Grupo Latinoamericano de Emisores de Normas de Información Financiera

COMMENTS ABOUT THE IAS 41 PRESENTATION

SLIDE 3:

As we can observe in our region, agricultural entities that can retain their produce waiting for a better moment to sell it, developed two different activities during its fiscal year:

- To obtain the agricultural produce, using the natural and technical tools to achieve the best possible crop.
- To sell their produce in the best moment, considering the maximization of the discounted net cash flows to be obtained for the sales.

When the agricultural produce can be maintained by the producer in his own silos for prolonged periods (three or more months) it is a normal decision to retain at least part of the produce, expecting for the best moment to sell, because the net cash flow to be obtained can be substantially changed and therefore can be an important contribution to the entity net income depending on the circumstances.

Commercial activity results are very relevant for agricultural produce that can be maintained as inventories:

- Market prices normally are reduced during harvest
- Transportation costs usually increase during harvest
- Price differences vs Maintenance of Agricultural Produce costs
- Results are an indicator of efficiency in inventory administration

Those two activities have totally different risks, and therefore, expected different margins and income/costs relationships.

To obtain a reasonable knowledge of the performance of the entity those activities must be measured and reported separately:

- The measurement of the performance of the first one (Agricultural production) must be done comparing the produce obtained (measured at FVLCS) with the agricultural expenses of all the labors between the land preparation to seed until the harvest and transport to the entity silos or sheds.
- The measurement of the performance of the second one (to retain produce waiting for the best moment to sale) must be done comparing the changes in NRV from harvest to sales dates with the cost of maintaining the produce in silos or cold chambers and all the additional movements required.
- This perfomance information (the net result) permits to compare with the financial cost of not selling at harvest time.

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SLIDE 4:

It is very important to bring useful information to users, to present the whole amount of production as income ($ 1.800.- in the example) and not only the change in FVLCS ($ 520.- in the example) compared with the accrued expenses corresponding to the agricultural production. If it is not presented in the face of the income statement at least must be disclosed in the notes in the same way as presented in the example in the slide.

SLIDE 5:

When the nature of the agricultural produce permits the entity to retain it, expecting a better moment to sale, and the entity adopts the method contemplated by IAS 2 (to continue measuring the agricultural produce at NRV) after the harvest till the sale date, all the recognised income is produced by the changes in NRV.

Therefore, the derecognition of the asset as cost of the sales will be the same net amount of the amount of the sales less the costs at point of sales.

SLIDE 6:

Agricultural cycles sometimes don't coincide within one fiscal year, or the entity agricultural produce has different cycles, and therefore, the results of one fiscal year doesn't include the whole cycle. To better understand the performance of the activity and to obtain reliable information of production costs and income obtained for unit of production is necessary to aggregate the whole information related to the completed cycle.

The mentioned information is necessary to compare with other entities in the same region and activity and with the previous years of the same entity:

- Produce obtained (quantity and amounts)
- Production costs separated by nature of the labors
- Margin obtained by unit of production (hectares, plants, etc.)

SLIDE 7:

In the example, the net income related to the agricultural production of the whole cycle ($ 580) is obtained in two different fiscal years. The information related to each different crop only can be obtained if it is included in the disclosure of the composition of the net income by periods and by concepts as included in this slide.

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SLIDE 8:

If the gross income for agricultural production at harvest isn't presented in the face of the income statement, al alternative disclosure in the notes can be the proposed in the slide.

The idea is to cover the whole agricultural cycle with totals for the cycle being the most important information to provide to users, because is the most effective way for the evaluation of the relative efficiency of the entity in relationship with the others in the same market.

SLIDES 9 AND 10:

When the entity acquires breeding cattle, the acquisition cost includes the FV and the other acquisition costs.

Using the measurement method contemplated by IAS 41 (FVLCS) means that the difference with acquisition cost must be immediately expensed at acquisition date (acquisition costs + estimated sales costs)

As male breeding cattle (bulls for example) is not for sale but only for use in the reproduction process during a prolonged period, the mentioned expense is impossible to understand by users of the information because don't imply a real reduction on the entity future cash flows.

To use the same measurement method for only breeding cattle and the rest of livestock is in our view a mistake leading to not reliable information.

In countries with developed markets for livestock, including breeding cattle, the markets are for "normal animals" and not for "exceptional animals" whose values can be many times superior to the normal ones. To obtain a FV measurement requires to make a model with important use of internal information with not related useful information to users because the changes don't imply changes in future cash flows.