

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

E-mail: Commentletters@iasc.org.uk

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Dear Sirs

Comments to Exposure Draft E 65, Agriculture

The Accounting Standards Committee of FSR has asked the Danish Agricultural Advisory Centre to review the exposure draft E 65.

We have received the following comments:

Objective and scope of the standard

We support the decision to issue an international accounting standard prescribing the accounting treatment and related financial statement presentation and disclosures for agricultural activity.

The main part of the agricultural activities in Denmark – and may other countries – is performed by self-employed farmers. For these kinds of enterprises no detailed rules exist on how to prepare and disclose financial statements to the general public. However, a new international accounting standard on agriculture could be an important step to ensure an international harmonisation of accounting principles and presentation of financial statements in the agricultural sector.

It should be stressed, however, that the financial accounting is primarily undertaken in respect of the farmer's need to ensure an effective financial management of his activities. International standards should be developed in respect of that fact.

Definitions

We support that the "biological transformation" aspect is an import part of the definition of "agricultural activity", since this aspect is the main factor when making a distinction between "agricultural" and other activities.

Biological assets

It should be considered to extend the definition of "biological assets" to cover inventory products, which have been produced by the enterprise itself, e.g. rough feed potatoes, pelt and grain kept as inventory.

We agree that the biological assets should be measured at their fair value. In the few situations where a fair value does not exist, it should be allowed to measure biological assets at cost.

In the agricultural sector, measurement at cost would normally be difficult and misleading. This is due to the fact that historical cost as a measurement basis does not take into consideration the biological process (value added), it is not necessarily a "true and fair" representation of the real value, especially when price changes occur, and it could be difficult to measure or estimate the cost. E.g. this measurement could be difficult for a herd which is brought up by the farm itself.

We do not find that "net present value" would be an appropriate measurement basis for biological assets.

A special problem exists in connection with perennial plants. It seems difficult to estimate a fair value at the balance sheet date, if the plants are not yet available for sale. Development of measurement guidelines for the situations would be required.

Agricultural produce

We agree that agricultural produce should be measured at fair value. In situations where a fair value does not exist, the measurement basis should be cost or current cost.

Agricultural land

We find that agricultural land should be measured at fair value. However, in some situations it could be difficult to recognise and measure the agricultural land separate from buildings, which belong to the farm, in the financial statements. Often the land and buildings are considered as an integrated productive capacity.

Intangible assets

When an active market exists, e.g. milk ratios and rights to raise potatoes, we find that the assets should be measured at their fair value with due respect to the principle of prudence.

The Danish Agricultural Advisory Centre advises that milk ratios should be measured at 80 per cent of the price which is quoted on the official Danish milk ratio exchange.

Government grants

We agree that a governmental grant in respect of biological assets, e.g. governmental grants which are based on the size of the corn field, should be recognised in the income statement. We also agree that grants which are conditional should not be recognised unless there is reasonable assurance that the conditions are met.

Presentation and disclosure

We find the requirements in E 65 logical and appropriate.

However, the Danish Agricultural Advisory Centre has mentioned that the layout of the income statement and balance sheet in appendix A is not similar to Danish practice.

The Danish Agricultural Advisory Centre has published a layout for agricultural financial statements in which the income statement has been structured on the basis of relevant main items and classified on basis of gross yield, marginal costs, capacity costs, financial costs, other operation income, calculated income tax and private costs. All these items are defined properly.

The preparation of the income statement is based on the contribution method (direct costing). The contribution margin (variable gross margin) is an important key figure in this preparation. Applying this method would enable you to analyse the contribution margin for each type of agricultural activity.

The "percentage of completion" method is listed in financial statements according to the financial statements layout recommended by the Danish Agricultural Advisory Centre.

In the balance sheet layout, recommended by the Danish Agricultural Advisory Centre, the assets are classified in agricultural assets, other assets and financial assets. The liabilities are presented in only one single group. Assets and liabilities are ranked with respect of their nearness to cash.

In accordance with the financial statements layout recommended by the Danish Agricultural Advisory Centre, the changes in fair value should be separated in a part arising from the market trends and other adjustments in the fair value (changes which are due to value added of the biological assets and produce). The Danish Agricultural Advisory Centre recommends that the changes in fair value arising from the market trends should not be recognised in the income statement.

Yours sincerely

Per Gunslev
Chairman of the
Danish Accounting Standards Committee