

**Frequently Asked Question (FAQ)
ACCOUNTING FOR SUBSEQUENT EXPENDITURE ON
BIOLOGICAL ASSETS**

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Disclaimer

Please note that every effort has been made to ensure that the advice given in this frequently asked question is correct. Nevertheless, that advice is given purely as guidance to members of SAICA to assist them with particular problems relating to the subject matter of the frequently asked question, and SAICA will have no responsibility to any person for any claim of any nature whatsoever that may arise out of, or relate to, the contents of this frequently asked question.

Introduction

The purpose of this FAQ is to highlight the accounting treatment for subsequent expenditure on biological assets, measured at fair value less costs to sell within the scope of IAS 41 – *Agriculture* (IAS 41).

Question

Should subsequent expenditure on biological assets measured at fair value less cost to sell be capitalised or expensed when applying IAS 41 – Agriculture?

Answer

IAS 41 does not specify the accounting treatment for subsequent expenditure on biological assets measured at fair value less costs to sell.

The IFRS Interpretations Committee (the Committee) received a request to clarify the accounting treatment for subsequent expenditure on biological assets measured at fair value less costs to sell, applying IAS 41. The Committee was asked whether an entity capitalises or expenses subsequent expenditure when incurred. During September 2019, the Committee published an agenda decision to clarify the accounting treatment for subsequent expenditure on biological assets.

The Accounting Practices Committee would like to remind members of this agenda decision and the conclusion reached by the Committee as this is relevant in the South African context.

The Committee concluded that an entity either capitalises or expenses subsequent expenditure when incurred. The accounting treatment is therefore an accounting policy choice by the entity in terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Once an accounting policy choice has been made, the policy choice is applied to similar transactions, events and conditions.

The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on profit or loss before income taxes. The accounting policy choice affects the presentation of amounts in the statement of profit or loss.

[Download](#) the Committee's agenda decision for the detailed discussions.

The International Accounting Standards Board (IASB) staff paper entitled *Subsequent expenditure on biological assets (IAS 41), June 2019* ([staff paper](#)) illustrates the financial statement impact and the extract (with some adjustments) obtained from this staff paper is outlined below:

Example

Entity X has a biological asset measured at fair value less costs to sell (FVLCS) of CU200 as at 31 December 2017. During 2018, Entity X incurs expenditure of CU300 in growing the biological asset; the biological asset's FVLCS at 31 December 2018 is CU600.

The following tables illustrates the different outcomes of expensing or capitalising subsequent expenditure on the measurement of biological assets and profit or loss before income taxes:

Illustrative Example

	Expense Subsequent Expenditure		Capitalise Subsequent Expenditure	
	Biological Asset Debit / (Credit)	Profit or Loss before income taxes Debit / (Credit)	Biological Asset Debit / (Credit)	Profit or Loss before income taxes Debit / (Credit)
FVLCS, 31 December 2017	CU200		CU200	
Capitalise subsequent expenditure			CU300	
Expense subsequent expenditure		CU300		
Change in FV during the year	CU400	(CU400)	CU100	(CU100)
FVLCS, 31 December 2018	CU600		CU600	
Total effect on profit or loss before income taxes		(CU100)		(CU100)

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