30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting:	**11 March 2008, London**
Project:	**ED Annual Improvements Project—Comment Analysis**
Subject:	**IAS 41 Point of sale costs (Agenda paper 8I, question 38)**

BACKGROUND

1. IAS 41 *Agriculture* requires a biological asset to be measured at fair value less estimated point-of-sale costs unless its fair value cannot be measured reliably. The term 'point-of-sales costs' is not used elsewhere within IFRSs. The Board therefore proposed that this term be replaced with the term 'costs to sell'.

2. This paper sets out a summary of the comments received on this proposal together with the staff's recommendations to respond to those comments.

Comment letter analysis

3. Of the 75 respondents to the annual improvements ED, 26 specifically commented on this issue. Of those, 20 agreed with the Board's proposals. Those that disagreed mainly did so because they did not believe that the term 'point-of-sale costs' had the same meaning as 'costs to sell':

> *"[The respondent] does not support the proposed amendment because it is not apparent to us that the two terms do indeed describe the same notion.*

> (a) *Our understanding is that "costs to sell" would normally include transportation costs, while such costs are explicitly excluded from the "point-of-sale" costs. We think the IASB argues that the word "incremental" in the definition of "costs to sell" excludes costs already included in the fair value measurement, but we do not think this is clear.*
>
> (b) *We think the term "point-of-sale costs" was explicitly introduced in the IFRS literature to distinguish from costs to sell and in order to consider the specific circumstance in relation to agriculture assets. It therefore seems appropriate to use different definitions, as they are supposed to mean different things.*
>
> *Having said that, we hope that when the fair value measurement and [conceptual framework] measurement debates are finished it will be possible to develop some principles on the treatment of these various costs. Until then though, we would not support any attempt to align what are different notions through the Improvements Project.*
>
> *Finally, [the respondent] would have preferred the IASB to have tried to improve the definition of "transaction costs". [CL75]*

4. Others argued that, whilst increasing consistency between standards was a valid aim, the proposed changes might not achieve that:

> *"The proposed definition of 'costs to sell' in IAS 41* Agriculture, *paragraph 5, is not as helpful to the user as the description presently included in IAS 41, paragraph 14. The [respondent] considers the examples of the types of costs could be retained in conjunction with moving to the term 'costs to sell' subject to minor amendments to the existing wording of paragraph 14." [CL 61]*

5. One respondent also suggested changing the phrase 'costs of disposal' in IAS 36.6 to 'costs to sell'[1].

[1] Whilst the staff considers that this proposal would further increase consistency, it would be beyond the scope of the current amendment. The staff therefore proposes that it be considered as part of the next annual improvements project.

Staff analysis

6. The staff believes that the Board's intention in using the terms 'fair value less costs to sell' and 'fair value less point-of-sale costs' was the same. In both cases, the staff believes that the standard intends the amount that is included in the statement of financial position to be the net amount that would be received if the asset were sold, taking into account sale proceeds less any costs that would be required to realise those proceeds.

7. In other words, if the asset were disposed of in an arm's length transaction at the reporting date, the entity would realise no net gain or loss.

8. The phrase 'costs to sell' is principally used in IFRS 5, IAS 36, and IAS 2. IFRS 5 defines costs to sell as:

> *The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.*

9. 'Fair value less costs to sell' was inserted in IAS 36 (to replace 'net selling price') when IFRS 5 was amended in 2004. IAS 36.28 states:

> *Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.*

10. The definition of point-of-sales costs in IAS 41.14 states:

> *Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.*

11. The staff considers that 'commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges and transfer fees and duties' are all expenses that would be incurred only if a sale was made. They are all therefore examples of incremental costs of making a sale. The staff therefore concludes that the definition of 'costs to sell' and 'point-of-sale costs' are consistent in their treatment of these items.

12. The staff next considered transport and other costs necessary to get assets to a market. IAS 41.9 states:

> *The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle to that market.*

13. It is therefore clear that such costs must be deducted in measuring the fair value of biological assets for the purpose of applying IAS 41. It is also clear that they are not included in point-of-sales costs.

14. The staff also believes that it is clear that such costs should not be included in costs to sell. This is because it would be nonsensical to deduct transport costs in determining fair value and then to deduct them again to determine fair value less costs to sell. Furthermore, the definition of costs to sell only includes incremental costs. Costs that are taken into account in determining fair value are not incremental.

15. The staff therefore concludes that the use of the term ‘costs to sell’ is identical to the use of the term ‘point-of-sales costs’ in this context.

16. The staff therefore recommends that the Board pursues its proposed changes so that the term ‘point-of-sales costs’ is replaced by the term ‘costs to sell’ in IAS 41.

17. In reaching this conclusion, and in order to address the concerns raised by some respondents, the staff proposes that the basis for conclusions be expanded to state that incremental costs refer to costs that arise on sale, would not be incurred if the sale did not take place and are not included in measuring fair value.