Chapter 20

AGRICULTURE (IAS-41)

OBJECTIVE

The objective of this Standard is to prescribe the accounting treatment, financial statement presentation, and disclosures related to agricultural activity.

SCOPE

This Standard shall be applied to account for the following when they relate to agricultural activity:

(a) Biological assets;

(b) Agricultural produce at the point of harvest; and

(c) Government grants

This Standard does not apply to:

(a) Land related to agricultural activity (see IAS 16 Property, Plant and Equipment and IAS 40 Investment Property); and

(b) Intangible assets related to agricultural activity (see IAS 38 Intangible Assets).

This Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, IAS 2 Inventories or another applicable Standard is applied.

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 plantation forest	Logs	Lumber
Plants	Cotton	Thread, clothing
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

DEFINITIONS

Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

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

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.

AGRICULTURAL ACTIVITY

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 is measured and monitored as a routine management function.

BIOLOGICAL TRANSFORMATION

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, tealeaf, wool, and milk.

RECOGNITION AND MEASUREMENT

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 associated with the asset will flow to the entity; and

(c) The fair value or cost of the asset can be measured reliably.

- 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 are normally assessed by measuring the significant physical attributes.
- A biological asset shall be measured on initial recognition and at each statement of financial position date at its fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably.
- Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories or another applicable Standard. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.
- 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.

- 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 may be an onerous contract, as defined in IAS 37. IAS 37 applies to onerous contracts.
- If an active market exists for a biological asset or agricultural produce, 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.
- 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 statement of financial position 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.
- 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 pre-tax rate in determining fair value.

  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. The present condition of a biological asset excludes any increases in value from additional biological transformation and future activities of the entity, such as those related to enhancing the future biological transformation, harvesting, and selling.

  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).
- Cost may sometimes approximate fair value, particularly when:
  - (a) little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to a statement of financial position date); 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).

- 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**
  1. A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises.
  2. A loss may arise on initial recognition of a biological asset, because estimated point- of-sale costs are deducted in determining fair value less estimated point-of-sale costs of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.
  3. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in profit or loss for the period in which it arises.
  4. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.
- **Inability to Measure Fair Value Reliably**

  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 estimated point-of-sale costs.

  Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5, it is presumed that fair value can be measured reliably.

In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IAS 2 Inventories, IAS 16 Property, Plant and Equipment and IAS 36 Impairment of Assets.

Government Grants

An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs shall be recognized as income when, and only when, the government grant becomes receivable.

If a government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including where a government grant requires an entity not to engage in specified agricultural

activity, an entity shall recognize the government grant as income when, and only when, the conditions attaching to the government grant are met.
This Standard requires a different treatment from IAS 20, if a government grant relates to a biological asset measured at its fair value less estimated point-of-sale costs or a government grant requires an entity not to engage in specified agricultural activity. IAS 20 is applied only to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses.

DISCLOSURE

General

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 estimated point-of-sale costs of biological assets.

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

If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses 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.

Question No. 1

A herd of 10 animals 2 year old was held at 1 January 20X1. One animal aged 2.5 years was purchased on 1 July 20X1 for 108, and one animal was born on 1 July 20X1. No animals were sold or disposed of during the period. Per-unit fair values less estimated point-of-sale costs were as follows: -

	$
2 year old animal at 1 January 20X1	100
Newborn animal at 1 July 20X1	70
2.5 year old animal at 1 July 20X1	108
Newborn animal at 31 December 20X1	72
0.5 year old animal at 31 December 20X1	80
2 year old animal at 31 December 20X1	105
2.5 year old animal at 31 December 20X1	111
3 year old animal at 31 December 20X1	120

Required: -

Determine the change in fair value less point of sale expenses between the portion to physical changes and the portion attributable to price changes between the two dates mentioned above?

Question No. 2

As at December 31, 20X1, a plantation consists of 100 pine trees that were planted 10 years earlier. Pine take 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 quoted price in the active market. The fair value (inclusive of current transport cost 100 logs to market) for a mature tree of the same grade as in the plantation is: -

As at December 31, 20X1 $ 171

As at December 31, 20X2 $ 165

Required: -

Determine the change in fair value less point of sale expenses between the portion to physical changes and the portion attributable to price changes between the two dates mentioned above; and the value to be recognized in the balance sheet at December 31, 20X1 and 20X2?

Question No. 3

The Lucky Dairy, a public limited company, produces milk for supply to various customers. It is responsible for producing twenty five percent of the country's milk consumption. The company owns 150 farms and has a stock of 70,000 cows and 35,000 heifers which are being raised to produce milk in the future. The farms produces 2.5 million kilograms of milk per annum and normally holds an inventory of 50,000 kilograms of milk.

The herds comprise at May 31, 2002

70,000	3 year old cows (purchased on or before June 01, 2001
25,000	Heifers (average age 1.5 years old-purchased on December 01, 2001
10,000	Heifers (average age- 2 years-purchased 1 June 2001

There were no animals born or sold in the year. The per unit values less point of sale costs were as follows: -

	$
2 year old animal at 1 January 2001	50
One year old animal at June 01, 2001 and December 01, 2001	40
3 year old animal at May 31, 2002	60
1.5 year old animal at May 31 2002	46
2 year old animal at May 31 2002	55
1 year old animal at May 31 2002	42

The company has had a difficult year in the financial and operating terms. The cows had contracted a disease at the beginning of the financial year which had been passed on in the food chain to a small number of consumers. The publicity surrounding this event had caused a drop in the consumption of milk and as a result the dairy was holding 500,000 kilograms of milk in storage.

The Government had stated on April 01, 2002, that it was prepared to compensate farmers for the drop in the price and consumption of milk. An official letter was received on June 06, 2002, stating that $ 1.5 million will be paid to Lucky on August 01, 2002. Additionally on May 01, 2002, Lucky had received a letter from its Lawyers saying that legal proceedings had been initiated against the company by the persons affected by the disease. The company lawyer has advised them that they feel that it is probable that they will be found liable and that the costs involved may reach $ 2 million. The lawyer however feels that the company may receive additional compensation from a government fund if certain quality control procedures had been carried out by the company. However, the lawyer will only state that the compensation is possible.

The company's activities are controlled in three geographical locations, Dale, Shire and Ham. The only location affected by the disease was Dale and the government has decided that it is to restrict milk of that region significantly. Lucky estimates that the discounted future cash income from the present herds of cattle in the region amount to $ 1.2 million, taking into account the government restriction order. Lucky was not sure that the fair value of the cows in the region could be measured reliably at the date of purchase because of the problem with the diseased cattle. The cows in this region numbered 20,000 and the heifers numbered 10,000. All of the animals were purchased on June 01, 2001. Lucky had an offer of $ 1 million for all in the Dale region (net of point of sale expenses) and $ 2 million for the sale of the farms in the region. However, there was a minority of directors who opposed the planned sale and it was decided to defer the public announcement of sale pending the outcome of the possible receipt of the government compensation. The Board had decided that the potential sale plan was confidential but a national newspaper had published an article stating that the sale may occur and that there would be many people who would lose the employment. The Board approved the sale plan on May 31, 2002.

The directors of Lucky have approached you for professional advice on the above matters.

Required: -

Advise the directors on how the biological assets and produce of Lucky should be accounted for under IAS-41 and discussed the implications for the published financial statements of the above events.

INVESTMENT PROPERTY (IAS-40)

OBJECTIVE

The objective of this IAS is to prescribe the accounting treatment for investment property and related disclosure requirements.

SCOPE

This IAS does not deal with the following: -

- The biological assets related to agricultural activity
- Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative natural resources.

DEFINITIONS

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

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

The investment property is held to earn to rentals or for capital appreciation or both therefore, the investment property unlike owner's occupied property is capable to generate economic benefits independently from other assets held by the entity.

Owner-occupied properly is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

The following are examples of investment property:

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
- Land held for a currently undetermined future use. (If an entity has not determined that it will be use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation).
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating lease.
- A building that is vacant but is held to be leased out under one or more operating leases.

The following are examples of items that are not investment property and are therefore outside the scope of this Standard.

- Property intended for sale in the ordinary course of business or in the process of construction or development for such sale (IAS 2 Inventories), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
- Property being constructed or developed on behalf of third parties (IAS 11 Construction Contracts).
- Owner-occupied property (IAS 16), including property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
- Property that is leased to another entity under a finance lease.

Properties for Dual Purpose

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes.

If these portions could be sold separately or leased out separately under finance lease, an entity accounts for the portions separately.

If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purpose.

Inra-group Properties

If an entity owns property that is leased to and occupied by its parent or another subsidiary, the property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group.

However, from the perspective of the entity that owns it, the property is investment property if it meets the definition. Therefore, the lessor treats the property as investment property in its individual financial statements.

Investment Property and Ancillary Services

If an entity provides ancillary services to the occupants then the quantum of services should be determined if those are significant (Hotel) then the property will not be investment property. On the other side if the services are insignificant to the whole arrangement (security and maintenance) the property can be taken as investment property.

RECOGNITION

Investment property should be recognized as an asset when two conditions are met.

- It is probable that the future economic benefits that are associated with the investment property will flow to the enterprise.
- The cost of the investment property can be measured reliably.

MEASUREMENT

Initial measurement

An investment property should be measured initially at its cost, including transaction costs (professional for legal services, property transfer taxes and other transaction cost).

The cost of investment property will not include start up cost, operating losses or abnormal amount of wastages. If the payment for investment property is deferred beyond normal credit terms then the cost of the property is cash price.

Subsequent expenditure

This should be added to the carrying amount of the investment property when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing investment property will flow to the enterprise. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Measurement subsequent to initial recognition

IAS 40 requires an enterprise to choose between two models.

The fair value model; or

The cost model

Whatever accounting policy has been chosen that should be applied to all of investment properties except: -

An entity may choose cost or fair value model for all investment property

backing liabilities that pay return linked directly to the fair value of or returns from, specified asset including that investment property; and choose either the fair value model or the cost model for all other investment properties.
If the entity recognizes the assets under operating leases as investment properties the fair value model should only be used.

Fair value model

After initial recognition, an enterprise that chooses the fair value model should measure all of its investment property at fair value, except in the extremely rare cases where this cannot be measured reliably.
A gain or loss arising from a change in the fair value of an investment property should be included in net profit or loss for the period in which it arises.
The fair value of investment property should reflect the actual market state and circumstances as at the statement of financial position date, not at either a past or future date.

Cost model

After initial recognition an entity that chooses cost model shall measure all of its investment properties at cost less accumulated depreciated and less any accumulated impairment losses unless the asset is classified as held for sale under IFRS-5.

Changing models

Once the enterprise has chosen the fair value or cost model, it should apply it to all its investment property. It should not change from one model to the other unless the change will result in a more appropriate presentation. IAS 40 states that it is, however highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation

TRANSFERS

- When there is a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting under IAS 16 or IAS 2 should be its fair value at the date of change of use.
- Conversely, an owner-occupied property may become an investment property and need to be carried at fair value. An enterprise should apply IAS 16 up to the date of change of use. It should treat any difference at that date between the carrying amount of the property under IAS 16 and its fair value as a revaluation under IAS 16 or impairment loss under IAS-36.
- Similarly, an item of inventories may become an investment property and need to be carried at fair value. In such case any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net profit or loss for the period.
- `When an enterprise completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fait value of the property at that date and its previous carrying amount should be recognized in net profit or loss for the period.

DISPOSALS

De-recognize an investment property on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Any gain or loss on disposal is the difference between the net disposal proceeds and the carrying amount of the, asset. It should generally be recognized as income or expense in the income statement.
Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in profit or loss when the compensation becomes receivable.

Q-1

Gee Investment Company Limited (GICL) acquires properties and develops them for diversified purposes, i.e. resale, leasing and its own use. GICL applies the fair value model for investment properties and cost model for property, plant and equipment.

The details of the buildings owned are as follows:

Property	Date of acquisition	Useful life (years)	Cost	Residual value	Fair value as on 31 December 2011	Fair value as on 31 December 2010
			Rs. in million			
A	1 August 2006	20	130	14	100	150
B	1 January 2009	15	240	24	240	210
C	1 July 2009	10	160	20	150	120
D	1 July 2008	10	10	1	Not available	
E	1 August 2011	20	48	4	51	-

The following information is also available:

Property A GICL had been trying to sell this property for the last two years. However, due to weak market, the directors finally decided to lease it with effect from 1 October 2011 when its fair value was Rs. 120 million.

Property B The possession of this property was acquired from the tenants on 30 June 2010 when the company shifted its head office from Property C to Property B. The fair value on the above date was Rs. 195 million.

Property C When the head office was shifted from this property, it was leased to a subsidiary at market rate. On the date of lease, the fair value was equal to its carrying amount.

Property D This property is situated outside the main city and its fair value cannot be determined. It was rented to a government organization soon after the acquisition.

Property E This property is an office building comprising of three floors. After acquisition, two floors were rented out. On 1 November 2011, GICL established a branch office on the third floor.

Details of costs incurred on acquisition are as follows:

	Rs. in million
Purchase price	42.50
Agent's commission	0.50
Registration fees and taxes	2.00
Administrative costs allocated	3.00
	48.00

Required:

(a) Prepare a note on investment property, for inclusion in GICL's separate financial statements for the year ended 31 December 2011. ***(Ignore comparative figures)*** ***(16 marks)***

(b) Explain how Property C would be accounted for in the consolidated financial statements for the year ended 31 December 2011. ***(03 marks)***

A-1

(a)

Property		2011		
		Carried at cost	**Carried at fair value**	**Total**
		------------	--Rupees--	------------
D,C	Cost/ fair value as on 1 January 2011	10.00	120.00	130.00
	Accumulated depreciation *1	(2.25)	-	(2.25)
	Balance as on 1 January 2011	7.75	120.00	127.75
E	Additions during the year *2		30.00	30.00
A	Transferred from Inventory		120.00	120.00
D	Depreciation *3	(0.90)		(0.90)
	Fair value adjustment **(W-1)**		14.00	14.00
	Cost/fair value as on 31 December 2011	10.00	284.00	294.00
	Accumulated depreciation	(3.15)	-	(3.15)
	Balance as on 31 December 2011	6.85	284.00	290.85

1 : (Rs. 10m - Rs. 1m)/10 x 2.5

2 : (48 - 3) x 2/3

3 : (Rs. 10m - Rs. 1m)/10

6.1: Property B

Since property B was transferred to property plant and equipment on 30 June 2010, it will not be considered as investment property.

6.2: Property D

This property rented out to tenants is situated outside the main city and therefore fair value is not determinable. The building is being depreciated over a period of 10 years on straight line method.

W-1: Fair Value Adjustment	**Rs. in million**
Property A (120 - 100)	(20.00)
Property C (150 - 120)	30.00
Property E (51 x 2/3) - 30	4.00
	14.00

(b) Since the Property C is owned by GICL group and rented out to a subsidiary within the group, it is classified as Property, Plant and Equipment in consolidated financial statements, instead of Investment Property.

The value of Property C to be shown in Property, Plant and Equipment while preparing the consolidated financial statements, is Rs. 125 million (160 - {(160-20) x 10% x 2.5}.

OPERATING SEGMENTS (IFRS 8)

INTRODUCTION

On 30 November 2006, the International Accounting Standards Board issued IFRS 8 Operating Segments, which replaces IAS 14 Segment Reporting. IFRS 8 is mandatory for annual financial statements for periods beginning on or after 1 January 2009, although earlier application is permitted. Once IFRS 8 is effective, segment reporting under International Financial Reporting Standards and US Generally Accepted Accounting Principles will be converged except for some minor differences.

Identifying segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. IFRS 8 states that a component of an entity that sells primarily or exclusively to other operating segments of the entity will meet the definition of an operating segment if the entity is managed that way.

Measurement of segment information

The IFRS requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance.

Disclosure

Disclosures include information about how the entity identifies its operating segments and the types of products and services from which each segment derives its revenues.

Interest revenue and interest expense must be reported separately for each reportable segment, if the amounts are included in the measure of segment profit or loss, or are otherwise regularly reported to the chief operating decision maker, unless the majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue when making resource allocation decisions and to assess segment performance.

Core principle

IFRS 8's core principle is that an entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates. The Board does not elaborate on this core principle, but it is consistent with the Objective and Basic Principle in the US standard on this topic (SFAS 131 Disclosures about Segments of an Enterprise and Related Information),and with the broader objectives of financial reporting discussed in the IASB's Framework for the Preparation and Presentation of Financial Statements.

Scope

IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent):

- Whose debt or equity instruments are traded in a public market; or
- That files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.

However, when both separate and consolidated financial statements for the parent are presented in a single financial report, segment information need be presented only on the basis of the consolidated financial statements.

Operating segments

IFRS 8 defines an operating segment as follows.

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Not all operations of an entity will necessarily be an operating segment (nor part of one). For example, the corporate headquarters or some functional departments may not earn revenues or they may earn revenues that are only incidental to the activities of the entity. These would not be operating segments. In addition, IFRS 8 states specifically that an entity's post-retirement benefit plans are not operating segments.

Reportable segments

Aggregation Criteria

Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services;

(b) the nature of the production processes;

(c) the type or class of customer for their products and services;

(d) the methods used to distribute their products or provide their services; and

(e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds and aggregation

Segment information is required to be disclosed about any operating segment that meets any of the following quantitative thresholds:

- its reported revenue, from both external customers and inter segment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10 per cent or more of the combined assets of all operating segments. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

IFRS 8 has detailed guidance about when operating segments may be combined to create a reportable segment. This guidance is generally consistent with the aggregation criteria in IAS 14.

Disclosure

The disclosure principle in IFRS 8 is that an entity should disclose 'information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.'

In meeting this principle, an entity must disclose:

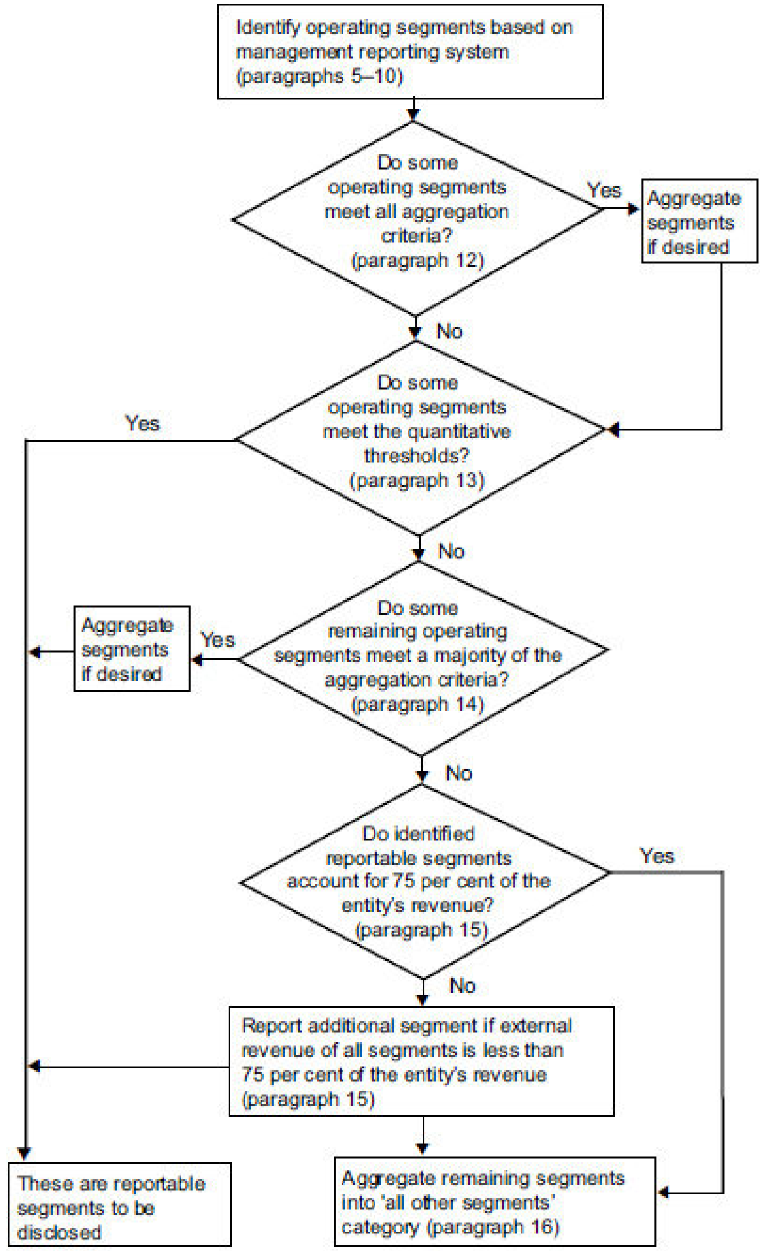
- General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;
- Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and
- Reconciliation of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements.

In addition, there are prescribed entity-wide disclosures that are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services.

Analyses of revenues and certain non-current assets by geographical area are required – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments. If the information necessary for these analyses is not available, and the cost to develop it would be excessive, that fact must be disclosed.

The Standard has also introduced a requirement to disclose information about transactions with major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of the entity's revenues, the total amount of revenue from each such customer and the segment or segments in which those revenues are reported must be disclosed. The entity need not disclose the identity of a major customer, nor the amount of revenues that each segment reports from that customer. For this purpose, a group of entities known to the reporting entity to be under common control will be considered a single customer, and a government and entities known to the reporting entity to be under the control of that government will considered to be a single customer.

Diagram for identifying reportable segments



Q-1

(a) Specify the criteria for identification of operating segments, in accordance with the International Financial Reporting Standards. ***(03 marks)***

(b) Jay Limited is an integrated manufacturing company with five operating segments. Following information pertains to the year ended 31 March 2012:

Operating segments	Internal revenue	External revenue	Total revenue	Profit / (loss)	Assets	Liabilities
	----------------------	----------------------	-Rs. in million-	----------------------	----------------------	----------------------
A	38	705	743	194	200	130
B	-	82	82	(22)	44	40
C	-	300	300	81	206	125
D	35	-	35	10	75	60
E	38	90	128	(63)	50	25
Total	**111**	**1,177**	**1,288**	**200**	**575**	**380**

Required:
In respect of each operating segment explain whether it is a reportable segment. ***(09 marks)***

A-1

(a)
- An operating segment is a component of an entity:
  - That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
  - Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess the performance; and
  - For which discrete financial information is available.

- A business activity which has yet to earn revenues, such as a start up, is an operating segment if it is separately reported on to the chief operating decision maker.

(b) As Jay Limited has both profit and loss making segments, the result of those in profit and those in loss must be totaled to see which is the greater:

Profits (194+81+10)	285
Losses (22+63)	(85)
	200

So the 10% of profit or loss test must be applied by reference to Rs. 285 million.

Segment	Reportable (Yes / No)	Explanation
A	Yes	Because it generates more than 10% of revenue.
B	No	Because it fails to meet any of the criteria specified in IFRS-8
C	Yes	Because it generates more than 10% of revenue.
D	Yes	Because it has more than 10% of assets.
E	Yes	Because its losses are more than 10% of absolute profit.

Check the 75% test is satisfied: (705+300+90)/1,177 = 93%

ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE (IAS –20)

Scope

This IAS shall be applied in accounting for and in the disclosure of government grants and in the disclosure of other forms of government assistance.

This IAS does not deal with: -

a) The special problems arising in accounting for GG in financial statements reflecting the effect of changing prices

b) Government assistance that is provided in the form of benefits that are available in determining taxable income or limited on the basis of tax liability;

c) Government participation in the ownership of the entity;

d) Government grants covered by IAS –41

Definitions

Government refers to government, government agencies and similar bodies whether local, national or international.

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity (subsidies, subvention, or premiums).

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired to held.

Grants related to income are government grants other than those related to assets.

Forgivable loans are loans, which the lender undertakes to waive repayment of under certain prescribed conditions.

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Recognition

Government grants including non-monetary grants at fair value, shall not be recognized until there is reasonable assurance that:

a) The entity will comply with the conditions attaching to them; and

b) The grants will be received

Government grants shall be recognized as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis.

They are two broad approaches to the accounting treatment of government grants, the capital approach and income approach. The IAS advocates income approach.
Income from government grants is recognized on accrual basis unless no basis existed for allocating the grant to periods other than, in which it is received.
Grants related to income are recognized over the period and matched with the related expenses and grants related to the assets are recognized over the useful life of the fixed assets in the proportion in which the depreciation on those assets is charged.
Grants related to non-depreciable assets are also recognized over the period, in which the related expenses are made. If grants are received as a package of financial or fiscal aids to which a number of conditions are attached then reasons giving rise to costs and expenses should be identified and it may be appropriate to allocate part of grant on one basis and part on another basis.
A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized as income of the period in which it becomes receivable.

Non-monetary grants

In this case the asset and the grant are recognized at the fair value. The other alternative may be to record the grant and the related asset at the nominal amount.

Loans at below or nil market interest rates

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Presentation of grants related to assets

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Presentation of grants related to income

These may be presented as income either separately or under the heading of other income or as deduction from the related expenses.

Repayment of government grants

A government grant that becomes repayable shall be accounted for as a revision to an accounting estimate (IAS –8). Repayment of a grant related to income shall be applied first against any un-amortized deferred credit and if repayment exceeds the deferred credit the rest will be recognized immediately as expense. Repayment of grants related to assets shall be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount payable. The cumulative additional depreciation that would have been recognized to date as an expense in the absence of the grant shall be recognized immediately as an expense.

Government assistance

The government grants not recognized because no value can be assigned to them or not distinguishable from the other transactions of the entity if material shall be disclosed.

Disclosure

The following matters shall be disclosed

a) the accounting policies adopted for government grants, including the method of presentation followed;

b) the nature and extent of government grants recognized in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

c) Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

Q.1

Being the financial consultant of Insha Chemicals Limited (ICL), a listed company, you have been approached to advise on certain accounting issues. Accordingly, you are required to explain how the following transactions should be disclosed in ICL's financial statements for the year ended June 30, 2009 in accordance with International Financial Reporting Standards:

ICL operates a factory in an underdeveloped rural area. Most of the employees in the factory have been hired locally. On observing the positive effects of the project, the government had approved a grant of Rs. 100 million for ICL, on February 1, 2009 for development of a similar factory in another underdeveloped area. However, it had been agreed that disbursement would be made in three phases. The relevant details are as follows:

Phases	Amount Rs. in million	Comments
Before commencement of the construction	10	No condition is attached to this phase of the grant and it was received on March 1, 2009.
During the construction of factory	40	Total cost of construction is estimated at Rs. 200 million. The construction was 30% complete, as of June 30, 2009. The estimated life of the property, plant and equipment is 15 years and it would be depreciated on the straight line basis.
When the factory becomes operational	50	It has been agreed that 400 local persons would be employed. The amount will be given in five equal annual installments. If employment drops below 400 at any time in any of the five subsequent years, no amount would be paid in that year.