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<u>Item 5 of the Agenda</u>

Draft EPSAS Screening Report
IPSAS 27 – Agriculture

Paper by PwC in cooperation with Eurostat

- for discussion -

This document was commissioned by Eurostat. It analyses the consistency of the named IPSAS standard with the draft EPSAS framework, with a view to informing future EPSAS standard setting. This version was prepared taking into account comments received from the participants of the Cell on Principles related to EPSAS Standards.

EPSAS screening report

IPSAS 27 - Agriculture

May 2021

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Background

Objectives

Reference is made to the general introduction to the EPSAS screening reports that covers the following elements:

- Key objectives of EPSAS.
- Standard setting process in the public sector.
- Purpose and scope of the screening reports.
- Approach of the screening reports.
- European public good.
- Common elements considered when preparing the reports.

General introduction to IPSAS 27

IPSAS 27 is drawn primarily from International Accounting Standard (IAS) 41 ‘Agriculture’, issued by International Accounting Standards Board (IASB). In developing IPSAS 27, the International Public Sector Accounting Standards Board (IPSASB) applied its ‘Process for Reviewing and Modifying IASB Documents’ that identifies public sector modifications where appropriate. This approach enables the IPSASB to build on best practices in private sector financial reporting, while ensuring that the unique features of the public sector are addressed.

The objective of IPSAS 27 is to prescribe the accounting treatment and disclosures for agricultural activity, it provides guidance on recognition, measurement, and disclosures related to agricultural activities.

An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard to the following assets when they relate to agricultural activity (IPSAS 27 para 2):

(a) Biological assets, except for bearer plants.

(b) Agricultural produce at the point of harvest.

Agricultural produce is the harvested produce of the entity’s biological assets.

A biological asset is a living animal or plant (IPSAS 27 para 9).

Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard (IPSAS 27 para 4).

A **biological asset** should be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably (IPSAS 27 para 16).

Agricultural produce harvested from an entity's biological assets should be measured at its fair value less costs to sell at the point of harvest (IPSAS 27 para 18).

Scope of the report

The International Public Sector Accounting Standards Board (IPSASB®) issued IPSAS 27 'Agriculture' in December 2009. The present screening report analyses the measurement and disclosure requirements for agricultural activity.

Reference to EFRAG assessment

No specific individual technical assessment of IAS 41 'Agriculture', the IFRS equivalent of IPSAS 27, was carried out by the EFRAG, and therefore no specific individual endorsement report was produced.

On 30 June 2014, the IASB issued 'Agriculture: bearer plants - amendments to IAS 16 and IAS 41' (the Amendments). The Amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. The Amendments remove bearer plants from the scope of IAS 41 and include them within the scope of IAS 16. As a result, it is no longer be mandatory to measure bearer plants at fair value less costs to sell, instead entities should measure bearer plants either at cost less accumulated depreciation and impairment, or at fair value less accumulated subsequent depreciation and impairment. Additionally, the Amendments confirm that produce growing on bearer plants is a biological asset and remains within the scope of IAS 41, carried at fair value less costs to sell.

On 19 September 2014, EFRAG issued its Endorsement Advice and 'Effects study report' relating to the endorsement of the Amendments for use in the European Union and European Economic Area. EFRAG recommended the endorsement. On 9 July 2015, the Accounting Regulatory Committee (ARC) voted in favour of Amendments. The Amendments are reflected in IPSAS 27 in paragraphs 2 and 3.

In addition, following the EFRAG TEG (Technical Expert group) meeting in June 2020, EFRAG issued a discussion paper which analyses accounting issues with variable consideration. While EFRAG is encouraging debate on the issues presented in the paper, it does not express any opinion on those matters at this stage.

In relation to IAS 41 and IPSAS 27, the question raised is whether the variable (contingent) consideration is an element of the cost of an asset in case the fair value of biological assets cannot be determined reliably (which is however expected to be rare since it is presumed that the fair value of a biological asset can be measured reliably).

IAS 41 does not include any particular guidance on how to determine ‘cost’ when the fair value of biological assets cannot be determined reliably. Neither IAS 41 nor IPSAS 27 addresses the initial recognition and measurement of variable consideration and whether that amount is included in the cost of a biological asset. In its paper, EFRAG has proposed a set of cost measurement options that are still under discussion.

Reference to EPSAS issue papers[1]

The PwC study of 2014[2] analysed the suitability of the IPSAS standards as a basis for developing EPSAS. Member States have been asked to provide their comments on the application of IPSAS in an open way. No reference has been made to IPSAS 27 ‘Agriculture’. The standard has been assessed to be acceptable for use by EU Member States without adaptation or with only minor adaptation.

In the course of developing the technical proposal on EPSAS, Eurostat commissioned a series of twenty technical issues papers (IPs), which analyse key public sector specific accounting issues. The papers were discussed at the EPSAS Working Group meetings during 2016-2018. The papers are all publicly available on Eurostat’s website.

Each of the IPs seek to identify conclusions and key issues for further discussion. Taking into consideration the analyses provided in the IPs and the initial views exchanged with Member States’ public sector accounting experts during the Working Group meetings, Eurostat drew tentative conclusions that may serve, together with the IPs themselves, as considerations for future standard setting.

No IP was issued on the topic of agriculture.

[1] EPSAS Issues papers are available on https://ec.europa.eu/eurostat/web/epsas/key-documents/technical-developments

[2] Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards (Ref. 2013/S 107-182395)

Screening of IPSAS 27 ‘Agriculture’ against criteria set in the draft EPSAS framework

Introduction

The EPSAS criteria listed in the draft EPSAS framework have been used to perform an assessment of IPSAS 27 ‘Agriculture’, published in 2009 by the IPSASB, with minor amendments made from that date.

In order to develop recommendations, one should first consider whether IPSAS 27 would meet the qualitative characteristics of the draft EPSAS CF, i.e. whether it would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information and would not be contrary to the true and fair view principle.

This report considers measurement and disclosure requirements applicable for agricultural activity for each of the qualitative characteristics of the draft EPSAS CF.

Further, this paper includes a high-level comparison between the requirements of IPSAS 27 and other international accounting and financial reporting frameworks applied by the public sector entities in various jurisdictions, such as IFRS, ESA 2010 and EU Accounting Rules, bearing in mind the objective of alignment, reduction of cost of implementation and compliance cost.

Finally, the paper assesses whether IPSAS 27 would be conducive to the European public good.

The findings are presented below, and the conclusion is included in the next section of this report.

Conformity with Qualitative Characteristics

Relevance

Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of GPFRs. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both.

Recognition

An entity should recognise a biological asset or agricultural produce when and only when (IPSAS 27 para 13):

(a) The entity controls the asset as a result of past events;

(b) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(c) The fair value or cost of the asset can be measured reliably.

The recognition principles of a biological asset or agricultural produce are consistent with the definition of an asset in the draft EPSAS CF. As a reminder, an asset is a resource presently controlled by the entity as a result of past events or transactions. A resource is an item with service potential or the ability to generate economic benefits. Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Economic benefits are cash inflows or a reduction in cash outflows.

Definition of agricultural activity

Agricultural activity is defined in IPSAS 27 as follows (IPSAS 27 para 9):

“Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for:

- Sale;
- Distribution at no charge or for a nominal charge; or
- Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.”

In certain jurisdictions biological assets that are part of agricultural activity may be sold or distributed to other public sector entities, non-governmental organisations or other entities at no charge or for a nominal charge. While IAS 41 ‘Agriculture’ from which this Standard is drawn, deals with commercial agricultural activity, the IPSASB concluded that biological assets held for distribution at no charge or for a nominal charge should be within the definition of agricultural activity, because such transactions are common in the public sector. The IPSASB therefore modified the definition from that in IAS 41 to include references to biological assets held for distribution at no charge or for a nominal charge.

This brings a more relevant definition of agricultural activity for the public sector. However, it should be noted that agricultural activity is in some Member States treated within the scope of other asset standard (e.g. fixed assets or inventories) instead of a self-standing issue, which may reflect the limited importance of public sector agricultural activities in those Member States.

Fair value measurement

A biological asset should be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably (IPSAS 27 para 16).

Agricultural produce harvested from an entity's biological assets should be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12, or another applicable standard (IPSAS 27 para 18).

Given the particular characteristics of biological assets, measuring them at fair value less costs to sell and measuring agricultural produce in the same way at the point of harvest provides useful information to users regarding the economic value or service potential of agricultural activities.

Non-exchange transactions

Biological assets may be transferred to the entity by means of a non-exchange transaction (such as a donation). Under such circumstances, the biological asset is measured on initial recognition and at each reporting date at its fair value less cost to sell (unless fair value cannot be measured reliably) (IPSAS 27 para 17).

For assets acquired through non-exchange transactions, the benefits of the forward-looking fair value information outweigh the complexity of the valuation techniques and uncertainty of the underlying assumptions. When an asset is acquired as a result of an event that is not a transaction on market terms, fair value of the asset provides relevant information to the users and therefore the approach does not affect the QC 'Relevance' of the draft EPSAS CF.

Based on the above, IPSAS 27 provides users of financial statements with relevant information on agricultural activities.

Faithful representation / Reliability

To be reliable, financial and non-financial information must provide a faithful representation of the substance of economic and other phenomena that it purports to represent. The notion of faithful representation and reliability in the draft EPSAS CF is linked to the qualitative characteristics of completeness, prudence, neutrality, verifiability, substance over form and being free from material error. These characteristics are separately discussed below.

Fair value measurement

Biological assets and agricultural produce harvested from these assets should be measured at fair value less costs to sell. The fair value should be determined based on the availability of the information as stated in paragraph 22 of the standard.

IPSAS 23 para 22: “If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

> (a) The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;
>
> (b) Market prices for similar assets with adjustment to reflect differences; and
>
> (c) Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.”

In some cases, the information sources listed in paragraph 22 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.

<u>Inability to measure fair value reliably (for biological assets)</u>

There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available, and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity should measure it at its fair value less costs to sell.

If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (as described above) at the end of the period, the entity should disclose additional information (including why fair value cannot be measured reliably, an estimation of the fair value, information regarding the amortised cost method used - including depreciation method and useful life of the assets).

These additional disclosures help to provide faithful representation to the users.

The rare cases where fair value of biological assets cannot be determined are covered by the exception to fair value measurement provided in the standard. It is indeed assumed that fair value can usually be reasonably determined and that the information provided under the fair value method is therefore faithful and reliable.

In addition, in all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. IPSAS 27 reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

Biological assets and agricultural produce to be distributed at no charge or for a nominal charge

IAS 41 addresses only biological assets and agricultural produce that will be sold. In the public sector, such assets may be managed with the objective of distributing them at no charge or for a nominal charge.

The principle was established in IPSAS 12 ‘Inventories’ that inventories held for distribution at no charge or for a nominal charge should be measured at the lower of cost and current replacement cost. Current replacement cost is defined as the cost an entity would incur to acquire the asset at the reporting date, which is an approximation of fair value less costs to sell.

Cost is not an available option in IPSAS 27 unless the exception in paragraph 34 applies (inability to measure fair value reliably).The IPSASB is of the view that the gains and losses arising from fair value measurement should be reported in the statement of financial performance because such reporting provides useful accountability information during the biological transformation process. Entities may decide to make additional disclosures to explain the impact of these reported fair value changes (IPSAS 27 para BC 12).

Consequently, accounting for biological assets and agricultural produce to be distributed at no charge or for a nominal charge under IPSAS 27 leads to faithful representation of such assets.

Bearer plants

IPSAS 27 excludes bearer plants from its scope. One potential conceptual discussion could arise on whether “bearer” type animals raised for their produce (e.g. eggs, milk, wool, etc.) should also be excluded from scope. However, such a broader scope exclusion could add complexity to the standard especially in the cases of mixed use of animals. Cost-benefit considerations should be assessed by the future standard-setter.

Disclosures

An entity should disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.

The disclosures of IPSAS 27 enhance a faithful representation of the economic phenomena and fulfil the QC ‘Reliability’ of the draft EPSAS CF.

Completeness

The information which fulfils the recognition criteria should be complete within the bounds of materiality and cost-benefit considerations.

Scope

An entity that prepares and presents financial statements under the accrual basis of accounting should apply IPSAS 27 for the following when they relate to agricultural activity (IPSAS 27 para 2):

(a) Biological assets, except for bearer plants; and

(b) Agricultural produce at the point of harvest.

IPSAS 27 does not apply to (IPSAS 27 para 3):

(a) Land related to agricultural activity (see IPSAS 16, Investment Property and IPSAS 17, Property, Plant, and Equipment);

(b) Bearer plants related to agricultural activity (see IPSAS 17). However, this Standard applies to the produce on those bearer plants.

(c) Intangible assets related to agricultural activity (see IPSAS 31, Intangible Assets); and

(d) Biological assets held for the provision or supply of services.

Regarding the last point (point (d)), the public sector biological assets are often held for the provision or supply of services. Examples of such biological assets include horses and dogs used for policing purposes and plants and trees in parks and gardens operated for recreational purposes. The IPSASB concluded in the basis for conclusion of IPSAS 27 that such biological assets are not held for use in an agricultural activity because they are not routinely managed for the purpose of measuring and monitoring the change in quality or quantity brought about by biological transformation or harvest, as described in paragraph 10 of the standard. As a consequence, such biological assets are excluded from the scope of IPSAS 27.

IPSAS 27 is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, IPSAS 12 'Inventories' or another applicable standard, is applied. Accordingly, this standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this standard (IPSAS 27 para 5).

Given that the assets excluded from the scope of IPSAS 27 are treated by other IPSASs, IPSAS 27 does not raise any significant issues concerning completeness.

Disclosures

Disclosure requirements in IPSAS 27 include:

- aggregate gain or loss from the initial recognition of biological assets and agricultural produce and the change in fair value less costs to sell during the period (IPSAS 27 para 30);
- description of an entity's biological assets, by broad group (IPSAS 27 para 39);
- description of the nature of an entity's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period (IPSAS 27 para 44);
- methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets (IPSAS 27 para 45);
- fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest (IPSAS 27 para 46);
- existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities, the nature and extent of restrictions on the entity’s use or capacity to sell biological assets, the amount of commitments for the development or acquisition of biological assets; and financial risk management strategies related to agricultural activity (IPSAS 27 para 47);
- reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period (IPSAS 27 para 48); and
- additional disclosures for biological assets where fair value cannot be measured reliably (IPSAS 27 para 52-54).

The disclosure requirements of IPSAS 27 provide users with a complete overview of the transactions relating to agricultural activity and of the changes in the carrying amount of the related assets at each reporting date. The overall assessment is that IPSAS 27 satisfies the completeness criterion of the draft EPSAS CF within bounds of materiality.

Variable consideration as an element of cost

In relation to IPSAS 27, the question raised is whether the variable (contingent) consideration is an element of the cost of an asset in cases where fair value less costs to sell cannot be measured reliably. IPSAS 27 does not address the initial recognition and measurement of variable consideration and whether that amount is included in the cost of a biological asset. As stated above, this issue is still in the process of being discussed by EFRAG. Nevertheless, based on the long-term experience of applying IAS 41 in the private sector, this issue does not represent a blocking factor for the application of the standard.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated while liabilities or expenses are not understated.

<u>Disclosures: fair value measurement</u>

A biological asset should be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably.

Agricultural produce harvested from an entity's biological assets should be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12, or another applicable standard.

The disclosures required by IPSAS 27 regarding fair value are extensive and include information about the fair values of each class of assets, along with:

- aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological asset;
- reconciliations of changes in carrying amounts between the beginning and the end of the current period;
- methods and significant assumptions in determining the fair value of each group of assets;
- fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest;
- information if the fair value of biological assets cannot be reliably measured.

The internal assumptions used in the fair value measurement often require a significant level of judgement in case those are not confirmed by the observable market data. In making the estimates required under conditions of uncertainty, the risk is that the value of assets could be overstated and that could affect the faithful representation of financial information. For the application of the fair value under IPSAS 27, fair value should be determined by reference to an active market. In most of the cases, fair value information of agricultural activity might be less complicated to determine, as usually active markets should exist.

For agricultural produce, it is assumed that fair value at the point of harvest can always be measured reliably. For biological assets, when fair value cannot be measured reliably, additional disclosures are required, which enhances prudence.

Based on the overall assessment, IPSAS 27 does not raise significant concerns as to the QC 'Prudence' of the draft EPSAS CF.

Neutrality

Information is neutral if it is free from bias. GPFSs are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

The principles included in IAS 41 have been tested for many years in the private sector. The requirements to apply accounting policies consistently year on year and to disclose such policies in the notes to the accounts reinforce the neutrality QC.

Determination of fair value may require some level of judgment when an active market does not exist for biological assets. The level of judgment required by IPSAS 27 is not so exceptional in nature that it would be impracticable to apply the standard in a consistent manner and achieve neutral presentation of the reporting entity.

Verifiability

The 'Verifiability' QC is achieved when the quality of information helps assure users that GPFSs is based on supporting evidence in a way that it faithfully represents the substance of economic and other phenomena that it purports to represent.

Fair value information is less verifiable compared to amortised cost and involves certain assumptions that are not always observable on the market. Disclosures are therefore helpful to maximise the verifiability of the information.

In order for users to be able to verify the information, IPSAS 27 requires the disclosure of information related to reconciliations of changes in the carrying amount of biological assets between the beginning and the end of the current period. This is useful in order to understand the differences that occur across periods for such assets.

The provisions of IPSAS 27 are in line with verifiability principles of the draft EPSAS CF, and faithfully represent the substance of economic and other phenomena of the underlying transactions.

Substance over form

The 'Substance over form' QC requires that the underlying transactions, other events, activities or circumstances are accounted for and presented in accordance with their substance and economic reality, and not merely their legal form.

The requirement to measure biological assets at fair value less costs to sell and agricultural produce at fair value less costs to sell at the point of harvest fully reflects the substance of the transformational process of biological assets.

IPSAS 27 para 20 states that: "Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract”.

This requirement properly privileges substance over form and reflects the real substance of the transaction and requires accounting to reflect the economic substance accordingly.

The assessment has not identified any non-compliance of IPSAS 27 with the requirements of the QC ‘Substance over form’ of the draft EPSAS CF.

Understandability

The ‘Understandability’ QC is the quality of presenting information in a manner that facilitates expert and non-expert users to comprehend its meaning. Understandability is enhanced when information is classified, characterised and presented clearly and concisely.

The notion of understandability requires that the financial information provided be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence. Although there are a number of aspects to the notion of ‘understandability’, most of the aspects are covered by the discussion above about relevance, reliability and comparability.

Information about the carrying amounts held in different asset groups and the extent of the changes in these assets is useful to financial statement users. This requirement enhances understandability of the subject.

The disclosures about the methods and significant assumptions applied in estimating the asset’s fair values give users sufficient information for an independent assessment of the level of prudence in applying the accounting policies.

Based on the assessment, the principles of IPSAS 27 are straightforward, do not raise any significant concerns nor introduce any significant complexities that may impair understandability. The accounting treatment of agricultural activity under IPSAS 27 provides understandable information to the users of financial statements.

Comparability

Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena in different reporting entities or in one reporting entity at different points in time. A key objective of EPSAS is to achieve the necessary level of financial transparency and comparability of financial reporting, between and within EU Member States.

The use of judgment and estimates (e.g. when estimating fair value) may to some extent impair the comparability of financial statements.

However, application of the requirements of IPSAS 27 combined with appropriate disclosures in the notes about accounting estimates are likely to result in comparable application of the standard across the EU and by entities over time. The guidance in IPSAS 27 should help with consistent interpretation and application of the accounting requirements.

There are no areas identified where the lack of guidance would lead to divergence in accounting practice and inconsistencies in the information provided in the notes to the financial statements. Accordingly, the provisions of IPSAS 27 should promote consistency and coherence of the requirements thereby comparability of financial reporting.

Subsequent expenditure on biological assets (IAS 41)

There is currently no clear requirement for subsequent expenditure in IAS 41.

In June 2019, the IFRS Interpretations Committee (Committee) received a submission on this topic and was of the opinion that entities can either capitalise or expense subsequent expenditure on biological assets measured at fair value (applying IAS 41 ‘Agriculture’) (as long as the entity's accounting policies are applied consistently for each group of biological assets and explanatory disclosure is provided).

Capitalising or expensing subsequent expenditure only affects the presentation of amounts in the statement of profit or loss.

Alignment with other frameworks

ESA 2010

Alignment with ESA reporting is desirable, to avoid the burden of dual reporting in the public sector. Differences with ESA 2010 reporting requirements should be avoided where possible, both regarding the scope of entities to be included in the IPSAS scope of reporting and the IPSAS requirements in terms of measurement and disclosures.

The Economic Accounts for Agriculture (EAA) provide detailed information on income in the agricultural sector. The purpose is to analyse the production process of the agricultural industry and the primary income generated by this production. The accounts are therefore based on the industry concept.

The EAA is a satellite account of the European System of Accounts (ESA), providing complementary information and concepts adapted to the particular nature of the agricultural industry. Although their structure very closely matches that of the national accounts, their compilation requires the formulation of appropriate rules and methods.

The EAA include detailed data on the value of output (measured in both producer prices and basic prices), intermediate consumption, subsidies and taxes, consumption of fixed capital, rent and interest, capital formation etc. The values are available at both current prices and constant prices.

Agricultural Labour Input (ALI) statistics and Unit Values (UV) are an integrated part of the overall concept of the EAA. However, the collection of Unit Values is discontinued, and the data are available only until 2018.

IFRS[3]

IPSAS 27, Agriculture is drawn primarily from IAS 41 'Agriculture'. The main differences between IPSAS 27 and IAS 41 are as follows:

- IPSAS 27 uses different terminology.
- The definition of "agricultural activity" includes transactions for the distribution of biological assets at no charge or for nominal amounts.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.

EU accounting rules

European Union Accounting Rules (EAR) constitute the accounting framework of the European Union Institutions, including the European Commission (EC) and its agencies.

There is no specific accounting rule developed for agricultural activity as the Commission is typically not involved in such activities.

However, EAR 17 provides guidance related to revenue from non-exchange transactions. This EU accounting rule is based on International Public Accounting Standard (IPSAS) 23 "Revenue from non-exchange transactions (taxes and transfers)".

Under EAR 17, an asset acquired through a non-exchange transaction should initially be measured at its fair value as at the date of acquisition. The EAR is therefore in line with IPSAS 27 requirements.

[3] Refer to the IPSAS-IFRS Alignment Dashboard regularly updated by the IPSASB available on https://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf

European Public Good

Assessing whether IPSAS 27 is conducive to the European public good

The assessment of whether IPSAS 27 would be conducive to the European public good addresses the following items:

a) Whether the standard will improve financial reporting;
b) The costs and benefits associated with the standard; and
c) Whether the standard could have an adverse effect to the European economy, including financial stability and economic growth.

These assessments will allow the EU authorities to draw a conclusion as to whether the standard is likely to be conducive to the European public good.

The analysis revealed no reasons why IPSAS 27 would not be conducive to the European public good:

- Measurement and disclosure requirements of IPSAS 27 will provide useful information to the users of the GPFSs and will improve the overall quality of financial reporting in the public sector.
- Implementation of the standard may result in a moderate one-off cost and should be relatively cost-neutral on an ongoing basis for preparers when appropriate processes are implemented, taking into account the materiality principle.
- Considering its conceptual merits, the standard will bring improved financial reporting when compared to heterogeneous reporting requirements currently applied in the EU. As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship. The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

Conclusion

Assessing IPSAS 27 against the criteria formulated in the draft EPSAS framework

The analysis has not revealed major conceptual issues with IPSAS 27 ‘Agriculture’ and has not identified any inconsistency between IPSAS 27 and the draft EPSAS framework.

Following the screening analysis summarised in the present report, the future standard setter could consider the following conclusions. The information resulting from the application of IPSAS 27:

- would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information needed for making economic decisions and achieving the necessary level of financial transparency and comparability of financial reporting in the European Union;
- would not be contrary to the true and fair view principle; and
- would be conducive to European public good.

However, in order to achieve consistent application of the new standard within the EU context and therefore better address the comparability objective of EPSAS financial statements, additional guidance and improvements in certain areas might be desirable.

- *Judgment and comparability.* The use of judgment and estimates is inherent in the preparation of financial statements and may to some extent affect the comparability of financial statements.

The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

The future standard setter could consider the conclusions of this assessment and likely benefit of using the requirements of IPSAS 27 as a starting point in developing an equivalent EPSAS standard or recommendation, considering the need for additional guidance in certain areas and resolution of the matters identified in the present EPSAS screening report.