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**CL 24**

January 31, 2000

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

**Re: Exposure Draft E65 “Agriculture”**

Dear Sir Bryan Carsberg:

The Japanese Institute of Certified Public Accountants is pleased to have this opportunity to comment on Exposure Draft E65, “Agriculture”

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

We agree with (a).

We believe that the guidance in paragraphs 4-7 for distinguishing agricultural activity from further processing is adequate.

**Question 2 - Biological assets: measure at fair value (paragraphs 21 and 36)**

We prefer (a).

Under historical cost model, the change in value due to physical growth and an increase in quantity is not appropriately reflected in the financial statements when it arises. Consequently, such financial statements do not properly depict the result of agricultural activities conducted by an enterprise. To improve current accounting practice, we believe that all biological assets should be fair valued.

In addition, we consider that fair-value-based measurement is superior to historical-cost-based one in respect of biological assets since it is believed that their fair value could be obtainable in most cases. However, as mentioned in comments on Question 3 below, we think that additional guidance on reliable measurement of fair value needs to be provided when there is no active market concerning certain biological assets.

### **Question 3 - Reliability of fair value measurement (paragraphs 21- 31)**

We agree with (b).

However, we believe that guidance in paragraphs 24-31 which is thought to clarify how to determine the fair value of biological assets and agricultural produce at the point of harvest is not sufficient. In particular, detailed guidance about reliable measurement of fair value in respect of long-term biological assets is necessary when an active market does not exist. For example, although paragraph 26(f) says that cost may sometimes approximate fair value for the initial growth in a 30-year pine plantation production cycle, we believe that it is necessary to clarify the extent of cost to be included as value for the initial growth. In this instance, cost of selling might be included in approximation of fair value, but staff cost for management of plantation might be or might not be included. Moreover, when projecting expected cash flow from biological assets in accordance with paragraph 26(d), we believe that detailed guidance is necessary on certain areas. For example, as to how possible damages to biological assets caused by disaster could be incorporated into cash flow calculation, what discount rate that commensurate with the risks associated with certain class of biological assets should be selected, and so on. We propose that some illustrations be added in appendix of the final standard.

As to a proposed disclosure item in paragraph 64(a) which requires an enterprise to make clear the measurement base used to determine fair value, such disclosure is especially important in case that fair value of biological assets can not but be estimated due to non-existence of an active market. Therefore, we propose that additional wording be devised in final standard so as to secure sufficiently detailed disclosure on this item.

### **Question 4 - Fair value change in net profit or loss (paragraph 22)**

We agree with (c).

In order to avoid any inconsistency materializing from our position (alternative (c)), we suggest that

additional paragraphs be added which prescribe that cost directly related to sustenance of biological assets (except administration cost) should not be reported in net profit or loss when incurred, but such cost should be charged directly to equity until harvest, and it should be removed from equity and reported in net profit or loss for the period at harvest.

We agree that the carrying amount of biological assets on the face of balance sheet should be their fair value, but we disagree that resulting change in fair value of biological assets should be reported in net profit or loss. It takes a considerable time for some biological assets to reach the form in which they might be readily convertible into cash in the market. In addition to this, in determining the fair value of biological assets for which an active market does not exist, more estimation elements as compared to financial instruments inevitably need to be taken into consideration. Moreover, agricultural activities inherently are highly susceptible to natural disaster and disease, and as a result, the change in fair value of biological assets has a relatively low probability of producing expected cash flows than other assets. Accordingly, we are of the view that accounting treatment which requires an enterprise to report the change in fair value of biological assets in net profit or loss is not appropriate. We believe that the change in fair value of biological assets prior to realization is not an indicator of performance of an enterprise engaged in agricultural activities.

#### **Question 5 - Definition of fair value (paragraph 24)**

We agree with (a).

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

We agree with (c).

The fair value of certain agricultural land such as forest, which is physically attached to biological assets, can be identified only as part of a combined group that includes such land and related assets. We believe that agricultural land whose fair value cannot be reasonably allocated among components within a combined group should be accounted for without reference to requirements in IAS 16, that means the combined group should be fair valued as a whole. However, if fair value of the agricultural land can be identified separately, we are of the opinion that there appears to be no valid reason to set up new requirements different from those prescribed in IAS 16.

**Question 7 - Government grants (paragraphs 41- 44)**

We agree with (a).

**Question 8 - Components of biological assets (paragraph 46- 47)**

We agree with (a).

**Question 9 - Components of change in fair value (paragraphs 52- 58)**

We agree with (b).

It is obvious that information regarding to each components of the change in fair value of biological assets due to physical change and price change is beneficial for users of financial statements. Therefore, we believe that such disclosure should not be explicitly prohibited. However, we are of the view that such disclosure should not be required because there exists some circumstances in which each components of the change in fair value of biological assets based on physical / price distinction can not be reliably determined.

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

We agree with (a).

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

We agree with (b).

Paragraph 77 of IAS 1 “Presentation of Financial Statements” states that an enterprise should present, either on the face of the income statement or in the notes to the income statements, an analysis of expenses using a classification based on either the nature of expenses or their function within the enterprises. We are agreeable to alternative (b) on the grounds that agricultural activities of an enterprise (particularly, an analysis of expenses) deem to be more understandably reflected in its financial statements by using the nature of expense method.

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

We agree with (a).

With regard to a proposed disclosure item in paragraph 64(a), which requires an enterprise to explain the measurement base used to determine fair value, we believe that such disclosure is important and essential. In particular, this is true when fair value of biological assets or agricultural produce that are not traded in an active market needs to be estimated by way of net present value calculation. Therefore, as mentioned in comments on Question 3, we propose that additional wording be provided in final standard on agriculture so as to secure sufficiently detailed disclosure on this item.

**Question 13 - Present value sensitivity disclosure (paragraph 64( c))**

We agree with (b).

**Question 14 - Transition: Follow IAS 8 (paragraph 69)**

We agree with (a) because there appears to be no positive reason to allow exception to benchmark / allowed alternative treatments prescribed in IAS 8.

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

- According to paragraph 9 which specifies definitions used in this Exposure Draft, it seems to us that “harvest”, in case of an animal, is limited to “the cessation of a biological assets’ life processes”. As a result, given that such interpretation is valid, the sale of a living animal as it is without the cessation of its life processes, by definition, is not regarded as “harvest”. If this kind of sale is interpreted as one form of “harvest”, we believe that the wording of definition “harvest” should be modified accordingly. At the same time, we suggest that clear explanation as to what circumstances constitute “harvest” should be provided in final standard on agriculture. If this kind of sale is not covered by definition of “harvest”, we suggest that accounting treatment thereof (such as disposal) should be clearly provided in principle paragraphs of final standard.

- Although this proposed standard, in our understanding, does not deal with fishery at large, we believe that fish farming (such as Japanese eel and yellowtail) should be accounted for in the same manner as biological assets addressed therein. Consequently, we are of the opinion that an enterprise whose activities embrace the management of biological transformation similar to agriculture should account for its own activities in the same manner as prescribed in final standard on agriculture, and principles to this effect should be made clear therein.

Sincerely yours,

Ikuo Nishikawa  
Executive Director  
Accounting Standard Committee  
The Japanese Institute of Certified Public Accountants