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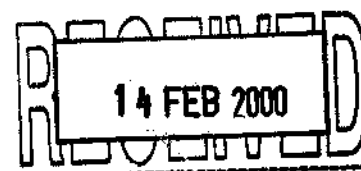
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The Secretary-General
International Accounting Standards Committee
166 Fleet Street, London EC4A 2DY
United Kingdom




Dear Sir,

REF: EXPOSURE DRAFT 65 - PROPOSED IAS ON AGRICULTURE

We wish to highlight our comments on the above exposure draft for your consideration. The comments are based on deliberations from the members of our Professional Standards Committee together with views from key players in the agricultural sector.

The comments consist of answers to the fifteen questions (attached). Otherwise, we await further developments from the Board.

Yours sincerely,


James Ouma
Technical Manager

CC Chief Executive
ECSAFA



ANSWERS TO QUESTIONS

Question One

The Institute agrees that the final standard should not address further processing of agricultural produce after harvest and that further processing should be dealt with under IAS 2, inventories.

However, the guidance in paragraphs 4-7 for distinguishing between agricultural activity and further processing requires some clarification:

- (a) Under paragraph 6, heading “Biological Asset” there is reference to “Growing crop”. This should be “Growing cereal crop”. The term “Growing crop” would be a reasonable description of all the crops listed.
- (b) Under paragraph 6 there is need to clarify the “produce from agricultural activity that is within the scope of the Standard” with regard to the tea industry. Would it be “green leaf” or “made tea”? If it is “green leaf”, the standard would not apply, as the leaf would be virtually worthless the next day.

Question Two

The Institute strongly believes that contrary to what is being proposed in the exposure draft the historical cost model is the best method of measuring biological assets. We disagree with the views of the Board that biological transformation can not be measured with sufficient reliability and therefore it is fallacious to report it as income. Besides, there is no point in treating agriculture differently from other economic activities. The views of the Institute are:

- (i). All biological assets and agricultural produce *except living animals* should be measured at **cost**. The cost would be determined from the records maintained for land clearing, planting, field maintenance and other agricultural operations till harvesting. Thereafter, all field maintenance costs should be charged against revenue. For Instance in the sisal industry the following would apply:
 - (a) Cost of a sisal plantation consists of all costs incurred in the development of the sisal plant during the period of immaturity.
 - (b) Cost of sisal fibre consists of direct costs incurred in the cutting and decorticating of sisal leaf and the drying, brushing and baling of sisal fibre.
- (ii). Living animals such as cattle, sheep and goats should be measured at **fair values**. This is because it is difficult to determine the cost of such animals particularly if they are homebred.

Question Three

The Institute believes that fair value sometimes cannot be determined reliably and the cost basis should be used. In Kenya determination of fair values is not likely to be done with precision. Indeed there is a likelihood of coming up with as many values as the number of accountants in the country. This is mainly due to:

- (a) Active markets for biological assets and some agricultural produce do not exist. For instance, there is no active market for the unharvested and unprocessed sisal. It is also very rare to find a coffee, tea or sisal plantation on sale. This makes it difficult to determine the fair value of such a plantation.
- (b) Prices of agricultural produce are constantly fluctuating depending on market forces, foreign exchange rates, time of the year, climate and location. Market prices of some agricultural commodities have been known to fluctuate by as much as 50% within a year.
- (c) At times there is Government interference in the marketing of agricultural produce.

Fair values cannot be determined reliably for growing crops such as coffee, tea, sisal, pineapples and sugar cane, in which case cost should be used. The cost would be determined by computing the accumulated cost incurred including land preparation, planting, field maintenance and other agricultural operations till harvesting in commercial quantities. The figures for costs incurred would ordinarily be obtained from the records maintained by the entities. A good example is in the sisal industry, where the cost of bringing the sisal plant into production is quantified fairly accurately and then depreciated over the eight year productive life of the plant. Cost related to revenue would then be deferred until the revenue is generated.

The question of relevance to the user boils down to the whole issue of fundamental accounting principles. If cost based systems are applicable in manufacturing companies we do not see why they should not be applicable to agriculture. Indeed if the cost of biological assets and agricultural produce is not relevant to the users of financial statements of an enterprise engaged in agricultural activity, the same question could be raised relating to assets in the accounts of other types of enterprises.

Question four

The change in fair value should be reported entirely in equity until the asset is sold or consumed at which time it should be removed from equity and reported in the net profit or loss for the period. This is because we do not believe that the change in fair values of biological assets prior to realisation is the most appropriate indicator of the performance of an enterprise engaged in agricultural activities.

The Institute strongly believes that if profits are recognised before they are realised, then this is likely to have various implications on the reporting entity. Even if the method of arriving at the profit is disclosed, there will be room for manipulation of accounts. It will be difficult, for instance, to convince shareholders or even tax authorities that the reported profit has not been realised and therefore they should not expect any dividends or that tax will not be paid on such profits. More so, we strongly feel that agriculture should not be treated differently from other economic activities.

Question Five

Sometimes price in an active market should be adjusted to determine fair value. If there are any pre-disposal costs such as brokerage or auctioning costs then they should be put into consideration. Therefore, the market price should be reduced by such costs. However, as noted earlier in some cases no active markets exist.

Question Six

We believe that IAS 16 should apply to agricultural land.

Question Seven

The grant should be amortised to income over the life of the biological asset. Ideally, the treatment should be the same as under IAS 20.

Question Eight

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.

Question Nine

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. Again this answer is subject to fair value being quantifiable, which we contest.

Question Ten

The guidance for making the split in paragraphs 56-58 is adequate.

Question Eleven

Each enterprise should be allowed to decide whether to classify expenses by nature or function.

Question Twelve

The disclosures proposed in paragraphs 44-67 are excessive compared with other industries. Additional disclosures should not just be confined to the agricultural sector. In particular the following need to be eliminated:

- Separate disclosure of physical and price changes of biological assets (paragraph 52-58).
- Present value sensitivity disclosure (paragraph 64(c)). Such disclosure will amount to making accounting more complex and difficult for end users.

Question Thirteen

Such sensitivity disclosure should not be required.

Question Fourteen

We believe that both the benchmark and the allowed alternative treatments under IAS 8 should be permitted when an enterprise adopts this standard.

Question Fifteen

No comments.