

# AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

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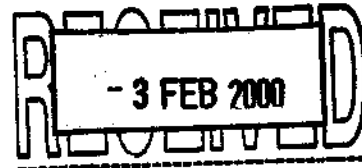
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The Secretary-General  
International Accounting Standards Committee  
166 Fleet Street  
London EC4A 2DY  
UNITED KINGDOM



Dear Sir

## **Proposed International Accounting Standard – Exposure Draft E65 Agriculture**

In response to the invitation to comment on the above topic, the Australasian Council of Auditors-General (ACAG) submits the following views. While it should be noted that each Auditor-General is an independent office bearer, this response represents the consensus view of the Australian and New Zealand members of ACAG. The opportunity to provide comments is appreciated.

ACAG is generally supportive of the proposals contained in the Exposure Draft. Our comments on the specific issues identified in the Exposure Draft are attached.

I trust you will find the above comments useful. Should you require any further information, please contact the undersigned on (02) 6207 0832 or Mr Russell Walker on (03) 9651 6004.

Yours faithfully

John A. Parkinson  
ACAG Convenor

29 January 2000

cc Mr Colin Parker – Director, Technical Standards, ASCPA  
Mr Keith Reilly – Director, Technical Standards, ICAA

**Proposed International Accounting Standard – Exposure Draft E65 Agriculture**

**Specific Comments:**

***Question 1 – Scope: further processing after harvest (paragraph 4-7 and 36)***

***Do you:***

- (a) agree that the final Standard should not address the 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?***

**Response**

We consider that the final standard should not address further processing of agricultural produce after harvest as this is covered in IAS 2 “Inventories” (alternative (a)). The guidance in Paragraphs 4-7 is adequate.

***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 fair value 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.***

**Response**

We support the view that all biological assets should be measured at each balance sheet date at fair value and agricultural produce should be measured at fair value at the point of harvest (alternative (a)). We also agree that cost may sometimes approximate fair value of biological assets, particularly for biological assets for which little biological transformation has taken place or the impact of the biological transformation on price is not expected to be material.

***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*
  - (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.*

#### Response

We consider that a reliable estimate of fair value can be determined for biological assets and agricultural produce at the point of harvest and in this respect, the provisions for estimating fair value in paragraphs 21 – 31 are considered reasonable. The provisions in relation to agricultural produce (paragraphs 34 – 37) are also reasonable in terms of measurement in accordance with IAS 2 “Inventories”.

#### **Question 4 – Fair value change in net profit or 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 for the period;*
- (c) *reported entirely in equity until harvest, at which time it should be removed from equity and reported in net profit or loss for the period;*
- (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?*

*Alternatives (b), (c), and (d) all would report some or all of the change in fair value of biological assets in equity, with ‘recycling’ into net profit or loss triggered by a ‘realisation’ event such as harvest, sale, or consumption. If you support one of those alternatives, please indicate clearly whether you do so because you do not believe that fair values can be measured reliably prior to a ‘realisation’ event or because you 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.*

#### Response

We support the reporting of the change in fair value entirely in net profit or loss for the period. This is consistent with the approach taken in the following pronouncements:

- AAS 35 “Self-Generating and Regenerating Assets” (Australia);
- AAS 25 “Financial Reporting by Superannuation Plans” (Australia);

- AAS 26 "Financial Reporting of General Insurance Activities" (Australia)
- FRS-32 "Financial Reporting by Superannuation Schemes" (New Zealand); and
- FRS-35 "Financial Reporting of Insurance Activities" (New Zealand).

***Question 5 – Definition of fair value (paragraph 24)***

***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?***

**Response**

We support option (b) on the basis that it is not clear whether the definition of market price is an average of sales over the last 12 months, a spot price, an average price of contracts locked into (which may cover more than one year).

The local price is irrelevant in situations where an entity has entered into supply contracts that must be filled. In these circumstances the fair value is what will be obtained under the terms of the contract. As such, the fair value should be related to the current prices in the entity's traditional market adjusted for any legally binding supply contracts held.

In cases where an active market does not exist, then the alternative measures outlined in paragraph 26 should be adopted.

***Question 6 – Agricultural land: follow IAS 16 (paragraph 38)***

***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?***

**Response**

We consider that IAS 16 "Property, Plant and Equipment" should apply to agricultural land (alternative (a)).

**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?**

**Response**

We agree that where government grants provided to an entity are unconditional, the grant should be recognised as income. We therefore suggest that all references to government grants be removed from E65. This approach would also be consistent with the approach taken in E64 “Investment Property” which states that the issue of government grants would not be dealt with within the scope of E64, but instead dealt with in the context of IAS 20.

In Australia, AAS 15 “Revenue” requires recognition when:

- the entity gains control of the grant or the right to receive the grant;
- it is probable that the economic benefits comprising the contribution will flow to the entity; and
- the amount of the contribution can be measured reliably.

**Question 8 – Components of biological assets (paragraph 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;**
- (b) separate disclosure of the quantified consumable and bearer components of the carrying amount of each group of biological assets should be required;**
- (c) separate disclosure of the quantified mature and immature components of each group of consumable and each group of bearer biological assets should be required; or**
- (d) subdivisions of biological assets other than a consumable-bearer split and a mature-immature split might provide better information about an enterprise’s biological assets in some or all cases and, if so, which type of subdivision(s) and in which case(s)?**

Response

We agree with (a). This disclosure is appropriate as it provides information on the realisable or productive potential of the entity's assets and the liquidity and sustainability of the agricultural activity.

In addition, this requirement may need to add 'if practicable' as it will be some years before component valuation of native forests can be broken down as envisaged, because there are numerous species growing at different rates that are at different stages of development. This can be achieved for plantations, because the species and plantations age is more uniform.

**Question 9 – Components of change in fair value (paragraphs 52 – 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?*

Response

We support the requirement for enterprises to disclose separately the components of the change in fair value of its biological assets due to physical changes and price changes (alternative (a)). It is our view that the benefits of disclosing the split would outweigh the costs, given that the information will be readily available having already been determined in the process of calculating fair value.

In addition, we believe that enterprises should be encouraged to disclose the technique adopted to identify the amounts attributable to each component of the change in fair value.

**Question 10 – Guidance on components of change in fair value (paragraphs 56 – 58)**

*If you answered Question 9 either 'a' or 'b' (that is, you believe an enterprise should be either required or encouraged to separate the physical and price components of the change in fair value), 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?*

Response

The guidance provided in paragraphs 56 – 58 is considered to be adequate.

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

*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?*

Response

We are of the view that classification by nature of expense should be required (for example, fertiliser, wages and salaries and depreciation) as it provides more useful information on expenses that might be expected to vary with the level of activity (alternative (a)).

***Question 12 – Disclosures in general (paragraphs 44 – 67)***

***In addition to questions 8 – 10 that address some specific disclosures, do you believe that the disclosures proposed in those paragraphs:***

- (a) are about right;*
- (b) are excessive (please indicate which one(s) you would eliminate and reasoning); or*
- (c) are insufficient (please indicate your proposed addition(s) and reasoning)?*

Response

We support the proposed disclosures outlined in paragraphs 44 – 66 (alternative (a)). However, consistent with our views on removing references to grant revenue from E65 (refer issue 7 above), we believe that the requirements of paragraph 67 should be removed.

***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?*

Response

We believe that such sensitivity disclosures should not be required (alternative (b)).

In our view, the proposed requirement in paragraph 64 (c) to disclose the discount rate and numbers of years over which future cash flows have been estimated provide a starting point for analysis for readers. We do not believe that the proposed additional disclosures should be required and note that there are no similar requirements in Australia and New Zealand.

We would, however, be supportive of the proposal to encourage the provision of sensitivity disclosures. In this respect we consider that the types of assumptions that should be disclosed include:

- Date of biological assets maturity;
- Estimated volume yield, which is influenced by numerous factors such as date of maturity, estimated losses through disease, pests, wind, fire or other similar events, etc... ;
- Expected future market prices;
- Costs of maintenance and of bringing the biological assets to the stage of harvest; and
- The selection of the discount rate.

***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 allowed 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)?***

**Response**

The transition provisions under option (a) are supported.

***Question 15 – Matters not covered by a specific question***

**Response**

With respect to the proposed changes that are to be made to IAS 2 associated with the cost of inventory for agricultural produce, we believe that it would be more logical to include a clause in the proposed standard on “Agriculture” stating that for Agricultural Produce fair value is deemed to be the cost of purchase for the purpose of IAS 2.

***Other Comments***

In the “Contents” page (page 13), paragraph numbers 11 – 29 shown for the item “BIOLOGICAL ASSETS” should read 11 – 33.