

CHAPTER - 8

INDAS 41 - AGRICULTURE

Total No. of Questions: 15

SERIES	TOPIC NAME	PAGE. NO.
100	APPLICABILITY OF INDAS 41	8.2
200	MEASUREMENT	8.4
300	GOVERNMENT GRANTS	8.11

APPLICABILITY OF INDAS 41

Q.INDAS41.SM.101:

ABC Ltd grows vines, harvests the grapes and produces wine. Which of these activities are in the scope of IndAS 41?



SOLUTION

The grape vines are bearer plants that continually generate crops of grapes which are covered by Ind AS 16, Property, Plant and Equipment.

When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce covered by IndAS 41, Agriculture.

Wine involves a lengthy maturation period. This process is similar to the conversion of raw materials to a finished product rather than biological transformation hence treated as inventory in accordance with IndAS 2, Inventories.

Q.INDAS41.SM.102: (SIMILAR TO RTP May21 & MTP Nov22)

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 organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, 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.
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Q.INDAS41.RMP.103: (RTP Nov22)

ABC Ltd. is in the business of manufacturing an apple beverage and requires large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

- (1) Contract 1: The owner of the apple orchard (i.e., the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e., lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.
- (2) Contract 2: ABC Ltd. obtains the apple orchard from owner (i.e., the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Explain whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

SOLUTION

Paragraph 5 of Ind AS 41, Agriculture defines agricultural activity and biological transformation as follows:

“Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.”

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

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets, it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset, Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

Q.INDAS41.RMP.104: (RTP May23)

Fisheries Ltd. practices pisciculture in sweet waters (ponds, tanks and dams). The fishing activity of Fisheries Ltd. in such sweet waters consists only of catching the fishes. Comment whether such fishing activity will be covered within the scope of Ind AS 41?

SOLUTION:

Paragraph 5 of Ind AS 41, defines agricultural activity as follows:

“Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.”

For fishing to qualify as agricultural activity, it must satisfy both of the below mentioned conditions:

- a) management of biological transformation of a biological asset; and
- b) harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Therefore, when fishing involves managed activity to grow and procreate fishes in designated areas, such fishing is an agricultural activity as per the above definition. Managing the growth of fish for subsequent sale is an agricultural activity as per Ind AS 41.

In the aforementioned scenario, only fish harvesting is managed by Fisheries Ltd. Therefore, mere fish harvesting without management of biological transformation cannot be termed as an agricultural activity as per Ind AS 41.

Hence, fishing in sweet waters (pond, tanks and dams) where only fishing (harvesting) is carried out without any management of biological transformation is outside the scope of Ind AS 41.

MEASUREMENT**Q.INDAS41.SM.201: (SIMILAR TO MTP April19)**

A farmer owned a dairy herd, of three years old cattle as at April 1, 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 March 31, 20X2 was Rs. 60 per cattle. The fair value of four year cattle as at March 31, 20X2 is Rs. 75 per cattle.

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

**SOLUTION**

Particulars	Amount (Rs)
Fair value as at April 1, 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 March 31, 20X2	18,750

Q.INDAS41.SM.202:

XYZ Ltd, on 1 December 20X3, purchased 100 sheeps from a market for Rs. 500,000 with a transaction cost of 2%. Sheep's fair value increased from Rs. 500,000 to Rs. 600,000 on 31 March 20X4.

Determine the fair value on the date of purchase and pass necessary journal entries.

**SOLUTION**

The fair value less cost to sell of sheep's on the date of purchase would be Rs. 4,90,000 (5,00,000-10,000). Expense of Rs. 10,000 would be recognised in profit and loss.

On date of Purchase:

Biological Asset	Dr.	4,90,000	
Expense on Purchase	Dr.	10,000	
	To Bank		5,00,000

(Being biological asset purchased)

On 31 March 20X4 sheep's would be measured at Rs. 5,88,000 as Biological Asset (6,00,000-12,000) and gain of ₹ 98,000 (5,88,000-4,90,000) would be recognised in profit or loss.

At the end of reporting period

Biological Asset	Dr.	98,000	
	To Gain - Change in fair value		98,000

(Being change in fair value recognised at the end of reporting period)

Q.INDAS41.SM.203: (SIMILAR TO July21 EXAMS)

Moon Ltd prepares financial statements to 31st March each year. On 1 April 20X1 the company carried out the following transactions:

- Purchased a land for Rs.50 Lakhs.
- Purchased 200 dairy cows (average age at 1 April 20X1 two years) for Rs.10 Lakhs.
- Received a grant of Rs.1 million towards the acquisition of the cows. This grant was non-refundable.

For the year ending 31 March 20X2, the company has incurred following costs:

- Rs.6 Lakh to maintain the condition of the animals (food and protection).
- Rs.4 Lakh as breeding fee to a local farmer.

On 1 October 20X1, 100 calves were born. There were no other changes in the number of animals during the year ended 31 March 20X2. As of 31st March 20X2, Moon Ltd had 3,000 litres of unsold milk in inventory. The milk was sold shortly after the year end at market prices.

Information regarding fair values is as follows:

Item	Fair Value less cost to sell		
	1 April 20X1	1 October 20X1	31 March 20X2
	Rs.	Rs.	Rs.
Land	50 Lakhs	60 Lakhs	70 Lakhs



New born calves (per calf)	1,000	1,100	1,200
Six month old calves (per calf)	1,100	1,200	1,300
Two year old cows (per cow)	5,000	5,100	5,200
Three year old cows (per cow)	5,200	5,300	5,500
Milk (per litre)	20	22	24

Prepare extracts from the Balance Sheet and Statement of Profit & Loss that would be reflected in the financial statements of the entity for the year ended 31st March 20X2.

SOLUTION

Extract from the Statement of Profit & Loss

Income	WN	Amount
Change in fair value of purchased dairy cow	WN 2	1,00,000
Government Grant	WN 3	10,00,000
Change in the fair value of newly born calves	WN 4	1,30,000
Fair Value of Milk	WN 5	72,000
Total Income		13,02,000
Less: Expenses		
Maintenance Costs	WN 2	6,00,000
Breeding Fees	WN 2	4,00,000
Total Expense		(10,00,000)
Net Income		3,02,000

Extracts from Balance Sheet

Property, Plant and Equipment:		
Land	WN 1	50,00,000
Dairy Cow	WN 2	11,00,000
Calves	WN 4	1,30,000
		62,30,000
Inventory		
Milk	WN 5	72,000
		72,000

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. This would usually be considered to be infinite in the case of land and so no depreciation would be appropriate. Under Cost Model no recognition would be made for post-acquisition changes in the value of land. The allowed alternative treatment under Revaluation Model would permit the land to be revalued to market value with the revaluation surplus taken to the other comprehensive income. We have followed the Cost Model.

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 31 March 20X2 at the fair value of 200 x Rs. 5,500 = Rs. 11,00,000.

Increase in price change 200 x (5,200-5,000) = 40,000

Increase in physical change 200 x (5,500-5,200) = 60,000

The total difference between the fair value of matured herd and its initial cost (₹ 11,00,000 – ₹ 10,00,000 = a gain of ₹ 1,00,000) would be recognised in the profit and loss along with the maintenance costs and breeding fee of ₹ 6,00,000 and ₹ 4,00,000 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, ₹ 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 fees are charged to income and an asset of 100 x ₹ 1,300 = ₹ 1,30,000 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 $3,000 \times ₹ 24 = ₹ 72,000$. This is regarded as 'cost' for the future application of Ind AS 2 to the unsold milk.

Q.INDAS41.SM.204: (SIMILAR TO RTP Nov18 & MTP Oct19)

As at 31st March, 20X1, 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 houses 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, 20X1: 171

As at 31st March, 20X2: 165

Assume that there would be immaterial cash flow between now and point of harvest.

The present value factor of Rs. 1 @ 6% for

19th year = 0.331

20th year = 0.312

State the value of such plantation as on 31st March, 20X1 and 20X2 and the gain or loss to be recognised as per Ind AS.

SOLUTION

As at 31st March, 20X1:

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

As at 31st March, 20X2:

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, 20X1: $17,100 \times 0.312 = 5,335.20$.

As at 31st March, 20X2: $16,500 \times 0.331 = 5,461.50$.

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 of profit or loss (regardless of the fact that it has not yet been realised).

Q.INDAS41.SM.205:

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

Journal Entries on 31st March, 20X2

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

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

Working Note:**Calculation of Biological asset at various dates**

Date	Number	Age	Fair Value (₹)	Cost to Sell (₹)	Net (₹)	Biological Assets (₹)
1st April 20X1	500	3 Years	27,000	1000	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	26500	1100	25,400	1,21,92,000
	20	1.5 Years	23500	1100	22,400	4,48,000
						1,26,40,000

Q.INDAS41.SM.206:

Company X purchased 100 beef cattle 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 cattle at the auction. Additionally, there would be a 2% selling fee on the market price of the cattle to be incurred by the seller.



On 31 March 20X2, the market value of the cattle 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 cattle to the relevant market. An auctioneer's fee of 2% on the market price of the cattle would be payable by the seller.

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

On 15 September 20X2, the fair value of the remaining cattle was ₹ 82,820. 42 cattle 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 cattle was ₹ 44,800. The expected transportation cost is ₹ 400. Also, there would be a 2% auctioneer's fee on the market price of the cattle 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 cattle at initial recognition (30 September 20X1)****(All figures in ₹)**

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

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

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

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

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

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

Biological asset (cattle)	Dr.	226	
To Gain on Sale (Profit & Loss)			226
(Subsequent re-measurement of 18 Cattle 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 of Sales	Dr.	19,450	
To Biological asset (cattle)			19,450
(Recording a cost of sales figure separately with a corresponding reduction in the value of the biological assets)			
Bank	Dr.	19,450	
Selling expenses (150 + 400)	Dr.	550	
To Revenue			20,000
(Recognition of revenue from sale of cattle)			

Transfer of Cattle to Inventory on 15 September 20X2**(All figures in ₹)**

Inventory (48,300 - 420)	Dr.	47,880	
Loss on remeasurement	Dr.	1,176	
To Biological Asset (Cattle)			44,856*
To Bank (Slaughtering cost)			4,200
(Transfer of cattle to inventory)			

*Note: 44,856 is calculated as the proportion of cattle sold using the fair value (1,06,800 + 226 – 19,450) x 42/82)

Subsequent measurement of cattle at 30 September 20X2**(All figures in ₹)**

Loss on remeasurement	Dr.	18,440	
To Biological Asset (Cattle)			18,440
(Subsequent measurement of Cattle at fair value less costs to sell [43,504## – {(1,06,800 + 226 – 19,450) – 44,856}])			

##Fair value of cattle = 44,800 – 400 – 896 (2% of 44,800) = 43,504

Q.INDAS41.SM.207:

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

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

	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.

Q.INDAS41.SM.208: (SIMILAR TO Jan21 EXAMS)

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:

- (i) 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 |
- (ii) 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)]		

Q.INDAS41.RMP.209: (Nov22 EXAMS)

A herd of 15, 4-year-old cows valued at Rs. 500 thousand per cow were held in 'M Dairy Farm' as at 1st April, 2021. The following transactions took place on 1st October, 2021:

- (a) One cow aged 4.5 years was purchased for Rs. 520 thousand.
 (b) One calf was born.

No cow was sold or disposed off during the year.

The per cow/calf fair value less cost to sell was as follows:

	Rs. In thousands
4-year-old cow on 1 st April 2021	500
New born calf on 1 st October 2021	400
4.5 years old cow on 1 st October 2021	520
New born calf on 31 st March 2022	410
0.5-year-old calf on 31 st March 2022	440
4-year-old cow on 31 st March 2022	516
4.5-year-old cow on 31 st March 2022	540
5-year-old cow on 31 st March 2022	560

You are required to:

- (i) Calculate change in fair value less costs to sell showing:
 (a) The portion attributable to physical changes
 (b) The portion attributable to price changes.
- (ii) Calculate the carrying cost of the herd as on 31st March, 2022.
- (iii) Prepare an extract of the livestock account for the year ended 31st March, 2022.

Solve Here:

GOVERNMENT GRANTS

Q.INDAS41.SM.301:

Sun Ltd cultivated a huge plot of land. The government offers a grant of 10 crore under the condition that the land is being cultivated for 5 years. If the land will be cultivated for a shorter period, the entity is required to return the entire grant.

Therefore, the government grant will be recognised as income only after 5 years of cultivation. The situation would be different if the returning obligation referred to the years of not cultivating the land is with respect to retention of grant for the period till which the entity has cultivated the land. In this case, the amount of ₹ 10 crore would be recognised as income, proportionately with the time period, meaning ₹ 2 crore per annum.

Q.INDAS41.RMP.302: (Nov19 EXAMS)

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 trees 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 an 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 trees 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 trees for the 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 a 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:

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 a bearer plant by Arun Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

Student Notes:-

