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The Technical Director  
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Dear Stephenie

**SUBMISSION ON ED 36, PROPOSED IPSAS ON AGRICULTURE**

We welcome the opportunity to comment on the proposed International Public Sector Accounting Standard (IPSAS) on *Agriculture*, issued by the International Public Sector Accounting Standards Board (IPSASB).

In compiling our comments, the Accounting Standards Board, the official accounting standard setter for the public sector in South Africa, consulted widely with our stakeholders and collated their input as part of our comment letter.

In summary, we support the principles that are proposed in the exposure draft, but would urgently request the IPSASB to consider further clarifying the scope of the Standard. Please refer to the detailed comment in this regard.

Please feel free to contact me should you wish to discuss any of our comments.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Erna Swart', with a small flourish at the end.

Erna Swart

Chief Executive Officer

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga,  
Mr K Kumar, Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole  
Chief Executive Officer: Ms E Swart



## DETAILED COMMENT: ED 36

The detailed comment includes two sections. Part 1 deals with some issues of principle. Part 2 lists some editorial and other minor issues.

### Part 1 Principle issues

1. IPSASB amended the definition of an agricultural activity in paragraph 8 to include biological assets for sale, including exchange and non-exchange transactions (also see IN1). Although most respondents agreed that non-exchange transactions should be included in the scope, they did not agree that the current way in which it has been dealt with is adequate. The conclusions were:
  - a. That “for sale” does not include non-exchange transactions. The definition should rather read: “Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for transfer...” The word “transfer” would include “non-exchange transactions” and the terminology is consistent with the terminology used in IPSAS 23 that refers to “transfers of assets”. If the proposed amendment is approved, the IPSAS should be amended to consistently refer to “sale and transfer” throughout the standard.
  - b. In some instances it is not appropriate to include a reference to non-exchange transfers. Examples of these are paragraph 18 dealing with onerous contracts. Onerous contracts would not, for example, arise from social benefits (non-exchange transactions); and IFRS 5 that deals with assets classified as “held for sale” only deals with sales at fair value, i.e. exchange transactions.
  - c. We are also concerned about the potential conflict in understanding the scope exclusion in paragraph 3(c) and believe that examples should be included to illustrate and clarify what is meant with the inclusion of “non-exchange transactions” e.g. the growing of crops for transfer to consumers at below market prices. The scope and application of the Standard should be clear.
2. The rationale for requiring the measurement of biological assets to be *transferred* “at fair value less cost to sell” should be clarified in the basis for conclusion. The IASB concluded that the fair value measurement basis should be used because of the unique nature and characteristics of agricultural activity. That is, for example, that the pattern of growth in a plantation forest directly affect expectations of future economic benefits but differs markedly, in timing, from patterns of cost incurrence. With fair value measurement, income is measured and reported throughout the period (see IAS 41 paragraphs B15 and B19). Although this is true for biological assets that will be sold eventually, the same argument cannot be used for biological assets that will be transferred at less than fair value. The effect of this is that an entity would report gains while it is holding the asset and losses when the asset is distributed. These gains would never be realised as the purpose of holding these assets are to distribute them at less than fair value. This may reflect the reality and substance of the transactions but there is a concern that this may result in misinterpretation by the users of financial statements that may believe that surpluses reported in the years before the actual sales would be realised. Adequate consideration should be given to the fact that “value” may be created when these assets are measured at fair value,

whilst these gains may never be realised. We support the inclusion of these types of assets into the IPSAS on Agriculture. However, the IPSASB should carefully consider whether the current measurement is what the public sector would want to report. This Standard can include a different measurement basis for these assets. If the current measurement requirements remains, we recommend that the disclosure requirements should be amended to require an entity to explain the purpose for which the biological assets is held (either for sale or transfer) and provide enough detail in order for users to interpret these gains and losses appropriately.

The basis for conclusion should outline the reasons why the IPSASB believes that the fair value measurement basis provides the best method for measuring assets that will be transferred through a non-exchange transaction and not just state transferred assets are within the scope of this IPSAS.

3. More clarification is needed on the scope paragraphs dealing with biological assets included and excluded in this IPSAS.
  - a. The current paragraphs dealing with the exclusion of biological assets held for the supply of services are not specific enough. This is because the recognition paragraphs include service potential, but paragraph 3(c) excludes assets held for the supply of services. We suggest that paragraph 3(c) be amended to read: “Biological assets held for the provision or supply of services (such as conservation and research)”; and that the current examples included in the basis for conclusions be included in the text of the Standard itself. The basis for conclusion should record the reasons why the IPSASB excluded these items from the scope and not only state that they have been excluded. It is also suggested that the IPSASB provide guidance and public sector specific examples on what standard is appropriate for what types of biological assets, i.e. either IPSAS 17 or IPSAS 12, where it considers that the current standards are not relevant and what alternatives are available in the absence of a specific IPSAS.
  - b. The IPSASB should clarify when biological assets “held for sale” in IPSAS 12 and those that are “held for sale in agricultural activities” in this IPSAS. Although IPSAS 12 excludes biological assets that are recognised and measured in terms of this Standard, it is suggested that additional examples be included to illustrate the difference. For example, if an entity buys living animals to sell or use them in its production process, that would be within the scope of IPSAS 12. However, when the entity buys these animals for reproduction purposes and then uses the offspring in further production processes, then the entity would apply this IPSAS.
  - c. The IPSASB should also clarify how a change in use of biological assets should be recognised, particularly biological assets that are excluded from the scope as a result of applying paragraph 3(c), for example where animals are kept in a camp for conservation purposes. Our understanding is that these animals will not be within the scope of this IPSAS. However, as a result of the management of the biological transformation of the assets (special breeding programmes and safe keeping), the numbers of these animals may now exceed the space reserved for them and the entity would be forced to sell or transfer them from time to time. An entity may be able to argue that the activity meets

the definition of agricultural activity. However, we believe that the ad hoc sales of biological assets that were recognised in accordance with another standard will not result in the activity being classified as biological assets (as the recognition of these biological assets was scoped out previously). Therefore, the change in use of these biological assets should not result in the application of this IPSAS.

4. According to the GFS certain biological assets (e.g. consumable assets) are classified as inventory and not as fixed assets, whereas the IPSAS classifies such assets as “biological assets”. Only at the point of harvest, some of these biological assets are classified as inventories. This difference has not been considered by the IPSASB (it was not previously included in the comparison undertaken by the IPSASB between IPSASs and statistical bases of reporting as there was no IPSAS at the time). The relevant section from the GFS is included below:

“7.47 Other fixed assets consist of cultivated assets (61131) and intangible fixed assets (61132).

7.48 Cultivated assets consist of animals and plants that are used repeatedly or continuously for more than one year to produce other goods or services. The types of animals included in this category include breeding stocks (including fish and poultry), dairy cattle, draft animals, sheep or other animals used for wool production, and animals used for transportation, racing, or entertainment. The types of plants in this category include trees, vines, and shrubs cultivated for fruits, nuts, sap, resin, bark, and leaf products. Animals and plants for one-time use, such as cattle raised for slaughter and trees grown for timber, are classified as inventories rather than fixed assets. 7.49 Only animals and plants cultivated under the direct control, responsibility, and management of general government units are cultivated assets or inventories. All other animals and plants either are classified as non produced assets or are not economic assets. 7.50 Animals in this category usually can be valued on the basis of the current market prices for similar animals of a given age. Such information is less likely to be available for plants; more likely they will have to be valued at the written-down replacement cost.”

We do not recommend that the principles in the proposed Standard be amended, but that the difference could be addressed by requiring the disclosure of bearer and consumable biological assets instead of encouraging the disclosure. If the IPSASB includes a compulsory disclosure for “bearer” and “consumable” biological assets, we recommend further that the definitions for bearer and consumable assets, currently included in paragraph 40, be included in the definitions section as it will provide the IPSASB with a basis for departure from the IASs.

The above illustrates further why clarification is needed in terms of the scope as animals acquired for “one-time use” may still be inventories. However where these are “grown” by the entity, they should be classified as part of “agricultural activities”.

5. In IN2 and paragraph 32, it is suggested that the first sentence should read “There is a presumption that fair value can be measured reliably for a biological asset in an agricultural activity”. We do not believe this presumption and the rest of that paragraph would be correct for all biological assets, specifically in the public sector, as the fair value of many biological assets in the public sector may

not be reliably measurable, especially where there may be a restriction on the trade of those assets internationally or due to the nature of these assets e.g. the trade in gorillas. Although the recognition and measurement of biological assets that are not part of agricultural activities are not within the scope of this Standard, we still consider this clarification useful.

6. The proposed IPSAS is not clear on *how and where* biological assets *received* through a non-exchange transaction should be recognised and measured. It first states in IN6 that *IPSAS 23 provides guidance in this regard* and that the proposed IPSAS deals with the **measurement** of biological assets acquired in non-exchange transactions, both on initial recognition and subsequent measurement. In the consequential amendments to IPSAS 23, it states that the proposed IPSAS deals with the measurement of non-exchange transactions **recognised** in accordance with IPSAS xx (ED36). Therefore, it appears that these types of transactions are recognised and measured in accordance with this IPSAS and that the guidance in IPSAS 23 should be ignored as it has no relevance. We suggest that the biological assets obtained through non-exchange transactions initially be recognised and measured in accordance with IPSAS 23 (similar to IPSAS 17 and other asset standards). This Standard should then clarify that IPSAS 23 deals with the initial recognition and measurement and this Standard deals with the subsequent measurement.

As this may result in inconsistent measurement at initial recognition of biological assets received through non-exchange transactions in terms of this Standard and other biological assets recognised and received through non-exchange transactions. The inconsistent measurement between the initial fair value measurement of biological assets in agricultural activity and other assets e.g. property, plant and equipment should be considered as the initial measurement of biological assets excludes “cost to sell”, whilst IPSAS 23 requires assets acquired through non-exchange transactions to be measured at fair value only (therefore, excluding “cost to sell”).

7. As a result of the inclusion of non-exchange transactions, the IPSASB should consider the definition for “cost to sell”. The current definition does not include cost associated with the transfer or distribution of assets that may be relevant for the measurement of biological assets that will be transferred through a non-exchange transaction.
8. Although it is not a requirement in IAS 41, we believe that this IPSAS should include additional disclosure requirements relating to restrictions on the sale or transfer of biological assets as it provides useful information on the risks and rewards associated with the activity e.g. restrictions by legislation on the transfer of or selling of biological assets that for part of an agricultural activity or certain licensing agreements. Similar requirements are contained in some of the other asset standards.
9. We are not sure why this Standard deleted the disclosure requirement in paragraph 46 of decreases attributable to sales and biological assets classified as held for sale in accordance with IFRS 5 without replacing it with similar guidance. As paragraph 32 refers to the equivalent international or national standard, we believe this disclosure requirement is relevant and that there are no public sector specific reasons to deviate from this disclosure requirement.
10. In the comparison with IAS 41, the statement that this Standard includes detailed transitional provisions compared to the IAS has not been deleted. We believe

that this Standard should include transitional provisions for the first time adoption of the Standard.

## Part 2: Editorial amendments and other minor issues

1. In IN5, the sentence relating to IPSAS 16 should be moved to the end of the paragraph as it replaces the equivalent reference and text to IAS 40.
2. Provided that the references to IPSAS 23 remains, the insertion in IN6 that refers to IPSAS 23 should be amended to read that IPSAS 23,...,provides requirements and guidance for the accounting of non-exchange revenue, including government grants. Delete “related to agricultural activity” in that sentence. Also delete the last sentence of that paragraph that states “IPSAS 23 deals with other aspects of accounting for biological assets”.
3. The bold paragraph in paragraph 12 dealing with “Terms defined in other International Public Sector Accounting Standards...” should be included as part of paragraph 11.
4. The font of the heading “Disclosure” should be enlarged.
5. In paragraph .49, delete IAS before the insertion of IPSAS 1
6. In the amendments to IPSAS 12: Paragraph 12 should be bold.
7. In the basis for conclusions, the heading for scope should read: “Biological Assets Used for the Supply of Services”, consistent with the wording used in the paragraph or amend the paragraph accordingly.
8. In Example 1, the references to “Trade and other receivables” and “Accounts payable” should be replaced with “Receivables in exchange transactions” and “Payables under exchange transactions” consistent with the wording in IPSAS 1 paragraph 88 that outlines the minimum disclosure requirements.
9. In Example 1, the disclosure for dairy livestock – immature and dairy livestock – mature includes a footnote stating this disclosure is encouraged. We suggest that wording is added to clarify that this can be disclosed on the face or in the notes for clarification as some respondents felt that entities may interpret the example to be the only accepted why of disclosing the relevant information.
10. In Example 1, on page 28, note 4 dealing with “Financial Risk Management Strategies”, replace “Company” with “Entity”, consistent with other changes in the example.
11. In Example 2, in the first sentence in the block, change “10” to “ten” for ease of reading, consistent with the use of “one animal” later in that sentence.
12. In the Comparison with IAS 41, bullet 3, amend the reference to IPSAS 23 to include in brackets “Taxes and Transfers”.