AGRICULTURE IAS 41

IAS 14 provides for accounting for farming activities which is animal husbandry and crop growing for profit generation. The animal and the crop are known as biological assets.

- **Biological Assets** are living animal and plants as a result of agricultural activities.
- **Agricultural Activity** – This is the management by an entity of the biological transformation.
- **Agricultural produce** – This is the harvested product of entities biological asset.

Features of an agricultural activity

1. Capabilities of change – biological assets are capable of biological transformation
2. Management of change – Management facilitates biological transformation
3. Measurement of change.

Circumstances under which an entity should recognize a biological asset (Disclosure requirements)

1. The entity controls the asset as a result of past events.
2. It's probable that the future economic benefit associated with the asset will flow to the entity.
3. The asset value can be measured reliably.

Accounting treatment for a biological asset (Nov 2019 Q5a)

1. The Agricultural produce is measured at fair value less estimated cost to sell at point of harvest.
2. The gain on initial recognition of biological asset at fair value less cost to sell and changes in fair value less cost to sell is included in profit and loss
3. A gain on initial recognition of agricultural produce at fair value less cost to sell is included in profit or loss for the period.
4. All costs related to biological asset that are measured at fair value are recognized as expense when incurred other than cost to produce biological asset.

Special Transactions for Accounting for Agri Activities

1. Farm produce consumed by the farm owners.
   Dr: Drawings
   Cr: Sales
2. Labour services provided by the farm owner
   Dr: Expenses (wages)
   Cr: Drawings

3 labourer/workers paid in kind.

DR: Expenses } contra entry.
Cr: Sales

4. Inter-department transactions.

DR: purchases
Cr: Sales.

For economic evaluation purposes, each agricultural department prepares Farm Revenue account to determine the profit or loss for the period

=> There are 3 Agricultural departments,

- Crop department
- Livestock department.
- Poultry department

Farm Revenue Account

opening stock	xx	Closing stock.	xx
purchases	xx	Sales	xx
Expenses	xx		
profit/gain	xx	Loss	xx
	XX		XX

MAY 2012 Q4

4. Question Four MAY 2012 Q4

QUESTION FOUR

(a) Explain the circumstances under which an entity should recognise a biological asset on agricultural (in the context of International Accounting Standard (IAS) 41, Agriculture.

(b) The following balances were extracted from the books of Shamba Ltd. as at 31 March 2012:

		Sh.'000'
Mortgage from Rural Development Bank		36,000
Retained profits as at 1 April 2011		6,000
Ordinary share capital		163,200
Farm workers' wages		3,000
Manager's salary		3,600
Cash in hand		15,600
Receivables		18,000
Farm tools		1,500
Repairs to farm machinery		300
Staff welfare		600
Farmhouse expenses		720
Purchase of:	Seeds	2,400
	Livestock	6,000
	Fertilizer	1,500
	Livestock feeds	420
Wages:	Livestock	9,600
Expenses:	Crops	6,000
	Livestock	7,380
Administration expenses		2,400
Interest on mortgage		2,700
Inventories as at 1 April 2011:		
	Growing crops, seeds and fertilizers	12,000
	Livestock	15,000
	Livestock feeds	3,600
General insurance premium		2,880
Payables		9,000
Bank balance		1,800 (credit)
Sale of:	Crops	21,000
	Cattle	36,000
	Carcasses	9,000
Farm machinery		46,800
Land and building		120,000

Additional information:

1. Inventories as at 31 March 2012 were valued as follows:

	Sh.'000'
Growing crops, seeds and fertilizers	6,000
Livestock	24,000
Livestock feeds	600

2. Manager's salary is charged to livestock and crop revenue accounts in the ratio of 1:3 respectively.
3. Valuation of farm tools as at 31 March 2012 was Sh.1,200,000. Depreciation on farm machinery is to be provided at 20% per annum on book value. Depreciation and repairs on farm machinery are to be charged to the general income statement.
4. Insurance prepaid amounted to Sh.240,000 and is to be charged to the general income statement.
5. Manure worth Sh.180,000 was used in the farm while farm crops used to feed the livestock were valued at Sh.390,000.
6. Bad debts of Sh.300,000 are to be written off and an allowance for doubtful debts of 4% is to be provided.
7. Crops consumed by the farm workers were valued at Sh.600,000. This amount was recovered from their wages.
8. The shareholders provided farm labour valued at Sh.1,200,000 while crops valued at Sh.1,920,000 were donated to charity during the year.
9. Income tax expense of Sh.1,800,000 is to be provided.

Required:

i) Crop and livestock revenue account in columnar format, for the year ended 31 march 2012 (6 mks)

ii) General income statement for the year ended 31 march 2012 (5 mks)

iii) Statement of financial position as at 31 March 2012 (6 mks)

Solution:

Shamba ltd.

Revenue account for the year ended 31 march 2012

	Crop	Livestock		Crop	Livestock
opening stock	12000	15000	Closing stock	6000	24000
	–	3600			600
purchases	2400	6000	Sales	21000	36000
	1500	420		–	9000
Expenses	6000	7380	Sales	390	180
Managers salary 3600x3/4	2700	900	Contra (sales)	600	–
Donation (exp)	1920	–	Donation (sales)	1920	–
[illegible] contra [illegible]	600	–			
purchases	180	390			
profit/gain	2610	26490			
	29910	69780		29910	69780

ii) Shamba ltd.

Income statement for the year ended 31 March 2012

	Sh '000
Revenue – crop	2610
– livestock	26490
Expenses	
Farm workers wages	(3000)
Farm tool depreciation (1500-1200)	(300)
Depreciation of machinery 20% x 46800	(9360)
Repair to farm machinery.	(300)
Staff welfare	(600)
farm house expenses	(720)
Adm expenses	(2400)
Interest on mortgage	(2700)
General insurance (2880-240)	(2640)
Bad debt written off	(300)
provision for bad debt 4% (18000-300)	(708)
labour cost by shareholders	(1200)
profit before tax.	4872
tax expenses	(1800)
profit after tax.	3072

(II) Shamba ltd

Statement of financial position as at 31 March 2012

	Sh000
Assets	
Non-current Assets	
Farm machinery (46800-9360)	37440
Land & Building	120,000
Farm tools	1200
Current Assets	
Inventory stock	30600
Receivables (18000-300-708)	16992
prepaid - insurance	240
Cash in hand	15600
	222,072
Equity and Liabilities	
Ord share capital	163200
Retained profit (6000+3072+1200)	10272
Non-current liabilities	
Mortgage	36000
Current liabilities	
payables	9000
Bank overdraft	1800
Current tax	1800
	222072

Illustration Two (Handout)

The following trial balance was extracted from the books of Mkulima halisi, a farmer, as at 31 Dec 2016:

	Sh000	Sh000
Stock as at 1 Jan 2016.		
Seeds	30	
Growing Crops	100	
poultry feeds	20	
poultry	190	
Cattle feed	150	
Mature Crops	210	
Cattle fertilizer	102	
Cattle	480	
Purchases		
Cattle	1850	
poultry	620	
Cattle feed	780	
poultry feed	270	
fertilizer	410	
Seeds	340	
Sales		
Cattle		3450
Eggs		680
Crop		3240

Scanned by CamScanner

poultry		1160
milk		1180
wages		
Cattle	730	
poultry	390	
Crops	930	
Capital		4000
Creditors		510
Accrued expenses		80
Land	350	
farm house	2250	
farm machinery	880	
office furnitures	240	
Depreciation	380	
office salaries & wages	113	
office expenses	230	
Crop expenses	320	
Cattle expenses	468	
poultry expenses	285	
Debtors	462	
Bank and Cash balance	120	
Drawings	360	
Insurance	240	
	14300	14300

Additional information.

1. As at 31 Dec 2016, stock was valued as follows:

	sh000
Seeds	40
Growing crops	110
poultry feeds	25
poultry	145
Cattle feed	160
Mature Crops	240
Cattle	360
fertilizer	90

2. Depreciation expenses for the year is apportioned as follows:

	sh000
Crop activities	180
Livestock activities	90
poultry activities	50
General office	60
	380

3. During the year ended 31 Dec 2016, Mkulima Hodari took the following items for his domestic use:

	sh000
poultry	24
milk	48
Crop	68

Scanned by CamScanner

4. During the year ended 31 Dec 2016, the workers were paid in kind as shown below:

	Sh000
poultry	40
milk	85
crop	120

5. During the harvesting of crops, Mkulima hakusi provided labour services valued at sh 210,000 which were not accounted for in the books.
6. It was estimated that sh 12,000 of the debtor balance were bad debt and required writing off. Provision for doubtful debt at the rate of 4% of the remaining debtor was required.
7. Insurance premium was paid in January 2016 and was to cover 2 years upto 31 Dec 2017. The Insurance contract was to cover the loss of livestock.

Required:

a) Crop account (4 mks)
b) Livestock account (4 mks)
c) poultry account (4 mks)
d) General income statement for the year ended 31 Dec 2016 (4 mks)
e) Statement of financial position as at 31 Dec 2016 (4 mks)

Solution:

Crop Account

opening stock	seeds	30	Sales - crops		3240
	Growing crops	100	closing stock	- seeds	40
	Mature crops	210		- Growing crops	110
	Fertilizer	102		- Mature crops	240
Purchases	Fertilizer	410		- fertilizer	90
	Seed	340	Drawings		68
Wages		930	Contra		120
Crop expenses		320			
Depreciation		180			
Contra		120			
Labour service by owner		210			
profit		956			
		3908			3908

Livestock Account

opening stock	- cattle feed	150	Sales	- cattle	3450
	- cattle	480		- milk	1180
Purchases	- cattle	1850	closing stock	- cattle feed	160
	- cattle feed	780		- cattle	360
Wages	-	730	Drawing		48
cattle expenses		468	Contra		85
Depreciation		90			
contra		85			
Insurance		120			
profit		530			
		5283			5283

Poultry Account

opening stock - poultry feed	20	sales - Eggs	680
poultry	190	- poultry	1160
purchases - poultry	620	closing stock - feed	25
poultry feed	270	poultry	145
wages	390	Drawings	24
poultry expenses	285	Contra	40
Depreciation	50		
Contra	40		
profit	209		
	2074		2074

Mkulima Hulisi
Income statement
For the year ended 31 Dec 2016

	Sh000
Revenue - crop	956
- livestock	530
- poultry	209
Expenses	
Depreciation	(60)
office salaries & wages	(113)
office expenses	(230)
Bad debt	(12)
provision for bad debt 4% (462-12)	(18)
profit	1262

Mkulima Hulisi
statement of financial position
As at 31 Dec 2016.

Assets		Sh000
Non-current Assets		
Land		350
Farm house		2250
Farm Machinery		880
office furnitures		240
current Assets		
Inventory (note 1)		1170
Trade debtor 462-12-18		432
Bank and cash balance		120
Prepaid insurance		120
		5562
Capital and liabilities		
Capital balance b/d	4000	
add: profit	1262	
less: Drawings (360+140-210) (290) note 3, notes		4972
Liabilities		
Creditors		510
Accrued expenses		80
		5562