



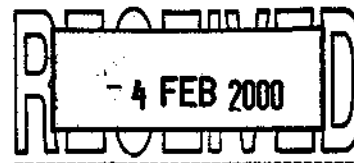
# Institut Akauntan Malaysia

(Diperbadankan di bawah Akta Akauntan 1967)

**Malaysian Institute of Accountants**

(Established under the Accountants Act 1967)

CL 43



31 January 2000

The Secretary-General  
International Accounting Standards Committee  
166 Fleet Street  
London EC4A 2DY  
United Kingdom

Dear Sir,

## **EXPOSURE DRAFT 65 : AGRICULTURE**

Thank you for the opportunity to comment on the above exposure draft. We are pleased to submit our comments as follows:

### **QUESTION 1 -**

#### **Scope : Further processing after harvest**

We agree that the final standard should not address further processing as it would be covered under IAS 2, Inventory. We are also satisfied with the guidance provided in paragraph 4-7 for distinguishing between agricultural activity and further processing.

### **QUESTION 2 -**

#### **Biological assets : measure at fair value (Paragraph 21 and 36)**

Currently, in Malaysia plantation companies comply with the MAS 8, a national standard issued by the Malaysian Institute of Accountants. The standard states that pre-cropping costs should include all expenditure that can be directly attributable to the new planting or replanting of a rootstock prior to its maturity and should initially be measured at cost.

To achieve a full fair value model it is important that biological assets are measured at fair value. However, here again the question as to the whether fair value of the asset can be obtained reliably, is raised. Based on comments received from the plantation industry, the measurement of biological assets at each balance sheet date at fair value is impractical and cumbersome to carry out. They have expressed that some of the potential problems which companies would face are as follows :-

1. The difficulty in determining the fair value of trees or biological assets at various stages of maturity
2. If the net present value of expected cash flows from the biological asset discounted at a rate commensurate with the risks associated with that class of asset, is our only measurement basis, there exist the difficulty in determining the future economic benefit that can be derived from the biological assets reliably due to fluctuations in commodities prices and yields affected by unpredictable weather conditions
3. It is not cost effective to engage external professionals to carry out the valuations required at regular intervals.

Though the standard does state that on initial acquisition, cost is the measure of fair value, significant government intervention (subsidies, quotas, tariffs, etc.) does exist in certain markets, which could lead to comparability between companies' financial position to be questioned.

#### **QUESTION 3 -**

##### **Reliability of fair value measurement (Paragraph 21-31)**

From (2) above it is clear that though it is possible to obtain a reliable estimate of fair value for agricultural produce at point of harvest, to obtain the fair value of biological assets reliably could be a problem. In this respect, we are of the opinion that biological assets should be measured at cost until harvested and then agricultural produce be measured at fair value at the point of harvest i.e. when fair value can be obtained reliably.

#### **QUESTION 4 -**

##### **Fair value change in net profit or loss (Paragraph 22)**

Our view of biological assets measured at fair value is as per Question (2) above. However, as per the proposal under the Exposure Draft, if biological assets are measured at fair value, the change in fair value should be reported entirely in net profit or loss for the period or in a performance statement.

#### **QUESTION 5 -**

##### **Definition of fair value (Paragraph 24)**

Price in an active market would be the best measure of fair value. However adjustments for delivery costs and other like costs would have to be made to the above said market price.

**QUESTION 6 -**

Agricultural land : follow IAS 16 (Paragraph 38)

Here, we believe that generally IAS 16 should apply to agricultural land, though, for agricultural land that is part of a combined group that includes the land and related bearer or consumable biological asset, it should be measured at fair value if biological assets are measured at fair value. However, if the biological asset is measured at cost then IAS 16 may be applied.

**QUESTION 7 -**

Government grants (Paragraph 41-44)

The government grant should be amortised into income over the life of the biological asset if it is unconditional. This is to ensure that the benefit derived from the grant is distributed over the periods the benefit is consumed. If it is conditional, then the treatment proposed in the standard is supported.

**QUESTION 8 -**

Components of biological assets (Paragraph 46-47)

In addition to the proposals set out in the Exposure Draft, which we agree with, it may be useful if in addition to disclosure of consumable/bearer and mature/immature biological asset, distinct class or breed of biological assets be also disclosed..

**QUESTION 9 -**

Components of change in fair value (Paragraph 52-58)

We are of the view that this requirement is not cost effective and it may not be possible to determine accurately changes in values attributable to the unit prices and the physical changes of the biological assets. As such, the enterprises should therefore be encouraged rather than required to report the amount of physical and price changes separately if the production cycle is longer than one year.

**QUESTION 10 -**

Guidance on components of change in fair value (Paragraph 56-58)

Yes, the guidance provided should be adequate.

**QUESTION 11 -**

Analysis of expenses (Paragraph 59-60)

Presentation of an analysis of expenses using a classification based on the nature of the expenses should be encouraged rather than required. However, classification based on function shall be an alternative to it.

**QUESTION 12 -**

Disclosures in general (Paragraph 44-67)

We are of the view i.e. based on feedback obtained from the plantation industry, the disclosure requirement are excessive and the industry view it time consuming and not cost effective for a large plantation company with numerous estates to comply with the above requirements especially the disclosure on the reconciliation of changes in carrying amount of biological assets.

**QUESTION 13 -**

Present value sensitivity disclosure (Paragraph 64(c))

Yes, disclosure of an indication of the sensitivity of the present value measurement to changes in assumptions, should be required.

**QUESTION 14 -**

Transition : follow IAS 8 (Paragraph 69)

Both the benchmark and the allowed alternative treatments under IAS 8 should be permitted.

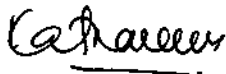
**QUESTION 15 -**

Matters not covered by a specific question

- Given the market volatility nature of agricultural assets and produce, hedging is certainly practised by agricultural firms applying various futures, options, and/or other types of derivative financial instruments. It would therefore be recommended if hedge accounting be addressed in the Standard.

We hope you find our views and suggestions helpful in your deliberations.

Yours faithfully,  
MALAYSIAN INSTITUTE OF ACCOUNTANTS



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Technical Manager