

Amendments to Section 3041, Agriculture — Background Information and Basis for Conclusions

Foreword

In November 2025, the Accounting Standards Board (AcSB) amended AGRICULTURE, Section 3041 in Part II of the CPA Canada Handbook — Accounting. The AcSB has approved for publication the contents of this document setting out its rationale for these amendments.

Background Information and Basis for Conclusions documents are sources of generally accepted accounting principles, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100 in Part II of the Handbook.

These documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Section or Accounting Guideline.

TABLE OF CONTENTS

Paragraph

Introduction	1-4
Background	5-10
Applicability to not-for-profit organizations (NFPOs)	11
Effects analysis	12-14
Amendments	15-27
Agricultural inventories	15-21
Productive biological assets	22-27
Effective date and transition	28-30
Consequential amendments	31
Exposure for comment	32

INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by the AcSB in reaching its conclusions to amend AGRICULTURE, Section 3041 in Part II of the Handbook. This document sets out the reasons the Board undertook to develop the proposals, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.
- 2 Nothing in this document is to be taken as overriding the requirements of the Handbook. However, the discussion may help readers understand how the AcSB reached its conclusions in developing the amendments and the Board's intent with respect to interpretation and application of the amendments.
- 3 In developing these amendments, the AcSB sought the advice of its Agriculture Advisory Group (the Group). The Group comprises preparers, financial statement users and auditors, representing a range of industries in the agricultural sector from across the country. The breadth of the Group's experience provides the Board with insight into the major industries in Canada's agricultural sector (e.g., dairy, cattle, wheat and other grains, fruit and vegetables, hogs, poultry and egg production).
- 4 The AcSB also obtained input from its Canadian Private Enterprise User Advisory Committee, Private Enterprise Advisory Committee and Medium and Small Practitioners Advisory Committee.
 - (a) The Canadian Private Enterprise User Advisory Committee includes financial statement users such as lenders, private equity investors and other professionals from diverse investment and analytical backgrounds.
 - (b) The Private Enterprise Advisory Committee includes financial statement users, auditors and preparers, with a range of backgrounds and experience from across Canada. Members include representatives from organizations of differing sizes and in a variety of industries.

- (c) The Medium and Small Practitioners Advisory Committee includes members who reflect the broad diversity of practitioners at medium and smaller firms in Canada.

BACKGROUND

- 5 In November 2019, the AcSB issued Section 3041. The standard was effective for fiscal years beginning on or after January 1, 2022, with earlier application permitted. The Board typically decides whether to conduct a post-implementation review after a two-year period from when a new standard becomes effective based on its Standard-setting Due Process Manual. The objectives of the post-implementation review are to determine whether the standard is understandable and is being applied as intended, and whether preparers are able to report the information reliably.
- 6 In gathering information on whether to conduct a post-implementation review on Section 3041, the AcSB heard that agricultural producers are encountering operational challenges with disclosing certain information about agricultural inventories. For agricultural inventories measured using the net realizable value model, agricultural producers are required to disclose, among other information, the aggregate of gains and losses arising during the current period from changes in the carrying amount of agricultural inventories and the amount of inventories recognized as an expense during the period. The requirement to disclose the amount of inventories recognized as an expense during the period also exists for agricultural inventories measured using the cost model, as well as for enterprises applying INVENTORIES, Section 3031.
- 7 Furthermore, some interested and affected parties have raised questions about applying paragraphs 3041.64 and 3041.66 relating to productive biological assets. Paragraph 3041.64 provides guidance in determining whether a cost incurred related to a productive biological asset after the asset becomes productive is a maintenance expenditure or a betterment. Paragraph 3041.66 specifies that productive biological assets that are managed on a collective basis to maintain their collective productive capacity indefinitely are considered to have an indefinite useful life and are not subject to amortization. Paragraph 3041.66 provides an example of a herd. The questions raised relate to whether paragraph 3041.66 can be applied to any type of productive biological asset and whether the cost base of these assets can be increased.
- 8 The AcSB thinks that the limited issues raised since Section 3041 has been effective suggest a post-implementation review is not required. Consequently, the Board decided to conduct a standard-setting project to quickly address the disclosure concerns and clarify the scope of paragraph 3041.66 so that it is clear the requirement can be applied to any type of productive biological asset. In clarifying paragraph 3041.66, the Board also thought it would be helpful to add guidance on accounting for when there is a change in useful life of productive biological assets.
- 9 In March 2025, the AcSB issued its Exposure Draft, "Amendments to Section 3041, Agriculture." The Board received 11 comment letters and conducted several targeted outreach sessions that included financial statement users. Regarding the proposals related to removing certain disclosure requirements for agricultural inventories, respondents' views were mixed. Regarding the proposals related to productive biological assets, respondents generally supported the proposals with a few suggestions for consideration. The specific issues addressed in this project, including the comments received on the Exposure Draft and any changes made in response to those comments, are highlighted in the subsequent sections.
- 10 The AcSB also sought input through this Exposure Draft on whether there are any issues that require further amendments to Section 3041 or any topics in which non-authoritative guidance should be developed to help agricultural producers apply the agriculture standard. The Board has a guidance framework outlining criteria that it uses to assist in assessing when to develop guidance. Guidance could be non-authoritative or authoritative. The Board will apply this framework to analyze whether further guidance is needed and, if so, on which topics that respondents have raised. This analysis is outside the scope of the standard-setting project described in paragraph 8.

APPLICABILITY TO NOT-FOR-PROFIT ORGANIZATIONS (NFPOS)

- 11 NFPOs apply the standards for private enterprises in Part II of the Handbook to the extent that the Part II standards address topics not addressed in Part III. Therefore, NFPOs that are agricultural producers would be required to follow these amendments.

EFFECTS ANALYSIS

- 12 The amendments to remove certain disclosures from Section 3041 aim to reduce the cost of preparing financial statements for agricultural producers. Practitioners have told the AcSB that financial statement users they work with do not need information on the aggregate of gains or losses arising from changes in the carrying amount of agricultural inventories measured using the net realizable value model, nor the amount of inventories expensed during the period. Furthermore, it is very difficult and costly for many smaller agricultural producers to disclose such information because they often do not have the resources to gather the information needed to compute the disclosures without changing record-keeping practices.
- 13 Financial statement users have told the AcSB that any information in the notes that assists with understanding how changes in agricultural inventories affect the amounts presented in the income statement is helpful. That said, they do not often see agricultural producers' financial statements disclose the aggregate of gains or losses arising from changes in the carrying amount of agricultural inventories measured using the net realizable value model and the amount of inventories expensed during the period, possibly because of the difficulties noted in paragraph 12. The Board

understands users' preference for wanting to retain these disclosure requirements in Section 3041 but recognizes that the benefits from such requirements will be limited because of the cost challenges smaller agricultural producers face, as further explained in paragraph 20. Consequently, the Board concluded that the costs to agricultural producers in preparing these disclosures outweigh the benefits financial statement users are expected to derive.

- 14 The amendment to clarify that paragraph 3041.66 can be applied to any type of productive biological asset managed collectively to maintain productive capacity indefinitely is expected to improve the consistency in application. In clarifying paragraph 3041.66, the AcSB also considered the effect of adding guidance on accounting for a change in useful life of productive biological assets. The Board understands that it is expected to be uncommon for agricultural producers to change the way they manage their productive biological assets, and therefore, change its determination of such assets' useful life from indefinite to no longer indefinite, and vice versa. However, additional guidance is expected to improve consistency in application should such a situation arise. The Board expects that financial statement users will benefit from an increase in comparability of financial information across the different industries in the agricultural sector as consistency in application is improved.

AMENDMENTS

Agricultural inventories

- 15 The AcSB heard from interested and affected parties that when measuring agricultural inventories using the net realizable value model, it is challenging to provide the disclosures required in paragraphs 3041.88(c)-(d) – that is, the aggregate of gains and losses arising from changes in the carrying amount of agricultural inventories and the amount of inventories recognized as an expense during the period.
- 16 The Group noted that operational challenges arise because many of the smaller agricultural producers only prepare financial statements once a year. They often do not have the resources to track their costs up to the point when the net realizable value conditions are met. A year-end adjustment is made to recognize the amount of agricultural inventories on the balance sheet at net realizable value as long as the conditions are met. Without changing record-keeping practices, it may not be possible to gather the information needed to compute the disclosures required under paragraphs 3041.88(c)-(d), or a lot of time is needed to recreate the data at year end. This operational complexity makes it difficult to comply with these disclosures. Some agricultural producers currently choose not to disclose this information based on materiality or other reasons. Furthermore, the Group noted that Section 3041 already improves information provided to financial statement users by requiring the disclosure of quantities held of agricultural inventories and productive biological assets, when readily determinable.
- 17 The Group noted that the operational challenges to disclose the amount of inventories recognized as an expense during the period required by paragraph 3041.86(d) also apply to agricultural inventories measured using the cost model. Furthermore, some agricultural producers may have a mix of agricultural inventories measured using the net realizable value model and the cost model. Therefore, removing this disclosure requirement for the net realizable value model but retaining this disclosure requirement for the cost model would be problematic.
- 18 The AcSB proposed to remove the disclosure requirements in paragraphs 3041.86(d) and 3041.88(c)-(d). Feedback on the Exposure Draft from comment letters and targeted outreach sessions highlighted mixed views. Respondents who were financial statement users generally preferred retaining the disclosure requirements in both the net realizable value model and cost model (see paragraph 13). All other respondents supported removing the disclosure requirements in paragraphs 3041.88(c)-(d) from the net realizable value model, and in most cases removing the disclosure requirement in paragraph 3041.86(d) from the cost model. A few respondents expressed some concerns about removing the disclosure requirement from the cost model because of the inconsistency that would be created with Section 3031 (see paragraph 19). However, most respondents did not express concerns with that inconsistency existing until the Board performs a further review because changes to Section 3031 would affect more industries and financial statement users.
- 19 The AcSB is aware that the requirement to disclose the amount of inventories recognized as an expense during the period is consistent between Section 3031 and Section 3041, with Section 3031 applicable to all inventories except agricultural inventories. The Board heard through feedback on its Consultation Paper I, "Exploring Scalability in Canada," and preliminary research on its Detailed Review of Accounting Standards for Private Enterprises project that there are also concerns with this disclosure requirement in Section 3031. The Board discussed this disclosure with its Canadian Private Enterprise Users Advisory Committee, Private Enterprise Advisory Committee, Medium and Small Practitioners Advisory Committee, and Agriculture Advisory Group and received mixed feedback. Although there are challenges in practice that affect the quality of the information produced by this disclosure requirement, financial statement users still find the information helpful to understand an enterprise's inventory-related expenses. Users commented that the Board should only remove this disclosure requirement if it is replaced with a requirement that better meets their needs (e.g., detailed breakdown of cost of sales).¹
- 20 The AcSB considered the feedback and noted the following:
- The operational complexity described in paragraphs 16-17 makes it difficult for smaller agricultural producers to comply with the disclosure requirements in paragraphs 3041.86(d) and 3041.88(c)-(d), regardless of whether the net realizable value model or cost model is applied. These agricultural producers are unable to disclose the information reliably and as a result, financial statement users have been unable to derive the benefit from such disclosure requirements.

- (b) Some agricultural producers have a mix of agricultural inventories measured using the cost model and net realizable value model. Requiring an agricultural producer to disclose the amount of inventories recognized as an expense under the cost model – but not the net realizable value model – would create inconsistency in Section 3041 and hinder financial statement users' understanding of the information in the notes.
 - (c) In comparing with entities applying Section 3031, the requirement to disclose the amount of inventories recognized as an expense is new to agricultural producers because of the issuance of Section 3041 in November 2019. However, entities applying Section 3031 have been disclosing this amount. Removing the disclosure requirement from Section 3031 will result in a loss of information unless a new disclosure requirement is developed in its place. Therefore, the AcSB thinks that the cost/benefit trade-off consideration is different for entities applying Section 3031 than for agricultural producers applying Section 3041. Furthermore, when the Board developed disclosures in Section 3041, it had already considered specific needs of financial statement users in the agricultural sector by requiring disclosures of quantities held (see paragraph 16), which is different from the disclosure requirements in Section 3031.
- 21 Based on the considerations above, the AcSB finalized the proposals as exposed to remove the disclosure requirements in paragraphs 3041.86(d) and 3041.88(c)-(d). The Board thinks a more balanced approach may be to explore in the future other disclosure information for financial statement users in the agricultural sector rather than retaining these disclosure requirements.
- Productive biological assets**
- 22 The AcSB received questions about the accounting for productive biological assets, particularly those that are managed on a collective basis. Interested and affected parties have asked whether paragraph 3041.66 can be applied to productive biological assets that are not animals and whether the cost base of these assets can be increased.
- 23 Regarding the question about the scope of paragraph 3041.66, some interested and affected parties were uncertain whether productive biological assets that do not have production quotas or for which productive capacity varies can apply paragraph 3041.66 to have an indefinite useful life. The AcSB's intention when developing paragraph 3041.66 was that it could be applied to any type of productive biological asset.
- 24 The AcSB proposed to clarify paragraph 3041.66 by adding an example of another type of productive biological asset and removing the reference to production quota. Most respondents to the Exposure Draft agreed, while a few commented about how including examples may hinder the application of professional judgment and that the proposed wording may lead to inconsistent application. The Board noted that it was important to include examples in paragraph 3041.66 to help agricultural producers consider what may be considered productive biological assets managed on a collective basis. The Board also noted that the proposed wording, "an expected level or range of production units," was introduced to clarify that the paragraph can be applied to various situations of productive capacity. For example, paragraph 3041.66 can be applied to productive biological assets that are managed collectively to maintain an expected level of production (e.g., a quota) or an expected range of production (e.g., yield range for a plantation). Therefore, the Board finalized the proposed amendments to paragraph 3041.66, subject to a minor drafting revision to align to the paragraph's intent of maintaining collective productive capacity indefinitely.
- 25 Regarding the question about whether the cost of productive biological assets managed on a collective basis can be increased, the AcSB notes that it would depend on whether there are costs incurred to better the assets. Paragraph 3041.64 provides guidance on betterment. If costs are incurred to enhance the service potential of productive biological assets, such costs would be considered a betterment and added to the cost of productive biological assets. Service potential may be enhanced when there is an increase in the previously assessed productive capacity or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. Conversely, if costs are incurred to maintain the service potential of productive biological assets, those are considered maintenance expenses. Paragraph 3041.64 applies to all productive biological assets, even those that are managed on a collective basis.
- 26 The AcSB proposed not to develop authoritative guidance on how to determine productive capacity because, based on discussions with the Group, it became evident this area requires the use of judgment (as explained in paragraph 3041.62). Determining whether an expenditure is considered a betterment or maintenance would depend on facts and circumstances. Most respondents to the Exposure Draft agreed that determining productive capacity requires the use of judgment because that determination would differ across agricultural producers and would depend on facts and circumstances. A few respondents expressed concerns with not developing authoritative guidance, while a few other respondents thought it would be more appropriate to develop non-authoritative guidance for specific situations to highlight factors to consider. Some respondents described situations relating to adjusting the carrying amount of productive biological assets managed on a collective basis that the Board thinks could be analyzed using its guidance framework to determine next steps (see paragraph 10). Considering the feedback on the Exposure Draft, the Board decided not to add authoritative guidance in Section 3041 on how to determine productive capacity.
- 27 The AcSB also proposed to add new guidance in Section 3041 to clarify the accounting for when the useful life of productive biological assets changes from indefinite to no longer indefinite, and vice versa - that is, adding paragraphs 3041.67A and 3041.68A. The Board received questions asking whether it is reasonable that the cost of productive biological assets managed on a collective basis remain unchanged over time. The Board thinks that agricultural

producers need to consider the concepts like betterment and impairment, and whether the productive biological assets continue to be managed in a way that is considered to have an indefinite useful life to determine whether there are changes to the cost of such assets. Although the Board expects it to be uncommon for agricultural producers to change the way they manage their productive biological assets that would affect the determination of useful life, the Board thought it would be helpful to include guidance in Section 3041 that is consistent with GOODWILL AND INTANGIBLE ASSETS, Section 3064, to address this situation should it arise. Respondents to the Exposure Draft did not express any concerns with adding paragraphs 3041.67A and 3041.68A and confirmed that such situation is not likely to arise frequently in practice. Therefore, the Board finalized the proposal, subject to a minor revision to extend a paragraph cross-reference because of feedback on the Exposure Draft.

EFFECTIVE DATE AND TRANSITION

- 28 The AcSB proposed an effective date of January 1, 2027, with earlier application permitted for the amendments. The Board wanted to allow agricultural producers sufficient time to apply the amendments and to educate users on changes to their financial statements. However, agricultural producers may want to apply the amendments as soon as they are available since the amendments reduce the cost of reporting and provide clarifications to help with application. Respondents to the Exposure Draft generally agreed with the proposed effective date, with one commenting that further extending the effective date would enable more time for training. Given the general agreement with the proposed effective date, the Board decided that the amendments will be effective for fiscal years beginning on or after January 1, 2027, with earlier application permitted.
- 29 The AcSB proposed that an agricultural producer applying Section 3041 would apply the amendments retrospectively, except for paragraphs 3041.67A and 3041.68A that should be applied prospectively as discussed in paragraph 30. The amendments relating to disclosures would not be onerous to apply retrospectively as they would result in removing information from the notes. The amendments to paragraph 3041.66 would also not be too onerous to apply retrospectively because agricultural producers should have the information to compute the opening retained earnings adjustment and restate comparative figures given Section 3041 has only been effective since January 1, 2022. Respondents to the Exposure Draft agreed with the proposals with regards to transition, and therefore, the Board finalized the transition provisions as exposed.
- 30 The AcSB decided that paragraphs 3041.67A and 3041.68A should be applied prospectively because those paragraphs provide guidance on when there is a change in accounting estimate – that is, the useful life of productive biological assets. ACCOUNTING CHANGES paragraphs 1506.19-.25 explain the accounting for changes in accounting estimates and when revisions of estimates are not considered to be a correction of an error. If an agricultural producer determines there was a change in the useful life of productive biological assets managed on a collective basis in the year when the amendments to paragraph 3041.66 are first applied, this change would be treated as a change in accounting estimate applying paragraph 3041.68A, provided the change is not a correction of an error.

CONSEQUENTIAL AMENDMENTS

- 31 The amendments to Section 3041 will affect INCOME STATEMENT, Section 1520. The AcSB decided to make consequential amendments to Section 1520 so that an agricultural producer will not be required to present separately on the face of the income statement or disclose in the notes to the financial statements or supporting schedules, certain amounts pertaining to agricultural inventories.

EXPOSURE FOR COMMENT

- 32 After considering the feedback received from the exposure draft process, the AcSB decided, as part of its due process, there was no need for re-exposure because the proposals were finalized with minor drafting edits. The Board's consideration of the feedback is highlighted in the relevant sections throughout this Basis for Conclusions.

Footnotes

1. The AcSB issued the Consultation Paper, “Detailed Review of Accounting Standards for Private Enterprises,” in September 2025. The Board sought input from interested and affected parties on its proposal to retain the requirement to disclose the amount of inventories recognized as an expense in Section 3031 and to consider replacing it in the future with a new disclosure requirement that better meets users’ needs.
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