

## **Recognition of Bearer Plants under Biological Asset or PPE**

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### **Introduction**

Flora Exotics (Private) Limited (“Company”) is a limited liability company incorporated and domiciled in Sri Lanka. The principal activity of the company is to grow and export horticultural products engendered from tissues of exotic plants. The company is operating under Plantation sector. It was observed and understood that the company is not recognizing their mother plants in the financial statements which are the most valuable asset that generate the future economic benefits to the company. Therefore this case study elaborates how these mother plants should be recognized in the financial statements.

### **Discussion of the Issue**

It was observed and understood that the origin of all the horticultural products of the company revolves around several mother plants which were obtained from various parts of the world, after carrying out many research and exploration. The tissues of mother plants are processed in the lab and it is converted to a Tissue Culture plant. Further the company hybrids the plants in the lab in order to generate unique plants which are not available in the market.

Under the review, it was noted that the company is not recognizing their mother plants which are the most valuable asset that generate the future economic benefits to the company. Therefore it’s precise that the mother plants provide future economic resources to the company and they feature as a core asset which should be recognized in the financial statements.

According to the framework for preparation and presentation of financial statements, “an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow into the enterprise”. These mother plants can therefore be categorized as assets which should be recognized according to the LKAS 41 “Agriculture” – Biological Asset.

According to the LKAS 41 – Agriculture (2014) it defines a biological asset, “A biological asset is a living animal or a plant.” Under the paragraph 10 of LKAS 41 “An entity shall recognize a biological asset when and only when:

- 1) The entity controls the asset as a result of past events;
- 2) It is probable that future economic benefits associated with the asset will flow to the entity; and
- 3) The fair value or cost of the asset can be measured reliably.”

Therefore the mother plants of these Nepenthes products should be recognized as biological assets.

In the financial Statements, company should disclose all the requirements according to the LKAS 41. One special disclosure is as follows,

- “An entity is encouraged to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets.

Consumable Biological assets are those that are to be harvested as agriculture produce or sold as biological asset. Bearer biological assets are those other than consumable biological assets.”

### **Implication of the Issue**

According to LKAS 41 (2014) these mother plants can be categorized under the bearer biological assets, those other than consumable biological assets, as flower trees are providing the tissues in order to breed new and more horticultural desirable Nepenthes hybrids.

However under the new amendments to the Accounting Standards effective from 01<sup>st</sup> of January 2016, there are some new definitions to the biological asset. Under the previous edition of the LKAS 41, it does not define the bearer plant. But in the new amendments effective from 01<sup>st</sup> of January 2016 the bearer plants should be recognized as Property, Plant and Equipment under LKAS 16. Therefore LKAS 16 (amended) defines the bearer plant as follows,

“A bearer plant is a living plant that,

- Is used in the production or supply of agriculture produce;
- Is expected to bear produce for more than one period; and
- Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.”

To adhere to the new amendments, LKAS 41(2014) has also been amended in accordance with the recognition of bearer plants. Therefore in the scope of amended LKAS 41, according to the paragraph 02, it states that “This standard does not apply to bearer plants related to agricultural activity (see LKAS 16). However this standard applies to the produce on those bearer plants.”

### **Conclusion and Recommendation**

As per our observations and understanding, it is recommend that the management should take due steps to value such mother plants, the biological assets and recognize them in the financial statements to portray a more realistic view on the assets of the company. And also it is required to take an expertise experience to value the biological assets.

According to LKAS 41 (2014) Agriculture – Mother plants which are the bearer plants should be recognized as Biological Asset of the company when it is recognized for the 2014/2015 financial year. However effective form 01<sup>st</sup> of January 2016 these bearer plants should be recognized as Property, Plant and Equipment under the LKAS 16(amended).