AASB 141 Agriculture defines agriculture as management by an entity of the biological transformation of biological assets for sale or for conversion into agricultural produce, or into additional biological assets.

Biological assets are defined as a living animals or plants.

Biological assets include:

- Trees in plantation forests
- Livestock, sheep, cattle, pigs etc
- Fruit trees, vines, bushes, plants in orchards and plantations
- Floriculture and aquaculture
AASB 141 does not apply to

- Land related to agricultural activity
- Intangible assets related to agricultural activity
- The processing of agricultural produce after the point of harvest.

The AASB Framework forms the basis of recognition:

An entity shall recognise a biological asset or agricultural produce when, and only when

(a) the entity controls the asset as a result of past events,
(b) it is probable that future economic benefits associated with the asset will flow to the entity; and
(c) the fair value or cost of the asset can be measured reliably.

Living plants and animals are capable of biological transformation through growth and procreation.

By management of this change value is added, with much of the increase in value being due to the input of free goods.

Some production cycles can take a long time with costs being incurred at the start of the process with the benefits being derived much later on.

There may be no relationship between the size of the initial expenditure on the asset and benefits derived later on.
A description of each group of biological assets shall be disclosed, either by narrative or by quantified description, with the latter being the preferred method. The quantified description must distinguish between consumable and bearer biological assets.

Consumables are livestock intended for meat production or held for sale, fish in farms, crops such as wheat and trees being grown for timber.

Bearer biological assets are those other than consumables, eg milk producing livestock, grape vines, fruit trees, etc. These are self-regenerating.

The carrying amounts of these consumable biological assets and bearer biological assets can be further divided into mature and immature assets. These distinctions may assist in determining the timing of future cash flows. The basis for such distinctions must also be disclosed.

How should biological assets be measured?

The fair value less costs to sell should be used to value biological assets at the end of the reporting period.

AASB 141 para 12 states:

A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably.

Agricultural produce that has been harvested shall be measured at its fair value less costs to sell at the point of harvest.
AASB 141 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The gains and losses that arise through the holding of biological assets must be disclosed in the profit or loss for the period in which they arise.

AASB 141, para. 26 states:

A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

AASB 141 requires that quoted prices from active markets be used to determine fair value.

An active market is defined in AASB 141 as a market where all of the following conditions exist:

- The items traded within the market are homogeneous,
- Willing buyers and sellers can normally be found at any time,
- Prices are available to the public.
If an active market does not exist, an entity is to use one or more of the following, when available, to determine fair value:

The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;

Market prices for similar assets with adjustment to reflect differences; and

Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

Where market-determined prices or values may not be available for biological assets in their present condition, AASB 141 states that an entity use the present value of expected net cash flows from the asset discounted at a current-market-determined pre-tax rate in determining fair value.

Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is the biological assets, raw land and land improvements, as a package.

The value of the raw land and land improvements may be deducted from the fair value of the combined assets to arrive at a fair value of biological assets.
If market-determined prices are not available at initial recognition, and the other means of establishing fair value are unreliable, AASB 141 states that biological assets to be measured at cost less any accumulated depreciation and any accumulated impairment losses.

Once the fair value of the biological asset can be measured reliably, the biological asset shall be measured at the fair value, less costs to sell.

The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of the change in fair value less costs to sell included in profit or loss due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

As is the case with depreciable assets in the balance sheet there must be disclosed a reconciliation between the opening and closing carrying amounts for the current period. Biological assets are no exception. The reconciliation must include:
- Gains/losses from changes in fair value less costs to sell,
- Increases due to purchases,
- Decreases due to sales/held for sale,
- Decreases due to harvest,
- Increases due to business combinations,
- Exchange differences,
- Other changes.