

**PRELIMINARY OBSERVATIONS ON ED65
PROPOSED INTERNATIONAL ACCOUNTING STANDARD:
AGRICULTURE**

Responses to questions

- (1) Scope: The position taken with regard to further processing of this harvest would seem to be correct. Other standards already in place deal with accounting practices pertaining to manufacturing activities.

- (2) Measurement of assets

Valuation of assets should be determined on the basis of reliability. In all, or almost all, contexts an active market can be expected to exist for agricultural produce. Such produce can therefore be reliably stated at fair value. (Further, the probability of sale at or close to fair value can often be regarded as very high.) Certain biological assets can also be reliably measured at fair value because there is an active market for such assets, particularly mature livestock.

Some biological assets cannot be reliably stated at market value. A prime example are perennials, particularly perennials that may take a number of accounting periods (years) to reach maturity e.g. coconut, coffee, tea. Such assets essentially cannot be sold separate from the land on which they are planted. E65 argues, correctly in my view, that agricultural land should be reported in accordance with the provisions of IAS16, i.e. with a benchmark valuation at cost. In this case the biological asset should be considered an extension of the land on which it is grown and therefore also be valued at cost. This would require plantation operating costs to be allocated over the areas of plantation on some rational basis, - presumably plantable area. Costs allocated to mature plantable areas would be expensed. Costs allocated to plantable areas yet to reach maturity would be capitalised and amortised over the expected productive life of the asset. Other biological assets which have not reached maturity, annuals sometime prior to harvesting and immature livestock should also be reported at cost on the grounds that such a valuation is more reliable than fair value, immature assets having no active market. In some cases it is acknowledged that this may require arbitrary cost estimates and allocations. However such estimates already permeate standard accounting practices, particularly with regard to the reporting of processed inventories, and work in process. Cost allocation is arbitrary but consistent with standard accounting practice.

- (3) The foregoing discussion is pertinent to the issues raised here.
- (4) Treatment of the fair value change.

It may be premature to take a position on this issue until a standard, or an equivalent document, has been developed from the G4+1 Position Paper "Reporting Financial Performance". Assuming that this position is adopted as standard accounting practice, consistency implies option (a) should be

adopted, with holding gains recognised on assets reported in the appropriate section of the performance report.

(5) Definition of fair value

Fair value of current assets is the market price. Fair value of non-current assets, biological assets may be non-current in nature, is likely to be the present value of the future benefit stream.

(6) Reporting of agricultural land

As indicated above, IAS16 should apply.

(7) Government Grants

The provisions of IAS20 should apply.

(8) Components of biological assets

Given the position taken on question 2, the subdivisions of assets proposed within the proposed standard are not merely desirable, but necessary.

(9) Components of change in fair value.

Again the resolution of this issue will be dependent to some extent on the outcome of the exercise on reporting financial performance. A disaggregation of the impact of physical and price charges would yield useful information, and should therefore at least be encouraged if not made mandatory.

(10) Guidance on components of change in fair value.

The guidance offered in paragraphs 54 - 58 appears to be adequate.

(11) Analysis of expenses

For appraisal purposes it would obviously be helpful for the same form of analysis to be applied by all concerns in the industry. However, IAS1 allows the option of classification by nature or function. While this is deemed acceptable for all other industries it would seem difficult to justify more specific disclosure with regard to agriculture.

(12) Disclosures in General

Disclosure requirements are detailed. They are certainly appropriate for users of financial information of large concerns but could be viewed as onerous for small-scale operations. Some consideration could be given to applying differential reporting requirements.

(13) Present value sensitivity disclosures.

Such disclosure is not required in other extant IAS's, that require reporting present values. It is not clear as to why such a requirement is contemplated here. It could presumably be justified when the variables at play in the determination of the present value are not subject to reliable estimation. This however can be the case in other instances where present values are to be applied (save for leases). Unless a wholesale review of extant standards in regard to this issue is both intended and justified, the requirement for such disclosure cannot be reasonably supported. It should be presumed that the qualitative characteristic of prudence will be applied in making these estimates.

(14) Transition

Transition to the standard will inevitably pose substantial problems for enterprises in the agriculture industry owing to limitations of the records held. The transition provisions should therefore be as flexible as possible.

The proposed standard is wide ranging. This makes it somewhat complex. It also leaves open the possibility that specific issues of financial reporting for agriculture concerns have not been addressed. One such issue relates to the treatment of development costs and revenues generated from immature biological assets on plantations. Substantial variations in current accounting practices on these issues justify their consideration within this, or some other exercise, on financial reporting for agricultural concerns. There may well be other issues that require consideration.

I hope that these observations are helpful.

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