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Exploring Poultry Valuations

Biological assets are a critical component of the financial statements for companies in the poultry industry. Their nature is distinct and brings unique challenges in accounting and financial reporting.

The accounting treatment of such assets is governed by the **Indian Accounting Standard (Ind AS) 41 – Agriculture,** which requires biological assets (such as poultry) to be measured at **fair value less costs to sell** at each reporting date, unless fair value cannot be reliably measured.

Since fair value is a recurring concept in the Ind AS framework, detailed guidance is provided under **Ind AS 113 – Fair Value Measurement**, which outlines acceptable valuation techniques and mandates disclosures around key inputs and assumptions, particularly in the absence of quoted market prices.

This article delves into the principles, valuation methodologies, and reporting implications related to poultry assets, with a focus on applying the fair value framework under Ind AS 113.

Route to Fair Valuation

Fair value has a central measurement basis in financial reporting, yet it is inherently subjective, often involving multiple assumptions and significant judgment. It provides users of financial statements with a realistic estimate of the economic inflow or outflow that would result from selling an asset or transferring a liability.

Ind AS 113 – Fair Value Measurement defines fair value as *"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."* Importantly, this definition reflects the perspective of **market participants**, not the entity holding the asset or liability.

Market participants are assumed to be knowledgeable, well-informed, and willing to transact using all available information. Ind AS 113 offers guidance on selecting suitable valuation methods and techniques, helping preparers identify the appropriate inputs required for fair value estimation.

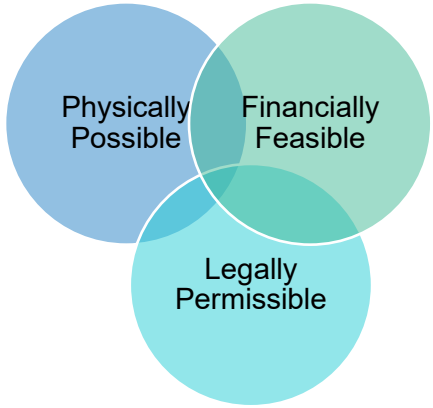
It distinguishes between **financial** and **non-financial** assets, as each class involves fundamentally different characteristics and valuation challenges. Biological assets, such as poultry, fall under the **non-financial** category.

Key Stops enroute

Before valuing biological assets, it is essential to understand the principles that underpin the valuation of **non-financial assets** under Ind AS 113. These assets are valued based on the **market participant's ability** to derive economic benefit, either directly through their highest and best use or by transferring the asset to another market participant who would use it as such.

Following concepts are key in exploring the nuances of valuing a non-financial asset:

Highest & Best Use: These criteria must be assessed collectively to determine the most advantageous use from a market participant's perspective. See illustration below:



E.g.: A poultry company has two uses for a commercial broiler, selling the broiler as a live bird or for meat production. While both the options have reasonable chance of being physically possible and legally permissible, financial feasibility is the differentiator. Thus, it is necessary to evaluate the bird's breed, generation, profit margins to align with market participant's view of that breed.

Market Participants: Valuation should reflect the assumptions of typical market participants - knowledgeable, informed buyers or sellers - not specific entities. The current use of an asset is presumed to be its highest and best use unless evidence suggests otherwise.

E.g.: Continuing the above example, although the entity may currently realize economic benefits by selling broilers to the live market, the determination of highest and best use must reflect the assumptions of market participants. If, based on factors such as breed characteristics, bird generation, and prevailing market conditions, market participants would typically achieve higher returns through meat production, then that use would represent the highest and best use. The entity's current use is relevant only to the extent that it aligns with what market participants would consider economically optimal.

Exit price: Fair value is an exit price measurement. In the poultry industry, exit prices are driven by characteristics such as weight, health, age, and breed of the bird as well market conditions such as weather seasons and flu outbreaks.

E.g.: Bird prices often fluctuate due to changes in demand and supply, affected by events like flu outbreaks or religious festivals. Fair value must capture this volatility and reflect the amount a market participant would pay at that point in time.

These foundational concepts ensure that fair value reflects a realistic, market-aligned estimate - crucial when valuing biological assets like poultry.

Valuation Approaches & Techniques

Fair value measurement under Ind AS 113 is inherently subjective, shaped by the purpose of the valuation and the end user's perspective. While certain valuations may initially seem straightforward, deeper analysis often reveals complexities driven by the intended use and market behavior.

Ind AS 113 lays down a structured framework for fair value estimation:

- Evaluate the circumstances and availability of data
  - Maximize **relevant** observable inputs over unobservable inputs (**L1 > L2 > L3**)

Level of Input	Base	Adjustments to the inputs
L1	Quoted prices for **Identical assets** in accessible active markets	Not permitted except in special circumstances
L2	Quoted prices, for similar assets in active markets or for identical assets in inactive market	Permitted
L3	Unobservable– Based on assumptions	Permitted

  - Adopt consistent approach and change the approach when circumstances which render the existing fair value less representative emerge.

- The table below illustrates different approaches, and their potential uses along with links to inputs

Approach	Ind AS 41 Linkage	Ind AS 113 Linkage
Market Approach	Uses observable market prices for poultry (e.g., per-kg rates for broilers). Requires active markets and considers costs to sell (e.g., transport, brokerage).	Relies on Level 1 or Level 2 inputs; adjustments allowed when market is inactive, or conditions differ.
Income Approach	Applies when poultry assets (e.g., breeders) generate future economic benefits like eggs or offspring. Involves discounting expected cash flows.	Typically involves Level 3 inputs; significant judgment required.
Cost Approach	Rare, used when market data is unavailable - usually for immature or specialized birds. Considers replacement cost adjusted for depreciation.	Least preferred under Ind AS 113; applied only in absence of market evidence.

Illustrative Examples:

Market Approach:

A poultry farm is preparing its financial statements and needs to determine the fair value of its biological assets (broilers) using market approach under Ind AS 113. The farm checks local market prices for broilers and finds that similar quality broilers are selling for INR125/kg. The farm adjusts this price based on its specific selling conditions (e.g., quality or health status) and concludes a fair value of INR122/kg.

Income Approach:

A poultry operation may also have breeding stock that generates additional income through egg production or offspring sales. For example, if each bird produces 250 eggs annually at INR 0.50 per egg:

- Total eggs from 1,000 bird s = 250,000 eggs.
- Total revenue from eggs = 250,000 * ₹0.50 = INR125,000.

Assuming annual costs related to breeding and maintenance are INR60,000. Net income would INR65,000. Using a discount rate of 10% for one year, the value of birds under income approach would be INR 59,090.

Cost Approach:

Replacement cost is considered as a fair value under this approach. Continuing the example from the Income Approach above, in case the firm had adopted cost approach and replacement cost of each was INR700, then the fair value of the flock would be INR7,00,000.

Each method has its place, but preference should be given to **observable and market-driven inputs,** aligning with Ind AS 113's guidance.

Request Stops

Exceptions to fair valuing a biological asset:

While Ind AS 41 presumes that biological assets can be measured at fair value, **exceptions** exist. If quoted market prices are **unavailable** and other fair value measurement methods are **unreliable**, the asset may be measured at **cost less accumulated depreciation** - but **only at initial recognition.**

Once a biological asset has been fair valued, it must continue to be measured at fair value at each reporting date.

Examples where fair valuation may not be reliable:

- Little biological transformation has taken place in the bird for which there is no market or if the market exists, the price being realized has very little impact of such transformation.
- Pure line Bird – a market may not exist and even it exists, it might be an inactive one or access may be restricted.
- Outbreaks – Pandemics and disease outbreaks rendering the flock itself incapable of being sold.

Importance of Growth cycles on Valuation:

Poultry assets pass through distinct biological stages, each of which influences the choice of valuation approach and the reliability of inputs

Stage	Focal point
Brooding & growing	Valuation often reflects **costs incurred**, as market value may not yet be measurable.
Maturity (commercial bird) Laying (Breeder Bird)	Emphasis shifts to **expected cash flows** (e.g., meat or egg sales), incorporating market demand and pricing.
Cull	Valuation must reflect a **decline in economic potential**, considering reduced output or age-related factors.

Disclosure requirements

The disclosures include but are not limited to the following:

Ind AS 41:

- Description of each group of biological assets
- Nature of activities of biological assets
- Non-financial measures or estimates of physical quantities of each group of biological assets and agricultural produce

Ind AS 113:

- Approach adopted and rationale for such approach
- Inputs used in the application of such approach
- Sensitivity analysis for the inputs used
- Changes in the fair value during the reporting period
- Changes in the valuation techniques from previous periods and reason for such change.

Conclusion

Valuing biological assets in the poultry industry is a **complex and judgment-driven process.** While Ind AS 41 prescribes fair value as the default measurement basis, Ind AS 113 provides a framework to apply this principle using market-based, income-driven, or cost-based approaches depending on the asset's stage and available data.

No single method applies universally across all poultry assets. However, to ensure consistency and comparability over time, entities must **adopt a clear, rational, and documented approach**, only changing methodologies when justifiable by substantive changes in conditions or inputs.

Most importantly, management must maintain **transparency** through clear accounting policies and disclosures, enabling stakeholders to accurately interpret the financial representation of biological assets.

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