

## **Illustrative examples**

*These examples, which were prepared by the IASC staff but were not approved by the IASC Board, accompany, but are not part of, IAS 41. They have been updated to take account of the changes made by IAS 1 Presentation of Financial Statements (as revised in 2007) and Improvements to IFRSs issued in 2008.*

- A1 Example 1 illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less costs to sell of an entity's biological assets into physical change and price change. That separation is reflected in Example 1. Example 2 illustrates how to separate physical change and price change.
- A2 The financial statements in Example 1 do not conform to all of the disclosure and presentation requirements of other Standards. Other approaches to presentation and disclosure may also be appropriate.

## Example 1 XYZ Dairy Ltd

### Statement of financial position

| XYZ Dairy Ltd<br>Statement of financial position | Notes | 31 December<br>20X1 | 31 December<br>20X0 |
|--------------------------------------------------|-------|---------------------|---------------------|
| <b>ASSETS</b>                                    |       |                     |                     |
| <b>Non-current assets</b>                        |       |                     |                     |
| Dairy livestock – immature <sup>(a)</sup>        |       | 52,060              | 47,730              |
| Dairy livestock – mature <sup>(a)</sup>          |       | 372,990             | 411,840             |
| Subtotal – biological assets                     | 3     | 425,050             | 459,570             |
| Property, plant and equipment                    |       | 1,462,650           | 1,409,800           |
| <b>Total non-current assets</b>                  |       | <b>1,887,700</b>    | <b>1,869,370</b>    |
| <b>Current assets</b>                            |       |                     |                     |
| Inventories                                      |       | 82,950              | 70,650              |
| Trade and other receivables                      |       | 88,000              | 65,000              |
| Cash                                             |       | 10,000              | 10,000              |
| <b>Total current assets</b>                      |       | <b>180,950</b>      | <b>145,650</b>      |
| <b>Total assets</b>                              |       | <b>2,068,650</b>    | <b>2,015,020</b>    |
| <b>EQUITY AND LIABILITIES</b>                    |       |                     |                     |
| <b>Equity</b>                                    |       |                     |                     |
| Issued capital                                   |       | 1,000,000           | 1,000,000           |
| Retained earnings                                |       | 902,828             | 865,000             |
| <b>Total equity</b>                              |       | <b>1,902,828</b>    | <b>1,865,000</b>    |
| <b>Current liabilities</b>                       |       |                     |                     |
| Trade and other payables                         |       | 165,822             | 150,020             |
| <b>Total current liabilities</b>                 |       | <b>165,822</b>      | <b>150,020</b>      |
| <b>Total equity and liabilities</b>              |       | <b>2,068,650</b>    | <b>2,015,020</b>    |

(a) An entity is encouraged, but not required, 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, as appropriate. An entity discloses the basis for making any such distinctions.

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## Statement of comprehensive income<sup>22</sup>

| XYZ Dairy Ltd                                                                  | Notes | Year ended<br>31 December<br>20X1 |
|--------------------------------------------------------------------------------|-------|-----------------------------------|
| <b>Statement of comprehensive income</b>                                       |       |                                   |
| Fair value of milk produced                                                    |       | 518,240                           |
| Gains arising from changes in fair value less costs to sell of dairy livestock | 3     | 39,930                            |
|                                                                                |       | <b>558,170</b>                    |
| Inventories used                                                               |       | (137,523)                         |
| Staff costs                                                                    |       | (127,283)                         |
| Depreciation expense                                                           |       | (15,250)                          |
| Other operating expenses                                                       |       | (197,092)                         |
|                                                                                |       | <b>(477,148)</b>                  |
| <b>Profit from operations</b>                                                  |       | <b>81,022</b>                     |
| Income tax expense                                                             |       | (43,194)                          |
| <b>Profit/comprehensive income for the year</b>                                |       | <b>37,828</b>                     |

## Statement of changes in equity

| XYZ Dairy Ltd                            | Year ended<br>31 December<br>20X1 |                      |                  |
|------------------------------------------|-----------------------------------|----------------------|------------------|
| <b>Statement of changes in equity</b>    |                                   |                      |                  |
|                                          | Share<br>capital                  | Retained<br>earnings | Total            |
| Balance at 1 January 20X1                | 1,000,000                         | 865,000              | <b>1,865,000</b> |
| Profit/comprehensive income for the year |                                   | 37,828               | <b>37,828</b>    |
| <b>Balance at 31 December 20X1</b>       | <b>1,000,000</b>                  | <b>902,828</b>       | <b>1,902,828</b> |

<sup>22</sup> This statement of comprehensive income presents an analysis of expenses using a classification based on the nature of expenses. IAS 1 *Presentation of Financial Statements* requires that an entity present, either in the statement of comprehensive income or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. IAS 1 encourages presentation of an analysis of expenses in the statement of comprehensive income.

**Statement of cash flows<sup>23</sup>**

| XYZ Dairy Ltd<br>Statement of cash flows    | Notes | Year ended<br>31 December<br>20X1 |
|---------------------------------------------|-------|-----------------------------------|
| <b>Cash flows from operating activities</b> |       |                                   |
| Cash receipts from sales of milk            |       | 498,027                           |
| Cash receipts from sales of livestock       |       | 97,913                            |
| Cash paid for supplies and to employees     |       | (460,831)                         |
| Cash paid for purchases of livestock        |       | (23,815)                          |
|                                             |       | <b>111,294</b>                    |
| Income taxes paid                           |       | (43,194)                          |
|                                             |       | <b>68,100</b>                     |
| <b>Cash flows from investing activities</b> |       |                                   |
| Purchase of property, plant and equipment   |       | (68,100)                          |
|                                             |       | <b>(68,100)</b>                   |
| <b>Net increase in cash</b>                 |       | <b>0</b>                          |
| <b>Cash at beginning of the year</b>        |       | <b>10,000</b>                     |
| <b>Cash at end of the year</b>              |       | <b>10,000</b>                     |

<sup>23</sup> This statement of cash flows reports cash flows from operating activities using the direct method. IAS 7 *Statement of Cash Flows* requires that an entity report cash flows from operating activities using either the direct method or the indirect method. IAS 7 encourages use of the direct method.

## Notes

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### 1 Operations and principal activities

XYZ Dairy Ltd ('the Company') is engaged in milk production for supply to various customers. At 31 December 20X1, the Company held 419 cows able to produce milk (mature assets) and 137 heifers being raised to produce milk in the future (immature assets). The Company produced 157,584kg of milk with a fair value less costs to sell of 518,240 (at the time of milking) in the year ended 31 December 20X1.

### 2 Accounting policies

#### Livestock and milk

Livestock are measured at their fair value less costs to sell. The fair value of livestock is based on quoted prices of livestock of similar age, breed, and genetic merit in the principal (or most advantageous) market for the livestock. Milk is initially measured at its fair value less costs to sell at the time of milking. The fair value of milk is based on quoted prices in the local area in the principal (or most advantageous) market for the milk.

### 3 Biological assets

| <b>Reconciliation of carrying amounts of dairy livestock</b>                                               | <b>20X1</b>           |
|------------------------------------------------------------------------------------------------------------|-----------------------|
| Carrying amount at 1 January 20X1                                                                          | <b>459,570</b>        |
| Increases due to purchases                                                                                 | 26,250                |
| Gain arising from changes in fair value less costs to sell attributable to physical changes <sup>(a)</sup> | 15,350                |
| Gain arising from changes in fair value less costs to sell attributable to price changes <sup>(a)</sup>    | 24,580                |
| Decreases due to sales                                                                                     | (100,700)             |
| <b>Carrying amount at 31 December 20X1</b>                                                                 | <b><u>425,050</u></b> |

(a) Separating the increase in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

### 4 Financial risk management strategies

The Company is exposed to financial risks arising from changes in milk prices. The Company does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Company reviews its outlook for milk prices regularly in considering the need for active financial risk management.

## Example 2 Physical change and price change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

|                                                                                                                                                                                                                                                                                     |       |       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| A herd of 10 2 year old animals was held at 1 January 20X1. One animal aged 2.5 years was purchased on 1 July 20X1 for 108, and one animal was born on 1 July 20X1. No animals were sold or disposed of during the period. Per-unit fair values less costs to sell were as follows: |       |       |
| 2 year old animal at 1 January 20X1                                                                                                                                                                                                                                                 | 100   |       |
| Newborn animal at 1 July 20X1                                                                                                                                                                                                                                                       | 70    |       |
| 2.5 year old animal at 1 July 20X1                                                                                                                                                                                                                                                  | 108   |       |
| Newborn animal at 31 December 20X1                                                                                                                                                                                                                                                  | 72    |       |
| 0.5 year old animal at 31 December 20X1                                                                                                                                                                                                                                             | 80    |       |
| 2 year old animal at 31 December 20X1                                                                                                                                                                                                                                               | 105   |       |
| 2.5 year old animal at 31 December 20X1                                                                                                                                                                                                                                             | 111   |       |
| 3 year old animal at 31 December 20X1                                                                                                                                                                                                                                               | 120   |       |
| Fair value less costs to sell of herd at 1 January 20X1 (10 × 100)                                                                                                                                                                                                                  |       | 1,000 |
| Purchase on 1 July 20X1 (1 × 108)                                                                                                                                                                                                                                                   |       | 108   |
| Increase in fair value less costs to sell due to price change:                                                                                                                                                                                                                      |       |       |
| 10 × (105 – 100)                                                                                                                                                                                                                                                                    | 50    |       |
| 1 × (111 – 108)                                                                                                                                                                                                                                                                     | 3     |       |
| 1 × (72 – 70)                                                                                                                                                                                                                                                                       | 2     | 55    |
|                                                                                                                                                                                                                                                                                     |       |       |
| Increase in fair value less costs to sell due to physical change:                                                                                                                                                                                                                   |       |       |
| 10 × (120 – 105)                                                                                                                                                                                                                                                                    | 150   |       |
| 1 × (120 – 111)                                                                                                                                                                                                                                                                     | 9     |       |
| 1 × (80 – 72)                                                                                                                                                                                                                                                                       | 8     |       |
| 1 × 70                                                                                                                                                                                                                                                                              | 70    | 237   |
|                                                                                                                                                                                                                                                                                     |       |       |
| Fair value less costs to sell of herd at 31 December 20X1                                                                                                                                                                                                                           |       |       |
| 11 × 120                                                                                                                                                                                                                                                                            | 1,320 |       |
| 1 × 80                                                                                                                                                                                                                                                                              | 80    | 1,400 |
|                                                                                                                                                                                                                                                                                     |       |       |