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Sir Bryan Carsberg
Secretary-General
International Accounting Standards Committee
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Dear Sir Bryan

Comments on E65 “Agriculture”

Thank you for the opportunity to comment on Exposure Draft E65 “Agriculture”. My apologies for the delay in our response. The comments of the Public Sector Committee (PSC) of IFAC are included in the attached. The comments were prepared by a sub committee of the PSC and circulated to members for comment.

If you have any questions regarding the attached comments do not hesitate to contact Simon Lee, PSC Secretariat (tel. +1-212/286-9344, fax. +1-212/286-9570 or e-mail simonlee@ifac.org) or me (tel. +64-4/472-7777, fax. +64-4/472-6282 or e-mail ian.ball@pspnz.co.nz).

Yours sincerely

Ian Ball
CHAIRMAN - IFAC Public Sector Committee

SUBMISSION TO THE
INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

ON

EXPOSURE DRAFT 65:
AGRICULTURE

Prepared by the
International Federation of Accountants Public Sector Committee

February 2000

COMMENTS ON ISSUES ARISING FROM E65 “AGRICULTURE”

We support the proposals in the ED subject to the concerns identified below.

Question 1 – Scope: further processing after harvest (paragraphs 4 – 7 and 36)

Do you:

- (a) agree that the final standard should not address further processing? If so, do you believe that the guidance in paragraphs 4 – 7 for distinguishing between agricultural activity and further processing is adequate; or*
- (b) believe that the final Standard should address further processing? If so, what method of accounting do you propose?*

We agree that the final Standard should not address “further processing”. We are of the view that the guidance in paragraphs 4-7 for distinguishing between agricultural activity and “further processing” is adequate.

Other agricultural assets and government grants

We believe that the scope of the Standard should be limited to biological assets and the initial measurement of agricultural produce sourced from biological assets.

It is our view that issues relating to government grants should be addressed in IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”.

We are of the view that the IASC should identify the review of IAS 20 as a priority matter.

Question 2 – Biological assets: measure at fair value (paragraphs 21 and 36)

Do you believe:

- (a) all biological assets should be measured at each balance sheet date at fair value and agricultural produce should be measured at the point of harvest;*
- (b) biological assets should be measured at cost until harvested, and then agricultural produce should be measured at fair value at the point of harvest; or*
- (c) all biological assets and agricultural produce should be measured at cost?*

If you prefer (b) or (c) above, please explain how cost would be determined.

We support the use of a fair value approach to the measurements of living assets.

Such a measurement approach is relevant for agricultural produce of both for-profit entities and not-for-profit entities. In the context of not-for-profit public sector entities this measurement base provides relevant information about the value of assets under management, the change during the reporting period in that value and the value of biological assets and agricultural produce which may be transferred or redistributed to other parties.

Question 3 – Reliability of fair value measurement (paragraphs 21 – 31)

Do you believe that:

- (a) a reliable estimate of fair value can be determined for (i) biological assets and (ii) agricultural produce at point of harvest;*
- (b) a reliable estimate of fair value can usually be determined, and even if, at times, fair value cannot be determined to a very high degree of precision, neither can cost, and on balance an estimate of fair value should be required; or*
- (c) fair value sometimes cannot be determined reliably, and the cost basis should be used? If this is your view, please identify circumstances in which fair value cannot be determined reliably and explain, in such cases (i) how cost could be determined reliably and how (ii) how cost of biological assets and agricultural produce is relevant to the user of the financial statements of an enterprise engaged in agricultural activity.*

We agree that a reliable estimate of fair value can be determined for biological and agricultural produce at point of harvest.

Question 4 – Fair value change in net profit and loss (paragraph 22)

If biological assets are measured at fair value, do you believe that the change in fair value should be:

- (a) reported entirely in net profit or loss for the period;*
- (b) reported entirely in equity until the asset is sold or consumed, at which time it should be removed from equity and reported in net profit or loss;*
- (c) reported entirely in equity until harvest, at which time it should be removed from equity and reported in net profit or loss;*
- (d) reported in net profit or loss only to the extent of the physical change component; the price change component should be reported directly in equity until the asset is sold or consumed (or possibly until harvest); or*
- (e) reported entirely in equity and, thereafter, never reported in net profit or loss for any period?*

We support reporting changes in fair value in the profit and loss or other operating statement, provided that disclosure requirements reflected in paragraph 50 and 51 are retained. We are of the view that it is important that users are able to identify the realised and unrealised components of revenue which are recognised in the operating statement.

We agree that agricultural produce should be measured at its fair value and this should be deemed as cost (paragraph 36). However, we are unclear of the intent of paragraph 37. We presume it is intended to refer to the change in fair value of the biological asset, since agricultural assets are accounted for in accordance with IAS 2. We also seek clarification on whether this change in fair value is up to a point immediately prior to, or immediately post, the time of harvest, and how it relates to paragraph 21 which requires the change in value to be determined at each balance sheet date.

Question 5 – Definition of Fair Value

Do you believe that:

- (a) price in an active market in the asset's intended location of sale or use is always the best measure of fair value; or*
- (b) sometimes price in such a market should be adjusted to determine fair value? If so, under what circumstances and how should such market price be adjusted?*

We agree that price in an active market in the assets intended location of sale or use is always the best measure of fair value. We read the definition of active market to encompass and reflect what is termed by some members of the PSC as “active and liquid” markets.

Question 6 - Agricultural land

Do you believe that:

- (a) IAS 16 should apply to agricultural land;*
- (b) all agricultural land should be measured at fair value, either separately or as part of a combined group that includes the land and related bearer biological assets;*
- (c) only agricultural land that is part of a combined group that includes the land and related bearer biological assets should be measured at fair value;*
- (d) enterprises should be permitted or encouraged to measure agricultural land at fair value, but not required; or*
- (e) all agricultural land should always be carried at cost, that is, the revaluation alternative of IAS 16 should be prohibited?*

We believe that IAS 16 establishes the standards for property plant and equipment and that it should apply to agricultural land. The alternative is that all property, plant and equipment deployed for use in “agricultural activities” should be subject to the requirement of this proposed Standard. We do not believe the proposed Standard establishes a case for treating differently property plant and equipment deployed for agriculture than for other purposes.

Question 7 - Government grants (paragraphs 41 – 44)

Do you :

- (a) *agree that the grant should be recognised as income immediately if it is unconditional;*
- (b) *believe that the grant should be amortised into income over the life of the biological asset (if this exposure draft were silent on this matter, amortisation would automatically become the requirement under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance); or*
- (c) *believe that the grant should reduce the carrying amount of the asset so that the carrying amount is below the fair value of the biological asset? If so, would that reduction continue as long as the asset is held? Would it be amortised?*

We agree that unconditional government grants should be recognised immediately as revenue in the profit and loss or other operating statements.

We are of the view that the IASC should establish a project to review IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” as a priority matter. In the meantime, we would discourage the IASC from adopting any other positions on government grants in ED 65 ahead of any revision of IAS 20.

Question 8 - Components of biological assets (paragraphs 46 – 47)

Do you believe that:

- (a) *the proposal set out in this Exposure Draft is the appropriate way to accomplish the objective of providing information about the nature and stage of production of biological assets*
Do you believe that:
- (b) *the proposal set out in this Exposure Draft is the appropriate way to accomplish the objective of providing information about the nature and stage of production of biological assets*
- (c) *separate disclosure of the quantified mature and immature components of each group of bearer biological assets should be required; or*

- (d) *subdivisions of biological assets other than a consumer-bearer split and mature-immature split might provide better information about an enterprise's biological assets in some cases and, if so, which type of subdivision(s) and in which case(s)?*

We support the classification, analysis and descriptions proposed by this Exposure Draft.

Question 9 and Question 10 – Components of changes in fair value (paragraphs 52 – 58) and Guidance on components of change in fair value (paragraphs (56 – 58)

Do you believe that if the production cycle is longer than one year:

- (a) *an enterprise should be required to disclose separately the components of the change in fair value of its biological assets due to physical changes and price changes;*
- (b) *an enterprise should be encouraged, but not required, to disclose separately the physical and price components of the change in fair value of its biological assets; or*
- (c) *separate reporting of the physical and price change components should be prohibited because they usually cannot be measured reliably?*

We believe that both the physical and price change components of a change in the fair value of biological assets are part of revenue or expense from operating activities.

While we would not preclude an entity from separately disclosing the price and physical change components of the change in fair value, we can see little utility in requiring disclosure of the components for a profit seeking enterprise. However, we are of the view that for a non-profit entity such as a public sector agency the separate disclosure of components is a matter that will need to be considered further.

Do you believe that:

- (a) *the guidance for making the split in paragraphs 56 – 58 is adequate; or*
- (b) *the guidance for making the split in paragraphs 56 – 58 is inadequate and, if so, how would you modify it?*

Without prejudicing that further consideration, our initial reaction is that the split proposed in paragraphs 56-58 is adequate.

Question 11 - Analysis of expenses (paragraphs 59 – 60)

This Exposure Draft encourages classification by nature. Would you:

- (a) *require classification by nature of expense;*

- (b) *encourage but not require classification by nature of expense; or*
- (c) *allow each enterprise to decide whether to classify by nature or function?*

We do not believe additional guidance to that already included in IAS 1 is necessary for this activity.

Question 12 - Disclosure in general

In addition to your responses to Questions 8 – 10, do you believe that the disclosures proposed in those paragraphs:

- (a) *are about right;*
- (b) *are excessive; or*
- (c) *are insufficient?*

We are of the view that the disclosures “are about right”.

Question 13 - Present value sensitivity disclosure (paragraph 64(c))

Do you believe that:

- (a) *such sensitivity disclosure should be required (and, if so, please indicate what type of disclosure should be required); or*
- (b) *such sensitivity disclosure should not be required?*

We believe that information about the sensitivity of present values would be useful to users. However, we can accept that the costs of such disclosure may be greater than the benefits.

Question 14 – Transition: Follow IAS 8 (paragraph 69)

Do you believe that:

- (a) *both the benchmark and the allowed alternative treatments under IAS 8 should be permitted when an enterprise adopts this standard;*
- (b) *only the benchmark of IAS 8 should be followed by this Standard;*
- (c) *only the allowed alternative of IAS 8 should be allowed by this Standard;*

- (d) *the adjustment to biological assets to adopt this Standard should be amortised over the estimated remaining life of the biological assets; or*
- (e) *some other transition is appropriate (please specify)?*

We agree with the transitional provisions as drafted.