



CL 4

7 January 2000

The Secretary General
International Accounting Standards Committee
166 Fleet Street
LONDON EC4A 2DY

10 JAN 2000

Dear Sir,

Proposed International Accounting Standard Agriculture ED-E65

The enclosed pages 1 - 5 are in response to the Invitation to Comment on the above.

Yours faithfully,

D L Roberts
Practitioner in Residence



PROPOSED INTERNATIONAL ACCOUNTING STANDARD AGRICULTURE**Exposure Draft****Question 1**

- (a) Yes. Yes.
- (b) No

Question 2

- (a) Yes
- (b) No
- (c) No

Question 3

- (a) Yes
- (b) Yes
- (c) If a reliable estimate of fair value cannot be determined then a surrogate for fair value may have to be used e.g. (i) cost in a new plantation (ii) net present value for a plantation of trees which are, say, half way to maturity.

Question 4

- (a) No. The inclusion of price changes (within fair values) is inconsistent with "it is the Board's judgement that the key indicators of performance and the physical processes etc"
- (b) No
- (c) No
- (d) Yes, because physical change is directly related to productive capacity. The inclusion of price changes in profit or loss could be illusory and misleading. To include price increment components in profit is premature and inconsistent with inventory accounting generally.
- (e) No

Question 5

- (a) Yes, but it should be Net Market Value - (quantity x price) less costs of selling e.g. freight, commission

- (b) Yes. Market value may need to be adjusted e.g. if comparable sales are rare or at distant locations, fair value may need to be discounted.

Question 8

Quantified descriptive components are a prerequisite to ascertain fair value and as such should be classified and reported e.g. (i) sheep classifications should take account of age, sex and condition; (ii) tree plantations should be classified into homogeneous types, age and quality groupings.

Question 9

- (a) Yes.
- (b) No. It should be a **requirement** that the components be disclosed separately and treated differently.

Biological change is unique to agriculture. Biological change includes self- generation, regeneration and degeneration which include changes in quantity, quality and condition.

As recognised in Question 2 biological changes (physical processes) are **the** key indicators of performance.

- (c) No

Question 10

- (a) No. If (as they should be) pars 56-58 are guidelines only, the word "guidelines" should be stated.
- (b) Yes - there may be other methods.

Perhaps guidelines should be included in Appendices

Put simply, the two elements in changes in fair value are physical changes and price changes (as stated in the example). The term "per unit fair value" could be beneficially changed and simplified to "price".

Question 11

- (a) Yes
- (b) No
- (c) No

Question 12

- (a) No for some
- (b) Yes for some
- (c) Yes for some

Comments and opinions about various paragraphs follow:

par 44

Yes if this means separate from current assets and non-current assets. Whether or not the biological assets are to be sold in the short term or long term depends upon a number of changeable factors: managerial intent, weather, markets, mustering, culling etc. At the date of reporting (indeed at any time), it may be impossible to decide whether all or some of the biological assets are current or non-current assets.

par 52

Separate Disclosure of Physical and Price Changes should be **mandatory**.

- (a) Yes
- (b) Yes

par 53

delete this paragraph and substitute:

Both types of changes affect economic value and both are important components of the income producing activities of an agricultural enterprise, yet they represent distinctly difference phenomena. Separate disclosure of the ^{physical} components is necessary in appraising current period performance and future prospects and this disclosure should be in profit and loss. The change in fair value of biological assets attributable to the physical change in biological assets while they are held is necessary in evaluating management's performance in relation to production from, and maintenance and renewal of, biological assets. The change in value of biological assets attributable to changes in prices is necessary in assessing the contribution to **equity** attributable to market, as opposed to production, phenomena.

par 54

delete - because it is surely necessary to quantify the physical components. Valuation of physical changes is a feasible extrapolation.

par 55

delete and substitute:

- (a) Enterprises are required to disclose in the **income statement** changes in fair value due to physical changes in biological assets*.
- (b) Enterprises are required to disclose in **equity** changes in fair value due to price changes.

Refer to answer to question 4.

pars 56 - 60 have been covered in other answers to questions.

Question 13

- (a) Yes. The following is quoted from pp 40-41 of "Accounting for Self-generating and Regenerating Assets". Australian Accounting Research Foundation Discussion Paper No. 23.

"The calculation of NPV of forests requires many estimates to be made. Numerous approaches have been developed to cater for the many influences in the calculation of the NPV of forests. The influences for which estimates must be made include the following:

- (a) date of tree maturity. This will range from short periods for well developed trees, to very long periods for young trees and may be influenced by species, location, weather and management practices;
- (b) volume yield and processing utility. These could include diameter, length and quality. Yield is related to date of maturity and is influenced by similar maturity factors, together with estimated losses through smash in felling, disease, pests, wind and fire;
- (c) stumpage. This is the expected future market price (adjusted for logging and transport costs), taking into account possible changes in use, changes in money values and demand pressures of the standing trees usually expressed as price per cubic metre. It is the residual value of the logs and will depend upon the

volume yield, processing utility, location, ease of extraction and accessibility. Stumpage takes logging and transport costs into account;

- (d) costs of maintenance and of bringing the trees to the stage of harvest. This estimate can be based on experience but is subject to expected future changes in technology and silvicultural practices; and
- (e) discount rate. The net present value derived for an asset is sensitive to the selection of a discount rate. The choice of a discount rate depends upon expectations, objectives and considerations of why opportunity cost of capital is relevant. Factors to be considered in selecting a discount rate are discussed below".

(b) No. Disclosure should be required.

Question 15

Agriculture is an enterprise involving living assets; assets which self-generate, regenerate and degenerate (often without human intervention). These attributes are unique and the accounting for the biological activities and biological changes require unique treatment.

Both the statements of assets and liabilities and the statement of profit and loss should address the uniqueness of biological change. The Proposed International Accounting Standard Agriculture fails in this important objective in two ways:

1. Physical, biological changes should be reported in Profit and Loss exclusive of price changes which are not unique to agriculture. Inclusion of price change in Profit and Loss corrupts the objective of accounting for agriculture and leads to a minefield in which the conventional principles in valuation of trading stock may explode with unforeseen consequences.
2. The price change component in changes in fair value should be reported in equity only.