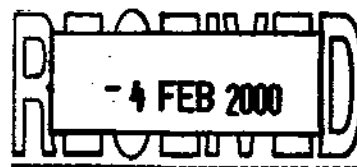




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**The Institute of  
Chartered Accountants  
in Australia**

ARBN 084 642 571

31 January 2000



Sir Bryan Carsberg  
Secretary-General, International Accounting Standards Committee  
166 Fleet Street  
LONDON EC4A 2DY  
UNITED KINGDOM

Dear Sir Bryan,

**Re: E65 Agriculture**

The Institute of Chartered Accountants in Australia supports the IASC in its endeavours to create a generally accepted accounting standard for agricultural activities and welcomes this opportunity to comment.

As you are undoubtedly aware, Australia has recently issued Accounting Standard AASB 1037, "Self-Generating and Regenerating Assets" ("SGARAs"). The provisions of AASB 1037 are very similar to those of E 65, but since AASB 1037 applies to accounting periods ending on or after 30 June 2001, we have not yet seen the standard widely applied. Consequently we can offer no comments from a practical standpoint. AASB 1037 was recently examined on a current affairs program here and opinions of those interviewed ranged from highly supportive of the standard through to passionately against.

We do commend to you the submission written by the Group of 100 (a group of Australia's 100 largest companies) as this submission is drafted by accountants with practical experience of accounting for primary production. They express a number of reservations about how the Standard would work in practice and strongly support the IASC's proposal to field test the proposed standards prior to implementation.

Our responses to the detailed questions are attached.

Yours sincerely,

*Stephanie Kemp*

Stephanie Kemp, MA, CA  
Technical Standards Consultant



## **INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA SUBMISSION FOR E65 AGRICULTURE**

### **1 Scope: further processing after harvest**

We agree that the standard should stop at the point of harvest and not address further processing. At this stage, agricultural activity is indistinguishable from any other type of manufacturing, and processing is adequately dealt with under existing standards.

### **2 Biological assets: measure at fair value**

While fair value measurement is obviously a departure from the historical cost accounting we are all used to, it does have the merit of reflecting the natural increase that is the essence of agricultural activity and we therefore support this proposal.

### **3 Reliability of fair value measurement**

While some biological assets are easy to value, having a readily ascertainable market price, others are less so and we again commend the G100 submission to you with its description of some of the difficulties encountered by members preparing to implement AASB 1037.

### **4 Fair value change in net profit or loss**

Conceptually, if fair value accounting is considered reliable enough to be adopted in the first place, the gains and losses it produces should be considered reliable enough to go through the profit and loss account.

The idea of putting valuation adjustments through the profit and loss account, however, may seem rather too revolutionary for many of your correspondents. The G100 are particularly concerned with reflecting unrealised profits which cannot be paid out as dividends in the profit and loss account and also with the unreliability of fair value measurement compared with historical cost. They therefore favour holding the unrealised gain or loss as a revaluation reserve and recycling it through the profit and loss account when the asset is sold. From a practical point of view, G100's suggestion of holding the unrealised gain in equity and recycling it through the profit and loss account may be useful half way stop on the way to full fair value accounting.

### **5 Definition of fair value**

We agree that the price in an active market in the asset's intended location of sale or use is the best measure of fair value. We also agree that the market price needs to be adjusted for costs of sale to arrive at fair value (as explained in paragraph 30).

## 6 Agricultural land: follow IAS 16

We agree that agricultural land should be accounted for under IAS 16, with the option to carry land at valuation instead of cost if management wishes.

## 7 Government grants

We agree that government grants should be recognised as revenue once they satisfy the recognition criteria for revenue set out in the conceptual framework.

## 8 Components of biological assets

We support the requirement in paragraph 46 and suggest that the disclosure should be by way of classification of the carrying amounts per paragraph 47(a) and (b). Some of our correspondents disagree with this requirement, but in our view, it is no more onerous than the current requirement to classify creditors and borrowings into the periods in which they fall due.

We suggest that in the interests of comparability, the option to give narrative disclosure be removed.

## 9 Components of change in fair value

E 65 currently encourages but does not require disclosure of a split of the change in fair value into parts attributable to physical change and price change. The Australian ED 83 (precursor to AASB 1037) originally required such a split, but feedback in submissions suggested that this disclosure would be unduly onerous.

We therefore support paragraphs 52 - 58 as drafted.

## 10 Guidance on components of change in fair value

The guidance appears adequate.

## 11 Analysis of expenses

In our view the requirements of IAS 1 relating to the disclosure of expenses in the profit and loss account are adequate and need not be supplemented in E 65.

## 12 Disclosures in general

In our view the level of disclosure required is excessive. In particular the disclosures required by paragraph 61 (reconciliation of changes in carrying amount of biological assets) go beyond what is required in any other industry.

### 13 Present value sensitivity disclosure

In our view the disclosures required by paragraph 64(c) are adequate. We do not support requiring further sensitivity analysis disclosure, as again, such disclosure would go beyond what is required in any other industry.

### 14 Transition: follow IAS 8 (paragraph 69)

While we do not generally support alternatives in accounting standards, in this instance we believe that both the benchmark and allowed alternatives should be permitted when an enterprise adopts this standard. This may go some way towards allaying the concerns of some entities with slow maturing biological assets.

### 15 Matters not covered by a specific question

We have no further comments.