Dairy Cows: Under the 'fair value model' laid down in Ind AS 41 the mature cows would be recognised in the Balance Sheet at 31st March, 2021 at the fair value of 200 x Rs. 11,000 = Rs. 22,00,000.

Increase in price change 200 x (10,500 - 10,000) = 1,00,000

Increase in physical change 200 x (11,000 – 10,500) = 1,00,000

The total difference between the fair value of matured herd and its initial cost (Rs. 22,00,000 – Rs. 20,00,000 = a gain of Rs. 2,00,000) would be recognised in the profit and loss along with the maintenance cost and breeding fee of Rs. 8,50,000 and

Rs. 4,60,000 respectively.

3. Grant: Grant relating to agricultural activity is not subject to the normal requirement of Ind AS 20. Under Ind AS 41 such grants are credited to income as soon as they are unconditionally receivable rather than being recognised over the useful economic life of the herd. Therefore, Rs. 10,00,000 would be credited to income of the company.
4. Calves: They are a biological asset and the fair value model is applied. The breeding fee is charged to income and an asset of 120 x Rs. 2,800 = Rs. 3,36,000 recognised in the Balance sheet and credited to Profit and loss.
5. Milk: This is agricultural produce and initially recognised on the same basis as biological assets. Thus, the milk would be valued at 3,200 x Rs. 30 = Rs. 96,000. This is regarded as 'cost' for the future application of Ind AS 2 to the unsold milk.

NEWLY ADDED QUESTIONS IN ICAI MODULE FOR MAY 22 ONWARDS

Q7 (ICAI MODULE)

Entity A purchased cattle at an auction on 30th June 20X1

Purchase price at 30th June 20X1	Rs 1,00,000
Costs of transporting the cattle back to the entity's farm	Rs 1,000
Sales price of the cattle at 31st March, 20X2	Rs 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 20X2.

SOLUTION

Initial recognition of cattle

	Rs
Fair value less costs to sell (Rs 1,00,000 – Rs 1,000 - Rs 2,000)	97,000
Cash outflow (Rs 1,00,000 + Rs 1,000 + Rs 2,000)	1,03,000
Loss on initial recognition	6,000
Cattle Measurement at year end	
Fair value less costs to sell (Rs 1,10,000 – 1,000 – (2% x 1,10,000))	1,06,800

At 31st March, 20X2, the cattle is measured at fair value of Rs 1,09,000 less the estimated auctioneer's fee of Rs 2,200). The estimated transportation costs of getting the cattle to the auction of Rs 1,000 are deducted from the sales price in determining fair value.

Q8 (ICAI MODULE)

XY Ltd. is a farming entity where cows are milked on a daily basis. Milk is kept in cold storage immediately after milking and sold to retail distributors on a weekly basis. On 1 April 20X1, XY Ltd. had a herd of 500 cows which were all three years old.

During the year, some of the cows became sick and on 30 September 20X1, 20 cows died. On 1 October 20X1, XY Ltd. purchased 20 replacement cows from the market for ₹ 21,000 each. These 20 cows were all one year old when they were purchased.

On 31 March 20X2, XY Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk at 31 March 20X2 was ₹ 20 per litre. When selling the milk to distributors, XY Ltd. incurs selling costs of ₹ 1 per litre. These amounts did not change during March 20X2 and are not expected to change during April 20X2.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow (aged)				Costs to sell a cow
	1 year	1.5 years	3 years	4 years	
1st April 20X1	20,000	22,000	27,000	25,000	1,000

1st October 20X1	21,000	23,000	28,000	26,000	1,000
31st March 20X2	21,500	23,500	29,000	26,500	1,100

You can assume that fair value of a 3.5 years old cow on 1st October 20X1 is ₹ 27,000.

Pass necessary journal entries of above transactions with respect to cows in the financial statements of XY Ltd. for the year ended 31st March, 20X2? Also show the amount lying in inventory if any.

SOLUTION

Journal Entries on 1st October, 20X1

(All figures in ₹)

Loss (on death of 20 cows) (Refer W.N.)	Dr.	5,20,000	
To Biological asset			5,20,000
(Loss booked on death of 20 cows)			
Biological Asset (purchase of 20 new cows) (Refer W.N.)	Dr.	4,00,000	
Loss on initial recognition (of 20 new cows)	Dr.	20,000	
To Bank			4,20,000
(Initial recognition of 20 new purchased cows at fair value less costs to sell)			

Journal Entries on 31st March, 20X2

Loss on remeasurement of old cows	Dr.	2,88,000	
To Biological asset [(1,30,00,000 – 5,20,000) – 1,21,92,000]			2,88,000
(Subsequent measurement of cows at fair value less costs to sell)			
Biological Asset (4,48,000 – 4,00,000)	Dr.	48,000	
To Gain on remeasurement of new cows			48,000
(Subsequent measurement of cows at fair value less costs to sell)			

Inventory (Milk) as at 31st March, 20X2 = ₹ 19,000 [1,000 x (20 – 1)]

Working Note:

Calculation of Biological asset at various dates

Date	Number	Age	Fair Value (₹)	Cost to Sell (₹)	Net (₹)	Biological asset (₹)
1st April 20X1	500	3 years	27,000	1,000	26,000	1,30,00,000
1st October 20X1	(20)	3.5 years	27,000	1,000	26,000	(5,20,000)
1st October 20X1	20	1 year	21,000	1,000	20,000	4,00,000
						1,28,80,000
31st March 20X2	480	4 years	26,500	1,100	25,400	1,21,92,000
	20	1.5 years	23,500	1,100	22,400	4,48,000
						1,26,40,000

Q9 (ICAI MODULE)

Company X purchased 100 goats at an auction for ₹ 1,00,000 on 30 September 20X1. Subsequent transportation costs were ₹ 1,000 that is similar to the cost X would have to incur to sell the goat at the auction. Additionally, there would be a 2% selling fee on the market price of the goat to be incurred by the seller.

On 31 March 20X2, the market value of the goat in the most relevant market increases to ₹ 1,10,000. Transportation costs of ₹ 1,000 would have to be incurred by the seller to get the goat to the relevant market. An auctioneer's fee of 2% on the market price of the goat would be payable by the seller.

On 1 June 20X2, X sold 18 goats for ₹ 20,000 and incurred transportation charges of ₹ 150. In addition, there was a 2% auctioneer's fee on the market price of the goat paid by the seller.

On 15 September 20X2, the fair value of the remaining goat was₹82,820. 42 goats were slaughtered on that day, with a total slaughter cost of ₹ 4,200. The total market price of the carcasses on that day was ₹ 48,300, and the expected transportation cost to sell the carcasses is ₹ 420. No other costs are expected.

On 30 September 20X2, the market price of the remaining 40 goat was ₹ 44,800. The expected transportation cost is ₹ 400. Also, there would be a 2% auctioneer's fee on the market price of the goat payable by the seller.

Pass Journal entries so as to provide the initial and subsequent measurement for all above transactions. Interim reporting periods are of 30 September and 31 March and the company determines the fair values on these dates for reporting.

SOLUTION

Value of goat at initial recognition (30 September 20X1) **(All figures are in ₹)**

Biological asset (goat)	Dr.	97,000*	
Loss on initial recognition	Dr.	4,000	
To Bank (Purchase and cost of transportation)			1,01,000
(Initial recognition of goat at fair value less costs to sell)			

*Fair value of goat = 1,00,000 – 1,000 – 2,000 (2% of 1,00,000) = 97,000

Subsequent measurement at 31 March 20X2 **(All figures are in ₹)**

Biological Assets (Goat)	Dr.	9,800	
To Gain on Sale (Profit & Loss)			9,800
(Subsequent measurement of Goat at fair value less costs to sell(1,06,800** – 97,000))			

** Fair value of goat = 1,10,0000 – 1,000 – 2,200 (2% of 1,10,000) = 1,06,800

Sale of goat on 1 June 20X2 **(All figures are in ₹)**

Biological Assets (Goats)	Dr.	226	

To Gain on Sale (Profit & Loss)			226
(Subsequent re-measurement of 18 goats at fair value less costs to sell just prior to the point at which they are sold [19,450 - {(1,06,800/100) x 18}])			
Cost to Sales	Dr.	19,450	
To Biological Assets (Goats)			19,450
(Recording a cost of sales figure separately with a corresponding reduction in the value of the biological assets)			