



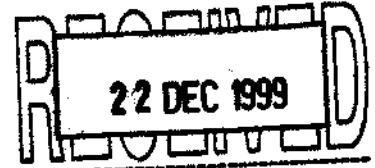
Phones : 4983251-5 Lines  
Fax : (021) 4983390  
E-Mail : <ed@icmap.khi.sdnpk.undp.org>  
Grams : 'Institute'

## Institute of Cost and Management Accountants of Pakistan

(Constituted under the Cost & Management Accountants Act 1966)  
ST-18/C, Block-6, Gulshan-e-Iqbal, P.O. Box: 17642, Karachi-75300.

CL 2

E MAIL: [CommentsLetters@iasc.org.uk](mailto:CommentsLetters@iasc.org.uk)



December 17, 1999

No. R/Exposure-59/99-24

The Secretary General,  
International Accounting Standards Committee  
166 Fleet Street,  
London EC4A 2DY  
U.K.

### COMMENTS

#### PROPOSED INTERNATIONAL ACCOUNTING STANDARD AGRICULTURE: EXPOSURE DRAFT E-65

Dear Sir,

We refer to above exposure Draft and enclose our comments on the same for your information and consideration before finalisation of Exposure Draft E-65.

With best regards,

Yours faithfully,

(Mahmood Ahmad Lodhi)  
Executive Director

November 17, 1999

**COMMENTS****PROPOSED INTERNATIONAL ACCOUNTING STANDARD  
AGRICULTURE: EXPOSURE DRAFT E 65**

Our comments on above Exposure Draft are as under:-

Pakistan is basically an Agricultural country and major portion of GDP comes from agricultural activities. But agriculture is mainly disorganised sector where small farmers till the land and sell their harvests in the local market at a very low price. There are few large scale farms. Hardly keeps any proper record of activities. Even agriculture based industries like Cotton/Woolen Textiles, Sugar, Cigarettes, Leather, Dairy Farms etc. purchase their raw materials viz. Cotton/Wool, Sugar cane, Tobacco, Hides and Skins, Milk from farmers or middlemen. In view of this position, proper Accounting records are not maintained hence, this standard on Agriculture is not much of utility in Pakistan. It can be applicable to very few large scale Sugar Cane Farms, Tobacco Farms, Grain Farms, Dairy Farms etc. owned by concerned industries or by Government/Military.

Keeping in view, the above position, we give our comments on the Proposed Standard (E 65) against question raised in the "Invitation to comments".

Q. 1: (Paras 4 - 7, 36)

The commentators agree that this standard should not address further processing. But there appears to be a need to clarify if this standard applies to such activities as removal of seeds from cotton flower and packing in Bales, Husking of Rice, grading and packing of fruits and vegetables before sending it to market. Commentators are of the view that all these (except Cotton Ginning) are agricultural activities and this standard should apply to these activities.

Q. 2: (Paras 21, 36)

The commentators are of the view that generally Inventories should be valued at lower of cost or market price. In view of the peculiar nature of agricultural products, the inventories of harvested products should be valued at fair value. But for those agricultural products which take one to seven years to mature, it will be difficult to ascertain fair value at the Balance sheet date before maturity. For example, some fruits orchard take 5/7 years to mature. In such cases fair value of immature products is difficult to determine cost incurred till the date of Balance Sheet can be carried as an inventory. This standard should take care of such cases also and allow valuation at cost for those cases where it is necessary.

**Q.3: (Paras 31-31)**

The commentators fully agree with the Board that fair value of biological assets and the fair value of agricultural produce at the point of harvest can be determined as markets exist for most biological assets and agricultural products. However, if the biological assets and agricultural products are not yet mature at the date of Balance sheet, fair value will have to be estimated by discounting fair value of mature asset/product on the basis of proportionate time or cost yet to be incurred till maturity.

**Q. 4: (Para 22)**

The commentators are of the view that the entire change in fair value of biological assets be reflected in net profit and loss of the period. This view is based on the assumption that at each date of Balance Sheet, the biological assets are valued at fair value at that date and any difference arising on valuation of its inventory had taken place during the period under review. Therefore, it is reasonable to show the same in profit and loss account of that period.

**Q. 5: (Para 24)**

The commentators believe that market price in the location in which the asset is to be sold is the most reliable measure of fair value. The standard as per para 24 is, therefore, fully agreed.

Adjustment in market price for determining fair value will be required if there is some difference of quality, location or appearance of the asset.

**Q. 6: (Para 38)**

The commentators believe that agricultural land should be valued/carried at cost subject to write down for impairment. Biological assets that are physically attached with the agricultural land should be recognised and measured separately at fair value. Agricultural land should be valued at fair value only as a part of Revaluation Exercise.

**Q. 7: (Paras 41 – 43)**

The commentators agree that Government Grant should be recognised as income immediately on its receipt if it is unconditional. If the grant is conditional, it should be recognised as income on fulfilment of that condition. The grant should be amortised into income over the life of the biological asset as required under IAS 20. The commentators do not agree that the grant should reduce the carrying amount of the asset to make it below the fair value.

**Q. 8: (Paras 46 – 47)**

The commentators believe that Exposure Draft's requirement for an Enterprise to describe nature and stage of production of each group of biological asset is appropriate. However, the standard should allow disclosure of further details in the Balance Sheet if so desired by the Enterprise.

**Q. 9: (Paras 52 – 58)**

The commentators believe that an enterprise should be encouraged to disclose separately the physical and price components of the change in fair value of its biological assets if production cycle is longer than one year. If production cycle is less than one year, break up of change in fair value into price and physical components is not necessary.

**Q. 10: (Para 56 – 58)**

The commentators believe that guidance for making the split of change in value into components of price and physical as contained in paras 56-58 of the standard are adequate. However, this split should be done only if the production cycle is more than one year.

**Q. 11: (Paras 59 –60)**

The commentators believe that classification of expenses should be made on the basis of nature of expenses for purposes of showing in Annual Accounts. But it is desirable that a separate columnar/sheet should be prepared for internal control purposes showing each expense divided into each function. This columnar sheet may not form part of Annual Accounts.

**Q. 12: (Paras 44 – 67)**

The disclosures required under above paras are considered by commentators to be adequate. But if any one wants to give some additional disclosures, the same should be allowed under the standard.

**Q. 13: (Para 46-C)**

The commentators believe that no additional disclosure of sensitivity is necessary if net present value has been used and disclosure of discount rate and number of years for which cash flow has been estimated is disclosed.

Q.14: (Para 69)

The commentators believe that both the bench mark and the allowed alternative treatment under IAS 8 should be permitted when an enterprise adopts this standard. These treatments are adequate and there appears to be no need to allow any other alternative.

Q. 15:

The commentators are of the view that concept of fair value should be used only if it is less than Cost/Book Value, The valuation of assets should be at lower of market or cost unless there is some special reasons to follow any other basis as in case of Revaluation required for Re-structuring of the enterprise or for its sale.