

# Solution for pwc case essay sample



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Review and Discuss the General Rules for Agricultural Produce Using US GAAP and IFRS Under International Accounting Standard (IAS) 41, we presume fair value can be reliably measured for a biological asset, or a living animal or plant, and IAS 41 requires measurement at fair value less costs to sell (FVLCTS) from initial recognition of biological assets up to the point of harvest. The only exception to the presumption is when initial recognition for a biological asset for which quoted market prices are not available as well as for which alternative fair value measurements are determined to be clearly unreliable. Under this situation, IAS 41 requires an entity to measure that biological asset at its cost less any accumulated depreciation and any accumulated impairment losses. After the fair value of such a biological asset becomes reliably measurable, the entity should measure the asset at its fair value less costs to sell (FVLCTS). Additionally, biological assets that are physically attached to land are measured at their FVLCTS separately from the land.

Furthermore, an entity shall provide information related to biological assets, such as a description of each group of biological assets, the basis for making any such distinctions, and the nature of its activities involving each group of biological assets. For question number three, we use fair value less costs to sell (net realizable value) to value the inventory of biological assets. Under US GAAP, growing crops and developing animals shall be valued at the lower of cost or market (LCM); animals available and held for sale and harvested crops can be reported by this approach, too. These two items can also be valued at sales price less estimated costs of disposal, if all the following conditions exist, according to the FASB Accounting Standards Codification:

- The product has a reliable, readily determinable, and realizable market price.
- The product has relatively insignificant and predictable costs of disposal.
- The product is available for immediate delivery.

For question number three, we apply LCM approach directly to each item of TFI's agriculture inventory (Except for wheat, which we should use the second method under ASC905-330-35-3 to record it. The conditions have been listed above.)

Explanations that are attached above table

#### 1. The agriculture inventory recording under GAAP

Corn: There is no reliable and realizable market value or related information about corn, so there is no way for us to predict the Market Value for Corn.

Therefore, in this case we should simply record the cost for corn, which is

\$95, 000. Wheat: In this case, wheat is the harvested crops; under GAAP we

should record wheat on initial recognition and at the end of the period. When

we compare the market value of wheat and historical cost of it, according to

GAAP, we should adjust to measure the inventory at the end of the period, so

we should use the market value at the measurement date, which is \$6. 1 per

bushel, and then deduct estimated cost of disposal 5 cents per bushel. We

get:  $NRV = MV = \text{sales price less estimated cost of disposal} = (6. 1 - 0.$

$5) * 600 = \$36, 300$  According to ASC905-330-35-3a/b and ASC905-330-35-4,

since the wheat has a reliable and realizable market price, and the cost of

disposal is relatively insignificant and predictable (comparing with its market

value \$6. 1, \$0. 05 should be considered to be insignificant), also the wheat

stored in TFI's grain bins is clearly available for immediate delivery. It meets

all the conditions that are listed in ASC905-330-35-3b.

So we could use “ sales price less estimated cost of disposal (SPLESD)” to calculate to value the harvested crop—wheat that TFI has. (Under this condition, we choose to use SPLESD to measure the wheat rather than use LCM, because it can maximize the combination of relevance and representational faithfulness of our accounting report, while it meets all the conditions that are listed on ASC905-330-35-3b. Even the market price changed after the time of harvest that implied the “ selling price” we used here is just “ estimated price” (the price is not very stable, it may change over time). Since the “ estimates are common, and some inaccuracy is likely. As long as this estimate is represented faithfully. We could consider that the current market price (\$6. 1) is the reliable and realizable market price□

Heifer: Since some of cattle that TFI has, have not yet been weaned. According to ASC905-330-35-2, heifers and steers that TFI have are developing animal. Therefore we should record it by using lower the cost or market method.  $NRV = MV = 70000 - 2000 = \$68,000$ , which is greater than its cost \$50,000, so we need to record the original cost (\$50,000) of heifer.

Hibiscus: According to this case, there is no local market for this product at all. And TFI does not believe that the market for this product has changed substantially (which means it still has no local market now). Therefore, we cannot predict the reliable and realizable market value for hibiscus plants that TFI has. Since we cannot calculate its market value, we should simply record the cost for hibiscus plant that TFI has, which is  $500 * 10 = \$5,000$ . 2.

The agriculture inventory recording under IFRS

Corn: There is no reliable and realizable market value or related information about corn, so there is no way for us to predict the Market Value for Corn.

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That is, we are “ inability to measure fair value for corn reliably”. According to 30th paragraph of IAS 41, In the case of “ inability to measure fair value reliably”, biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Therefore, in this case, we should simply record the cost for corn, which is \$95, 000. Wheat: In this case, wheat is the harvested crops. According to the 13th paragraph in IAS 41, “ 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”. Therefore we should record wheat by using FVLCTS (fair value less costs to sell), and the fair value should be the market selling price when we harvested wheat, which is \$6 per bushel. The cost to sell here is just the transportation cost, which is \$0. 05 (5 cents) per bushel.

So the amount we should record on balance sheet for the item wheat should be:  $FVLCTS = 6 * 6000 - 0.05 * 6000 = \$35,700$  Heifer: According to the 5th paragraph in IAS 41, “ a biological asset is a living animal or plant”. So heifers and steers that TFI have are biological asset. Therefore, when we record the value of heifers we should use 12th paragraph in IAS 41 to determine the amount that we should record. “ The biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell.” And we already have the local market price for heifers and steers for \$70, 000 (the fair value of heifers), and the expected selling cost (which refer to be the cost to sell) is \$2, 000. So we have,  $FVLCT = 70000 - 2000 = \$68,000$ , and this number is the one that we should record.

Hibiscus: According to this case, there is no local market for this product at all. And TFI does not believe that the market for this product has changed substantially (which means it still has no local market now). Therefore, there is no reliable market-based price for hibiscus plants. However, according to the 20th paragraph in IAS 41 (which is deleted in the new version of IAS 41), “ if reliable market-based price is not available, the present value of expected net cash flows from the asset should be used, discounted at a current market-determined rate”, we could use selling price of two month ago hibiscus plant sell as “ the present value of expected net cash flows from the asset” to determine the fair value for hibiscus. Then we get the fair value for hibiscus plant is  $500 \times 25 = \$12,500$  Then according to the 12th paragraph in IAS 41, we should use “ fair value less costs to sell” to measure the biological asset. But there is no reliable cost to sell in this case, so we should record \$12,500 (FVLCTS=  $12500 - 0 = 12500$ ) for hibiscus plant.