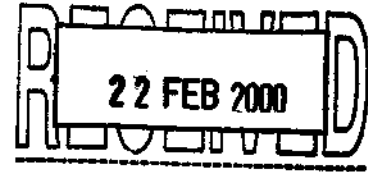




LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA  
MALAYSIAN ACCOUNTING STANDARDS BOARD

CL 5 6



2 February 2000

Sir Bryan Carsberg  
Secretary-General  
International Accounting Standards Committee  
166 Fleet Street  
London EC4A 204  
United Kingdom

**Re: E65 Agriculture**

Dear Sir Bryan

The Malaysian Accounting Standards Board (MASB) is pleased to provide comments on the IASC's exposure draft E65 Agriculture. The MASB has on its own work agenda the issue of agriculture and it is likely that the work of the IASC will be very influential in the development of an MASB standard for agriculture. Agricultural activities are diverse and some members of the Board expressed doubts about the coverage of all agricultural activities in a single standard. That issue aside, the MASB is generally supportive of the approach and treatments adopted in E65, however, there are several matters of concern to the Board. These are outlined below.

**Question 1 Scope: further processing after harvest paragraphs 4-7**

The MASB agrees with the suggestion that the Standard should not address the further processing of agricultural produce after the point of harvest. Accounting treatment for further processing is adequately dealt with in IAS 2. However, despite the fact that examples given in E 65.6 (paragraph 6) show clearly the demarcation between agricultural produce with the products as a result of further processing, there are circumstances where activities are necessary around the point of harvesting but it is somewhat unclear as to whether these should be treated as harvest or process costs. The IASC might consider including further guidance as clarification of what is considered to be the end of the harvest, i.e. at

what point is the harvest deemed to have ceased and processing commenced. Does the removal of an item (fruit pod) from a bearer biological asset constitute the harvest and the removal of a seed from the pod further processing? For example, fresh coffee fruits plucked from the trees (point of harvest) need to be worked on by plying open the fruits before they are sold to the dealers. Do the additional activities in opening up and drying up of coffee seeds do constitute 'further processing'. Is the slaying of an animal the harvest and dissection of the carcass into various *meat cuts* further processing?

### **Question 2 Biological Assets: measure at fair value (paragraphs 21)**

The MASB supports measuring all biological assets and agricultural produce at each balance sheet date at fair value as revenue of agricultural enterprises, especially those dealing with consumable biological assets, arise as a result of management of change of the biological asset over the period of change, which is normally spread over a number of years. However, there is some concern with the requirement to recognise the gains in operating profit as this will be interpreted by report users in Malaysia as constituting distributable profit. It is suggested that consideration be given to the recognition of the changes in value in equity until realisation or perhaps as part of comprehensive income. It is acknowledged that this may require some recycling upon realisation.

### **Question 3 Reliability of fair value measurement (paragraphs 21-31)**

Despite the argument for the substitution of fair value in place of other measurements as in Q2, the MASB is of the opinion that the reliability of and the problems with fair value measurement would determine the practicability and acceptability of the method. There are several concerns that arise with the reliability and implementation of the measurement treatments as proposed in E65.

There are reservations about the use of fair value measurements and it may be that the nature of agriculture creates further problems/uncertainties. Difficulties may arise in predicting future states of markets and assets over long periods exceeding 10, sometimes more than 20 years. Therefore, further guidance on determination of fair value measurements may be warranted.

Whilst it is generally true that ready and active markets exist for agricultural produce (hence one of the reasons for valuing them at FV) it may not be the case for biological assets, be they consumable or bearer. Further, such markets may not exist in all jurisdictions or if they do, some markets may not be well developed thus compromising valuations.

The MASB also has concerns that the skills and techniques required to implement fully this aspect of the proposed standard are not widespread and, therefore, has some concerns about variability in their application.

It is also noted that there is no guidance as to whether an enterprise should determine a valuation for each geographical location of agricultural asset separately or is it acceptable to treat them as a single group. This may have consequences where regions are known for particular characteristics that can affect value. To be consistent with other IASs, any valuation of land used in agriculture should be on individual basis but should this also extend to biological assets and the produce/potential produce?

The question as to whether it is a reasonable and cost effective practice to assess the state of developing biological assets at each reporting date is also raised. For some assets such as forests, it may not be part of the process of managing agricultural assets and be of little value to undertake such an assessment at each reporting date.

Whilst the valuation for annual reporting may not be too onerous, what will be the effect upon reporting at interim dates when the revenue and expenses recognised by the enterprise are based predominantly upon fair value measurements. Will interim figures be based upon estimates of estimates ?

The MASB is concerned that the proposed standard has taken a broad generic approach to the treatment of agricultural items yet it is the nature of agricultural items that creates the need for a separate standard. It is noteworthy that in the effort to resolve many of the issue surrounding financial assets and liabilities the IASC has adopted a classification approach where the items have been subdivided and treated accordingly. The approach adopted in E65 might be regarded by some as being too simplistic given the broad diversity that exists between and the inherent characteristics of agricultural assets and produce.

#### **Question 4 Fair value change in net profit or loss (paragraph 22)**

The MASB wishes to suggest that rather than recognising changes in fair value in operating profit that they be taken to equity in the form of capital reserves and hence, non-distributable as cash dividends. This is because the profit arising from fair value changes as suggested in E 65 is, strictly speaking, still not realised and may not be so for a considerable period.

In the MASB's deliberations on other standards, concerns have been raised about the recognition and availability for potential distribution of unrealised items in the income statement. For this reason, the MASB is considering the introduction of a comprehensive income to capture those items that may be

unrealised but indicate performance. Perhaps it is the intention of the IASC that the standard permits recognition of the items in such a section of the income statement but the uncertainty arises due to silence, in that the matter is not specifically addressed in the proposed standard. There are jurisdictions where the payment of dividends based upon unrealised profits is prohibited.

#### **Question 5 Definition of fair value (paragraph 24)**

The MASB agrees with the definition of fair value provided in E65 as the price of an item in an active market is accepted as being the most reliable indicator of fair value. The Board does have some reservations about the necessity for judgement and the difficulty in some jurisdictions characterised by immature/developing markets or an absence of a market.

#### **Question 6 Agricultural land: follow IAS (paragraph 38)**

The MASB agrees that agricultural land should be treated in a manner similar to other property, plant and equipment since they are being used in the production of the output for the purpose of revenue generation. Therefore, the MASB is of the opinion that IAS 16 should apply to agricultural land.

The question arises though as to whether agricultural land in combination with immature biological assets, such as forests, orchard trees or grapevines, would be qualifying assets under IAS 23 Borrowing Costs as it is not yet producing, or does the recognition of fair value changes as revenue preclude the application of IAS 23 to such assets?

#### **Question 7 Government grants (paragraph 41-44)**

The MASB agrees that a government grant should be recognised as revenue from the point that it becomes unconditional.

#### **Question 8 Components of biological assets (paragraph 46-47)**

The MASB is uncertain as to whether the provision of this information would pass cost/benefit analysis, particularly in developing economies. Some enterprises might also consider the information to be commercially/strategically sensitive and be reluctant to disclose. Further, the mandatory disclosure of this information seems inconsistent with the requirements of other accounting standards that do not require disclosure of physical quantities of assets.

Enterprises should be allowed to choose the manner by which information would be furnished on the components of biological assets. To make it compulsory for enterprises to quantify the information might impose hardship on enterprises especially if enterprises are involved in many different types of agricultural activities, not to mention the potential for information overload.

The MASB believes that the provision should be voluntary. It is supportive in the sense that alternatives are given to the enterprise to provide the information either in the form of narrative description or quantified separately the carrying amounts of the biological assets according to the various groups of biological assets.

#### **Question 9 Components of change in fair value (paragraphs 52-58)**

The MASB believes that enterprises should be given the option whether they would like to disclose separately the physical and price components of the change in fair value of their biological assets. General purpose financial statement users should have the knowledge as to changes in price level of the biological assets even if the information is not provided. The amount of recording, calculation and information required if separate disclosure is made mandatory would impose unnecessary burdens on the part of enterprises especially if enterprises are involved in many different type of agricultural activities.

#### **Question 10 Guidance on components of change in fair value (paragraphs 56-58)**

Whilst the MASB is not supportive of the disclosures as mandatory, the guidance in paragraphs 56-58 is satisfactory.

#### **Question 11 Analysis of expenses (paragraphs 59-60)**

As per IAS 1, the format of presentation should be left to the discretion of each individual enterprise to determine. To require otherwise is inconsistent with the spirit of IAS 1.

#### **Question 12 Disclosures in general (paragraphs 44-67)**

The MASB is of the opinion that the disclosures are about right subject to discussion in Question 15. From the audit perspective, however, is it appropriate that all of the information is expected to form part of the financial statements or is

it more properly a part of management discussion? See, for example, paragraph 63.

### **Question 13 Present value sensitivity disclosures (paragraph 64(c))**

If net present values have been used to determine measurements, the MASB is of the opinion that there is no need to provide sensitivity analysis.

### **Question 14 Transition: follow IAS 8 (paragraph 69)**

The MASB is not fully supportive of the transitional requirement to apply paragraph 46 of IAS 8 as it has some concerns that the approach may distort the reported performance of the enterprise. If an enterprise applies paragraph 49 of IAS 8 the effect will be to trap the gain or profit in retained earnings and such an amount will not be recognised in income. Alternatively, if the enterprise applies paragraph 54 of IAS 8 this may lead to the recognition of a large gain in the income statement. It might be more appropriate to recognise such an amount in an equity reserve account, to be released into income upon realisation of the asset and in doing so enable an enterprise to gain credit for its performance.

### **Question 15 Matters not covered by a specific question**

Paragraph 41 of the exposure draft deals with recognition of government grants, where unconditional grants are recognised as income when a grant becomes receivable, and for unconditional grants, a grant is recognised as income when there is reasonable assurance that the conditions are met. Paragraph 67 requires disclosure of nature and extent of government grants recognised.

The exposure draft does not provide for disclosure regarding government grant that may be receivable when conditions are yet to be met. This is considered significant information if the amount of grant is material. Under IAS 37, contingent assets are disclosed if inflow of economic benefits is probable. In this ED, the receipt of government grants is even more certain than probable except that the grant cannot be recognised as conditions have not been met. The MASB, therefore, suggests that enterprises should disclose government grants that are conditional but not recognised in the current income statement because it is not received or it has not become receivable as conditions have not been met.

Paragraphs 36 and 37 (Measurement) lack clarity and are not supported by explanation or illustrative examples. It is suggested that some attention be given to expanding this important aspect of the proposed standard. As a part of this

expansion perhaps some attention could be given to the treatment of costs incurred in the harvest of agricultural produce.

Yours sincerely,

  
f/ Raja Datuk Arshad Uda  
Chairman