



ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

AGRICULTURE (GRAP 27)



Acknowledgement

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AGRICULTURE

This Standard was originally issued by the Accounting Standards Board (the Board) in May 2006. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP became effective:
 - GRAP 21 *Impairment of Non-cash-generating Assets*
 - GRAP 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*
 - GRAP 26 *Impairment of Cash-generating Assets*
- Improvements to the Standards of GRAP, issued by the Board in March 2012.
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- Consequential amendments when the following Standards of GRAP became effective:
 - GRAP 105 *Transfer of Functions Between Entities Under Common Control*
 - GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
 - GRAP 107 *Mergers*
- Improvements to the Standards of GRAP, issued by the Board in April 2017.
- Consequential amendments when the following Standard of GRAP became effective:
 - GRAP 110 *Living and Non-living Resources*



Introduction

This pronouncement is set out in paragraphs .01 to .58. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

- .01 The objective of this Standard is to prescribe the accounting treatment and disclosures for an agricultural activity.

Scope

- .02 ***An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to account for the following when they relate to agricultural activity:***
- (a) biological assets, except for bearer plants; and***
 - (b) agricultural produce at the point of harvest.***
- .03 This Standard does not apply to:
- (a) land related to agricultural activity (see the Standards of GRAP on *Investment Property* and *Property, Plant and Equipment* (GRAP 17));
 - (aA) bearer plants related to agricultural activity (see GRAP 17). However, this Standard applies to the produce on those bearer plants;
 - (b) intangible assets related to agricultural activity (see the Standard of GRAP on *Intangible Assets*);
 - (c) [Deleted];
 - (cA) living resources, other than those that are biological assets that are used in agricultural activities (see the Standard of GRAP on *Living and Non-living Resources* (GRAP 110)); and
 - (d) the initial recognition and initial measurement of agricultural activity acquired in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*), a transfer of functions between entities not under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*) or a merger (see the Standard of GRAP on *Mergers*).
- .04 Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph .07, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other Standards of GRAP should be considered in determining the appropriate accounting (e.g. the Standard of GRAP on *Inventories* (GRAP 12) and GRAP 17).
- .05 This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, only at the point of harvest. Thereafter, GRAP 12 or

GRAP 27

another applicable Standard of GRAP is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner that has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

- .06 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 timber plantation	Felled trees	Logs, Timber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products

Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of GRAP 17. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of this Standard.

Definitions

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

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for:

- (i) sale;
- (ii) distribution at no charge or for a nominal charge; or
- (iii) conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge.

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

A **bearer plant** is a living plant that:

- a) is used in the production or supply of agricultural produce;
- b) is expected to bear produce for more than one period; and
- c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

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.

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.

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.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

.07A The following are not bearer plants:

- (a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
- (b) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated for their fruit and their lumber); and

- (c) annual crops (for example, maize and wheat).
- .07B When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.
- .07C Produce growing on bearer plants is a biological asset.
- .08 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 stabilising, 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.
 - (c) *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.
- .09 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, tea leaf, wool, and milk.
- .10 The key feature that differentiates agricultural activities from other related activities is the entity's management of the biological transformation. A resource may be managed by government through the use of mechanisms such as licencing and quotas but does not of itself result in the activity being classified as an agricultural activity under this Standard.
- .10A Living resources as defined in GRAP 110 can meet the definition of a biological asset in this Standard, but should only be accounted for in terms of this Standard if the living resource will be used to undertake agricultural activities.

Recognition and measurement

- .11 An entity shall recognise 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 or service potential associated with the asset will flow to the entity; and**
 - (c) the fair value or cost of the asset can be measured reliably.**
- .12** The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to the market or to the location where it will be distributed at no charge or for a nominal charge.
- .13** 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 or service potential are normally assessed by measuring the significant physical attributes.
- .14 A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case described in paragraph .32 where the fair value cannot be measured reliably.**
- .15 Where an entity acquires a biological asset through a non-exchange transaction, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph .14.**
- .16 Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying GRAP 12 or another applicable Standard of GRAP.**
- .17** 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.
- .18** 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 the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19). GRAP 19 applies to onerous contracts.

- .19 If an active market exists for a biological asset or agricultural produce, in its present location and condition, 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.
- .20 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 reporting 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.
- .21 In some cases, the information sources listed in paragraph .20 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- .22 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 rate in determining fair value.
- .23 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. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market.
- .24 An entity does not include any cash flows for financing the assets, taxation (where applicable), or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).
- .25 In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.

- .26 Cost may sometimes approximate fair value, particularly when:
- (a) little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to reporting date or newly acquired livestock); 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).
- .27 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

- .28 ***A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises.***
- .29 A loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.
- .30 ***A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises.***
- .31 A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to measure fair value reliably

- .32 ***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 costs to sell.***
- .33 The presumption in paragraph .32 can be rebutted only on initial recognition. An

entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.

- .34 In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.
- .35 In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers GRAP 12, GRAP 17 and the Standards of GRAP on *Impairment of Non-cash-generating Assets* and *Impairment of Cash-generating Assets*.

Disclosure

General

- .36 ***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 costs to sell of biological assets.***
- .37 ***An entity shall provide a description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.***
- .38 Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution through a non-exchange transaction as biological assets. Examples of consumable biological assets are animals and plants for one-time use, such as livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for timber. Bearer biological assets are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity. Bearer biological assets are not agricultural produce but, rather, are held to bear produce. Examples of types of animals that are bearer biological assets include breeding stock (including fish and poultry), livestock from which milk is produced, and sheep or other animals used for wool production. Examples of types of plants that are bearer biological assets include trees from which fruit is harvested, vines and shrubs cultivated for the harvest of fruits, nuts, sap, resin, bark and leaf products.
- .39 The disclosures required by paragraph .37 would take the form of a quantified description. The quantified description may be accompanied by a narrative description.
- .40 In making the disclosures required by paragraph .37, an entity is also encouraged to distinguish between mature and immature biological assets, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows and service potential. An entity discloses the basis for making any such

distinctions.

- .41 Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets.)
- .42 ***If not disclosed elsewhere in information published with the financial statements, an entity shall describe:***
 - (a) the nature of its activities involving each group of biological assets; and***
 - (b) non-financial measures or estimates of the physical quantities of:***
 - (i) each group of the entity's biological assets at the end of the period; and***
 - (ii) output of agricultural produce during the period.***
- .43 ***An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.***
- .44 ***An entity shall disclose the fair value less costs to sell costs of agricultural produce harvested during the period, determined at the point of harvest.***
- .45 ***An entity shall disclose:***
 - (a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;***
 - (b) the nature and extent of restrictions on the entity's use or capacity to sell biological assets;***
 - (c) the amount of commitments for the development or acquisition of biological assets; and***
 - (d) financial risk management strategies related to agricultural activity.***
- .46 ***An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:***
 - (a) the gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;***
 - (b) increases due to purchases;***
 - (c) increase due to assets acquired through a non-exchange transaction;***
 - (d) decreases attributable to sales;***
 - (e) decrease due to distributions through a non-exchange transaction;***

- (f) *decreases due to harvest;*
- (g) *decreases resulting from a transfer of functions between entities under common control or a merger;*
- (h) *increases as a result of a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;*
- (i) *net exchange differences arising on the translation of financial statements into a different presentation currency, and on a translation of a foreign operation into the presentation currency of the entity; and*
- (j) *other changes.*

- .47 The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in surplus or deficit due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).
- .48 Biological transformation results in a number of types of physical change – growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits or service potential. A change in fair value of a biological asset due to harvesting is also a physical change.
- .49 Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of revenue or expense, the nature and amount of that item are disclosed in accordance with the Standard of GRAP on *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional disclosures for biological assets where fair value cannot be measured reliably

- .50 *If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses because the fair value for biological asset is not determinable (see paragraph .32) 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.*

.51 *If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph .32), an entity shall disclose any gain or loss recognised on disposal of such biological assets and the reconciliation required by paragraph .46 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets:*

- (a) *impairment losses;*
- (b) *reversals of impairment losses; and*
- (c) *depreciation.*

.52 *If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:*

- (a) *a description of the biological assets;*
- (b) *an explanation of why fair value has become reliably measurable; and*
- (c) *the effect of the change.*

Transitional provisions

Initial adoption of the Standards of GRAP

.53 *The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.*

Amendments to Standards of GRAP

.54 *Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the Improvements to the Standards of GRAP issued on 1 April 2012. An entity shall apply these amendments prospectively.*

.55 *Any other amendments to the Standards of GRAP shall be applied retrospectively in accordance with the Standards of GRAP on Accounting*

Policies, Changes in Estimates and Errors (GRAP 3).

.55A *The following paragraphs were amended by the Improvements to the Standards of GRAP issued in April 2017. These amendments are effective for annual periods beginning on or after 1 April 2018. An entity shall apply these amendments as follows:*

- (a)** *paragraphs .02, .03, .05, .06, .07, .07A, .07B, .07C, .26 and .38 shall be applied retrospectively in accordance with GRAP 3; and*
- (b)** *in the reporting period when these amendments are first applied an entity need not disclose the quantitative information required by paragraph .30(f) of GRAP 3 for the current period. However, an entity shall present the quantitative information required by paragraph .30(f) of that Standard for each prior period presented.*

Earlier application is encouraged. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Effective date

Initial adoption of the Standards of GRAP

.56 *An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*

Entities already applying Standards of GRAP

.57 [Deleted].

.57A *Paragraph .03 was amended and paragraph .10A was added by GRAP 110 issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.*

Withdrawal of the Standards of GRAP on Agriculture (2006)

.58 *This Standard supersedes the Standard of GRAP on Agriculture issued in 2006.*



GRAP 27

Comparison with the International Public Sector Accounting Standard on *Agriculture* (December 2009)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Agriculture* (IPSAS 27). The main differences between this Standard and IPSAS 27 are as follows:

- The scope of this Standard is different to IPSAS 27 in that Government Business Enterprises are defined differently.
- IPSAS 27 describes the residual value of total assets after deducting total liabilities as “net assets/equity” whereas this Standard refers to “net assets”.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 27.
- The Appendix to IPSAS 27 has not been included in this Standard as it is not relevant to the South African public sector.