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Issues Paper - *Agriculture Accounting* 28-29 May 2012



Dato' Yeo How
Member of Malaysian Accounting Standards Board

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Agenda



- History of IAS 41 *Agriculture*
- Salient features of IAS 41
- Issues Paper - IAS 41
 - conceptual
 - consequence of IAS 41
 - information usefulness
- Recommendation

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History of IAS 41 Agriculture

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History of IAS 41 Agriculture

Field-test (Apr/May 2000)



1994
- decision
to develop
an IAS on
Agriculture

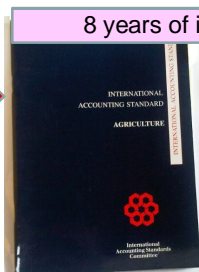
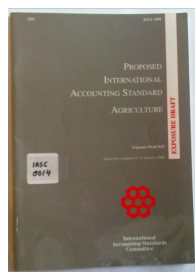
1996
- DSOP
issued

1999
- ED
issued

2001
- IAS 41
issued

2003
- IAS 41
effective

2011
- Agenda
Consultation
2011



8 years of implementation ...

Time to review IAS 41

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Salient Features of IAS 41

Salient features of IAS 41

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Prescribes accounting **treatment for agriculture activity**



- is the management by an entity of the **biological transformation** of biological assets (living animal or plant) for sale into:
 - (a) agriculture produce
 - (b) additional biological asset



How to measure biological transformation?

- **fair value model** (*historical cost fails to capture the biological transformation*)
- fair value has greater relevance, reliability, comparability & understandability as a measurement of future economic benefits expected from the biological assets

Salient features of IAS 41

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- Biological assets are measured at its fair value less cost to sell (FV-CTS) at initial recognition and at each reporting period
- Agricultural produce is measured at FV-CTS at the point of harvest
- Changes in FV-CTS are included in profit or loss in each reporting period
- There is a presumption that fair value can be measured reliably for a BA. This presumption is only rebuttable on initial recognition.

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Issues Paper IAS 41

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Extract of results of IASC Field Test Findings in 2000 (Q10)

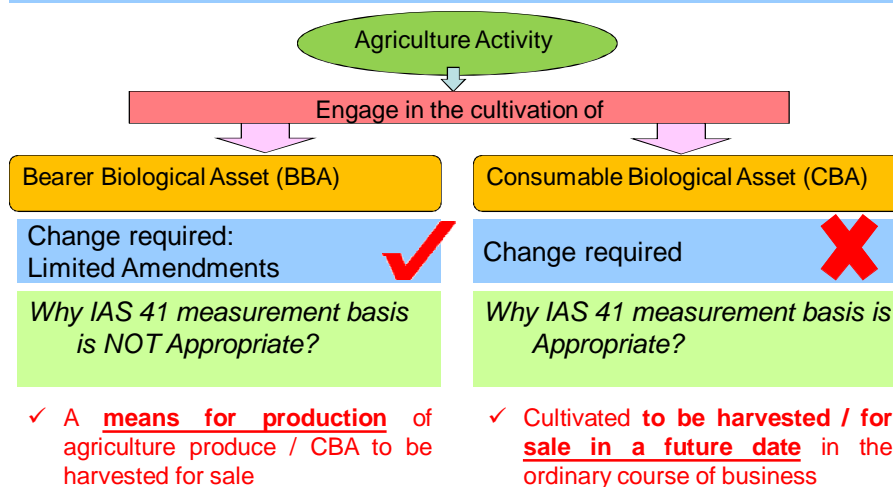
Participants were asked, in general, do they favour the proposal that, for financial reporting to investors and creditors, **all** biological assets be measured at fair value and that, at the point of harvest, all agriculture produce be measured at its fair value?

The following table summarises the participants' answers

	Industry	Country	Total
Do not favour	4 from forestry, 2 from livestock, 2 from wine / grapes, 1 from sugar, 1 from tea	4 from Australia, 1 from Japan, 1 from Kenya, 1 from Netherlands, 1 from New Zealand, 1 from South Africa, 1 from US	10
Favour	2 from forestry, 2 from livestock, 2 from sugar, 1 from potatoes	2 from Australia, 1 from Guyana, 1 from Netherlands, 1 from New Zealand, 1 from Papua New Guinea, 1 from South Africa	7
No explicit position	1 from tea / rubber	1 from Sri Lanka	1
Total			18

Issues Paper - IAS 41

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Issues Paper - IAS 41

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□ BBA

- Why IAS 41 measurement basis is NOT Appropriate?

- ✓ Our conceptual analysis
- ✓ Consequence of applying IAS 41
- ✓ Information usefulness
- ✓ Extract of financial statements that have applied IAS 41

Issues Paper - IAS 41

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- BBA: Why IAS 41 Is Not Appropriate Conceptually



- BBA (e.g. grape vines, oil palm & rubber trees) are not cultivated for sale. **BBA is a means for production of agricultural produce / CBA to be harvested for sale**
- Operation of BBA is similar to manufacturing operation whereby time is required for BBA to mature to bear agriculture produce
- **Matured BBA is not subject to significant biological transformation instead the biological transformation is a concept of growth towards maturity**
- Information about biological transformation is relevant when biological transformation is the driver of economic change, as in the case of CBA but not BBA

Issues Paper - IAS 41

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- BBA: Consequence of Applying IAS 41



- Application of fair value requirement to BBA results in reporting price changes rather than their biological transformation, this is misleading as BBA are not held for sale
- **IAS 41 – results in inconsistent reporting of changes in fair value of:**
 - **land related to agricultural activity, when measured at revalued amount (IAS16)**
 - **biological assets that are physically attached to land**
- Fair value changes of land and associated Biological Assets should be reported on a consistent basis as they are intertwined

Case for Reforming IAS 41

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- Information Usefulness

MASB conducted a Survey in 2010 and 2012 and the results ...

14 analysts responded to our survey: UK (6); Malaysia (7); Singapore (1)

	Highly useful	Useful	Indifferent	Not useful	Total
Is fair value information useful?	-	2	1	9	12

	Yes	No	Total
Is your analysis affected if fair value is reported in the notes rather than in the balance sheet and profit or loss?	2	7	9

Extract of analyst's comment (from the survey):

- **Distorts financial statement's ability to reflect "true & fair" view of an agriculture company's earnings**

Issues Paper - IAS 41 - Information Usefulness

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Extract of financial performance that has applied IAS 41 ... (source: Annual Reports)

Analysis of fair value changes vis-à-vis profit before tax

Year end	Wilmar International (listed in Singapore Exchange Securities Limited)		Golden Agri-Resources (listed in Singapore Exchange Securities Trading Limited)		New Britain Palm Oil Limited (listed on the Port Moresby Stock Exchange and London Stock Exchange (Main Market))		R.E.A. Holdings plc (listed on the London Stock Exchange (Main Market))		
	2011	2010	2011	2010	2011	2010	2011	2010	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Net gain / (loss) from changes in fair value of biological assets	x	262,657	251,017	903,032	1,370,980	(216,138)	245,292	7,375	1,588
Profit before tax (PBT)	y	2,078,741	1,644,186	1,712,253	1,929,180	59,404	376,535	6,417	50,447
% of 'changes in x/y fair value' on		12.6%	15%	53%	71%	-364%	65%	115%	3%
Planted hectareage	z	251,407	248,776	455,660	442,470	129,130	127,905	37,084	32,083
Net gain/planted ha	x/z	104%	101%	198%	310%	-167%	192%	20%	5%

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Issues Paper - IAS 41 - Extract of Financial Statements that applied IAS 41

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Extract of SA SIPEF NV 2011 Annual Report (listed in Euronext Brussels)

In KUSD	Note	2011			2010			2009		
		Before IAS 41	IAS41	IFRS	Before IAS 41	IAS41	IFRS	Before IAS 41	IAS41	IFRS
Revenue	7	367 661	367 661	367 661	279 400	279 400	279 400	237 829	237 829	237 829
Cost of sales	7, 9	-230 853	4 132	-226 721	-161 718	3 442	-158 276	-148 134	2 762	-145 372
Gross profit	7	136 808	4 132	140 940	117 682	3 442	121 124	89 695	2 762	92 457
Variation biological assets	9	28 611	28 611	28 611	33 413	33 413	33 413	19 209	19 209	19 209
Planting cost (net)	9	-17 505	-17 505	-17 505	-14 269	-14 269	-14 269	-13 208	-13 208	-13 208
Selling, general and administrative expenses		-24 936	-24 936	-24 936	-19 758	-19 758	-19 758	-17 814	-17 814	-17 814
Other operating income/(charges)	22	2 218	2 218	2 218	-2 299	-2 299	-2 299	2 027	2 027	2 027
Operating result		114 090	15 238	129 328	95 625	22 586	118 211	73 908	8 763	82 671
Financial income		653	653	653	977	977	977	540	540	540
Financial charges		-677	-677	-677	-1 131	-1 131	-1 131	-1 530	-1 530	-1 530
Exchange differences		2 583	2 583	2 583	440	440	440	881	881	881
Financial result	23	2 559	0	2 559	286	0	286	-109	0	-109
Profit before tax		116 649	15 238	131 887	95 911	22 586	118 497	73 799	8 763	82 562
Tax expense	25, 9	-26 573	-3 951	-30 524	-23 048	-6 041	-29 089	-16 133	-2 768	-18 901
Profit after tax		90 076	11 287	101 363	72 863	16 545	89 408	57 666	5 995	63 661
Share of results of associated companies	26	210	0	210	2 587	0	2 587	913	0	913
- Insurance		210	0	210	2 587	0	2 587	913	0	913
Result from continuing operations		90 286	11 287	101 573	75 450	16 545	91 995	58 579	5 995	64 574
Result from discontinued operations		0	0	0	0	0	0	0	0	0
Profit for the period		90 286	11 287	101 573	75 450	16 545	91 995	58 579	5 995	64 574

Separate
column
on IAS
41!

Issues Paper - IAS 41

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- Extract of Financial Statements that applied IAS 41

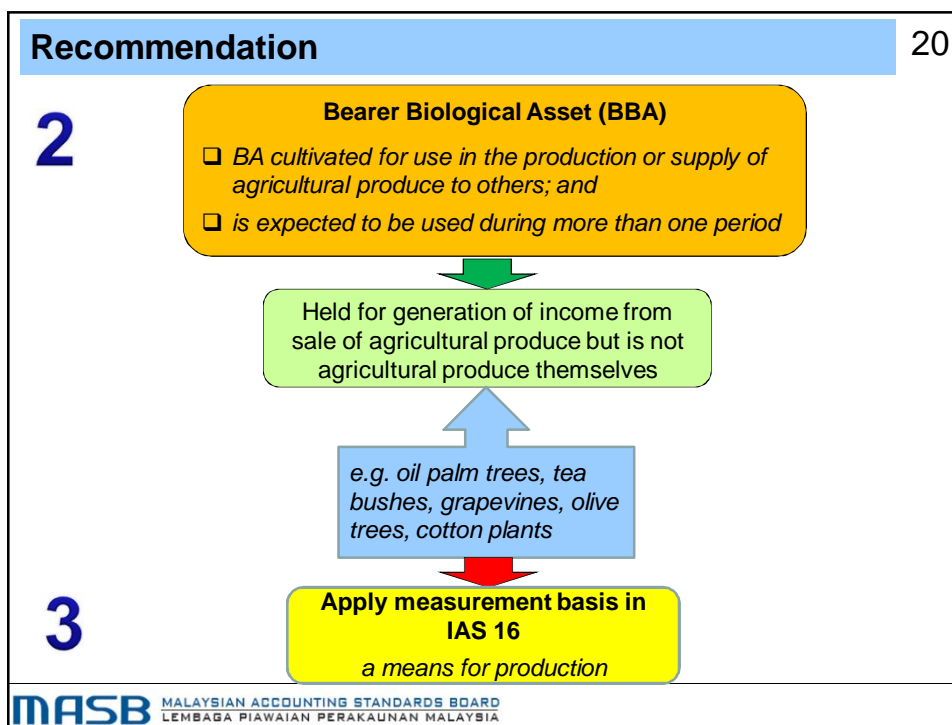
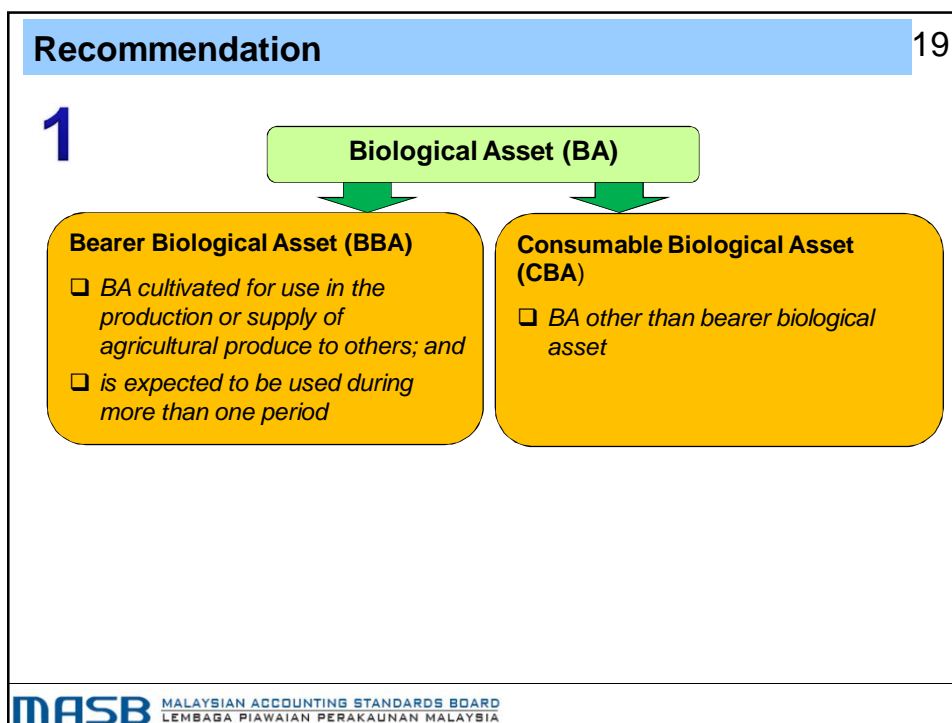
Extract of MP Evans Group plc 2011 Annual Report (listed in AIM)

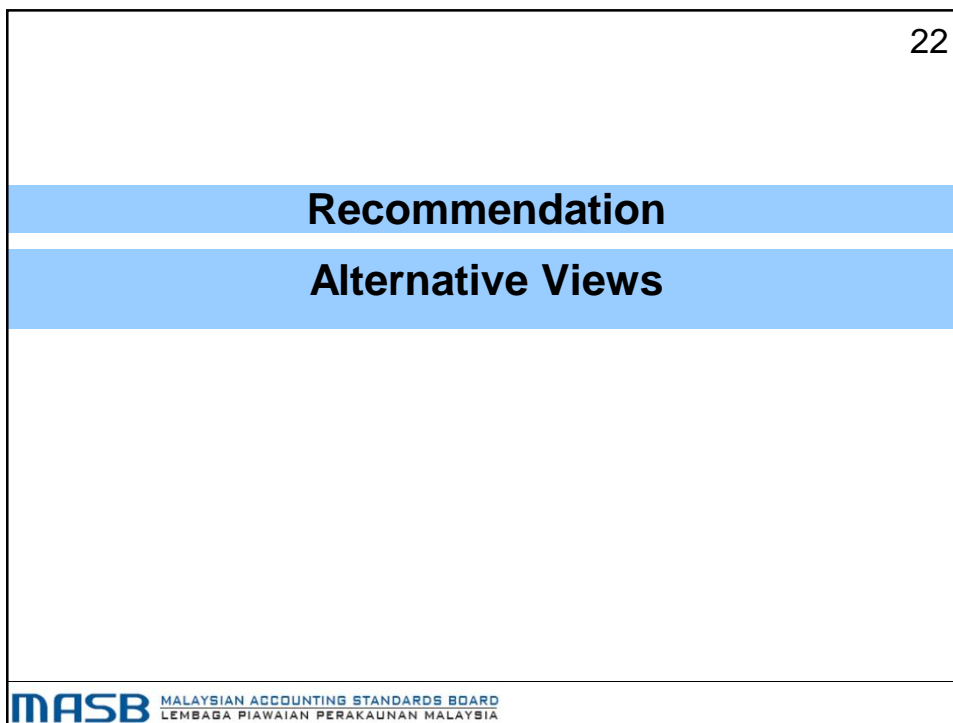
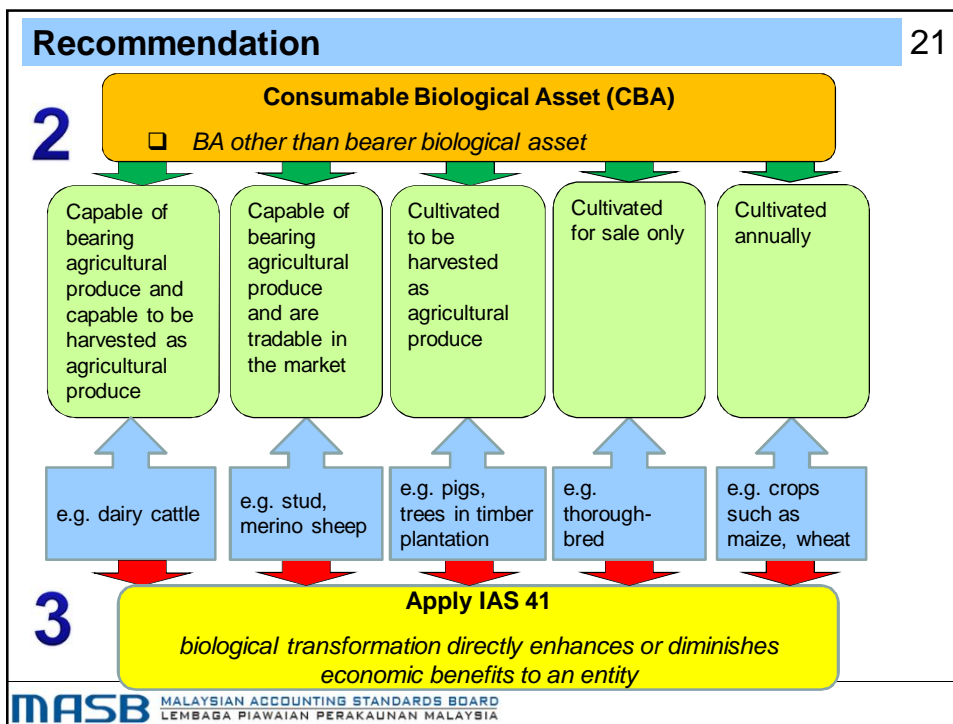
	NOTE	RESULT BEFORE BIOLOGICAL BEARER-ASSET ADJUSTMENT* US\$'000	BIOLOGICAL BEARER-ASSET ADJUSTMENT* US\$'000	YEAR ENDED 31 DECEMBER 2011 US\$'000	RESULT BEFORE BIOLOGICAL BEARER-ASSET ADJUSTMENT* US\$'000	BIOLOGICAL BEARER-ASSET ADJUSTMENT* US\$'000	YEAR ENDED 31 DECEMBER 2010 US\$'000
Revenue	4	57,756	—	57,756	42,091	—	42,091
Cost of sales	4	(33,636)	1,799	(31,837)	(21,215)	1,011	(20,204)
Gross profit	4	24,120	1,799	25,919	20,876	1,011	21,887
Gain on biological assets	13	—	17,936	17,936	—	17,589	17,589
Planting expenditure		—	(15,619)	(15,619)	—	(15,204)	(15,204)
Foreign-exchange gains		528	—	528	739	—	739
Other administrative expenses	4	(2,470)	(230)	(2,700)	(4,934)	—	(4,934)
Other income		143	—	143	218	—	218
Operating profit		22,321	3,886	26,207	16,899	3,396	20,295
Finance income	6	1,078	—	1,078	711	—	711
Finance costs	7	(2,361)	(574)	(2,935)	(1,647)	—	(1,647)
Group-controlled profit before tax	8	21,038	3,312	24,350	15,963	3,396	19,359
Tax on profit on ordinary activities	9	(8,450)	(842)	(9,292)	(7,459)	(577)	(8,036)
Group-controlled profit after tax		12,588	2,470	15,058	8,504	2,819	11,323
Share of associated companies' profit/(loss) after tax	4, 15	21,809	2,829	24,638	16,126	(3,001)	13,125
Profit/(loss) for the year		34,397	5,299	39,696	24,630	(182)	24,448

Separate column on IAS 41!

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Recommendation

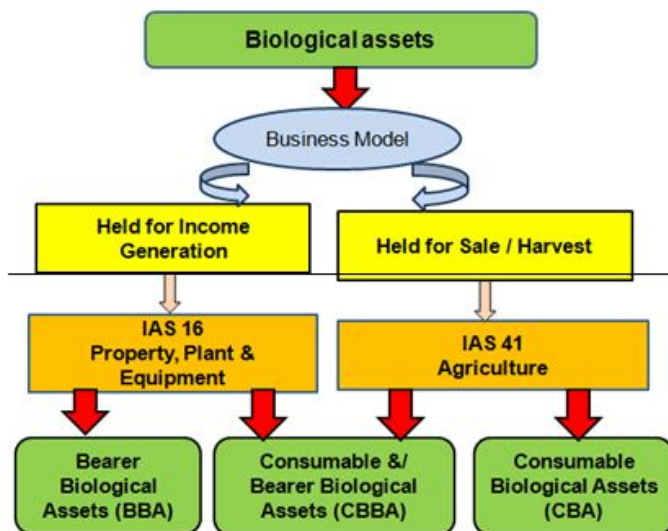




Recommendation

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- Alternative View



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Q&A session



Disclaimer:

The views expressed in this presentation are those of the presenter. Official position of the MASB on accounting matters are determined only after extensive due process and deliberation.