Presentation and Disclosure requirements

Agriculture

April 2017

For private circulation only

Presentation and Disclosure requirements – Agriculture

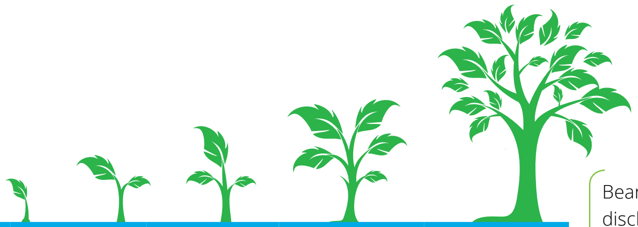
Presentation and disclosure requirements are driven by Schedule III of the Companies Act, 2013 and the relevant accounting standards. With the change in the accounting framework, changes were made to Schedule III. Consequently, there has been a fundamental change to the presentation and disclosure requirements in the financial statements. This publication aims to address the additional presentation and disclosure requirements for companies that are in the tea, coffee and rubber space.

Presentation

XYZ Limited

Balance Sheet as at March 31 2017

All amounts are in Rs. Lakhs unless otherwise stated



		Particulars	Note No.	As at March 31, 2017	As at March 31, 2016	As at April 01, 2015
A		Assets				
	1	**Non-Current Assets**				
		(a) Property, Plant and Equipment				
		(b) Capital work-in-progress				
		(c) Investment Property				
		(d) Goodwill				
		(e) Other Intangible assets				
		(f) Intangible assets under development				
		(g) Biological Assets other than bearer plants				
		(h) Financial Assets				
		(i) Investments				
		(ii) Trade receivables				
		(iii) Loans				
		(iv) Finance lease receivables				
		(v) Other financial assets				
		(i) Deferred tax assets (net)				
		(j) Other non-current assets				
		Total Non-Current Assets				
	2	**Current assets**				
		(a) Biological Assets other than bearer plants				
		(b) Inventories				
		(c) Financial Assets				
		(i) Other Investments				
		(ii) Trade receivables				
		(iii) Cash and cash equivalents				
		(iv) Bank balances other than (iii) above				
		(v) Loans				
		(vi) Finance lease receivables				
		(vii) Other financial assets				
		(d) Current Tax Assets (Net)				
		(e) Other current assets				
		Assets classified as held for sale				
		Total Current Assets				
		Total Assets (1+2)				
		See accompanying notes to the financial statements				

Bearer Plants to be disclosed as one of the blocks under Property, Plant and Equipment. (For eg: Tea bushes, coffee bushes, shade trees and so on)

To include:
(a) Produce growing on a plant that is yet to be harvested which requires more than 12 months from reporting date to be ready for harvest.
(b) Livestock held for breeding purposes only, with a remote likelihood that it will ever be sold.
(c) Trees cultivated both for their lumber and their fruit (For eg: Rubber trees are grown for both the latex and also their wood)

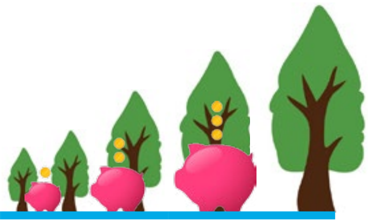
To include:
(a) Produce growing on a plant that is yet to be harvested which requires less than 12 months from reporting date to be ready for harvest (for eg: Tea leaves, coffee seeds).
(b) Livestock held for slaughter purposes
(c) Annual crops such as rice, maize and wheat

To include inventories that are produced from the agricultural produce (for eg: Black tea or made tea produced from tea leaves)

Particulars	Note No.	As at March 31, 2017	As at March 31, 2016	As at April 01, 2015
B **Equity and Liabilities**				
1 **Equity**				
(a) Equity Share capital				
(b) Convertible non-participating preference share capital				
(c) Other Equity				
Total Equity				
Liabilities				
2 **Non-current liabilities**				
(a) Financial Liabilities				
(i) Borrowings				
(ii) Trade payables				
(iii) Other financial liabilities				
(b) Provisions				
(c) Deferred tax liabilities (Net)				
(d) Other non-current liabilities				
Total Non - Current Liabilities				
3 **Current liabilities**				
(a) Financial Liabilities				
(i) Borrowings				
(ii) Trade payables				
(iii) Other financial liabilities				
(b) Provisions				
(c) Current Tax Liabilities (Net)				
(d) Other current liabilities				
Liabilities directly associated with assets held for sale				
Total Current Liabilities				
Total Liabilities (2+3)				
Total Equity and Liabilities (1+2+3)				
See accompanying notes to the financial statements				

Non- current portion of deferred Government Grant in relation to below to be disclosed under this:
(a) Bearer Plants
(b) Biological Asset (where the biological asset is measured at its cost less any accumulated depreciation and any impairment loss)

Current portion of deferred Government Grant in relation to below to be disclosed under this:
(a) Bearer Plants
(b) Biological Asset (where the biological asset is measured at its cost less any accumulated depreciation and any impairment loss)



XYZ Limited

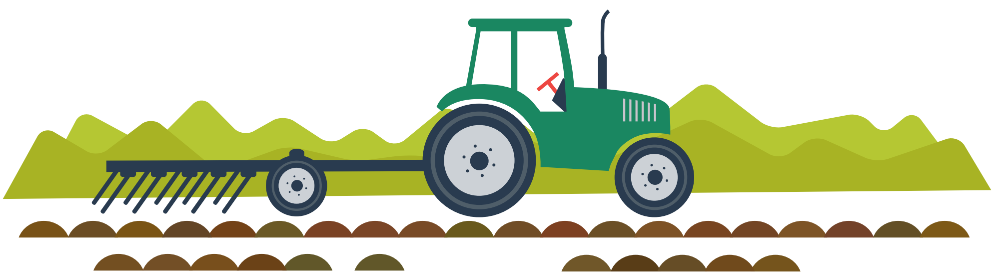
Statement of Profit and Loss for the period ended March 31, 2017

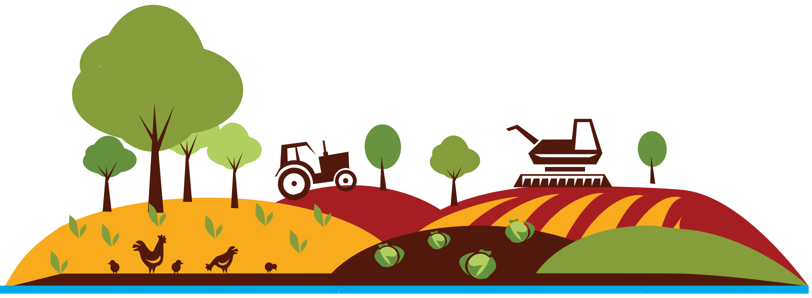
All amounts are in Rs. Lakhs except for earnings per share information

	Particulars	Note No.	For the year ended March 31, 2017	For the year ended March 31, 2016
I	Revenue from operations			
II	**Other Income**			
III	**Total Revenue (I + II)**			
IV	**Expenses**			
	(a) Cost of materials consumed			
	(b) Purchases of Stock-in-trade			
	(c) Changes in stock of finished goods, work-in-progress and stock-in-trade			
	(d) Excise duty on sale of goods			
	(e) Employee benefit expense			
	(f) Finance costs			
	(g) Depreciation and amortisation expense			
	(h) Impairment loss on financial assets			
	(i) Reversal of impairment on financial assets			
	(j) Rectification costs			
	(k) Other expenses			
	Total Expenses (IV)			
V	**Profit before tax (III-IV)**			
VI	**Tax Expense**			
	(1) Current tax			
	(2) Deferred tax			
	Total tax expense			
VII	**Profit for the period from continuing operations (V-VI)**			
VIII	Profit from discontinued operations before tax			
IX	Tax expense of discontinued operations			
X	**Profit from discontinued operations (after tax) (VIII-IX)**			
XI	**Profit for the period (VII+X)**			

To include:
(a) Government Grant income related to bearer plants / biological assets.
(b) Change in fair value of biological assets / agricultural produce (gain / loss)

Depreciation related to bearer plants to be disclosed under this line item





Particulars		Note No.	For the year ended March 31, 2017	For the year ended March 31, 2016
	Other comprehensive income			
	A (i) Items that will not be recycled to profit or loss			
	(a) Changes in revaluation surplus (b) Remeasurements of the defined benefit plans (c) Equity instruments through other comprehensive income d) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss (e) Others (specify nature)			
	(ii) Income tax relating to items that will not be reclassified to profit or loss			
	B (i) Items that may be reclassified to profit or loss			
	(a) Exchange differences in translating the financial statements of foreign operations (b) Debt instruments through other comprehensive income (c) Effective portion of gains and loss on designated portion of hedging instruments in a cash flow hedge (d) Fair value gain / (loss) on time value of option and forward elements of forward contracts in hedging relationship (e) Others (specify nature)			
	(ii) Income tax on items that may be reclassified to profit or loss			
XII	**Total other comprehensive income (A(i-ii)+B(i-ii))**			
XIII	**Total comprehensive income for the period (XI+XII)**			
XIV	**Earnings per equity share (for continuing operations):**			
	(1) Basic in Rs. (2) Diluted in Rs.			
XV	**Earnings per equity share (for discontinued operations):**			
	(1) Basic in Rs. (2) Diluted in Rs.			
XVI	**Earnings per equity share (for discontinued and continuing operations):**			
	(1) Basic in Rs. (2) Diluted in Rs.			

Our earlier publications dealt with the recognition and measurement requirements of Ind AS for bearer plants, biological assets, agricultural produce, inventory and government grants. The following table is a recap of the elements of tea, coffee and rubber and how they are classified in the financial statements.

	Particulars	Classification
	Tea bushes / coffee bushes	Bearer plants
	Unharvested tea leaves on the bushes / coffee seeds on the coffee plants	Biological assets
	Rubber trees	Biological assets
	Made tea / processed coffee seeds / processed latex	Inventory

An illustration of disclosures covering the elements stated in the table are provided herewith.

Disclosures

A. Accounting Policies

01. Bearer plants

Bearer plants comprising of mature tea bushes / coffee bushes and shade trees[1] are stated at cost less accumulated depreciation and accumulated impairment losses.

Immature crops, including the cost incurred for procurement of new seeds[2] and maintenance of nurseries, are carried at cost less any recognized impairment losses under capital work-in-progress. Cost includes the cost of land preparation, new planting, fertilizing, maintenance of newly planted bushes for a period of four years[3] until maturity. On maturity (i.e; when the bearer plants are ready for their intended use), these costs are classified under bearer plants. Depreciation of bearer plants commence when they are ready for their intended use.

Costs incurred for infilling including block infilling are generally recognized in the Statement of Profit and Loss unless there is a significant increase in the yield of the sections, in which case such costs are capitalized and depreciated over the remaining useful life of the respective fields.

Depreciation on bearer plants is recognised so as to write off its cost less residual values over useful lives[4], using the straight-line[5] method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Estimated useful lives of the bearer plants has been determined to be 30 - 40[6] years.

On transition to Ind AS, the Company has elected to measure bearer plants at fair value[7] as of April 1, 2015 (transition date) and use the fair value as deemed cost.

[1] Generally applies to tea and coffee
[2] As applicable
[3] Will change depending upon the nature of the crop and other geographical conditions. Determination of point of maturity requires application of judgement. For example, a tea bush may start to yield produce after three years, but reaches optimum yield generally after four years, which is when the bearer plant is capitalised.
[4] Judgement is required to determine the useful life of the bearer plants, which are driven by the location of the estates, environmental conditions, level of upkeep and maintenance, amongst other factors. Trends in replanting would also assist in determination of useful life.
[5] Will change depending on the method determined relevant by the company
[6] Will change depending upon the crop - tea, coffee and so on
[7] Will change depending on the election made by the company.

02. Biological Assets

The Company recognizes biological assets when, and only when, the Company controls the assets as a result of past events, it is probable that future economic benefits associated with such assets will flow to the Company and the fair value or cost of the assets can be measured reliably. Expenditure incurred on biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell in terms of Ind AS 41. The gain or loss arising on initial recognition of such biological assets at fair value less costs to sell and from a change in fair value less costs to sell of biological assets are included in Statement of Profit and Loss for the period in which it arises.

On transition to Ind AS the Company has elected to measure biological assets at fair value less cost to sell as at April 1, 2015 (transition date).

03. Agricultural Produce

The Company recognizes agricultural produce when, and only when, the Company controls the assets as a result of past events, it is probable that future economic benefits associated with such assets will flow to the Company and the fair value or cost of the assets can be measured reliably. Agricultural produce harvested from the Company's biological assets are valued at fair value less cost to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in Statement of Profit and Loss for the period in which it arises.

For transition to Ind AS the Company has elected to measure its agricultural produce at its fair value less cost to sell at the point of harvest, as at April 1, 2015 (transition date).

04. Inventories

Finished and semi-finished[8] inventories produced from agricultural produce are valued at lower of cost arrived at by adding the cost of conversion to the fair value of agricultural produce and the net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Stock of nursery was valued at cost incurred on raising and maintaining such stocks until transplantation. From the date of transition to Ind AS (April 1, 2015), the nurseries have been classified as capital work in progress and carried at cost less any recognized impairment losses (refer to the policy on Bearer plants above).

05. Government Grants

From the date of transition to Ind AS (April 1, 2015), grants related to bearer plants (for example replanting subsidy received from the Tea Board) and other machinery (for example subsidy received from Tea Board for purchase of certain machinery) are recognized as deferred revenue in the Balance Sheet and transferred to the Statement of Profit and Loss on a systematic and rational basis over the useful lives of the related assets.

Hitherto, before transition to Ind AS, replanting subsidy received from the Tea Board was recognized as revenue in the Statement of Profit and Loss as and when the claim was submitted by the Company. The subsidy received from Tea Board towards purchase of certain machinery was presented by deducting them from the carrying value of such asset and was recognized as income over the life of the depreciable asset by way of a reduced depreciation charge.

Unconditional grants received for Biological Assets measured at fair value less cost to sell are recognized in the Statement of Profit and Loss when, and only when such grants become receivable. Conditional grants are recognized in the Statement of Profit and Loss when the conditions are met.

Grants related to income (for example subsidy provided by Tea Board towards manufacture of orthodox tea that arises on production of orthodox tea), are presented under 'Other income' as part of the Statement of Profit and Loss.

[8] As applicable

B. Key sources of estimation uncertainty[9]

Bearer plants
As described in A.1 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year the Directors determined that the useful life of tea bushes in XYZ estate (comprising of XX fields) should be shortened due to the irregular weather conditions combined by severe pest attacks in the past couple of years.

The financial effect of this reassessment, assuming the bearer plants are held until the end of their estimated useful lives, is to increase the depreciation expense in the current financial year and for the next three financial years, by the following amounts:

Year 1	Amount
Year 2	Amount
Year 3	Amount
Year 4	Amount

Fair value measurements and valuation processes
Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the company has set up a valuation committee, which is headed by the Chief Financial Officer (CFO) of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. When Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. With respect to certain biological assets, where there is no active market for the unharvested produce, the valuation committee arrives at the fair value by way of a reverse working from the value of the inventory.

The CFO reports the valuation committee's findings to the Board of Directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities. Information about the various techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note C.1(c) below.

Commentary:
The matters disclosed will be dictated by the circumstances of individual Company, and by the significance of judgements and estimates made to the performance and financial position of the Company. Instead of disclosing this information in a separate note, it may be more appropriate to include such disclosures in the relevant asset and liability notes, or as part of the relevant accounting policy disclosures.

[9] Other areas where there could be estimation uncertainty is determination of point of maturity to determine point of capitalization of a bearer plant, determination of type of lease (for example: estates taken on lease from the government) etc.

C. Notes to the Financial Statements

01. Biological Assets

a. Biological assets of the Company consist of : (refer to paragraph 41 of Ind AS 41)
   i. Unharvested tea leaves that are classified as current biological assets. The company has a plucking cycle ranging XX to YY days
   ii. Unharvested coffee seeds, after significant biological transformation, which is generally about XX months from the time of flowering, are classified as current biological assets
   iii. Rubber trees which are used both for the produce (harvested latex) and their timber are classified as either current biological assets or non-current biological assets based on their maturity periods

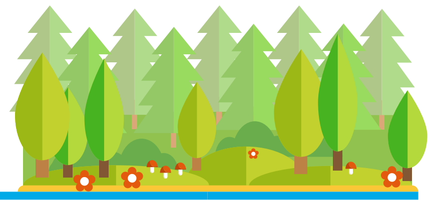
b. Reconciliation of changes to the carrying value of biological assets between the beginning and the end of the current year are as follows: (refer to paragraph 50 of Ind AS 41)

Particulars	Leaves/coffee seeds on the tea bushes / Coffee Plants	Rubber trees		Total
		Mature	Immature	
As at opening date	**XX**	**XX**	**XX**	**XX**
Increase due to purchases / physical changes (transferred from immature)	XX	XX	XX	XX
Increases resulting from business combinations	XX	XX	XX	XX
Decreases due to harvest / physical changes (transferred to mature)	XX	XX	XX	XX
Decreases due to sales / write off	XX	XX	XX	XX
Net change in fair value less estimated costs to sell	XX	XX	XX	XX
Others (please specify)	XX	XX	XX	XX
As at closing date	**XX**	**XX**	**XX**	**XX**

c. Fair value measurements:
The following table gives the information about how the fair values of these biological assets are determined (in particular the valuation technique(s) and inputs used):

Biological asset	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs
	31/03/17	31/03/16	01/04/15		
Unharvested tea leaves				Level 2 As there is no active market for tea leaves before they are harvested	
Unharvested coffee seeds				Level 2 As there is no active market for the coffee seeds before they are harvested	Fair value is being arrived at based on the observable market prices of processed coffee seeds adjusted for manufacturing costs. Quantity of the coffee seeds harvested is determined using the plucking averages of the various fields.

The valuation technique used for unharvested tea leaves is assumed to be based on reverse working. However in case any company would consider this as a Level 3 fair valuation and use the Discounted Cash Flow method, then appropriate disclosures as prescribed by Ind AS for a Level 3 valuation needs to be provided in the financial statements.



Biological asset	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/03/17	31/03/16	01/04/15				
Rubber trees				Level 3 The company does not intend to sell the trees before their maturity period which is about 35 years from the year of planting and there is no active market for timber	Discounted Cash Flow (DCF) Present value of future cash flows from the sale of rubber trees discounted at current market determined pre-tax rate	Selling price of rubber wood which is estimated based on the Indian market conditions taking into account the management's experience and knowledge of the market conditions ranging from INR XX to INR XX	An increase in the selling price would result in an increase in the fair value (refer Note 1 below)
						Discount rate of XX%	A significant increase in the discount rate would result in a significant decrease in the fair value (refer Note 2 below)
						Maturity period of 35 years	A decrease in the maturity period would result in an increase in the fair value (refer Note 3 below)
						Timber content of XX cu.ft	An increase in the timber content would result in an increase in the fair value (refer Note 4 below)

The fair valuation has been based on the report of the independent professional valuer, M/s. ABC Limited.

Note 1 – If the selling price of the rubber wood was XX% higher / lower while all other variables were held constant, the carrying amount of the rubber trees would increase / decrease by Rs. XX / Rs. YY respectively.

The rubber tree prices prevailing in the domestic markets have been based on the recent sale prices realised by the Company as well as the prices realized by other neighbouring estates from the popular timber dealers in the state where the estates are located

Note 2 – A XX% increase / decrease in the discount rate while holding all other variables constant would decrease / increase the carrying value of the rubber trees by Rs. XX / Rs. YY respectively.

Note 3 – The maturity period of the rubber trees have historically been around 35 years and the independent valuer has also considered the health and condition of the trees by physical inspection of the fields, to arrive at the maturity period. Increase / decrease in the maturity period with all other variables remaining constant would increase / decrease the carrying value of the rubber trees by Rs. XX / Rs. YY respectively.

Note 4 - The timber content has been arrived at by independent valuers engaged by the Company which was based on the recent yields from mature trees as well as physical inspection of the current plantations to determine the yields. Increase / decrease in the timber content with all other variables remaining constant would increase / decrease the carrying value of the rubber trees by Rs. XX / Rs. YY respectively.

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

There could be situations when the fair value of a biological asset cannot be measured reliably, thereby not permitting a recognition of the biological asset. Given that there is a presumption that fair value can be measured reliably for a biological asset, however capable of rebuttal only on initial recognition, entities would therefore have to be extremely cautious in applying the exemptions as provided by the Standard and this for the time being looks to be a remote possibility, as the intention of the standard setters may not be to provide any relief from the fair value measurement.

Under circumstances where the Company concludes that fair value cannot be measured reliably, specific additional disclosures as prescribed under Ind AS 41.54 to 41.56 need to be given in the financial statements.

02. Government Grants

The Company has during the year completed the planting of rubber trees in XX hectares of new area in the YYY estate and on completion of such planting has applied for the subsidy from the Rubber Board, Government of India ("Rubber Board") amounting to Rs. XX which has been disclosed under Other Income in the Statement of Profit and Loss. There are no unfulfilled conditions and contingencies attached to the said subsidy receivable from the Rubber Board. (refer to paragraph 57 of Ind AS 41).

D. Other disclosure requirements

Other disclosures prescribed by Ind AS 41 are as follows:

a. physical quantities of output of agricultural produce during the period [Ind AS 41:46(b)(ii)]
b. the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities [Ind AS 41:49(a)]
c. the amount of commitments for the development or acquisition of biological assets [Ind AS 41:49(b)]
d. financial risk management strategies related to agricultural activity [Ind AS 41:49(c)]

Our insights

Considering that the financial statements will now be required to contain enhanced disclosures on bearer plants, biological assets, the assumptions used for determination of fair values, key sources of estimation uncertainty , companies will have to start planning early to assess whether they have all the information on hand to enable them to fulfil the extensive disclosure requirements prescribed by the Ind AS Standards, including starting early discussions with the independent fair value experts. Further, Companies will also have to develop appropriate risk control matrices that address the various risk and controls revolving around these specific disclosure requirements prescribed by the standards and also maintain adequate documentation to support the review of these disclosures.