

**INTERNATIONAL PUBLIC SECTOR  
ACCOUNTING STANDARDS**

**IPSAS 27—AGRICULTURE**

**IPSAS®**

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## IPSAS 27—AGRICULTURE

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## IPSAS 27—AGRICULTURE

### History of IPSAS

*This version includes amendments resulting from IPSASs issued up to January 31, 2018.*

IPSAS 27, *Agriculture* was issued in December 2009.

Since then, IPSAS 27 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)
- *Improvements to IPSASs 2011* (issued October 2011)

### Table of Amended Paragraphs in IPSAS 27

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	Improvements to IPSASs October 2011
2	Amended	Improvements to IPSASs April 2016
3	Amended	Improvements to IPSASs April 2016
5	Amended	Improvements to IPSASs April 2016
6	Amended	Improvements to IPSASs April 2016
7	Deleted	The Applicability of IPSASs April 2016
8	Deleted	The Applicability of IPSASs April 2016
9	Amended	Improvements to IPSASs April 2016

<b>Paragraph Affected</b>	<b>How Affected</b>	<b>Affected By</b>
9A	New	Improvements to IPSASs April 2016
9B	New	Improvements to IPSASs April 2016
9C	New	Improvements to IPSASs April 2016
13	Amended	Improvements to IPSASs April 2016
28	Amended	Improvements to IPSASs April 2016
34	Amended	Improvements to IPSASs April 2016
40	Amended	Improvements to IPSASs April 2016
48	Amended	Improvements to IPSASs April 2016 IPSAS 40 January 2017
55	Deleted	IPSAS 33 January 2015
56A	New	IPSAS 33 January 2015
56B	New	Improvements to IPSASs April 2016
56C	New	Improvements to IPSASs April 2016
56D	New	Improvements to IPSASs April 2016
56E	New	The Applicability of IPSASs April 2016
56F	New	IPSAS 40 January 2017
57	Amended	IPSAS 33 January 2015

## IPSAS 27—AGRICULTURE

### CONTENTS

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	Paragraph
Objective .....	1
Scope .....	2–8
Definitions .....	9–12
Agriculture-related Definitions .....	9–11
General Definitions .....	12
Recognition and Measurement .....	13–37
Gains and Losses .....	30–33
Inability to Measure Fair Value Reliably .....	34–37
Disclosure .....	38–54
General .....	38–51
Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably .....	52–54
Transitional Provision .....	55
Initial Adoption of Accrual Accounting .....	55
Effective Date .....	56–57
Appendix: Amendments to Other IPSASs	
Basis for Conclusions	
Illustrative Examples	
Comparison with IAS 41	

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International Public Sector Accounting Standard 27, *Agriculture* is set out in paragraphs 1–57. All the paragraphs have equal authority. IPSAS 27 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

1. The objective of this Standard is to prescribe the accounting treatment and disclosures for agricultural activity.

## Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard for the following when they relate to agricultural activity:**
  - (a) **Biological assets, except for bearer plants; and**
  - (b) **Agricultural produce at the point of harvest.**
3. This Standard does not apply to:
  - (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant, and Equipment*);
  - (b) Bearer plants related to agricultural activity (see IPSAS 17). However, this Standard applies to the produce on those bearer plants.
  - (c) Intangible assets related to agricultural activity (see IPSAS 31, *Intangible Assets*); and
  - (d) Biological assets held for the provision or supply of services.
4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, *Inventories* and IPSAS 17).
5. This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, IPSAS 12, or another applicable Standard, is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.
6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation forest	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil Palms	Picked fruit	Palm Oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IPSAS 17. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.		

7. [Deleted]

8. [Deleted]

## Definitions

### Agriculture-related Definitions

9. The following terms are used in this Standard with the meanings specified:

**Agricultural activity** is the management by an entity of the biological transformation and harvest of biological assets for:

- Sale;
- Distribution at no charge or for a nominal charge; or
- Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.

**Agricultural produce** is the harvested produce of the entity's biological assets.

A **bearer plant** is a living plant that:

- (a) **Is used in the production and supply of agricultural produce;**
- (b) **Is expected to bear produce for more than one period; and**
- (c) **Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.**

**A biological asset is a living animal or plant.**

**Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.**

**Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.**

**A group of biological assets is an aggregation of similar living animals or plants.**

**Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.**

- 9A. The following are not bearer plants:
- (a) Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
  - (b) Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated for their fruit and their lumber); and
  - (c) Annual crops (for example, maize and wheat).
- 9B. When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.
- 9C. Produce growing on bearer plants is a biological asset.
10. Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:
- (a) *Capability to change.* Living animals and plants are capable of biological transformation;
  - (b) *Management of change.* Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels,

moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

- (c) *Measurement of change.* The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.
11. Biological transformation results in the following types of outcomes:
- (a) Asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
  - (b) Production of agricultural produce such as latex, tea leaf, wool, and milk.

### General Definitions

12. **Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.**

### Recognition and Measurement

13. **An entity shall recognize a biological asset or agricultural produce when and only when:**
- (a) **The entity controls the asset as a result of past events;**
  - (b) **It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and**
  - (c) **The fair value or cost of the asset can be measured reliably<sup>1</sup>.**
14. The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge.

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<sup>1</sup> Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

15. In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits or service potential are normally assessed by measuring the significant physical attributes.
16. **A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably.**
17. **Where an entity acquires a biological asset through a non-exchange transaction, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**
18. **Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12, or another applicable Standard.**
19. The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.
20. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce in an exchange transaction may be an onerous contract, as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 applies to onerous contracts.
21. If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used.
22. If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:
  - (a) The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;

- (b) Market prices for similar assets with adjustment to reflect differences; and
  - (c) Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.
23. In some cases, the information sources listed in paragraph 22 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
24. In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined rate in determining fair value.
25. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market.
26. An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).
27. In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.
28. Cost may sometimes approximate fair value, particularly when:
- (a) Little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to reporting date or newly acquired livestock); or
  - (b) The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).

29. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to determine fair value for the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

### Gains and Losses

30. **A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises.**
31. A loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.
32. **A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises.**
33. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

### Inability to Measure Fair Value Reliably

34. **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available, and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell.**
35. The presumption in paragraph 34 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.
36. In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, IPSAS 17, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*.

## Disclosure

### General

38. **An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.**
39. **An entity shall provide a description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.**
40. Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets are animals and plants for one-time use, such as livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for lumber. Bearer biological assets are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity. Bearer biological assets are not agricultural produce but, rather, are held to bear produce. Examples of types of animals that are bearer biological assets include breeding stocks (including fish and poultry), livestock from which milk is produced, and sheep or other animals used for wool production. Examples of types of plants that are bearer biological assets include trees from which fruit is harvested, vines and shrubs cultivated for the harvest of fruits, nuts, sap, resin, bark and leaf products.
41. The disclosures required by paragraph 39 would take the form of a quantified description. The quantified description may be accompanied by a narrative description.
42. In making the disclosures required by paragraph 39, an entity is also encouraged to distinguish between mature and immature biological assets, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows and service potential. An entity discloses the basis for making any such distinctions.
43. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).

44. **If not disclosed elsewhere in information published with the financial statements, an entity shall describe:**
- (a) **The nature of its activities involving each group of biological assets; and**
  - (b) **Non-financial measures or estimates of the physical quantities of:**
    - (i) **Each group of the entity's biological assets at the end of the period; and**
    - (ii) **Output of agricultural produce during the period.**
45. **An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.**
46. **An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.**
47. **An entity shall disclose:**
- (a) **The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;**
  - (b) **The nature and extent of restrictions on the entity's use or capacity to sell biological assets;**
  - (c) **The amount of commitments for the development or acquisition of biological assets; and**
  - (d) **Financial risk management strategies related to agricultural activity.**
48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**
- (a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**
  - (b) **Increases due to purchases;**
  - (c) **Increases due to assets acquired through a non-exchange transaction;**
  - (d) **Decreases attributable to sales;**
  - (e) **Decreases due to distributions at no charge or for a nominal charge;**
  - (f) **Decreases due to harvest;**

- (g) **Increases resulting from public sector combinations;**
  - (h) **Net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and**
  - (i) **Other changes.**
49. The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in surplus or deficit due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).
50. Biological transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits or service potential. A change in fair value of a biological asset due to harvesting is also a physical change.
51. Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of revenue or expense, the nature and amount of that item are disclosed in accordance with IPSAS 1. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

**Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably**

52. **If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 34) at the end of the period, the entity shall disclose for such biological assets:**
- (a) **A description of the biological assets;**
  - (b) **An explanation of why fair value cannot be measured reliably;**
  - (c) **If possible, the range of estimates within which fair value is highly likely to lie;**
  - (d) **The depreciation method used;**
  - (e) **The useful lives or the depreciation rates used; and**

- (f) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.**

53. **If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 34), an entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation required by paragraph 48 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets:**

- (a) **Impairment losses;**
- (b) **Reversals of impairment losses; and**
- (c) **Depreciation.**

54. **If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:**

- (a) **A description of the biological assets;**
- (b) **An explanation of why fair value has become reliably measurable; and**
- (c) **The effect of the change.**

#### **Transitional Provision**

55. [Deleted]

#### **Effective Date**

56. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2011. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2011, it shall disclose that fact.**

56A. **Paragraphs 55 and 57 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

- 56B. Paragraphs 34 and 48 were amended by *Improvements to IPSASs 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.
- 56C. Paragraphs 2, 3, 5, 6, 9, 28 and 40 were amended and paragraphs 9A, 9B and 9C added by *Improvements to IPSASs 2015* issued in April 2016. An entity shall apply those amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 56D. In the reporting period when the amendments to IPSAS 17 and IPSAS 27 from part IV of *Improvements to IPSASs 2015* is first applied an entity need not disclose the quantitative information required by paragraph 33(f) of IPSAS 3 for the current period. However, an entity shall present the quantitative information required by paragraph 33(f) of IPSAS 3 for each prior period presented.
- 56E. Paragraphs 7 and 8 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.
- 56F. Paragraph 48 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall apply IPSAS 40 at the same time.
57. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

**Appendix**

**Amendments to Other IPSASs**

[Deleted]

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 27.*

### Introduction

- BC1. The IPSASB's IFRSs Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to develop accrual-based IPSASs that are convergent with IFRSs issued by the IASB where appropriate for public sector entities.
- BC2. Accrual-basis IPSASs that are converged with IFRSs maintain the requirements, structure, and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the *Comparison with IFRS* included in each IPSAS.

### Biological Assets Held for the Provision or Supply of Services

- BC3. The IPSASB acknowledged that in the public sector biological assets are often held for the provision or supply of services. Examples of such biological assets include horses and dogs used for policing purposes and plants and trees in parks and gardens operated for recreational purposes. The IPSASB concluded that such biological assets are not held for use in an agricultural activity because they are not routinely managed for the purpose of measuring and monitoring the change in quality or quantity brought about by biological transformation or harvest, as described in paragraph 10. In order to clarify that such biological assets are not dealt with in this Standard the IPSASB decided to include a scope exclusion in paragraph 3(c) stating that the Standard does not apply to biological assets held for the provision or supply of services. Paragraph 4 provides examples of such scope exclusions.

### Definition of Agricultural Activity

- BC4. In certain jurisdictions biological assets that are part of agricultural activity may be sold or distributed to other public sector entities, non-governmental organizations or other entities at no charge or for a nominal charge. While IAS 41, *Agriculture*, from which this Standard is drawn, deals with commercial agricultural activity, the IPSASB concluded that biological assets held for distribution at no charge or for a nominal charge should be within the definition of agricultural activity, because such transactions are common in the public sector. The IPSASB therefore modified the definition from that in IAS 41 to include references to biological assets held for distribution at no charge or for a nominal charge.

## Government Grants

BC5. IAS 41 specifies requirements and guidance for accounting for government grants related to biological assets that differ from the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 27 does not include requirements and guidance for government grants, because IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provides requirements and guidance related to government grants in non-exchange transactions. The IPSASB did not consider that accounting for government grants related to biological assets should vary from the requirements of IPSAS 23.

## Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

BC6. An entity may acquire a biological asset or agricultural produce in a non-exchange transaction. In accordance with this Standard, these assets would be measured at fair value less costs to sell. IPSAS 23 prescribes that assets acquired through a non-exchange transaction should be measured initially at fair value as at the date of acquisition. As a result of the different measurement requirements, the IPSASB considered the appropriate measurement basis for biological assets acquired in a non-exchange transaction.

BC7. The IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction. In particular, it considered the following three approaches:

- (a) Approach 1: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using IPSAS 23 (i.e., exclude all biological assets and agricultural produce acquired in a non-exchange transaction from the measurement requirements of this Standard);
- (b) Approach 2: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using this Standard (i.e., exclude all biological assets and agricultural produce from the measurement requirements of IPSAS 23); and
- (c) Approach 3: Use both IPSAS 23 and this Standard to measure biological assets and agricultural produce acquired in a non-exchange transaction.

BC8. The IPSASB rejected approach 1 because biological assets and agricultural produce acquired in exchange and non-exchange transactions would be measured differently. The IPSASB agreed that there is no reason to measure biological assets and agricultural produce acquired in a non-exchange transaction differently from those acquired in an exchange transaction because the assets are the same.

- BC9. In analyzing approach 3, the IPSASB considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. IPSAS 23.13 states that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." This implies that for other assets, an entity considers the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.
- BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity considers the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

### **Biological Assets and Agricultural Produce to be Distributed at No Charge or for a Nominal Charge**

- BC11. IAS 41 addresses only biological assets and agricultural produce that will be sold. In the public sector, such assets may be managed with the objective of distributing them at no charge or for a nominal charge. Some respondents to Exposure Draft 36, *Agriculture* expressed a view that a distinction should be made between the recognition and measurement of biological assets held for sale in an exchange transaction, and biological assets held for distribution at no charge or for a nominal charge. The principle was established in IPSAS 12, *Inventories*, that inventories held for distribution at no charge or for a nominal charge should be measured at the lower of cost and current replacement cost. Cost is not an available option in this Standard unless the exception in paragraph 34 applies. Current replacement cost is defined as the cost an entity would incur to acquire the asset at the reporting date, which is an approximation of fair value less costs to sell. Accordingly, the approach in Exposure Draft 36 was not changed.
- BC12. Some respondents to the Exposure Draft also questioned whether gains and losses arising from use of fair value measurement should be reported in the statement of financial performance during the transformation process. The IPSASB is of the view that the gains and losses arising from fair value measurement should be reported in the statement of financial performance because such reporting provides useful accountability information during the biological transformation process. Entities may decide to make additional disclosures to explain the impact of these reported fair value changes.

## Disclosure

- BC13. The IPSASB considered whether any further disclosures were justified to address public sector specific issues and added disclosure requirements to:
- (a) Distinguish between consumable and bearer biological assets. This distinction is necessary because the Government Finance Statistics (GFS) Manual 2001 (GFSM 2001) classifies consumable assets as inventory, while this Standard classifies them as biological assets. The distinction allows for a better reconciliation between an entity's financial statements prepared under IPSASs and statistical measures.
  - (b) Distinguish between biological assets held for sale and those held for distribution at no charge or for a nominal charge. The IPSASB believes this distinction is necessary to permit users to determine the unrealized gains and losses on biological assets held for distribution at no charge or for a nominal charge.
  - (c) Show biological assets acquired through non-exchange transactions and biological assets held for distribution at no charge or for a nominal charge in its reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. This disclosure is required to provide appropriate information about non-exchange transactions, which are included in the scope of this Standard.
  - (d) Disclose separately the changes in fair value less costs to sell as a result of non-exchange transactions for biological assets held for sale and for biological assets held for distribution at no charge or for a nominal charge. It is important that information is provided on the amount of gains and losses attributable to biological assets intended for distribution at no charge or for a nominal charge to assist users of financial statements in assessing the cost of government programs.
  - (e) Describe the nature and extent of restrictions imposed on the entity's use or capacity to sell biological assets, such as the total and restricted amounts of such assets. The IPSASB is of the view that such disclosure provides useful information about the entity's ability to sell agricultural produce at fair value, and thus about its measurement.

## Transitional Provisions

- BC14. IAS 41 does not contain transitional provisions for first-time adoption of the accrual basis of accounting. When issued, this Standard contained such provisions to assist entities in applying this Standard when first adopting the accrual basis of accounting. These provisions have since been replaced by the guidance in IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*.

**Revision of IPSAS 27 as a result of Part II of *Improvements to IPSASs 2015*: issues raised by stakeholders**

BC15. Stakeholders indicated that IPSASs referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, may only be appropriate for the public sector in certain circumstances, for the following reasons:

- (a) Sales of assets in the public sector may not be completed within one year because of the levels of approval required. This raises questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB notes that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB has concerns that not depreciating assets for an extended period of time may be inappropriate.
- (b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements may not provide relevant information for these transfers. However, the IPSASB recognizes that the measurement and disclosure requirements in IFRS 5 may be appropriate where sales are intended to take place at fair value.
- (c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements may not provide relevant information for public sector discontinued operations. However, the IPSASB recognizes that the disclosure requirements in IFRS 5 may be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference may result in entities following the requirements of IFRS 5 in circumstances where this may not be appropriate. The IPSASB noted that IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSASs. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

**Revision of IPSAS 27 as a result of IASB’s *Narrow Scope Amendments* issued in June 2014**

BC16. The IPSASB reviewed the revisions to IAS 41 included in the narrow scope amendments titled *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) issued by the IASB in June 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

**Revision of IPSAS 27 as a result of the IPSASB’s *The Applicability of IPSASs*, issued in April 2016**

BC17. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

- (a) Removes the standard paragraphs about the applicability of IPSASs to “public sector entities other than GBEs” from the scope section of each Standard;
- (b) Replaces the term “GBE” with the term “commercial public sector entities”, where appropriate; and
- (c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

## **Illustrative Examples**

*These examples accompany, but are not part of, IPSAS 27.*

Extracts from statements of financial performance and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform to all the disclosure and presentation requirements of other Standards.

The first example illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less costs to sell of an entity's biological assets into physical change and price change. That separation is reflected in the first example. The second example illustrates how to separate physical change and price change.

## Disclosure Requirements

### *Statement of Financial Position*

Entity XYZ	Notes	December 31, 20X8 Currency Unit (CU)	December 31, 20X7  CU
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		10,000	10,000
Receivables		88,000	65,000
Inventories		82,950	70,650
<b>Total current assets</b>		<b>180,950</b>	<b>145,650</b>
<b>Non-current assets</b>			
Bearer biological assets			
Dairy livestock – immature <sup>2</sup>		52,060	47,730
Dairy livestock – mature <sup>1</sup>		372,990	411,840
Subtotal – bearer biological assets	3	425,050	459,570
Property, plant and equipment		1,462,650	1,409,800
<b>Total non-current assets</b>		<b>1,887,700</b>	<b>1,869,370</b>
<b>Total assets</b>		<b>2,068,650</b>	<b>2,015,020</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables		122,628	150,020
<b>Total current liabilities</b>		<b>122,628</b>	<b>150,020</b>
<b>NET ASSETS/EQUITY</b>			
Contributed capital		1,000,000	1,000,000
Accumulated surplus		946,022	865,000
<b>Total net assets/equity</b>		<b>1,946,022</b>	<b>1,865,000</b>
<b>Total net assets/equity and liabilities</b>		<b>2,068,650</b>	<b>2,015,020</b>

<sup>2</sup> An entity is required to provide a description of biological assets that distinguishes between consumable and bearer biological assets and between those held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. An entity is also encouraged, but not required, to distinguish between mature and immature biological assets, as appropriate. An entity discloses the basis for making any such distinctions. This example shows the disclosure of bearer biological assets on the face of the statement of financial position. Information to meet other disclosure requirements is disclosed in the notes to the financial statements, as permitted.

*Statement of Financial Performance*

<b>Entity XYZ</b>	<b>Notes</b>	<b>CU</b> <b>Year ended</b> <b>December 31, 20X8</b>
Fair value of milk produced		518,240
Gains arising from changes in fair value less costs to sell of dairy livestock held for sale	3	39,930
		<b>558,170</b>
Inventories used		(137,523)
Staff costs		(127,283)
Depreciation expense		(15,250)
Other operating expenses		(197,092)
		<u>(477,148)</u>
<b>Surplus for the period</b>		<u><b>81,022</b></u>

*Statement of Changes in Net Assets/Equity*

	<b>Year ended December 31, 20X8</b>		
	<b>CU</b>	<b>CU</b>	<b>CU</b>
	<b>Contributed Capital</b>	<b>Accumulated Surplus</b>	<b>Total</b>
Balance at January 1, 20X8	1,000,000	865,000	<b>1,865,000</b>
Surplus for the period	<u>-</u>	<u>81,022</u>	<u><b>81,022</b></u>
<b>Balance at December 31, 20X8</b>	<u><b>1,000,000</b></u>	<u><b>946,022</b></u>	<u><b>1,946,022</b></u>

*Cash Flow Statement*<sup>3</sup>

Entity XYZ	Year ended December 31, 20X8
	CU
<b>Cash flows from operating activities</b>	
Cash receipts from sales of milk	498,027
Cash receipts from sales of livestock	97,913
Cash paid for supplies and to employees	(504,025)
Cash paid for purchases of livestock	(23,815)
<b>Net cash from operating activities</b>	<b>68,100</b>
<b>Cash flows from investing activities</b>	
Purchase of property, plant and equipment	(68,100)
<b>Net cash used in investing activities</b>	<b>(68,100)</b>
<b>Net increase in cash</b>	<b>0</b>
<b>Cash at beginning of the year</b>	<b>10,000</b>
<b>Cash at end of the year</b>	<b>10,000</b>

*Notes*

**1. Operations and Principal Activities**

Entity XYZ (“the Entity”) is engaged in milk production. At December 31, 20X8, the Entity held 419 cows able to produce milk (mature bearer assets) and 137 heifers being raised to produce milk in the future (immature bearer assets). The Entity produced 157,584kg of milk with a fair value less costs to sell of CU518,240 (the fair value of this agricultural produce is determined at the time of milking) in the year ended December 31, 20X8. The Entity does not own any consumable biological assets.

**2. Accounting Policies**

*Livestock and Milk*

Livestock are measured at their fair value less costs to sell. The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. Milk is initially measured at its fair value less costs to sell at the time of milking. The fair value of milk is determined based on market prices in the local area.

<sup>3</sup> This statement of cash flows reports cash flows from operating activities using the direct method. IPSAS 2, “Cash Flow Statements” requires that an entity reports cash flows from operating activities using either the direct method or the indirect method. IPSAS 2 encourages use of the direct method.

### 3. Biological Assets

	20X8
<b>Reconciliation of Carrying Amounts of Dairy Livestock</b>	<b>CU</b>
<b>Carrying amount at January 1, 20X8</b>	<b>459,570</b>
Increases due to purchases	26,250
Gain arising from changes in fair value less costs to sell attributable to physical changes <sup>4</sup>	15,350
Gain arising from changes in fair value less costs to sell attributable to price changes <sup>5</sup>	24,580
Decreases due to sales	(100,700)
<b>Carrying amount at December 31, 20X8</b>	<b>425,050</b>

### 4. Financial Risk Management Strategies

The Entity is exposed to financial risks arising from changes in milk prices. The Entity does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Entity reviews its outlook for milk prices regularly in considering the need for active financial risk management.

#### Physical Change and Price Change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of ten 2 year old animals was held at January 1, 20X8. One animal aged 2.5 years was purchased on July 1, 20X8 for CU108, and one animal was born on July 1, 20X8. No animals were sold or disposed of during the period. Per-unit fair values less costs to sell were as follows:

	CU	CU
2 year old animal at January 1, 20X8	100	
Newborn animal at July 1, 20X8	70	
2.5 year old animal at July 1, 20X8	108	
Newborn animal at December 31, 20X8	72	
0.5 year old animal at December 31, 20X8	80	
2 year old animal at December 31, 20X8	105	

<sup>4</sup> Separating the increase in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

<sup>5</sup> See Footnote 3.

AGRICULTURE

2.5 year old animal at December 31, 20X8	111	
3 year old animal at December 31, 20X8	120	
<hr/>		
Fair value less costs to sell of herd at January 1, 20X8 (10 x 100)		1,000
Purchase on July 1, 20X8 (1 x 108)		108
Increase in fair value less costs to sell due to price change		
10 × (105 – 100)	50	
1 × (111 – 108)	3	
1 × (72 – 70)	2	55
Increase in fair value less costs to sell due to physical change:		
10 × (120 – 105)	150	
1 × (120 – 111)	9	
1 × (80 – 72)	8	
1 × 70	70	237
Fair value less costs to sell of herd at December 31, 20X8		
11 × 120	1,320	
1 × 80	80	1,400

### **Comparison with IAS 41**

IPSAS 27, *Agriculture* is drawn primarily from IAS 41, *Agriculture* (2001), as amended up to December 31, 2008. The main differences between IPSAS 27 and IAS 41 are as follows:

- The definition of “agricultural activity” includes transactions for the distribution of biological assets at no charge or for a nominal charge. IAS 41 does not deal with such transactions.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard. IAS 41 does not include such a clarification.
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provides requirements and guidance related to government grants in non-exchange transactions.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.
- This Standard contains an additional disclosure requirement for biological assets for which the entity’s use or capacity to sell are subject to restrictions.
- This Standard contains a requirement to distinguish between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. IAS 41 encourages, but does not require, entities to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets, or between mature and immature biological assets, as appropriate.
- This Standard contains transitional provisions on the first-time adoption of accrual accounting. IAS 41 does not include such transitional provisions.
- IPSAS 27 uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms future economic benefits and service potential, surplus or deficit, and statement of financial performance in IPSAS 27. The equivalent terms in IAS 41 are future economic benefits, profit or loss, and statement of comprehensive income.

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