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Regarding: Agriculture (agricultural produce and biological assets)
Due : June 30, 2009
From : Dr. Joseph S. Maresca

Colleagues,

Thank you for the opportunity to critique this new Statement.

AGRICULTURE is described in terms of a transformation of living animals and plants for sale including produce or biological assets. The Statement does not make a specific disaggregation of agricultural products and by-products for cost accounting purposes. The requisite valuation of the harvest is the fair value less costs to sell. (pp. 7)

Examples are provided on pp. 9. These include trees-->felled trees----> logs and lumber. Another example is the plant transformation into cotton and ultimately clothing. The Standard cites a diverse range of activity at the nutrient level, moisture, temperature, fertility and light. Some of these processes may be patentable. Patentable processes are subject to another dimension of valuation. For instance, the plant must be asexually or sexually reproduced and there must be a new variety to achieve the status of patentability. Examples are hybrid plants, mutants, newly created seedlings and various advanced states of cultivation. A plant patent is obtainable by filing a "Plant Patent Application Fee" with the Patent Office. The Plant Variety Protection Act 7 USC 2321 sets relevant standards for sexually reproduced plants. Once a patent is granted, a revenue stream may be created from the Plant Patent. This revenue stream consists of exclusive and non-exclusive licensing to users of the art.

The gains/losses on recognition of a biological asset are arrived at by the fair value - costs to sell. When no fair value is determinable, then the appropriate measurement is at cost less accumulated depreciation and accumulated impairment loss. Examples of consumable biological assets are produce, fish farms, crops and livestock. (pp. 14)

Mature biological assets are ready for harvest. In some instances, biological assets may come to maturity as a result of a patentable plant process or perfected technique. When fair value cannot be determined, the preparer of the financial statement should indicate reasons why. A range of estimates may be provided. A computation of the gross carrying amount less accumulated depreciation may be presented.

Ultimately, accountants will be presented with a decision on how to determine fair value. Value based determinations were provided by David Ricardo in "The Principles of Political Economy and Taxation".

Ricardo stated that value was a function of effort and not the price paid for labor. He reminded us that labor plus the tools to assist labor affected the creation of value. Therefore; increases in value were in direct proportion to increments in labor. Value was also a function of the time it took to bring the goods to market.

Surprisingly, the cultivation of inferior land resulted in a higher exchangeable value of raw produce because more labor was required in its production. If we become more efficient in land cultivation, rents will go down because more can be

cultivated with less land.

In addition, the exchangeable value of commodities is undisturbed by natural or accidental causes. Laborers derive their greatest pleasure when the market price of labor exceeds the natural price. Therefore; wages will increase in response to increases in the demand for labor. Rises in rent are accompanied by increments in the share of produce because landlords want more rent when harvests are greater.

Accordingly, the price of corn is a function of the labor to produce it. If wages go down, then prices must fall. As the price of labor goes down, profits increase but the price of the commodity may not go down. Taxes on profits tend to increase the price of a commodity . If money is not taxed, then all commodities may be subject to price increases.

Ultimately, a tax on land begets a tax on produce. In addition, a tax on labor will raise its price. The price of provisions determine the price paid to the worker. If money decreases in value, all commodities will be subject to steep price increases. This was seen in modern times with the fluctuation of the Russian currency.

Ultimately, bounty lowers the price to foreigners because the government subsidizes the bounty paid to the local merchants to stimulate trade. The theory of rent transfers value but does not create it. Ultimately, wages are determined by the price of food and cost of production.

This theory of wages differs from Adam Smith who said that wages were a function of the ease or hardship to do work, the difficulty or expense of learning a trade, the constancy of employment, the trust reposed in the workmen, the probability of success or failure of the venture or the fear of misfortune. David Ricardo's work is an important milestone in the theory of economics and comparison to the work of Adam Smith.

Dr. Joseph S. Maresca