

# MPSAS 27: Agriculture

Sarawak State Government



# Agenda



## Day 1

Introduction

Accounting Principles

First Time Adoption of  
MPSAS

Presentation of Financial  
Statements

## Day 2

Property, Plant and  
Equipment

Intangible Assets

## Day 3

Inventories

Agriculture

Investment Properties

Prepayments

Impairment of Asset

## Day 4

Financial Instrument

## Day 5

Investments

Grants, Provisions and  
Contingencies

Commitments

## Day 6

Revenue

Construction Contract

Employee Benefits

Borrowing Cost

## Day 7

Public Private Partnership

Lease Accounting

## Day 8

Policies, Estimates &  
Errors

Events After Reporting

Related Party Disclosures

General Government  
Sector

Trust Accounts and Trust  
Fund



# Components & elements of financial statements

<b>COMPONENTS</b>		<b>MPSAS</b>	
1	Statement of Financial Position		MPSAS 1
2	Statement of Financial Performance		MPSAS 1
3	Statement of Changes in Net Assets/Equity		MPSAS 1
4	Cash Flow Statement		MPSAS 2
5	Statement of Budget Performance		MPSAS 24
6	<b>Notes to the Financial Statements</b>		<b>Various MPSAS</b>

- Financial statement is to be prepared in accordance with the accounting principles

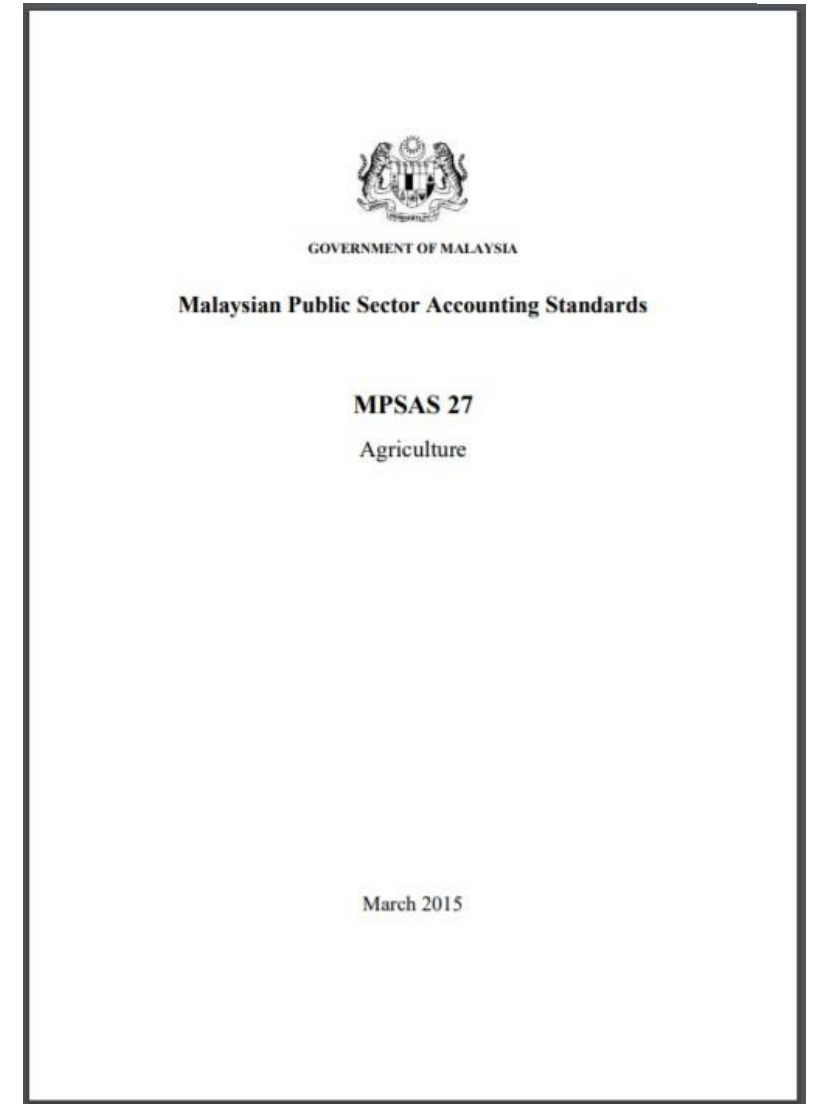
# MPSAS 27

## Agriculture

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.

**Effective Date : 1 January 2017**





# Definition

## Life asset categorisation

Biological assets relating to agricultural activity	Agricultural produce	Property, plant and equipment
<ul style="list-style-type: none"> <li>A biological asset is a living animal or plant.</li> <li>A biological transformation includes the processes of growth, degeneration, production and procreation that causes qualitative or quantitative change in a biological asset.</li> </ul>	<ul style="list-style-type: none"> <li>Agricultural produce is the harvested product of the entity's biological assets.</li> <li>A life asset shall be accounted for as inventory if it is:               <ul style="list-style-type: none"> <li>To be consumed or used as part of the operation of the State</li> <li>In the form of supplies to be consumed or distributed in the rendering of services</li> <li>In the process of production for sale or distribution.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Life assets are used in everyday operations that are not classified as agriculture activities.</li> <li>For life assets in which future benefits or service potential are obtained, these life assets shall be accounted for as property, plant and equipment.</li> </ul>
MPSAS 27 Agriculture	MPSAS 12 – Inventories	MPSAS 17 – PPE
Sheep, dairy cattle, bushes, vines and fruit trees.	Wool, felled trees, cotton, harvested cane, milk, carcass, picked fruit	Dogs belonging to the narcotic division of the police



State built a new park in Sarawak. It has stocked the park with a range of wild animals indigenous to Borneo, as well as exotic animals from other continents. The park offers customers guided safari-type tours.

Should the young of these animals be treated as biological asset or agriculture produce?

Biological asset

Agriculture Produce

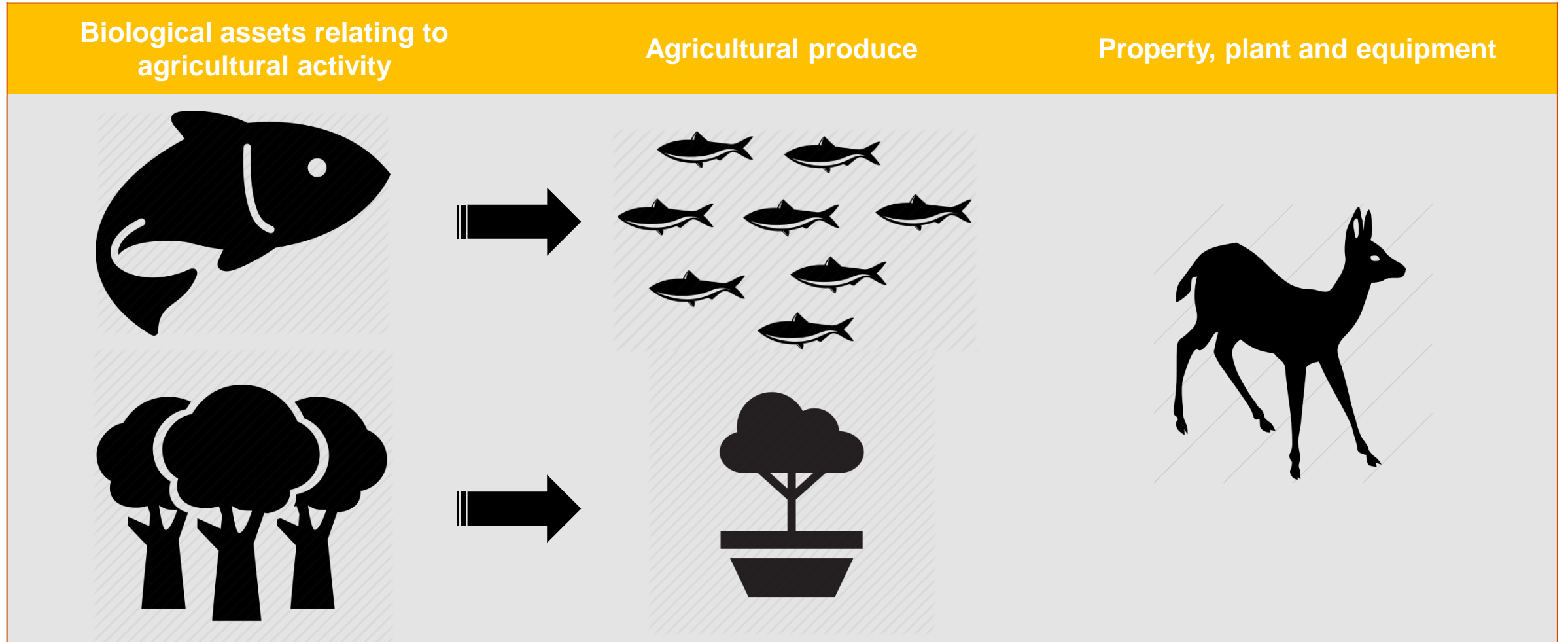
**Neither**

Similar to zoos, aquariums and other parks where animals are held mainly for recreational purposes rather than agricultural activity would not be within MPSAS 27. The breeding that takes place is incidental to the main activity of providing a recreational facility. It is likely that such animals should be accounted for as tangible assets in the scope of MPSAS 17



# Initial Recognition & Measurement

## Examples in Sarawak





# Initial Recognition & Measurement

Biological assets relating to agricultural activity	Agricultural produce	Property, plant and equipment
<ul style="list-style-type: none"> <li>Initially measured at fair value less (market selling price) costs to sell. If fair value cannot be measured reliably, the biological asset shall be measured at cost.</li> </ul>	<ul style="list-style-type: none"> <li>Initially recognised as inventory. It is measured at fair value less costs to sell, at the point of harvest.</li> </ul>	<ul style="list-style-type: none"> <li>Refer to PPE</li> </ul>
<ul style="list-style-type: none"> <li>A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Not Applicable</li> </ul>

Sale or distribution at no charge or nominal charge

*\*Costs to sell = The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.*

- Its assumed that FV can be measured reliability for a biological asset.
- 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.





# Recognition of biological asset and agriculture produce (animals)

## Illustrative Example (Scenario 1)

- The entity raises 5 calves as cattle and purchases 10 cattle at fair value of RM100 per cow during the financial year.
- The castles above have gone through biological transformation and their cumulative values increased from RM1,500 to RM1,800 (RM600 on non-exchange transaction and RM1,200 on exchange transaction).
- The following are the cattle's subsequent treatment:
  - a) The cattle obtained through non exchange transaction are slaughtered and ear marked for consumption during a festival.
  - b) Cattle purchased through exchange transaction are slaughtered at its abattoirs and the carcasses are to be sold at the local market.

1. How shall the entity record the journal entries for the cattles raised and purchased?
2. How shall the entity record the biological transformation of the cattle?
3. How shall the entity records the sales and consumptions of the cattle?



# Recognition of biological asset and agriculture produce (animals)

## Illustrative Example (Scenario 1)

### 1) To recognise the cattle as biological asset obtained through non exchange transaction (5 cattle raised)

The cattle are biological assets while they are living animals.

- For cattle raised by the entity, the entity is said to acquire the biological assets through non-exchange transaction.
- These cattle will be recognised at the fair value of biological assets of similar attributes that are acquired through exchange transactions.

There is a gain on initial recognition.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Biological asset	500
CR	Gain from biological transformation of biological asset	500



# Recognition of biological asset and agriculture produce (animals)

## Illustrative Example (Scenario 1)

### 2) To recognise the cattle as biological asset obtain through exchange transaction (10 cattle purchased)

The cattle are biological assets while they are living animals.

For cattle purchased by the entity, the entity is said to acquire the biological assets through exchange transaction. These cattle will be recognised at the fair value of the biological assets, which is generally the transacted amount.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Biological asset	1,000
CR	Cash	1,000



# Recognition of biological asset and agriculture produce (animals)

## Illustrative Example (Scenario 1)

### 3) To account for the biological transformation of the calves to cattle

Calves raised as cattle shall be measured at its fair value.

The additional cattle acquired through non exchange and exchange transaction under journals 1 and 2 above have gone through biological transformation and their cumulative values increased from RM1,500 to RM1,800 (RM600 on non-exchange transaction and RM1,200 on exchange transaction).

The increase in value amounting to RM300 is a gain on biological transformation.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Biological asset	300
CR	Gain from biological transformation of biological asset	300



# Recognition of biological asset and agriculture produce (animals)

## Illustrative Example (Scenario 1)

### 4) To transfer harvested biological assets to agriculture produce

When cattle are slaughtered, biological transformation ceases and the carcasses meet the definition of agricultural produce and are reclassified as inventory held for consumption or held for resale.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Inventories held for consumption/resale	1,800
CR	Biological asset	1,800



# Sale of agriculture produce classified as inventory held for resale

## Illustrative Example (Scenario 2)

- Following on from Scenario 1, the entity slaughters 10 of the cattle it acquires through exchange transaction at its abattoirs and sells the carcasses to the local market.



# Sale of agriculture produce classified as inventory held for resale

## Illustrative Example (Scenario 2)

### 1) To recognise sale of carcasses

Carcasses are eventually sold for RM1,800. Upon sale, the inventory held for resale is credited and cost of goods sold is debited.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Cost of goods sold	1,200
CR	Inventories held for resale	1,200

The revenue is recognised and a receivable is recorded.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Account receivable	1,800
CR	Revenue on sale of miscellaneous goods	1,800



# Consumption of agriculture produce classified as inventory held for consumption

## Illustrative Example (Scenario 3)

- Following on from Scenario 1, an entity ear marked for consumption the 5 cattle it raised at a festival.





# Consumption of agriculture produce classified as inventory held for consumption

## Illustrative Example (Scenario 3)

### 1) To record consumption of inventory

Cattles consumed during festival will not see an increase in value and will be expensed in current year's surplus or deficit. The inventory held for consumption is reduced accordingly.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Consumable expenses – animal	600
CR	Inventories held for consumption	600



# Recognition of agricultural produce after harvesting (plants)

## Illustrative Example (Scenario 4)

- An entity is involved in planting oil palm trees and harvesting oil palm fruits.
- On 31 March 2019, the entity harvests oil palm fruits from its oil palm trees. Its fair value less costs to sell amounted to RM500.
- In June, the oil palm fruits are sold at market price of RM600.

How shall the entity record the journal entries for the oil palm tree and the oil palm fruit?



# Recognition of agricultural produce after harvesting (plants)

## Illustrative Example (Scenario 4)

### 1) To record harvest of agriculture produce

The palm oil plants are bearer biological assets that continually generate oil. When the entity harvests the fruit, the palm oil plant continue to be living plants and continue to be recognised as biological assets after harvest. Hence, the entity should continue to account for the palm oil plants as a biological asset.



# Recognition of agricultural produce after harvesting (plants)

## Illustrative Example (Scenario 4)

### 1) To record harvest of agriculture produce

At the point of harvest, the harvested fruit should be recognised at fair value less costs to sell and treated as inventory. The gain arising from initial recognition of agricultural produce is credited as surplus for the period it is harvested. Since the harvested fruit is meant to be resold to the public and the entity does not manufacture oil products, the harvested fruit should be recognised as inventory held for resale.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Inventory held for resale	500
CR	Gain from biological transformation of biological asset	500



# Recognition of agricultural produce after harvesting (plants)

## Illustrative Example (Scenario 4)

### 2) To record sale of agricultural produce i.e. harvested fruits

Once fruit harvested is sold, the inventory is reduced and a charge to cost of goods sold arises.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Cost of goods sold	500
CR	Inventories held for resale	500

Revenue is also recognised upon sale and a receivable is created. Harvested fruit was eventually sold for RM600.

<b>DR/CR</b>	<b>Account description</b>	<b>Amount (RM)</b>
DR	Account receivable	600
CR	Revenue on sale of miscellaneous goods	600

# Subsequent Measurement



Biological assets relating to agricultural activity	Agricultural produce	Property, plant and equipment
<ul style="list-style-type: none"><li>• Biological assets is measured at fair value less costs to sell until disposal</li><li>• Any changes in fair value less cost to sell is included in surplus or deficit for the period in which it arises</li><li>• Where cost was used at initial recognition and the entity is still unable to measure fair value reliably, biological assets shall be measured at its cost less any accumulated depreciation and accumulated impairment losses</li></ul>	<ul style="list-style-type: none"><li>• Agricultural produce at point of harvest is measured at fair value less costs to sell.</li><li>• Any changes in fair value less cost to sell is included in surplus or deficit for the period in which it arises.</li></ul>	<ul style="list-style-type: none"><li>• Refer to PPE</li></ul>



# Disclosure requirements

Biological asset and agricultural produce are reported as assets

- 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.
- b) The nature of its activities involving each group of biological assets.
- c) Non-financial measures or estimates of the physical quantities of:
  - Each group of the entity's biological assets at the end of the period; and
  - Output of agricultural produce during the period
- d) 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.
- e) The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities
- f) The amount of commitments for the development or acquisition of biological assets.
- g) Financial risk management strategies related to agricultural activity.



# Disclosure requirements (cont'd)

Reconciliation changes in the carrying amount of biological assets between the beginning and year-end

	<b>Bearer Biological Assets</b>	<b>Consumable Biological Assets</b>
<b>Balance at the beginning of the year</b>	<b>xx</b>	<b>xx</b>
a) Gain/(Loss) from changes in FV less cost to sell	xx	xx
b) Increase due to purchase	xx	xx
c) Increase due to asset acquire through non-exchange transactions	xx	xx
d) (Decrease) due to distribution at no charge/nominal charge	(xx)	(xx)
e) (Decrease) due to harvest	(xx)	(xx)
f) Increase from entity combinations	xx	xx
g) Net exchange differences arising on the FOREX translation	xx	xx
h) Other changes	xx	xx
<b>Balance at the end of the year</b>	<b>xx</b>	<b>xx</b>





# Disclosure requirements (cont'd)

Reconciliation for biological assets measures at their cost less any accumulated depreciation and any accumulated impairment losses

	<b>Bearer Biological Assets</b>	<b>Consumable Biological Assets</b>
<b>Balance at the beginning of the year</b>	<b>xx</b>	<b>xx</b>
a) (Impairment losses) / Reversals of impairment losses / (Depreciation)	xx	xx
b) Increase due to purchase	xx	xx
c) Increase due to asset acquire through non-exchange transactions	xx	xx
d) (Decrease) due to distribution at no charge/nominal charge	(xx)	(xx)
e) (Decrease) due to harvest	(xx)	(xx)
f) Increase from entity combinations	xx	xx
g) Net exchange differences arising on the FOREX translation	xx	xx
h) Other changes	xx	xx
<b>Balance at the end of the year</b>	<b>xx</b>	<b>xx</b>



# Disclosure requirements (cont'd)

- 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 with biological assets;
  - b) An explanation of why fair value has become reliably measurable; and
  - c) The effect of the change.