



# Issues clouding adoption of agriculture standard in Malaysia

When the Malaysian Accounting Standards Board (MASB) began to review the possibility of adopting International Accounting Standard (IAS) 41 for the agricultural sector, it became clear that the proposals contrasted with common practices stipulated under accounting standard MAS 7 — accounting for aquaculture (now known as FRS 204). Internationally, IAS 41 Agriculture has been implemented since early 2000, but Malaysia had long been applying MAS 7 to its agricultural sector and Malaysian companies were comfortable with the standard.

IAS 41 requires companies, irrespective of whether they are in the plantation, livestock or timber industries, to fair value their biological assets at each balance sheet date (as opposed to the previous practice of booking at historical values).

Implications for local companies are significant, especially for companies in the plantation sector. Malaysia is currently the world's largest palm oil-producing nation, as well as one of the top three rubber-producing nations worldwide, and let us not forget the rich coconut and cocoa resources

that Malaysia has been blessed with.

There had not been many issues regarding this in the past, as the previous standard did not require fair valuation of assets. However, with the impending adoption of IAS 41 and its requirements, this would result in companies having to engage the services of property valuers on an annual basis. Also, the system may need to be changed in order to capture the new values and the consequential impact on the financial statements.

The MASB recognises that the impact on local companies can be rather severe and in the process of reviewing IAS 41 they have sought the views of several industry players. This was mainly done by encouraging them to participate in simulating the standard's impact on their business. However, the decision to release IAS 41 as a new standard has not yet been reached by the authorities, purportedly due to the need to find out its true cost/benefit.

The plantation sector had seen this standard as an onerous responsibility. Having to fair-value trees as they grow and at frequent intervals over pockets of plantations in diverse locations questions the value they bring to users of financial

statements. Imagine listed plantation companies the size of Sime Darby and IOI, and what the resulting figures would mean to the investing public. There will certainly be a multiple increase in costs for affected companies and the consequential fluctuations in the bottom line figure. Many have questioned the benefits the resulting figures would bring and argued that any potential fluctuations would not be reflective of the trading conditions of the plantation companies.

Valuers have taken the standard as their given responsibility to support the accounting profession. Requirements of the standard can be met rather easily through professional valuation practices, given the experience valuers have. Issues raised regarding splitting of the land portions and the biological assets (that is, trees), and apportionment between the two can be done by referring to market evidence.

Companies were concerned about the professional service charges of independent valuers. However, according to a leading property valuer, there have been moves by the authorities to adjust chargeable fees in order to reduce the seemingly exorbitant valuation fees to companies. The valuation services industry is a highly regulated

one, with requirements set out by regulatory bodies in the valuation industry.

Meanwhile, issues surrounding the valuation of agricultural assets, especially assets with long gestation periods, still loom. The analyst community has been following the debate with some interest too but this took a back seat when the standard, which was supposed to be issued in 2006, was re-exposed for more views from the public.

At the time of writing, the IAS 41 agriculture standard in Malaysia remains an exposure draft. It is not clear if the standard will be issued in the very near future. What is clear is that it must be issued before the 2012 deadline when Malaysia will adopt the full suite of international accounting standards similar to the ones adopted worldwide. In the meantime, companies in the plantation sector should brace themselves for a new regime of fair-valuing their greenest of assets — the trees. **E**

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